

(A free translation from Portuguese into English of the financial statements originally issued in Portuguese)

Financial Statements

Sipcam Nichino Brasil S.A.

December 31, 2021
with Independent Auditor's Report

Sipcam Nichino Brasil S.A.

Financial statements

December 31, 2021

Contents

Independent auditor's report on financial statements	1
Financial statements	
Statements of financial position	5
Statements of income	7
Statements of comprehensive income	8
Statements of changes in equity	9
Statements of cash flows – indirect method	10
Notes to the financial statements	11

Independent auditor's report on financial statements

To the
Shareholders, Board of Directors and Officers
Sipcam Nichino Brasil S.A.
Uberaba - MG

Opinion

We have audited the financial statements of Sipcam Nichino Brasil S.A. (the "Company"), which comprise the statement of financial position as at December 31, 2021, and the statements of income, comprehensive income, 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 the Company 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 Brazilian Federal Accounting Council (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.

Key audit matters

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



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

Revenue recognition from goods sold

As disclosed in Note 2.1, Company’s revenue is measured at fair value of the consideration received or receivable and is only recognized when the goods are delivered, and the customers obtain control over the assets. The volume of transactions occurred in the year, as well the potential risks involved relating to the record on an accrual basis of revenue recognition and potential returns led us to identify this matter as a significant risk that requires special audit consideration.

How our audit addressed this matter

Our audit procedures involved, among others: (a) understanding of the controls involved in the revenue recognition process, (b) voucher tests on a sample basis, including the exam of invoices, and evidence of delivery and receipt of the assets, (c) review of subsequent returns and potential returns in future periods, and (d) analytical procedures on changes in revenue in the year, in order to identify changes that are inconsistent with our expectations, obtained based on our previous knowledge of the Company and industry that could indicate out of competence account record.

Based on the result of the audit procedures performed on revenue recognition from sale of goods, which is consistent with the policy adopted by management, we believe that the criteria adopted by management, as well as respective disclosures in explanatory notes, are acceptable in the context of the financial statements taken as a whole.

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

The executive board 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 it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the executive board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the executive board either intends to liquidate the Company or to cease 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.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.



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

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

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

Goiânia, March 3rd, 2022.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O

Eric Piantino
Eric Horta Piantino
Accountant CRC-MG-107829/O-8

Sipcam Nichino Brasil S.A.

Statements of financial position

December 31, 2021

(Amounts in thousands of Brazilian *reais*)

	Note	12/31/2021	12/31/2020
Assets			
Current assets			
Cash and cash equivalents	3	188,735	235,057
Trade receivables	4	393,703	254,945
Inventories	5	158,418	86,039
Taxes recoverable	6	5,602	42
Financial instruments	23	431	9,848
Other assets		667	864
Total current assets		747,556	586,795
Non-current assets			
Trade receivables	4	3,963	6,070
Taxes recoverable	6	29,207	38,260
Assets held for Sale	7	7,977	8,600
Deferred tax assets	8	29,105	26,576
Judicial deposits	14	154	908
Financial instruments	23	1,797	-
Investments	9	1,651	1,238
Property, plant and equipment	10	37,925	36,234
Intangible assets	11	17,727	20,214
Total non-current assets		129,506	138,100
Total assets		877,062	724,895

Sipcam Nichino Brasil S.A.

Statements of financial position

December 31, 2021

(Amounts in thousands of Brazilian *reais*)

	Note	12/31/2021	12/31/2020
Liabilities and equity			
Current liabilities			
Loans, financing and debentures	12	93,383	190,615
Related parties	22	397	415
Suppliers and assignment of credit by suppliers	13	356,547	196,663
Salaries and related charges		5,868	3,515
Taxes payable		9,676	1,961
Financial instruments	23	4,674	-
Advanced from customers		26,490	563
Other liabilities		13,435	8,221
Total current liabilities		510,470	401,953
Non-current liabilities			
Loans, financing and debentures	12	166,166	132,495
Related parties	22	92,961	96,686
Financial instruments	23	653	-
Provision for legal proceedings	14	401	347
Total non-current liabilities		260,181	229,528
Equity			
Capital stock	15	223,897	223,897
Accumulated losses		(117,486)	(130,483)
Total equity		106,411	93,414
Total liabilities and equity		877,062	724,895

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of income

Year ended December 31, 2021

(Amounts in thousands of Brazilian *reais*, except per share amounts)

	Note	12/31/2021	12/31/2020
Net revenue	2.1	772,137	458,093
Cost of sales and services	17	(661,684)	(383,029)
Gross profit		110,453	75,064
Operating income (expenses)			
Selling expenses	18.a	(30,021)	(27,654)
General and administrative expenses	18.a	(23,532)	(20,451)
Equity pick-up	9	413	29
Other operating expenses, net	18.b	(3,313)	(7,784)
		(56,453)	(55,860)
Income before finance income (costs)		54,000	19,204
Finance costs	19	(223,280)	(295,232)
Finance income	19	187,706	243,880
Finance costs, net		(35,574)	(51,352)
Profit (loss) before income taxes		18,426	(32,148)
Income taxes			
Current		(7,958)	-
Deferred		2,529	(5,486)
	8	(5,429)	(5,486)
Net income (loss) for the year		12,997	(37,634)
Number of shares	15	2,471,492,952	2,471,492,952
Basic and diluted earnings (loss) per thousand shares – R\$		5.26	(15.23)

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of comprehensive income
Year ended December 31, 2021
(Amounts in thousands of Brazilian *reais*)

	<u>12/31/2021</u>	<u>12/31/2020</u>
Net income (loss) for the year	12,997	(37,634)
Other comprehensive income (loss)	-	-
Comprehensive income (loss)	<u>12,997</u>	<u>(37,634)</u>

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of changes in equity
Year ended December 31, 2021
(Amounts in thousands of Brazilian *reais*)

	Capital stock	Accumulated losses	Total equity
Balances at December 31, 2019	223,897	(92,849)	131,048
Loss for the year	-	(37,634)	(37,634)
Balances at December 31, 2020	223,897	(130,483)	93,414
Net income for the year	-	12,997	12,997
Balances at December 31, 2021	223,897	(117,486)	106,411

See accompanying notes.

Sipcam Nichino Brasil S.A.

Statements of cash flows - indirect method
Year ended December 31, 2021
(Amounts in thousands of Brazilian *reais*)

	12/31/2021	12/31/2020
Operating activities		
Net income (loss) before income taxes	18,426	(32,148)
Adjustments to reconcile net income (loss) to cash generated:		
Write-off of property, plant and equipment and intangible assets	-	113
Equity pick-up	(413)	(29)
Restated balances – customers	(2,865)	1,358
Customer discounts	263	(400)
Allowance for (reversal of) expected credit losses	291	4,326
Provision for inventory obsolescence and realization	(1,596)	(129)
Depreciation and amortization	11,084	10,021
Provision for (reversal of) for losses on derivative financial instruments	12,947	(9,891)
Other provisions	5,286	4,781
Provision for (reversal of) for legal proceedings	292	48
Interest on loans, financing and debentures	10,245	11,452
Borrowing and financing costs	142	282
Monetary and exchange difference, net	16,934	56,224
Debt modification	1,443	121
Provision for sales returns	482	724
Decrease (increase) in operating assets		
Trade receivables	(138,396)	(58,397)
Inventories	(66,621)	25,411
Taxes recoverable	3,493	5,783
Judicial deposits	754	-
Other assets	197	748
Increase (decrease) in operating liabilities		
Suppliers and assignment of credit by suppliers	142,327	32,896
Salaries and related charges	2,353	450
Taxes paid	(243)	795
Advanced from customers	25,927	-
Other liabilities	(72)	(435)
Legal proceedings paid	(238)	(98)
Agricultural Credit	(37,990)	24,844
Payment of interest and payment charges CPC 06 (R2)	(7,604)	(8,150)
Net cash flows (used in) from operating activities	<u>(3,152)</u>	<u>70,700</u>
Investing activities		
Write-off if property and intangible assets	<u>(8,100)</u>	<u>(5,226)</u>
Net cash flows used in investing activities	<u>(8,100)</u>	<u>(5,226)</u>
Financing activities		
Proceeds from loans, financing and debentures	90,515	89,670
Proceeds from related parties	-	98,880
Repayments of loans, financing and debentures, including interest	(125,585)	(11,327)
Repayment of related parties	-	(98,880)
Net cash flows used in financing activities	<u>(35,070)</u>	<u>78,343</u>
Net (decrease) increase in cash and cash equivalents	<u>(46,322)</u>	<u>143,817</u>
Cash and cash equivalents at beginning of the year	235,057	91,240
Cash and cash equivalents at end of the year	188,735	235,057
Net (decrease) increase in cash and cash equivalents	<u>(46,322)</u>	<u>143,817</u>

See accompanying notes.

Sipcam Nichino Brasil S.A.

