

Avibras Indústria
Aeroespacial S.A.
(Under Court-Ordered
Reorganization)

Financial statements
December 31, 2022 and December 31, 2021

Contents

Message from Management – Balance Sheet 2022	3
Statements of financial position	4
Statements of profit (loss)	5
Statements of comprehensive income	6
Statement of changes in shareholders' equity	7
Statements of cash flows	8
Statements of added value	9
Notes to the Financial Statements	10

Message from Management – Balance Sheet 2022

Challenges that drive us to growth

Without a doubt, 2022 was a year of intense challenges for Avibras. We started a great transformation process of the company focusing on its economic- financial restructuring and sustainability.

After almost two years of the COVID-19 pandemic, considered the worst health crisis in recent human history with profound impacts worldwide, the company filed a request for court-ordered reorganization in March 2022, to help it overcome adversities, renegotiate debts with creditors and grow again. A journey of great resilience, learning and review of concepts and management model.

As Strategic Defense Company and major export, Avibras is known as the technological solution for Brazil and friendly nations, especially in the Defense and Aerospace segments. This important legacy, built over six decades, will certainly drive us to conquer new challenges.

Even under Court-Ordered Reorganization, we remain focused on sales effort in Brazil and abroad to expand the company's presence in the market with good prospects for signing contracts this year, on the search for investors and on the continuous improvement of processes, products and services, reinforcing the commitment and effort to keep Avibras a major world player in the segment.

This commitment permeates our team of professionals whose innovative and creative spirit remains with full force. This innovative approach also reinforces the System House concept of the company. Known as “the company with the skill to build skills”, Avibras continues to offer the best technological solutions to meet any needs of its clients, showing the real diversification and spin-off opportunities in Defense, Space and Integration of Complex Systems.

In the company's restructuring process, we have made progress with the development of our Recovery Plan and the constant dialogue with our creditors. We know we still have a lot of work ahead of us in the approval and execution of the plan, but we continue strong and confident in building a new history for Avibras in 2023.

We thank our employees and their families, partners and clients for the support and trust during this journey. We are certain that we will overcome all challenges and will resume the growth of the company with work, innovation and creativity. Our future is promising!

João Brasil Carvalho Leite
CEO

AVIBRAS INDÚSTRIA AEROESPACIAL S.A. (Under Court-Ordered Reorganization)

Balance sheets

As of December 31, 2022 and December 31, 2021

(In thousands of dollars)

Assets						Liabilities and shareholders' equity					
	Note	Parent company		Consolidated			Note	Parent company		Consolidated	
		2022	2021	2022	2021			2022	2021	2022	2021
Current assets						Current liabilities					
Cash and cash equivalents	4	359	2,149	1,830	5,690	Loans and financing	12	25,073	42,305	25,073	42,305
Accounts receivable	5	2,566	174	3,941	1,459	Trade accounts payable	13	15,710	5,976	15,744	5,486
Inventories	6	36,756	36,362	36,955	36,586	Advance from clients	14	6,067	1,037	1,317	1,187
Recoverable taxes	7	2,008	11,902	4,278	16,047	Salaries, payroll charges and provisions	15	29,683	6,066	30,079	6,172
Other assets	8	2,835	12,850	2,845	12,858	Taxes payable	16	40,779	14,684	41,557	16,255
		44,524	63,437	49,849	72,640	Contract liability	17	5,194	6,629	5,194	6,629
						Other liabilities	18	19,286	18,946	19,300	18,949
								141,792	95,643	138,264	96,983
Non-current assets						Non-current liabilities					
Accounts receivable	5	29	29	29	29	Loans and financing	12	43,729	22,310	62,120	40,743
Recoverable taxes	7	387	10,174	8,752	17,996	Taxes payable	16	15,685	37,533	16,396	38,197
Other assets	8	8,144	8,537	10,047	10,318	Other liabilities	18	1,742	1,126	1,744	1,128
Deferred income tax and social contribution	19	32,890	11,609	33,083	11,810	Provision for tax, civil and labor risks	21	6,628	8,015	7,312	8,756
		41,450	30,349	51,911	40,153			67,784	68,984	87,572	88,824
						Shareholders' equity					
Investments	9	2,521	741	-	-	Capital		792,335	792,335	792,335	792,335
Property, plant and equipment	10	67,773	66,815	68,269	67,290	Treasury shares		(3,159)	(3,159)	(3,159)	(3,159)
Intangible assets	11	401,664	369,533	404,276	372,001	Profit reserve		152,535	196,163	152,535	196,163
		471,958	437,089	472,545	439,291	Other comprehensive income		32,598	32,823	32,598	32,823
						Cumulative translation adjustment		(625,953)	(651,914)	(625,953)	(651,914)
								348,356	366,248	348,356	366,248
						Non-controlling interest		-	-	113	29
						Total shareholders' equity		348,356	366,248	348,469	366,277
Total assets		557,932	530,875	574,305	552,084	Total liabilities		557,932	530,875	574,305	552,084

See the accompanying notes to the financial statements.