Notes to the financial statements

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

1. Operations

Sipcam Nichino Brasil S.A. (“Company” or “Sipcam-Nichino”) is joint stock company with head office at Igarapava Street, 599 – Distrito Industrial III, in the city Uberaba - MG, Brazil, is primarily engaged in the production, formulation, repackaging, import, export, sale and distribution of agrochemicals, e.g. herbicides, insecticides, acaricides, fungicides, fertilizers, plant nutrition products and chemicals for agriculture in general.

Impacts of COVID 19

In March 2020, the Company migrated certain functions to the home-office model, having provided the equipment and support necessary for all employees to appropriately perform their duties in compliance with safety and health standards. For the other employees who needed to be physically in their posts, protocols were established in order to comply with COVID-19-related rules and legislation. By adopting these measures, management was able to keep the Company fully operational with no impact on the industrial and administrative areas. Since the commercial area serves practically 100% of the Brazilian territory, these employees were required to follow the rules established in the cities and states in which they operate, in addition to the protocols defined by the Company. In the beginning, this area faced difficulties for visiting customers and demonstrating SNB products, but gradually, the Company began to identify technology alternatives to continue serving customers.

Concerning the supply of products and services, no matters were identified relating to the receipt of inputs and products for resale or any difficulties in distribution of the products sold to Company customers.

In terms of financial impacts, the pandemic generated market uncertainties and significant exchange rate fluctuations. Brazil was one of the countries that had the largest exchange devaluation. Although management contracts derivative financial instruments (swaps and NDFs) to hedge against exposure, this scenario had significant impacts on the Company's statement of income. A large part of these impacts generated no cash effect as at December 31, 2021.

The Company takes all measures necessary for safekeeping its employees and, within these parameters, minimize the pandemic effects on customers and suppliers, always following the guidance of the relevant authorities.

Management is of the understanding that the projections used in analyzing realization of the Company's assets will not change significantly due to the pandemic and maintains the assumptions adopted in the accounting estimates.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices

The Company's financial statements for the years ended December 31, 2021 and 2020 were prepared in accordance with the accounting practices adopted in Brazil. The Company took into consideration Technical Guidance OCPC 07, issued by the CPC in November 2014, in the preparation of these financial statements. As such, all significant information that is consistent with the information used to manage the Company's operations is evidenced.

The Company's executive board authorized conclusion of the financial statements on March 3rd, 2022.

The financial statements were prepared based on different measurement bases used to prepare accounting estimates. Accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors, and in line with management's judgment for determination of appropriate amounts to be recorded in the financial statements. Significant items subject to these estimates and assumptions include selection of the useful lives and impairment of property, plant and equipment items, measurement of financial assets at fair value, credit risk analysis in determining the allowance for expected credit losses as well as analysis of other risks in determining other provisions, including the provision for legal proceedings.

The Company's functional currency is the Brazilian Real, which is also its reporting currency. All financial information presented in thousands of reais was rounded to the nearest value, unless otherwise stated.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process.

The Company reviews its estimates and assumptions on an annual basis. See Note 2.13 for further details on estimates.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

The financial statements were prepared based on the historical cost, unless otherwise stated, as described in the summary of significant accounting practices. The historical cost is generally based on the fair value of the considerations paid in exchange for assets.

2.1. Determination of statement of income

Profit or loss from transactions is recorded on an accrual basis. Revenue from sales is recognized net, i.e., less sales taxes and discounts, which are stated as a reduction thereof, as follows:

	12/31/2021	12/31/2020
Gross revenue from sale of goods	794,917	474,583
Provision for sales returns	(4,645)	(3,528)
Gross service revenue	9,674	9,105
Gross revenue	799,946	480,160
Sales taxes	(13,758)	(6,227)
Sales returns	(14,051)	(15,840)
Taxes on sales and services and sales returns	(27,809)	(22,067)
Net revenue	772,137	458,093

Sales revenue is recognized in the statement of profit or loss when its amount can be reliably measured, when all risks and rewards of ownership of the products are transferred to the buyer, when the Company no longer holds control over or responsibility for the goods sold and when economic benefits are likely to flow to the Company. Revenue is not recognized if there is a significant uncertainty about its realization. In compliance with CPC 47, the Company conducts analyses based on the history of goods returned in the past two years and applies the percentage prospectively on current year sales not converted into cash.

Interest income and expenses are recognized using the effective interest rate method in "Finance Income/Costs".

2.2. Foreign currency-denominated transactions

Foreign currency-denominated monetary assets and liabilities are translated into the functional currency (Brazilian *real*) at the exchange rate prevailing at the corresponding statement of financial position date. Gains and losses arising from the restatement of these assets and liabilities between the foreign exchange rate of the transaction dates and the reporting period closing dates are recognized in profit or loss as finance income or costs.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.3. Cash and cash equivalents

Cash and cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes. The Company considers cash and cash equivalents a short-term investment readily convertible into a known cash amount and subject to insignificant risk of change in value. Therefore, an investment normally qualifies as a cash equivalent when it has short-term maturity, for example, three months or less from the investment date.

2.4. Trade receivables

Trade receivables are recorded and maintained in the statements of financial position at the nominal value of the notes representing these receivables, which does not significantly differ from present value.

Allowance for expected credit losses is recorded by management for receivables whose recovery is considered doubtful when there is significant doubt as to collection of overdue notes.

Based on the aging list of the immediately prior period, we calculated these amounts taking into consideration accounts receivable and amounts effectively converted into cash. As such, we obtained the historical percentages per maturity bracket that are applied on trade receivables for the current period, pursuant to CPC 48.

2.5. Inventories

Inventories are measured at the lower of cost and net realizable value. Cost of inventories is based on the average cost principle and includes expenses incurred upon acquisition of inventories and other costs incurred to bring these items to their location and existing conditions.

Net realizable value is the estimated sale price in the normal course of business, less costs and expenses to sell.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.3. Property, plant and equipment

These are recorded at acquisition cost. Depreciation is calculated on a straight-line basis at the rates mentioned in Note 10, which take into consideration the assets' estimated useful lives.

A property, plant and equipment item is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses on derecognition of an asset (measured as the difference between the net disposal proceeds and the book value of the asset) are recognized in the statement of profit or loss for the year in which the asset is derecognized.

The net book value and useful lives of the assets and the depreciation methods are reviewed every year, and adjusted prospectively, when applicable.

2.4. Intangible assets

Intangible assets acquired separately are measured upon their initial recognition at acquisition cost and subsequently deducted from their accumulated amortization and impairment losses, where applicable.

Internally generated intangible assets, excluding capitalized amounts of product development costs, are recognized in profit or loss for the year in which they are generated. Intangible assets with finite useful lives are amortized according to their estimated economic useful lives and, when evidence of impairment losses is found, tested for impairment.

2.5. Provision for impairment of non-financial assets

Management annually tests the net book value of the assets to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate impairment. When such evidence is identified, and the net book value exceeds the recoverable amount, a provision for impairment is set up so as to adjust the net book value to the recoverable amount.

The recoverable amount of an asset or a cash-generating unit is defined as the higher of value in use and fair value less costs to sell.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.8. Provision for impairment of non-financial assets (Continued)

In determining the value in use of assets, the estimated future cash flows are discounted to their present value by using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. Net sales value is determined, where possible, based on firm sales agreements in a transaction carried out on an arm's length basis among knowledgeable and willing parties, adjusted by expenses attributable to the sale of the asset or, when there is no firm sales agreement, based on the market price in an active market or at the most recent transaction price with similar assets.

2.6. Other assets and liabilities

An asset is recognized in the balance sheet when its future economic benefits are likely to flow to the Company, and its cost or value can be reliably measured. A liability is recognized in the statement of financial position when the Company has a legal or constructive obligation arising from past events, the settlement of which is expected to result in an outflow of economic benefits. Provisions are recorded reflecting the best estimates of the risk involved.

Assets and liabilities are classified as current when their realization or settlement will probably occur within the next 12 months. Otherwise, they are stated as noncurrent.

2.7. Taxation

Sales and service revenues are subject to the taxes and contributions below, at the following statutory rates:

State Value-Added Tax	ICMS	Between 4% and 18%
Federal Value-Added Tax	IPI	0%
Contribution Tax on Gross Revenue for Social Security Financing	COFINS	0%
Contribution Tax on Gross Revenue for Social Integration Program	PIS	0%

Pursuant to Decree No. 3777, dated March 23, 2001, amended by Decree No. 6006 of December 28, 2006, sales of agrochemicals are subject to IPI reduced to 0%.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.10. Taxation (Continued)

The Company has been granted a 60% reduction in the ICMS base, as established by Agreement No. 100/97 and amended and extended by ICMS Agreement No. 133/2020 up to March 31, 2021. Some of its goods in accordance with Brazil's federal Senate Resolution No. 13 of 2013 are subject to a 4% tax rate. As from January 2020, in detriment to Decree 64213 of April 30, 2019, in state of São Paulo intrastate operations, ICMS credits are mandatorily reversed in receipts of inputs and/or products for sale. On October 15, 2020, Decree 65254 was published, in effect as from 2021, which increased the tax burden in interstate operations originated in the state of São Paulo from 2.8% to 3.70% and from 4.8% to 6.34%. On September 29, 2021, Decree No. 66054 was published in the State of São Paulo, assimilating the provisions of Special Agreement No. 026/2021, not providing full maintenance of credit in ICMS-tax-exempt operations and or with a reduction in the ICMS taxable base. The same occurred in the State of Minas Gerais upon publication of Decree No. 48337 of December 30, 2021.

PIS and COFINS rates were reduced to 0%, pursuant to Law No. 10925/2004, and ratified by Decree No. 5630/2005.

Current taxes

Income taxes comprise both income and social contribution taxes. Income tax is calculated at a rate of 15%, plus a 10% surtax on taxable profit exceeding R\$ 240 over 12 months, whereas social contribution tax is computed at a rate of 9% on taxable profit, both recognized on an accrual basis; therefore, additions to book income deriving from temporarily nondeductible expenses or exclusions from temporarily nontaxable income upon determination of current taxable profit generate deferred tax assets or liabilities. Tax prepayments or taxes recoverable are stated as current and noncurrent assets, based on their expected realization.

Deferred taxes

Deferred taxes arise from temporary differences and income and social contribution tax losses at the statement of financial position date between the tax bases of assets and liabilities and their book value.

Deferred tax assets are recognized on all unused deductible differences, credits or tax losses to the extent that it is probable that taxable profit will be available to allow realization of temporarily deductible differences, as well as use of unused tax credits and tax losses.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.10. Taxation (Continued)

The book value of deferred tax assets is reviewed at each reporting date and written off to the extent that taxable profits will not likely be available so that deferred tax assets can be used in total or in part. Deferred tax assets written off are reviewed at each statement of financial position date and recognized to the extent that future taxable profits are likely to allow deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability settled, based on tax rates (and tax laws) in force at the statement of financial position date.

Deferred tax assets and liabilities are stated at their net amount when the Company has a legal or constructive right to offset deferred tax assets against deferred tax liabilities and when deferred taxes refer to the same taxpayer and are subject to the same tax authorities.

2.6. Leases

The lease definitions contained in CPC 06 (R2) were applied to all lease contracts in force.

At the inception of the contract, the Company recognizes a right-of-use asset and a lease liability that represents the obligation to make payments related to the underlying asset of the lease.

The right-of-use asset is initially measured at cost and comprises the initial amount of the lease liability adjusted for any payment made on or before the contract commencement date, plus any initial direct cost incurred and estimated cost of dismantling, removing, and restoring the asset to the location where it is, less any incentive received.

The right-of-use asset is subsequently depreciated under the straight-line method from the commencement date to the end of the useful life of the right-of-use or the end of the lease term. The options for extending the term or early termination of contracts are analyzed individually, considering the type of asset involved as well as its relevance in the Company's production process. The estimated useful life of the right-of-use asset is determined on the same basis as the assets owned by the Company.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.11. Leases (Continued)

Additionally, the right-of-use asset is periodically impaired in accordance with CPC 01, when applicable, and readjusted by remeasurement of the lease liability.

The lease liability is initially measured at the present value of unpaid payments, discounted at the incremental borrowing rate.

This lease liability is then measured at amortized cost using the effective interest method. It is remeasured when there is a change in (i) future payments resulting from a change in index or rate (ii) the estimate of the expected amount to be paid in the guaranteed residual value or (iii) the assessment of whether the Company will exercise the option to purchase, extension or termination.

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

2.12. Other employee benefits

The Company's employee and management benefits include, in addition to fixed compensation (salaries and social security contributions (INSS), vacation pay and 13th monthly salary), variable compensation, such as profit sharing and bonuses. These benefits are recognized in profit or loss for the year, under "Selling expenses" and "General and administrative expenses", as incurred.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.13. Significant accounting judgments, estimates and assumptions

Judgments

Preparation of the financial statements by the Company requires that management make professional judgments, estimates and assumptions that impact disclosed revenues, expenses, assets and liabilities, in addition to disclosed contingent liabilities at the financial statement date. Uncertainties about such assumptions and estimates may lead to significant adjustments, in future periods, to the book value of the impacted asset or liability.

Accounting estimates and assumptions

Significant assumptions about sources of uncertainty in future estimates and other important sources of uncertainty in estimates at the statement of financial position date, involving a significant risk of causing a material adjustment to the book value of the assets and liabilities in the following year, are discussed below:

Impairment of nonfinancial assets

Impairment loss exists when the book value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less cost to sell and value in use. The calculation of fair value less costs to sell is based on information available on sales transactions of similar assets or market prices less additional costs for the disposal of the asset.

Management annually tests the net book value of the assets to determine whether there are any events or changes in economic, operating or technological circumstances that may indicate impairment.

Whenever such evidence is identified, and the net book value exceeds the recoverable amount, a provision for impairment is set up so as to adjust the net book value to the recoverable amount.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.13. Significant accounting judgments, estimates and assumptions (Continued)

Accounting estimates and assumptions (Continued)

Taxes

There are uncertainties about the interpretation of complex tax regulations and the amount and timing of future taxable profit (loss). Given the extensive international trading relationships, in addition to the long-term nature and complexity of existing contractual instruments, the differences between actual results and the assumptions used, or future changes in such assumptions, could lead to future adjustments to tax revenues and expenses already recorded. The Company set up provisions considering reasonable estimates for possible consequences of tax audits by tax authorities to which it is subordinated. The provision amounts are based on various factors, such as experience with prior audits and diverging interpretations of tax legislation by the taxpayer and the relevant tax authority. Such differences in interpretations may involve a number of matters, based on the conditions prevailing in the jurisdiction to which the Company is subject.

A significant level of professional judgment is expected from management in order to determine the deferred tax asset that may be recognized based on the probable term and level of future taxable profits, combined with future tax planning strategies.

Provision for legal proceedings

The Company recognizes a provision for civil and labor claims. Assessment of the likelihood of loss includes an evaluation of available evidence, hierarchy of laws, available case law, most recent court rulings and their relevance to the legal system, as well as the opinion of external legal advisors. Provisions are reviewed and adjusted considering changes in circumstances, such as applicable statute of limitations, tax audit conclusions or additional exposures identified based on new matters or court decisions.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process. The Company reviews its estimates and assumptions at least on an annual basis.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.14. Cash flows statements

Cash flows statements were prepared by using the indirect method and are presented in accordance with accounting pronouncement CPC 03 (R2) - Statement of Cash Flows.

2.15. Financial instruments

A financial instrument is a contract that originates a financial asset for an entity and a financial liability or equity instrument for another entity.

a) Financial assets

i) *Initial recognition and measurement*

Upon initial recognition, financial assets are classified as subsequently measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss.

Classification of financial assets upon initial recognition depends on the characteristics of the contractual cash flows of the financial asset and on the business model adopted by the Company for managing these financial assets. Except accounts receivable that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at fair value plus transaction costs, in the case of a financial asset not measured at fair value through profit or loss.

For a financial asset to be classified and measured at amortized cost or fair value through other comprehensive income, this asset must generate cash flows that are “solely payments of principal and interest” on the outstanding principal amount. This assessment is performed at instrument level.

Financial assets whose cash flows are not solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model adopted.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Initial recognition and measurement* (Continued)

The Company's business model for managing financial assets refers to how the Company manages its financial assets to generate cash flows. This model establishes whether the cash flows will result in collection of contractual cash flows, sale of financial assets or both.

Financial assets classified and measured at amortized cost are held in a business plan for the purpose of maintaining financial assets to obtain contractual cash flows whereas financial assets classified and measured at fair value matched against other comprehensive income are held in a business model aimed at obtaining contractual cash flows and also for the purpose of sale.

Purchases or sales of financial assets that require delivery within a term established by regulations or market convention are recognized at trade date, i.e. the date on which the Company commits to purchase or sell the asset.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Initial recognition and measurement* (Continued)

Subsequent measurement

For subsequent measurement purposes, Company financial assets are classified under four categories:

- (i) Financial assets at amortized cost (debt instruments);
- (ii) Financial assets at fair value through other comprehensive income and reclassification of accumulated gains and losses (debt instruments);
- (iii) Financial assets designated at fair value through other comprehensive income with no reclassification of accumulated gains and losses upon derecognition (equity instruments); and
- (iv) Financial assets at fair value through profit or loss.

Financial assets at amortized cost (debt instruments)

These are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recorded in statement of income when the asset is written off, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt instruments at fair value through other comprehensive income, any interest income, foreign exchange differences and impairment losses or reversals are recorded in the statement of profit or loss and calculated similarly to financial assets measured at amortized cost. Any changes in fair value are recorded under other comprehensive income. Upon derecognition, accumulated changes in fair value recorded under other comprehensive income are reclassified to statement of income.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. Financial instruments (Continued)

a) Financial assets (Continued)

i) *Initial recognition and measurement* (Continued)

Subsequent measurement (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are presented in the statement of financial position at fair value, and net fair value variations are recorded in the statement of profit or loss.