AVIBRAS INDÚSTRIA AEROESPACIAL S.A. (Under Court-Ordered Reorganization)
Statements of income
Years ended December 31, 2022 and 2021
(In thousands of dollars)

	Notes	Parent company		Consolidated	
		2022	2021	2022	2021
Net operating revenue	23	8,172	41,426	8,478	40,850
Cost of products sold and services rendered	24	(27,234)	(42,382)	(27,302)	(42,476)
Gross income		(19,062)	(956)	(18,824)	(1,626)
Sales expenses	25	(5,893)	(13,359)	(6,188)	(13,435)
General and administrative expenses	26	(35,700)	(35,886)	(36,784)	(36,412)
Equity income (loss)	9	1,725	(2,387)	-	-
Provision (reversal) for adjustment of accounts receivable at recoverable value	5	(3)	97	(3)	97
Other operating (expenses) revenues	27	1,996	25,878	2,452	25,861
Operating income (loss)		(56,937)	(26,613)	(59,347)	(25,515)
Financial revenues	28	1,692	1,179	3,028	1,193
Financial expenses	28	(10,911)	(8,093)	(10,999)	(8,097)
Net exchange-rate changes	28	1,536	(2,540)	2,883	(3,690)
Income (loss) before income tax and social contribution		(64,620)	(36,067)	(64,435)	(36,109)
Current income tax and social contribution	19	-	-	-	-
Deferred income tax and social contribution	19	20,619	11,102	20,596	11,082
Net income for the year		(44,001)	(24,965)	(43,839)	(25,027)
Income (loss) attributed to:					
Controlling shareholders				(44,001)	(24,965)
Non-controlling shareholders				162	(62)
Net income for the year				(43,839)	(25,027)

See the accompanying notes to the financial statements.

AVIBRAS INDÚSTRIA AEROESPACIAL S.A. (Under Court-Ordered Reorganization)
Statements of comprehensive income
Years ended December 31, 2022 and 2021
(In thousands of dollars)

	Parent company		Consolidated	
	2022	2021	2022	2021
Net income for the year	(44,001)	(24,965)	(43,839)	(25,027)
Other comprehensive income				
Realization of equity evaluation adjustment	(373)	(425)	(373)	(374)
Realization of deferred income tax and social contribution on equity valuation adjustment	148	159	148	147
Actuarial adjustment to post-employment benefit	-	(27)	-	(27)
Deferred income tax and social contribution on actuarial adjustment to post-employment benefit	-	9	-	9
Comprehensive income for the year	(44,226)	(25,249)	(44,064)	(25,272)
Comprehensive income attributable to:				
Controlling shareholders			(44,226)	(25,249)
Non-controlling shareholders			162	(8,779)
Total comprehensive income			(44,064)	(34,028)

See the accompanying notes to the financial statements.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. (Under Court-Ordered Reorganization)
 Statements of changes in shareholders' equity
 Years ended December 31, 2022 and 2021
 (In thousands of dollars)