Derecognition

A financial asset or, when applicable, a part of a financial asset, or a part of a group of similar financial assets, is derecognized when:

- (i) The rights to receive cash flows from the asset expire; or
- (ii) The Company transferred its rights to receive cash flows from the asset or assumed an obligation to fully pay the cash flows received, without significant delay, to a third party under a pass-through arrangement and (a) the Company substantially transferred all risks and rewards from the asset, or (b) the Company did not substantially transfer or retain all risks and rewards from the asset, but transferred the control over the asset.

Impairment of financial assets

The Company analyzes impairment of its financial assets under the model proposed by CPC 48 referring to expected credit losses. Measurement applies to assets classified as amortized cost and fair value through other comprehensive income, and based on the perception of increase in credit risk as from initial recognition of the asset, in which a provision is set up based on the loss expected for the next 12 month or for the entire lifetime of the asset. For the receivable's portfolio, which have no significant financing component, the Company applies the simplified approach allowed as a practical expedient by CPC 48, in which expected losses are recorded over the entire lifetime as from initial recognition of the receivables. Further details on measurement of expected credit losses are provided in Note 4.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. Financial instruments (Continued)

b) Financial liabilities

Initial recognition and measurement

Upon initial recognition, financial liabilities are classified at fair value through profit or loss, at amortized cost or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are initially measured at fair value, plus or less, in the case of financial liabilities not measured at fair value through profit or loss, transaction costs directly attributable to issue of these financial liabilities.

Subsequent measurement

For subsequent measurement purposes, Company financial assets are classified under two categories:

- (i) Financial liabilities at fair value through profit or loss; and
- (ii) Financial liabilities at amortized cost.

Measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

These include financial liabilities held for trading and financial liabilities designated upon initial recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading if acquired to be repurchased in the short term.

Gains or losses deriving from liabilities for trading, if any, are recorded in the statement of profit or loss.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. Financial instruments (Continued)

b) Financial liabilities (Continued)

Subsequent measurement (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Any financial liabilities designated upon initial recognition at fair value through profit or loss are designated at initial recognition date, and only if the criteria set out in CPC 48 are met.

Financial liabilities at amortized cost (loans and financing, and debentures)

After initial recognition, interest-bearing loans, financing and debentures are subsequently measured at amortized cost, using the effective interest rate method. Gains and losses are stated in statement of income upon write-off of liabilities, and also during the process of amortization by the effective interest rate method.

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

Derecognition

A financial liability is written off when the obligation on such liability ceases to exist, i.e. when the obligation specified in the agreement is settled, canceled or expires. When an existing financial liability is replaced by another from the same lender, under substantially different terms, or if terms of an existing liability are significantly changed, such replacement or change is treated as a write-off of the original liability and recognition of a new liability. Any differences in the corresponding book values are posted to statement of income.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of financial statements and summary of significant accounting practices (Continued)

2.15. Financial instruments (Continued)

c) Net presentation of financial instruments

Financial assets and financial liabilities are offset, and their net amount is presented in the statement of financial position if the entity has a legally enforceable right to offset the amounts recognized and intends to settle them on a net basis or realize the asset and settle the liability simultaneously.

2.16. New accounting pronouncements, revisions and interpretations issued

In preparing the financial statements for the year ended December 31, 2021, the Company's management considered, when applicable, new revisions and interpretations to the following accounting pronouncements, issued by the CPC, respectively, which are mandatory for accounting periods beginning on or after January 1, 2021.

Amendments to CPC 06 (R2), CPC 11, CPC 38, CPC 40 (R1) and CPC 48: Reform of the Reference Interest Rate

The amendments to Accounting Pronouncements CPC 38 and 48 provide temporary exceptions that address the financial statement effects when an interbank deposit certificate is replaced with an alternative to an almost risk-free rate. These amendments include the following practical expedients:

- A practical expedient that requires contractual changes, or changes in cash flows that are directly required by the interest rate reform, to be treated as changes in a floating interest rate, equivalent to a change in a market rate.
- Allows reform-required changes to be made to hedging designations and documentation, without the hedging relationship being discontinued.
- Provides a temporary exception for entities to comply with the separately identifiable requirement when a risk-free rate instrument is designated as a hedge of a risk component.

These changes did not impact the Company's individual and consolidated financial statements. The Company intends to use the practical expedients in future periods if they become applicable.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

2. Presentation of the financial statements and summary of significant accounting practices (Continued)

2.16. New accounting pronouncements, revisions and interpretations issued (Continued)

Amendments to CPC 06 (R2): Benefits related to Covid-19 granted to Leaseholders in Lease Contracts that go beyond June 30, 2021.

The amendments provide for granting to lessees upon applying the CPC 06 (R2) guidance for the modification of the lease agreement, when accounting for the related benefits as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may choose not to assess whether a Covid-19-related benefit granted by the lessor is a modification of the lease. A lessee making this choice must account for any change in the lease payment resulting from the benefit granted in the lease contract related to Covid-19 in the same way that it would account for the change applying CPC 06 (R2) if the change were not a lease contract modification.

The change was intended to apply until June 30, 2021, but as the impact of the Covid-19 pandemic may continue, on March 31, 2021, the CPC extended the period of application of this practical expedient to June 30, 2022. This amendment is effective for fiscal years beginning on or after January 1, 2021. However, the Company has not yet received benefits granted to lessees related to Covid-19 but plans to apply the practical expedient when available within the period of the standard.

These changes did not impact the Company's individual and consolidated financial statements. The Company intends to use the practical expedients in future periods if they become applicable.

2.17. New accounting pronouncements, revisions and interpretations issued that have not yet taken effect

On the date of preparation of the financial statements, there were no standards or interpretations issued or amended, which could have an impact on the financial statements.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

3. Cash and cash equivalents

	<u>12/31/2021</u>	<u>12/31/2020</u>
Cash and banks	674	247
Short-term investments (a)	188,061	230,098
Restricted accounts	-	4,712
Total cash and cash equivalents	<u>188,735</u>	<u>235,057</u>

(a) These refer to floating-rate Bank Deposit Certificates (CDBs) that reflect the usual market conditions, whose maturity at the statement of financial position date is within 90 days. They have immediate liquidity and no risk of significant changes due to interest rate fluctuation, bearing interest ranging from 96% to 103% of CDI in December 2021 (97% to 103% of CDI in December 2020 and measured at fair value in a contra account of profit or loss.

4. Trade receivables

	<u>12/31/2021</u>	<u>12/31/2020</u>
Trade notes receivable	416,419	282,669
Trade notes receivable - intercompany	590	-
Discounts / monetary restatements	171	(2,431)
	<u>417,180</u>	<u>280,238</u>
Allowance for expected credit losses	<u>(19,514)</u>	<u>(19,223)</u>
	<u>397,666</u>	<u>261,015</u>
Less current portion	<u>393,703</u>	<u>254,945</u>
Non-current	<u>3,963</u>	<u>6,070</u>

At December 31, 2021, trade notes receivable had also been offered as guarantee for loans and financing in the amount off R\$70,133 (R\$73,632 at December 31, 2020).

The aging list of accounts receivable recorded in current assets at the reporting date of the financial statements were recognized is as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Falling due	397,370	259,275
Due within 30 days	225	371
Due from 31 to 60 days	45	9
Due from 61 to 90 days	32	-
Due from 91 to 180 days	229	-
Due above 181 days	19,279	20,583
	<u>417,180</u>	<u>280,238</u>

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

4. Accounts receivable (Continued)

Allowance for expected credit losses

Changes in the allowance for expected credit losses:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Beginning balance	(19,223)	(14,897)
Additions (reversals)	(291)	(4,326)
Close balance	<u>(19,514)</u>	<u>(19,223)</u>

Management sets up an allowance for expected credit losses at an amount considered sufficient to cover possible accounts receivable realization risks, considering historical losses and collateral for amounts overdue.

The breakdown of the allowance for expected credit losses in percentage terms:

	<u>%</u>	
	<u>12/31/2021</u>	<u>12/31/2020</u>
Falling due	0.36%	0.76%
Overdue within 90 days	0.04%	0.08%
Overdue from 91 to 180 days	0.08%	0.08%
Overdue over 180 days	100.00%	100.00%

5. Inventories

	<u>12/31/2021</u>	<u>12/31/2020</u>
Finished goods	38,958	53,151
Raw, packaging and auxiliary materials	22,879	14,200
Import in transit	87,055	14,920
Provision for returns	12,978	8,816
Provision for obsolete inventories	(475)	(518)
Provision for inventory realization, net	<u>(2,977)</u>	<u>(4,530)</u>
	<u>158,418</u>	<u>86,039</u>

The Company records provisions for 100% of its inventories not moving for more than 360 days, in addition to analyzing inventory items individually. Changes in provisions are as follows:

	<u>12/31/2020</u>	<u>Reversals</u>	<u>12/31/2021</u>
Provision for obsolescence	(518)	43	(475)
Provision for inventory realization, net	(4,530)	1,553	<u>(2,977)</u>
	<u>(5,048)</u>	<u>1,596</u>	<u>(3,452)</u>

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

5. Inventories (Continued)

	<u>12/31/2019</u>	<u>Reversals</u>	<u>12/31/2020</u>
Provision for obsolescence	(524)	6	(518)
Provision for inventory realization, net	(4,653)	123	(4,530)
	<u>(5,177)</u>	<u>129</u>	<u>(5,048)</u>

6. Taxes recoverable

	<u>12/31/2021</u>	<u>12/31/2020</u>
State value-added tax (ICMS)	25,174	29,138
Federal VAT Tax (IPI)	5,058	4,030
PIS and COFINS	3,637	1,918
Income and social contribution taxes	940	3,216
	<u>34,809</u>	<u>38,302</u>
Current	5,602	42
Noncurrent	29,207	38,260

The Company intends to realize its ICMS, IPI, PIS and COFINS tax balances through its operations and reimbursement requests. Income and social contribution taxes refer to negative balances from previous years and will be realized by offsetting balances of income and social contribution taxes payable and other federal taxes. In 2021, the Company received the amount of R\$2,532 via reimbursement from the Brazilian IRS (RFB), of which R\$1,350 refer to IRPJ and CSLL taxes and R\$1,182 to COFINS (in 2020 the amount was R\$1,480, of which R\$75 refer to IPI and R\$1,405 to PIS and COFINS).