	Capital	Capital contribution	Treasury shares	Profit reserve				Loss for the year	Equity valuation adjustments	Cumulative translation adjustment	Total shareholders' equity - Parent company	Non-controlling interest	Total consolidated shareholders' equity
				Capital	Legal	Tax incentive	Profit retention						
Balances at December 31, 2021	792,335	90	(3,159)	18,172	12,794	4,664	184,497	-	33,107	(624,077)	418,423	752	419,175
Loss for the year	-	-	-	-	-	-	-	(24,965)	-	-	(24,965)	(62)	(25,027)
Realization of equity valuation adjustment	-	-	-	-	-	-	425	-	(425)	-	-	-	-
Realization of deferred income tax and social contribution on equity valuation adjustment	-	-	-	-	-	-	-	-	159	-	159	-	159
Actuarial adjustment to post-employment benefit	-	-	-	-	-	-	-	-	(27)	-	(27)	-	27
Deferred income tax and social contribution on actuarial adjustment to post-employment benefit	-	-	-	-	-	-	-	-	9	-	9	-	9
Capital contribution	-	(87)	-	-	-	-	-	-	-	-	(87)	(5)	(92)
Equity valuation adjustment due to change in equity	-	-	-	-	-	-	576	-	-	-	576	-	576
Absorption of profit reserve	-	-	-	-	-	-	(24,965)	24,965	-	-	-	-	-
Translation adjustments	-	3	-	-	-	-	-	-	(27,837)	-	(27,840)	(656)	(28,496)
Balances at December 31, 2021	792,335	-	(3,159)	18,172	12,794	4,664	160,533	-	32,823	(651,914)	366,248	29	366,277
Income for the year	-	-	-	-	-	-	-	(44,001)	-	-	(44,001)	162	(43,839)
Realization of equity valuation adjustment	-	-	-	-	-	-	373	-	(373)	-	-	-	-
Realization of deferred income tax and social contribution on equity valuation adjustment	-	-	-	-	-	-	-	-	148	-	148	-	148
Formation of reserve	-	-	-	-	-	-	(44,001)	44,001	-	-	-	-	-
Translation adjustments	-	-	-	-	-	-	-	-	-	25,961	25,961	(78)	25,883
Balances at December 31, 2022	792,335	-	(3,159)	18,172	12,794	4,664	116,905	-	32,598	(625,953)	348,356	113	348,469

See the accompanying notes to the financial statements.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. (Under Court-Ordered Reorganization)
Statements of cash flows
Years ended December 31, 2022 and 2021
(In thousands of dollars)

	Notes	Parent company		Consolidated	
		2022	2021	2022	2021
Operating activities					
Net income (loss) before IRPJ and CSLL		(64,620)	(36,067)	(64,435)	(36,109)
Items not affecting cash					
Depreciation and amortization	10 and 11	4,577	5,015	4,644	5,082
Loss due to write-off of advance to domestic supplier	27	-	57	-	57
Losses due to write-off of trade accounts receivable	27	5	117	5	117
Loss due to write-off of obsolete inventories		688	2,030	688	2,063
Others provisions (reversals)		(2,282)	3,904	(2,282)	3,870
Debt forgiveness loans		-	(9,216)	-	(9,216)
Low agent commission liability		-	(21,270)	-	(21,270)
Provision (reversal) for tax, civil and labor risks	27	(1,933)	1,795	(2,051)	1,813
Net exchange-rate changes	28	(1,536)	2,541	(2,883)	3,690
Equity in net income of subsidiaries	9	(1,725)	2,387	-	-
Interest on taxes	28	4,030	1,403	4,033	1,403
Interest on loans	12	5,796	5,647	5,796	5,647
Capitalization of interest on loans		(265)	(778)	(265)	(778)
Income (loss) in write-off of fixed assets	27	10	299	10	306
Translation adjustment		1,166	670	1,396	503
(Increase) decrease in assets					
Accounts receivable	5	(2,411)	8,086	(2,412)	8,325
Inventories	6	1,391	19,323	1,430	19,603
Recoverable taxes	7	21,486	9,758	23,670	8,361
Other assets	8	11,947	2,162	11,950	3,402
Increase (decrease) in liabilities					
Trade accounts payable	13	9,549	(3,162)	10,114	(3,903)
Advance from clients	14	5,009	(2,893)	49	991
Salaries, payroll charges and provisions	15	23,430	48	23,715	71
Other liabilities	17	830	(6,389)	841	(6,424)
Taxes payable	16	(3,393)	(10,587)	(4,308)	(9,348)
Net cash generated (used in) operating activities		11,749	(25,120)	9,705	(21,744)
Payments of interest on loans and financing	12	(568)	(3,779)	(568)	(3,779)
Net cash flow used in operating activities		11,181	(28,899)	9,137	(25,523)
Investment activities					
Acquisition of property, plant and equipment	10	(529)	(6,234)	(529)	(6,234)
Additions to intangible assets	11	(7,011)	(17,191)	(7,037)	(17,445)
Cash used in investment activities		(7,540)	(23,425)	(7,566)	(23,679)
Financing activities					
Payments of principal of loans and financing	12	(23,739)	(26,411)	(23,739)	(26,411)
Borrowings	12	18,502	43,319	18,502	43,319
Cash generated in financing activities		(5,237)	16,908	(5,237)	16,908
Effect of changes in exchange rate on the cash and cash equivalents	28	(194)	1,627	(194)	1,627
Increase (decrease) in cash and cash equivalents		(1,790)	(33,789)	(3,860)	(30,667)
Cash and cash equivalents at the beginning of the year	4	2,149	35,938	5,690	36,357
Cash and cash equivalents at the end of year	4	359	2,149	1,830	5,690
Changes for the exercise		(1,790)	(33,789)	(3,860)	(30,667)

See the accompanying notes to the financial statements.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. (Under Court-Ordered Reorganization)
Statements of comprehensive income
Years ended December 31, 2022 and 2021
(In thousands of dollars)

	Parent company		Consolidated	
	2022	2021	2022	2021
Revenues	16,211	83,042	17,103	82,525
Sales of products and services	8,908	44,933	9,319	44,181
Other operating revenues (expenses)	2,160	27,414	2,616	27,396
Revenue from construction of own assets	5,146	10,598	5,171	10,851
Allowance for doubtful accounts - Reversal (Formation)	(3)	97	(3)	97
Inputs acquired from third parties	(11,418)	(37,199)	(11,729)	(37,369)
Inputs and material on cost of goods sold	(578)	(15,125)	(646)	(15,215)
Materials, energy, outsourced services and other	(10,840)	(22,074)	(11,083)	(22,154)
Gross added value (1-2)	4,793	45,843	5,374	45,156
Depreciation and amortization	(4,577)	(5,015)	(4,644)	(5,082)
Net added value produced by the company (3-4)	216	40,828	730	40,074
Added value received as transfer	11,058	9,778	15,463	14,867
Equity income (loss)	1,725	(2,387)	-	-
Financial revenues	9,270	12,106	15,400	14,808
Other revenues	63	59	63	59
Total added value payable (5+6)	11,274	50,606	16,193	54,941
Distribution of added value				
Personnel, payroll charges and benefits	46,020	48,226	46,657	48,726
Direct remuneration	36,258	37,509	36,829	37,941
Benefits	7,600	8,138	7,642	8,173
FGTS	2,162	2,579	2,186	2,612
Taxes, rates and contributions	(8,686)	4,907	(8,369)	4,866
Federal	(9,450)	1,400	(9,164)	1,587
State	398	2,994	420	2,754
Municipal	366	513	375	525
Third-party capital remuneration	17,941	22,438	21,744	26,376
Financial expenses - including exchange-rate changes	16,863	21,252	20,337	25,093
Leases	888	1,132	967	1,204
Other	190	54	440	79
Remuneration of own capital	(44,001)	(24,965)	(43,839)	(25,027)
Retained earnings	(44,001)	(24,965)	(43,839)	(25,027)
Distributed added value	11,274	50,606	16,193	54,941

See the accompanying notes to the financial statements.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

1 OPERATIONAL CONTEXT

Operating for more than 60 years, Avibras Indústria Aeroespacial S.A. – under court-ordered reorganization (“Avibras” or “Company”), is one of the largest defense companies of the country, with high standards of technology and innovation, unique industrial capacity and recognized worldwide for the excellence and quality of its products, systems and services in the areas of space, aeronautics, electronic, vehicle, civil and defense. The company is a fully national private-held corporation, certified by the ministry of defense as a Strategic Defense Company (SDC).

The Company is located in the State of São Paulo and its headquarters is in São Jose dos Campos, in Eugenio de Melo district, inside the Technology Park. It also has two industrial facilities in Lorena and Jacareí, where the administrative and financial management of the Company are concentrated.

Through its history, the Company has developed a wide range of multidisciplinary capabilities that have generated many strategic defense products, which include: Air-to-ground and ground-to-ground defense systems, armored military vehicles and missiles with software and hardware developed, designed and integrated in the Company itself. In the Aerospace sector, the Company is considered the main private integrator of launchers and rockets in the Brazilian Space Program.

1.1. Operational Continuity

The Company's financial indicators strongly show in the past three years the negative effects of the transitory crisis that the Company has been going through. In the years of 2020 and 2021, the company's net revenues – which until then had been on an upward trend – changed downward significantly. The revenues increased by more than 50% between 2018 and 2019, to drop to practically a third of 2018 level in the following two years, reducing in 2022 to less than 10% of this value.

Indeed, the gross margin, the idleness caused mainly by the reduction of work/contracts and the maintenance of specialized labor caused the Company to accumulate significant losses.