7. Assets held for sale

The group of assets held for sale is measured based on the lowest between book and fair value. Originated from trade receivables from customers, the amounts are net of any expenses for their realization in accordance with CPC 31.

The amount of R\$7,977 at December 31, 2021 (R\$8,600 at December 31, 2020) refers to property received in payment for customer debts, which are under negotiation.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

8. Current and deferred income taxes

Deferred income taxes were set up at the effective rates as under:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Deferred income tax assets on:		
Temporarily nondeductible provisions	11,172	6,752
Income and social contribution tax losses	49,054	51,632
Deferred social contribution tax assets on:		
Temporarily nondeductible provisions	4,022	2,431
Income and social contribution tax losses	16,974	17,902
	<u>81,222</u>	<u>78,717</u>
Less write-off due to no expectation of realization	(52,117)	(52,141)
Non-current deferred tax assets	<u>29,105</u>	<u>26,576</u>

Main provisions are as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Allowance for expected credit losses	19,514	19,223
Provision for customer discounts	(171)	2,431
Audit and advisory services	4,953	3,010
Sales commissions	613	751
Incineration	401	347
Legal proceedings	1,937	-
Provision for inventory obsolescence/realization of losses	3,452	5,048
Provision for derivative losses	3,098	(9,848)
Customer campaign	7,636	3,533
Debt modification	(140)	(1,583)
Revenue Realization	2,063	1,581
Other	1,333	2,513
	<u>44,689</u>	<u>27,006</u>
Income tax losses	11,172	6,752
Social contribution tax losses	4,022	2,431
	<u>15,194</u>	<u>9,183</u>

Based on future taxable profit generation, determined in a technical study approved by the Board of Directors, the Company recognized tax credits on temporary differences and tax losses. The book value and the realization of tax credits are annually reviewed by the Company.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

8. Current and deferred income taxes (Continued)

Based on this technical study on future taxable profit generation, the Company expects to recover these tax credits in the next 5 years.

	<u>R\$</u>	<u>%</u>
2022	1,561	5
2023	6,664	23
2024	6,977	24
2025	7,673	26
2026	6,230	21
	<u>29,105</u>	<u>100</u>

The recovery of tax credits was estimated based on projections of taxable profit taking into consideration various financial and business assumptions for the year ended December 31, 2021. Consequently, these estimates may not materialize in the future considering uncertainties inherent in these forecasts.

Reconciliation of income and social contribution tax expenses

Reconciliation of the expense calculated by applying combined statutory tax rates and of the income and social contribution tax expense recorded in profit or loss is as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Income before taxes	18,426	(32,148)
Tax expenses at statutory rate of 34%	(6,265)	10,930
Effective rate adjustments:		
Permanent differences	836	(262)
Constitution (reversal) of tax credits on tax loss	-	(5,486)
Tax credits set up on tax losses	-	(10,668)
Net tax charges recorded in statement of profit or loss	<u>(5,429)</u>	<u>(5,486)</u>
Effective rate	<u>29.46%</u>	<u>17.06%</u>

Accumulated income and social contribution tax losses are broken down as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Income tax losses	196,215	206,528
Social contribution tax losses	188,597	198,911

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

8. Current and deferred income taxes (Continued)

Income and social contribution tax losses may be carried indefinitely, however, their offset is limited to 30% of taxable profit each year.

Changes in deferred taxes is as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Opening balance	26,576	32,062
Tax losses offsetting	(3,482)	-
Net recognition of deferred charges on temporary differences	6,011	-
Write-offs due to non-expectation of realization	-	(5,486)
Closing balance	29,105	26,576

9. Investments

	Interest held		Equity Pick-up	
	%	12/31/2020	12/31/2021	12/31/2021
Campo Limpo Reciclagem e Transformação de Plásticos S.A.	1.5013%	1,005	406	1,411
SICOOB - Sistema de Cooperativas de Crédito do Brasil - Credicitrus	0.019%	233	7	240
		<u>1,238</u>	<u>413</u>	<u>1,651</u>

	Interest held		Equity Pickup	
	%	12/31/2019	12/31/2020	12/31/2020
Campo Limpo Reciclagem e Transformação de Plásticos S.A.	1.5013%	981	24	1,005
SICOB - Sistema de Cooperativas de Crédito do Brasil - Credicitrus	0.019%	228	5	233
		<u>1,209</u>	<u>29</u>	<u>1,238</u>

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

10. Property, plant and equipment

	12/31/2021										
	Land	Buildings and improvements	Machinery	Tools, presses and molds	Facilities	Furniture and fixtures	Vehicles	Hardware	Leases - Right of use	Construction in progress	Total
Acquisition cost											
Balance at beginning of year	1,375	22,239	31,598	227	26,021	5,705	119	1,551	4,476	1,151	94,462
Additions	-	-	-	-	-	-	-	-	2,188	7,140	9,328
Write-offs	-	-	(27)	-	-	(5)	-	(30)	(885)	(7)	(954)
Transfers	-	788	2,263	-	3,589	93	-	1,094	-	(7,827)	-
Balance at end of year	1,375	23,027	33,834	227	29,610	5,793	119	2,615	5,779	457	102,836
Depreciation											
Balance at beginning of year	-	(13,410)	(19,426)	(165)	(18,365)	(4,375)	(59)	(1,183)	(1,245)	-	(58,228)
Additions	-	(760)	(1,917)	(16)	(2,325)	(288)	(8)	(335)	(1,988)	-	(7,637)
Write-offs	-	-	25	-	-	3	-	29	897	-	954
Transfer	-	(14,170)	(21,318)	(181)	(20,690)	(4,660)	(67)	(1,489)	(2,336)	-	(64,911)
Net Balance	1,375	8,857	12,516	46	8,920	1,133	52	1,126	3,443	457	37,925
Average annual depreciation rates	0%	4%	10% and 20%	10%	10% and 20%	10% and 20%	20%	20%	28%		

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

10. Property, plant and equipment (Continued)

	12/31/2020										
	Land	Buildings and improvements	Machinery	Tools, presses and molds	Facilities	Furniture and fixtures	Vehicles	Hardware	Leases - Right of use	Construction in progress	Total
Acquisition cost											
Balance at beginning of year	1,375	22,099	29,736	190	23,606	5,661	119	1,925	1,399	1,681	87,789
Additions	-	-	-	-	-	-	-	-	4,542	4,279	8,821
Write-offs	-	(73)	(194)	-	(12)	(12)	-	(394)	(1,465)	-	(2,148)
Transfers	-	213	2,056	37	2,427	56	-	20	-	(4,809)	-
Balance at end of year	1,375	22,239	31,598	227	26,021	5,705	119	1,551	4,476	1,151	94,462
Depreciation											
Balance at beginning of year	-	(12,652)	(17,913)	(144)	(15,988)	(4,100)	(52)	(1,356)	(804)	-	(53,009)
Additions	-	(818)	(1,707)	(21)	(2,389)	(287)	(7)	(201)	(1,824)	-	(7,254)
Write-offs	-	60	194	-	12	12	-	374	1,383	-	2,035
Transfer	-	-	-	-	-	-	-	-	-	-	-
	-	(13,410)	(19,426)	(165)	(18,365)	(4,375)	(59)	(1,183)	(1,245)	-	(58,228)
Net Balance	1,375	8,829	12,172	62	7,656	1,330	60	368	3,231	1,151	36,234
Average annual depreciation rates											
Acquisition cost	0%	4%	10% and 20%	10%	10% and 20%	10% and 20%	20%	20%	28%		

Impairment analysis

In accordance with CPC 01 (R1) – Impairment of Assets, the Company evaluated the indications of impairment in the years ended December 31, 2021 and 2020 and concluded that there were no indications that would require impairment testing.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

11. Intangible assets

	12/31/2021					
	Trademarks and patents	Software	Products under registration	Products being sold	Intangible assets in progress	Total
Acquisition cost						
Balance at beginning of year	138	4,806	11,920	16,478	110	33,452
Additions	-	-	262	-	698	960
Write-offs	-	-	-	-	-	-
Transfers	-	730	(2,412)	2,412	(730)	-
Balance at end of year	138	5,536	9,770	18,890	78	34,412
Amortization						
Balance at beginning of year	-	(3,607)	-	(9,631)	-	(13,238)
Additions	-	(457)	-	(2,990)	-	(3,447)
Write-offs	-	-	-	-	-	-
Balance at end of year	-	(4,064)	-	(12,621)	-	(16,685)
Net balance	138	1,472	9,770	6,269	78	17,727
Average annual amortization rates	-	20%	-	20%	-	
	12/31/2020					
	Trademarks and patents	Software	Products under registration	Products being sold	Intangible assets in progress	Total
Acquisition cost						
Balance at beginning of year	138	4,502	13,784	14,526	17	32,967
Additions	-	-	88	-	397	485
Write-offs	-	-	-	-	-	-
Transfers	-	304	(1,952)	1,952	(304)	-
Balance at end of year	138	4,806	11,920	16,478	110	33,452
Amortization						
Balance at beginning of year	-	(3,186)	-	(7,285)	-	(10,471)
Additions	-	(421)	-	(2,346)	-	(2,767)
Write-offs	-	-	-	-	-	-
Balance at end of year	-	(3,607)	-	(9,631)	-	(13,238)
Net balance	138	1,199	11,920	6,847	110	20,214
Average annual amortization rates	-	20%	-	20%	-	

Out of the total intangible assets at December 31, 2021, R\$ 9,770 refer to products under registration (R\$ 11,920 at December 31, 2020). Once these registrations are obtained from the relevant bodies, the products will start to be sold and the amounts recorded under intangible assets will be amortized over a period of 5 (five) years.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

12. Loans, financing and debentures

	<u>Interest rate</u>	<u>12/31/2021</u>	<u>12/31/2020</u>
Foreign currency			
Law 4131(USD) - Brasil	FX + 3.80% p.a.	-	25,371
Law 4131(EUR) - Brasil	FX + 1.19% p.a.	30,141	-
Law 4131(EUR) - Brasil	FX + 1.81% p.a.	29,730	-
Law 4131(USD) – MUFG	FX + 4.35% p.a.	-	31,184
Law 4131(EUR) – Mizuho	FX + 0.51% p.a.	35,045	35,180
FINIMP (USD) – CCB	FX + 2.71% p.a.	-	1,074
FINIMP (USD) – Itaú	FX + 3.32% p.a.	-	8,001
Local currency			
Working capital	CDI + 1.88% p.a.	20,198	60,537
Debt modification	-	-	(1,405)
Working capital	6.48% p.a.	15,195	20,256
Debentures 3 rd issue – series 1	CDI+ 1.55% p.a.	70,095	66,124
Debentures 3 rd issue – series 2	CDI + 1.75% p.a.	10,532	20,619
Debenture raising costs	-	(630)	(911)
Promissory note 1 st issue	CDI + 1.75% p.a.	30,037	-
Promissory note raising costs	-	(139)	-
Lease, Right of use – CPC 06 (R2)	1.97% to 7.75% p.a.	3,673	3,364
Finance charges – lease – CPC 06 (R2)	-	(166)	(112)
Agricultural credit – Free funds (a)	-	15,838	53,828
		259,549	323,110
Less portion classified under current liabilities		93,383	190,615
Non-current liabilities		166,166	132,495

(a) Line of credit referring to the financing of agricultural activities of our customers, to which Sipcam Nichino is a guarantor.

The aging list of long-term loans is as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
2022	-	35,885
2023	90,853	25,555
2024	75,313	71,055
	166,166	132,495

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

12. Loans, financing and debentures (Continued)

At December 31, 2021, the Company granted as guarantees for loans trade receivables amounting to R\$70,133 (R\$73,632 at December 31, 2020).

Debentures

Issue	Principal	Annual yield	Final maturity	12/31/2021	12/31/2020
3 rd issue - series 1	60,000	CDI + 1.55% p.a.	March 28, 2024	70,095	66,124
3 rd issue - series 2	30,000	CDI + 1.75% p.a.	March 29, 2022	10,532	20,619
Less portion classified under current liabilities				(10,532)	(10,619)
Non-current liabilities				70,095	76,124

The Company obtained approval for the 3rd issue of unsecured nonconvertible debentures amounting to R\$90,000, in two series, in which series 1 matures at March 28, 2024 and series 2 matures at March 29, 2022. Interest of this transaction has been paid for the year in which it is incurred. No guarantees were given. The second installment of the 2nd series was paid in the amount of R \$ 10,000 in March 2021.

Contractual clauses

The Company has contractual obligations arising from the financing contracts, related to the maintenance of certain financial and non-financial ratios established in these contracts (covenants), whose calculation period takes place at the end of the year. Management has timely controls over these indicators and as of December 31, 2021, it understands that the preestablished requirements have been met, and any requirement by creditors is unlikely before the original long-term maturity, nor the need for reclassification.

Changes in financial payable are as follows:

	Loans and financing	Leases payable	Debentures	Total
Balances at 12/31/2020	234,026	3,252	85,832	323,110
Additions	113,472	-	-	113,472
(-) Repayments of principal	(174,585)	(1,947)	(10,000)	(186,532)
(-) Repayments of interests	(5,450)	(83)	(798)	(6,331)
Interests	4,145	97	4,683	8,925
Additions of new lease agreements and remeasurement	-	2,188	-	2,188
Exchange differences	3,171	-	-	3,171
Others	1,266	-	280	1,546
Balances at 12/31/2021	176,045	3,507	79,997	259,549

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

13. Suppliers and assignment of credit by suppliers

	<u>12/31/2021</u>	<u>12/31/2020</u>
Domestic market		
Miscellaneous suppliers	<u>22,341</u>	<u>13,076</u>
	22,341	13,076
Foreign market		
Raw material / resale material	56,097	56,067
Raw material/resale material - Related parties	176,922	77,020
Raw material/resale material - Assignment of credit	101,187	50,500
	<u>334,206</u>	<u>183,587</u>
	<u>356,547</u>	<u>196,663</u>

The Company makes it possible for certain suppliers to have the option of assigning the Company's securities, without right of recourse, to financial institutions. In this operation, the supplier has the right to reduce its finance costs as the financial institution considers the buyer's credit risk. As at December 31, 2021, the discount rates on assignment transactions carried out by our suppliers with financial institutions varied between 3.30% and 5.00% (between 4.10% and 7.40% at December 31, 2020).

14. Provision for legal proceedings

The Company is a party to tax, civil and labor claims arising from the ordinary course of business. The Company management believes that the provision for legal proceedings set up is sufficient to cover adventitious losses in lawsuits. The provisions for legal proceedings were set up for proceedings whose likelihood of loss was assessed as probable, based on the opinion of lawyers and outside legal advisors. The unfavorable outcome of proceedings, whether individually or in aggregate, will not have a material adverse effect on the Company's financial position or business. Judicial deposits were made for some of these proceedings when required by the judicial branch.

Changes in provision for legal proceedings, by nature, are as follows:

	<u>12/31/2020</u>	<u>Provision / (Reversal)</u>	<u>(Payments) / Redeem</u>	<u>12/31/2021</u>
Tax	222	167	(222)	167
Civil	106	(7)	(3)	96
Labor	19	132	(13)	138
Total provision	<u>347</u>	<u>292</u>	<u>(238)</u>	<u>401</u>
Judicial deposits	<u>(908)</u>	<u>-</u>	<u>754</u>	<u>(154)</u>

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

14. Provision for legal proceedings (Continued)

	<u>12/31/2019</u>	<u>Provision/(Reversal)</u>	<u>Payments</u>	<u>12/31/2020</u>
Tax	273	44	(95)	222
Civil	91	18	(3)	106
Labor	33	(14)	-	19
Total provision	<u>397</u>	<u>48</u>	<u>(98)</u>	<u>347</u>
Judicial deposits	<u>(908)</u>	<u>-</u>	<u>-</u>	<u>(908)</u>

Provisions consist of civil, labor and tax lawsuits assessed as probable loss and refer mainly to customer claims on product purchase contracts and labor claims on dismissals of former employees of the Company.

Cases with likelihood of success:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Tax	4,100	3,806
Civil	4	-
Total	<u>4,104</u>	<u>3,806</u>

The obligations arising from these proceedings are not considered to be contingent liabilities, since it is not probable that an outflow of resources will occur as a result of such lawsuits. The Company has in its base of lawsuits assessed as possible loss suits of civil nature that involve disputes with customers and tax lawsuits primarily related to issues concerning the import of products.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

15. Equity

a) Capital

At December 31, 2021 and December 31, 2020 the Company capital stock totals R\$ 223,897 and is divided into 2,471,492,952 common shares.

The Company's shareholding structure at December 31, 2021 and 2020 is as follows:

	<u>Shares</u>	<u>%</u>
Sipcam Nederland Holding N.V.	150,127,424	6.08
Obras Latin América Participações Ltda.	518,134,294	20.96
Obras S.R.L.	567,484,758	22.96
Nihon Nohyaku CO. Ltd.	1,235,746,476	50.00
	<u>2,471,492,952</u>	<u>100.00</u>

a) Income reserve and dividends

Due to accumulated losses, the Company does not set up reserves and/or proposed the distribution of dividends in 2021 and 2020.