For all the above reasons, the Company saw no alternative but to file for court-ordered reorganization on March 18, 2022, in order to preserve the social function of its activities, as well as jobs, tax collection, technological development, the interest of its creditors and, mainly its history of more than 60 years.

1.2. Court-Ordered Reorganization

The Company is a Brazilian innovation and high technology company that, despite its strategic position in the country, relies mostly on the foreign market, which represents an average of about 80% of its revenues.

However, in addition to the foreign market being highly competitive, both technologically and commercially, the Company competes directly with large, high capitalized and high-tech foreign companies, which have dedicated support from their respective countries of origin.

In this Market, the main innovation of the defense industries do not come simply from the productions of new weapons, but from the development and production of new complete and complex systems, which require large investments in highly specialized professionals, machines, devices and state of the art equipment so that the player remains commercially relevant.

In fact, if on one hand operating in this market demands an excessively high fixed cost – given its specificities -, on the other hand, there has been a sharp drop in global acquisitions and purchases in the defense area in recent years, especially in the Middle East and Southeast Asia, which historically made up the Company's client base.

It is worth mentioning that Middle Eastern and Southeast Asian countries do not have their own defense materials industry, making them much more open to acquiring technologies from different nationalities to meet their needs, even more so because of the constant conflicts and instabilities verified in these regions, thus constituting a highly relevant market for the Company.

However, in addition to the significant reduction in investments in defense materials by its main customers, the Company – as the rest of the world – continues to face the severe impact caused by the SARS-CoV-2 pandemic, which still affects almost all segments of the global economy.

In the market in which the Company operates, the demands, negotiations and conclusion of contracts

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

are covered with a high level of secrecy since they concern matters of national security and sovereignty as well as long term strategies. Obtaining information about specific acquisitions can alone generate conflicts or tensions between neighboring countries, enemy countries or even between allied countries. In this sense, all acquisitions are dealt with face-to-face meetings or negotiations to guarantee security and confidentiality in the exchange of information.

Yet, even in the face of a scenario of global economic instability and considerable drop in its revenues, the Company kept its industrial park operating normally to maintain the programs signed with the Brazilian Government.

Practically in all countries of the world the budgets destined to investments in defense and security were transferred to Healthcare area, especially for the acquisition of medicines, vaccines, hiring professionals, construction of hospitals, health units and others.

The global solidarity movements, mainly focused on aid and cooperation between countries, created a kind of "fight against a common enemy", causing a global truce with a drastic reduction in investments in the defense sector.

The Company also took measures to comply with the authorities in order to minimize the effects of the infection caused by COVID-19.

However, the high investments in 2020 and 2021 caused high additional costs so that the operation was maintained continuously.

Even in this harsh scenario, the Company focusing on maintaining its technological capacity and the high degree of specialization, as well as the social function resulting from its business activity, kept a relevant number of staff, relying on a shorter recovery of the markets to generate again revenues compatible with the level of its operations and, inevitably, needed to look in the financial market for ways to finance its cash flow.

Nonetheless, the economic recovery of the Market took place more slowly than expected, causing a financial mismatch and making it imperative to adopt a consistent recovery project with measures that allow the Company to return to the path of growth, taking advantage of the gigantic potential of its business.

Finally it should be noted that only now on March 18, 2022 – when the file for Court-Ordered Reorganization became essential – the Company promoted a necessary adjustment in its staff to adapt labor expenses to the measures that will be adopted to reorganize its activities. On April 19, 2022 after the judicial granting of a Public Civil Action, filed by the São Jose dos Campos metallurgists union, in negotiation with the Company and approved by all employees, those who fit the negotiated conditions were reinstated to the staff of the Company and a layoff plan was structured for the following months until the Company is able to resume its contracts and normality in operations.

The initial request for Court-Ordered Reorganization was granted on April 11, 2022 and the Company presented, within 60 days, in June 2022, the reorganization plan (and its subsequently additions) which must be submitted to approval in a meeting of creditors, already installed on February 28, 2023 and planned to continue on April 27, 2023.

2 PRESENTATION OF FINANCIAL STATEMENTS

2.1 Preparation Basis

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

The significant accounting practices applied in the preparation of financial statements are presents in note 3.

The financial statements were prepared based on the historical cost, unless otherwise indicated.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

2.2 Functional and presentation currency

The financial statements are being presented in Real, function currency of the Company. All balances presented in Dollar in these statements have been rounded to the nearest value, except otherwise indicated.