16. Risk considerations

a) Credit risk

The Company's sales policies are subordinated to the credit policies established by management and are designed to minimize any problems arising from customer default. This goal is achieved through a careful selection of customer portfolio that takes into consideration their creditworthiness (credit rating) and the diversification of sales (risk dilution).

b) Liquidity risk

The Company prepares cash flow forecasts as a means to monitor its future needs in advance in order to ensure it has enough cash to meet the operational demands. The Company maintains excess cash, if any, in interest bearing short-term investments and by choosing instruments that provide liquidity adequate to its needs.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

16. Risk considerations (Continued)

b) Liquidity risk (Continued)

The aging list of the Company's major financial liabilities (loans and financing) is as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
2021	-	190,615
2022	93,383	35,885
2023	90,853	25,555
2024	75,313	71,055
	<u>259,549</u>	<u>323,110</u>

c) Interest rate risk

The Company's profit or loss is subject to losses arising from changes in floating interest rates, such as: CDI and changes in inflation indices, such as the Extended Consumer Price Index (IPCA), on its financial assets and liabilities. The amounts relating to these transactions are stated in Notes 3 and 12.

d) Currency risk

The Company's income is subject to significant variation since part of inputs used in the production process is impacted by the foreign exchange rate fluctuation, particularly the US dollar and Yen, referring to intercompany loan transactions.

To reduce certain effects of exchange rate fluctuation, the Company hedges against the effects of exchange rate devaluation of local currency on its financial assets and liabilities denominated in dollars and/or euros through Swap transactions and Non-Deliverable Forwards – commitment to purchase US currency at previously agreed-upon rates – linked to the US dollar fluctuation. The amounts of such transactions are summarized in Note 23.f.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

17. Cost of sales and services

	<u>12/31/2021</u>	<u>12/31/2020</u>
General Manufacturing Costs (GMC)		
Direct labor costs – own	(4,903)	(4,544)
Direct labor costs - third parties	(929)	(558)
Electricity	(1,794)	(1,557)
Depreciation and amortization	(2,038)	(1,664)
Maintenance of property, plant and equipment	(539)	(340)
Other direct costs	(818)	(614)
Indirect costs		
Indirect labor costs – own	(5,192)	(4,712)
Indirect labor costs - third parties	(90)	-
Electricity	(129)	(143)
Depreciation and amortization	(1,105)	(1,048)
Maintenance of property, plant and equipment	(469)	(352)
Incineration	(745)	(854)
Other indirect costs	(1,096)	(591)
	<u>(19,847)</u>	<u>(16,977)</u>
Inputs		
Raw and packaging materials	(552,606)	(311,216)
Provision for returns of goods	4,162	2,804
Goods for resale	(43,586)	(28,130)
	<u>(592,030)</u>	<u>(336,542)</u>
Other costs		
Freight on sales	(12,710)	(8,226)
Insurance on sales	(492)	(432)
Storage	(3,780)	(3,956)
Taxes on transfers	(15,352)	(7,341)
Inpev	(774)	(1,035)
Provision for (reversal of provision for) inventories	1,596	129
Promotional campaign	(5,844)	(3,193)
Equalization	(1,408)	(121)
Write-off of inventories	(1,416)	(448)
Sales discounts	(1,174)	(896)
Sales commissions	(5,890)	(3,839)
Other	(2,563)	(152)
	<u>(49,807)</u>	<u>(29,510)</u>
	<u>(661,684)</u>	<u>(383,029)</u>

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

18. Operating income (expenses)

a) Selling, general and administrative expenses

	12/31/2021		12/31/2020	
	Selling	General and administrative	Selling	General and administrative
Salaries and related charges	(16,292)	(9,634)	(12,304)	(8,619)
Fees and labor engaged	(1,431)	(3,487)	(753)	(3,309)
Travel	(562)	(153)	(353)	(55)
Vehicles	(821)	(35)	(379)	(17)
Meetings	(511)	(93)	(613)	(65)
Associations	(21)	(203)	(21)	(201)
Third-party services	(2,941)	(5,072)	(2,967)	(4,014)
Communication	(138)	(234)	(149)	(170)
Cleaning supplies	(61)	(627)	(65)	(604)
Insurance	(51)	(144)	(51)	(131)
Safety equipment	-	(1,082)	(1)	(977)
Amortization and depreciation	(4,063)	(1,837)	(3,419)	(1,569)
Reversal of provision (provision) for expected credit losses	(291)	-	(4,326)	-
Other	(2,838)	(931)	(2,253)	(720)
	(30,021)	(23,532)	(27,654)	(20,451)

b) Other operation income (expenses), net

	12/31/2021	12/31/2020
General manufacturing costs (i)	(2,859)	(2,844)
Depreciation (i)	(1,988)	(2,269)
Maintenance of property, plant and equipment (i)	(568)	(539)
Other production costs (i)	(1,411)	(1,279)
Tax legal proceedings	(126)	3
Income from tax restatement	49	168
Other revenue (expense)	3,590	(1,024)
	(3,313)	(7,784)

(i) Refers to the non-utilization of the full capacity installed in the industry.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

19. Finance costs, net

	<u>12/31/2021</u>	<u>12/31/2020</u>
Finance expenses		
Interest on financial transactions	(5,465)	(7,623)
Debt modification	(1,443)	(1,478)
Losses on financial instruments, realized	(8,949)	(2,638)
Losses on financial instruments, accrued	(14,437)	-
Discounts given to customers	(2,213)	(821)
Trade receivables difference, realized	(1,351)	(887)
Trade receivables difference, accrued	-	(1,358)
Exchange difference, realized	(19,267)	(21,930)
Exchange difference, accrued	(158,360)	(250,193)
Tax on Financial Transactions (IOF)	(38)	(403)
Interest on debentures	(4,683)	(3,829)
Finance charges, lease and right of use	(97)	(80)
PIS and COFINS on financial income	(385)	-
Other finance expenses	(6,592)	(3,992)
	<u>(223,280)</u>	<u>(295,232)</u>
Finance income		
Gains on financial instruments, realized	17,119	6,571
Gains on financial instruments, accrued	1,490	9,891
Trade receivables difference, realized	1,582	6,758
Trade receivables difference, accrued	2,865	-
Exchange difference, realized	4,927	583
Exchange difference, accrued	155,766	215,376
Short-term investment yield	2,828	2,918
Interest income	121	238
Debt modification	-	1,357
Gains/loss, lease write-off	(12)	-
Interests on judicial deposits	791	-
Other finance income	229	188
	<u>187,706</u>	<u>243,880</u>

20. Key management personnel compensation

At March 31, 2021, the Annual and Special General Meeting (AGM and SGM) approved the compensation of R\$3,485 effectively paid as fixed and variable fees in the period from May 2020 to March 2021. In this same act, it set the annual and overall amount of the fixed and variable fees to be paid to the members of the Board of Directors and the Executive Board from April 2021 to March 2022 in the amount of up to R\$5,100. It is incumbent upon the Board of Directors to set the amounts that will be the responsibility of each director of the Company, as well as the payment criteria, provided that the maximum amount stated above is not exceeded.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

21. Insurance coverage

The Company maintains insurance coverage for operational risks and other risks to safeguard its property, plant and equipment and inventories.

Insurance taken out as of December 31, 2021 is considered sufficient, based on the opinion of the Company's insurance advisors, to cover losses, if any.

Insurance coverage, by nature, as of December 31, 2021 is composed as follows:

Classification	Insurance risk	Amount insured	Contract term
Property/bodily damage	Commercial facilities, inventories and other	57,273	2021-2023
General civil liabilities	Industrial and commercial operations	37,000	2021-2023
Civil liabilities - administrators and directors	Industrial and commercial operations	50,000	2021-2022

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts expressed in thousands of reais, unless otherwise stated)

22. Transactions with related parties

	Oxon Brasil Defensivos		Sipcam Oxon S.p.A		Sipcam Inagra S.p.A		Nihon Nohyaku CO. Ltd.		Sofbey SA		Total	
	Agrícolas Ltda.		2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	2021	2020										
Balances												
Current assets:												
Accounts receivable (note 4)	-	-	-	-	65	-	-	-	525	-	590	-
Current liabilities:												
Accounts payable (note 13)	-	-	126,373	57,688	-	-	49,215	18,930	1,334	402	176,922	77,020
Intercompany loan (*)	-	-	-	-	-	-	397	415	-	-	397	415
Non-current liabilities:												
Intercompany loan (*)	-	-	-	-	-	-	92,961	96,686	-	-	92,961	96,686
Transactions												
Purchases	-	-	215,981	111,972	-	-	54,078	21,428	1,307	817	271,366	134,217
Other expenses	(1,071)	(883)	-	-	65	-	-	-	525	-	(481)	(883)
Finance costs, net	-	-	(9,845)	(10,642)	-	-	(993)	(26,634)	(35)	(70)	(10,873)	(37,346)

Transactions with related parties are carried out at specific prices and conditions agreed-upon between the parties.

(*) This balance refers to an intercompany loan agreement entered into with Nihon Nohyaku CO., Ltd in August 2015, amounting to R\$98,880 (JPY1,920,000,000), subject to interest of 1.38% p.a. and with maturity on August 31, 2025.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts expressed in thousands of reais, unless otherwise stated)

23. Financial instruments

(a) Accounting classification and fair value

Financial instruments recorded at fair value using a valuation method in accordance with CPC 40 – Financial Instruments are presented according to the table below. The different levels were defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2: Inputs, except quoted prices, included in Level 1, observable for assets or liabilities, either directly (that is, based on prices) or indirectly (that is, deriving from prices);
- Level 3: Assumptions for assets and liabilities not based on market observable data (that is, unobservable inputs).

Book values of financial instruments presented in the statement of financial position, when compared to the amounts that could be obtained in trading them in an active market or, in the absence thereof, the net present value adjusted based on the ruling market interest rate, approximate substantially the related market value.

As at December 31, 2021, there were no transfers between levels to be considered, as compared with December 31, 2020.

Book and fair value of financial assets and liabilities, including fair value hierarchy are presented below. Information on fair value of assets and liabilities not measured at fair value is not included if book value reasonably approximates fair value.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts expressed in thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

(a) Accounting classification and fair value (Continued)

December 31, 2021	Book value			Fair value			
	Fair value through statement of income	Amortized cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Short-term investments	188,061	-	188,061	-	188,061	-	188,061
Financial instruments	2,228	-	2,228	-	2,228	-	2,228
Total	190,289	-	190,289	-	190,289	-	190,289
Financial assets not measured at fair value							
Cash and cash equivalents	674	-	674				
Trade receivables and other accounts receivable	-	397,666	397,666				
Other assets	-	667	667				
Total	674	398,333	399,007				
Financial liabilities measured at fair value							
Loans, financing and debentures	-	259,549	259,549	-	259,549	-	259,549
Intercompany loans	-	93,358	93,358	-	93,358	-	93,358
Financial instruments	5,327	-	5,327	-	5,327	-	5,327
Total	5,327	352,907	358,234	-	358,234	-	358,234
Financial liabilities not measured at fair value							
Suppliers and assignment of credit by suppliers	-	356,547	356,547				
Advanced from customers	-	26,490	26,490				
Other liabilities	-	13,435	13,435				
Total	-	396,472	396,472				

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts expressed in thousands of reais, unless otherwise stated)

23. Financial instruments (Continued)

(a) Accounting classification and fair value (Continued)

December 31, 2020	Book value			Fair value			
	Fair value through statement of income	Amortized cost	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value							
Short-term investments	230,098	-	230,098	-	230,098	-	230,098
Restricted accounts	4,712	-	4,712	-	4,712	-	4,712
Financial instruments	9,848	-	9,848	-	9,848	-	9,848
Total	244,658	-	244,658	-	244,658	-	244,658
Financial assets not measured at fair value							
Cash and cash equivalents	247	-	247				
Trade receivables and other accounts receivable	-	261,015	261,015				
Other assets	-	864	864				
Total	247	261,879	262,126				
Financial liabilities measured at fair value							
Loans, financing and debentures	-	323,110	323,110	-	323,110	-	323,110
Intercompany loans	-	97,101	97,101	-	97,101	-	97,101
Total	-	420,211	420,211	-	420,211	-	420,211
Financial liabilities not measured at fair value							
Suppliers and assignment of credit by suppliers	-	196,663	196,663				
Advanced from customers	-	563	563				
Other liabilities	-	8,221	8,221				
Total	-	205,447	205,447				

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

23. Financial instruments (Continued)

(b) Credit risk exposure

The book value of financial assets represents maximum credit risk exposure. Maximum risk exposure as at the date of the financial statements was as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Cash and cash equivalents	674	247
Short-term investments	188,061	230,098
Restricted accounts	-	4,712
Trade receivables and other accounts receivable	397,666	261,015
Financial instruments	2,228	9,848
Total	588,629	505,920
Current assets	582,869	499,850
Non-current assets	5,760	6,070

(c) Liquidity risk exposure

Book value of financial liabilities subject to liquidity risk is as follows:

	<u>12/31/2021</u>	<u>12/31/2020</u>
Loans, financing and debentures	259,549	323,110
Intercompany loans	93,358	97,101
Suppliers and assignment of credit by suppliers	356,547	196,663
Financial instruments	5,327	-
Total	714,781	616,874
Current liabilities	455,001	387,693
Non-current liabilities	259,780	229,181

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

23. Financial instruments (Continued)

(d) Currency risk exposure

Net exposure in foreign currency is presented below, for the principal amounts:

	Currency	12/31/2021	12/31/2020
Loans	USD	-	(12,630)
Suppliers	USD	(28,188)	(20,507)
Suppliers – related parties	USD	(31,707)	(14,821)
NDF	USD	15,979	30,452
USD exposure		(43,916)	(17,506)
Loans	EUR	(15,021)	(5,516)
Swap	EUR	14,959	5,494
EUR exposure		(62)	(22)
Intercompany loans	JPY	(1,928,979)	(1,928,562)
NDF	JPY	1,928,979	-
JPY exposure		-	(1, 928,562)

(e) Sensitivity analysis of financial assets and liabilities

Sensitivity analysis is established based on exposure to interest rates and other indices of nonderivative financial instruments at the end of the period ended December 31, 2020. Two scenarios are presented, including variations of 25% and 50% of the risk variable considered. Potential impacts of increases(decreases) in equity and statement of income for the period are presented below. These scenarios may have impacts on the Company's statement of income and future cash flows, as follows:

- Scenario I: Scenario 1 is considered more probable for interest rates, at reporting date.
- Scenario II: Decrease of 25% in the main risk factor of the financial instrument as compared with the level identified in the probable scenario; and
- Scenario III: Decrease of 50% in the main risk factor of the financial instrument as compared with the level identified in the probable scenario.

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

23. Financial instruments (Continued)

(e) Sensitivity analysis of financial assets and liabilities (Continued)

Instruments	Exposure at 12/31/2021	Risk	Scenarios					
			Probable		Variation by 25%		Variation by 50%	
			Actual	Amount	%	Amount	%	Amount
Financial assets								
Short-term investments	188,061	CDI	11.79%	210,233	14.74%	5,543	17.69%	11,086
Financial liabilities								
Working capital	(20,198)	CDI	11.79%	(22,579)	14.74%	(595)	17.69%	(1,191)
Debentures	(80,627)	CDI	11.79%	(90,133)	14.74%	(2,376)	17.69%	(4,753)
Law 4131 - Banco do Brasil	(59,871)	EUR	7.05	(66,800)	8.81	(16,700)	10.58	(33,400)
Law 4131 - Mizuho	(35,045)	EUR	7.05	(39,101)	8.81	(9,775)	10.58	(19,550)
Intercompany loans	(93,358)	JPY	0.05	(103,813)	0.07	(25,953)	0.08	(51,907)
Suppliers	(334,206)	USD	6.17	(369,550)	7.71	(92,387)	9.26	(184,775)
Swap	30,000	EUR	7.05	33,472	8.81	8,368	10.58	16,736
NDF	88,663	USD	6.17	98,040	7.71	24,510	9.26	49,020
Swap	15,000	CDI	11.79%	16,769	14.74%	442	17.69%	884
Swap	60,516	EUR	7.05	67,520	8.81	16,880	10.58	33,760
NDF	97,653	JPY	0.05	108,589	0.07	27,147	0.08	54,295
Impact on statement of income and equity						(64,896)		(129,795)

Sipcam Nichino Brasil S.A.

Notes to the financial statements (Continued)

December 31, 2021

(Amounts in thousands of Brazilian *reais*, unless otherwise stated)

23. Financial instruments (Continued)

(f) Derivative financial instruments

The Company is exposed to the exchange risk of the future cash flow in foreign currency, due to the purchase of inputs and contracting of working capital for its operations. In order to mitigate this risk, the Company adopts hedging procedures based on exchange exposure calculated by the value of trade credits. Future cash flow coverage is analyzed and discussed by the Board of Directors, who approves and authorizes the contracting and designation of derivative financial instruments.

Assets	12/31/2021		12/31/2020	
	Currency type	Notional amount (R\$ thousand)	Fair value (R\$)	Fair value (R\$)
Swap	EUR	30,000	1,797	4,082
Swap	BRL	20,000	-	114
NDF	USD	88,663	431	5,652
Total			2,228	9,848
Current			431	9,848
Noncurrent			1,797	-

Liabilities	12/31/2021		12/31/2020	
	Currency type	Notional amount (R\$ thousand)	Fair value (R\$)	Fair value (R\$)
Swap	BRL	15,000	(94)	-
Swap	EUR	60,516	(1,012)	-
NDF	JPY	97,653	(4,221)	-
Total			(5,327)	-
Current			(4,674)	-
Noncurrent			(653)	-