2.3 Estimates and accounting judgments

The preparation of the individual and consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the technical pronouncements issued by the Accounting Pronouncements Committee (APC), requires Management to use judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates. Significant assets and liabilities subject to these estimates and assumptions include: provision for adjustment to recoverable value of accounts receivable; provision for inventory losses; measurement and recoverability of deferred income tax and social contribution amount; provision for tax, civil and labor risks; measurement of the useful life and recoverable value of property, plant and equipment and intangible assets.

2.4 New standards and interpretations not yet effective

Several new standards are in force for the years started after January 1, 2023:

- Disclosure of Accounting Policies – Amendments to CPC 26 / IAS 1 and IFRS Practice Statement 2.
- Definition of Accounting Estimates – Amendment to CPC 23 / IAS 8.
- Insurance contracts – CPC 50 / IFRS 17.
- Deferred tax related to assets and liabilities resulting from one single transaction – Amendment to CPC 32 / IAS 12.

The change below will come into effect from January 1, 2024:

- Classification of liabilities as Current or Non-Current – Amendment to CPC 26 / IAS.

In the opinion of the Company's Management, these changes are not expected to have significant impacts on its financial statements.

3 MAIN ACCOUNTING PRINCIPLES

The accounting practices described in detail below have been consistently applied to all the years presented in these financial statements.

a) Foreign currency transactions

Non-monetary items are translated into the functional currency of the Company at the current Exchange rates on the dates of the transactions.

Monetary items, on balance sheets date, are translated into the foreign currency at the Exchange rate determined in that date. The foreign exchange gain or loss on these monetary items is recognized in the statement of income as Exchange-rate changes (note 28).

b) Financial instruments

Financial instruments are recognized in the balance sheet as assets or liabilities and maintained at fair value with any gains and losses recorded in income (loss) as financial income (loss). The Company does not use derivative financial instruments, hedges or the like. However, seeking to mitigate foreign Exchange risks, it maintains a current account abroad, whose balance arises from export contracts to support the payment of future obligations contracted in foreign currency.

c) Cash and cash equivalents

Cash and cash equivalents are maintained for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Includes cash, demand bank deposits and interest earning bank

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

deposits considered highly liquid or promptly convertible into a known sum of cash and subject to an insignificant risk of change of value, which are recorded at cost plus income earned up to the balance sheet dates.

d) Accounts receivable

The accounts receivable are comprised by the amount billed, net of provisions for adjustment to the recoverable value of accounts receivable, recorded in an amount considered sufficient to cover any losses in the realization of credits, and the credits recognized according to the physical evolution of production of contracts with clients.

e) Inventories

Inventories of raw materials, packaging and intermediary products are recorded at the average acquisition cost, net of taxes that generate tax credit. Inventories of work in process and finished products are recorded at the cost of absorbing raw materials, direct labor, other direct costs and general manufacturing expenses, which do not exceed the realization value. The Company assesses its inventories annually, recoding provisions for write-offs for losses with slow-moving and obsolete inventories, as well as unconfirmed materials held by third parties.

f) Investments

Investments in subsidiaries are measures under the equity method, whereby the portion attributable to the Company (investor) on the income or loss for the year of the subsidiary (investee) is recorded in the income (loss) for the year under the item "Equity in net income of subsidiaries" (note 9).

g) Property, plant and equipment

Property, plant and equipment are recorded at the cost of acquisition, production or construction, adjusted by the equity valuations occurred in 2001 and 2010, net of the respective depreciation calculated on a straight-line basis considering the estimated economic useful life of the assets (note 10).

The assets comprising the property, plant and equipment have their recoverable value tested at least annually. If there are indicators of impairment, a provision for impairment is recorded to adjust them to the estimated recoverable value.

Gains and losses on disposals are calculated and recognized in the income (loss) under "Other net operating revenues (expenses)".

Pursuant to standard of CPC 20 – Loan costs, the loan costs attributable to the acquisition, construction or production of an asset that necessarily requires a substantial period of time to get ready for use or sale are capitalized as part of the cost of the related asset. Loan costs are interest and other costs that the Entity incurs in connection with loan.

h) Intangible assets

Intangible assets include the assets generated internally by the Company to form its Proprietary Technology and are classified with define or indefinite useful lives. The respective assets are recorded at acquisition or production cost, plus the equity valuation adjustment carried out in 2006, net of the respective accumulated amortizations and, in any, impairment losses.

The amortization of the assets considered as having defined useful life is made at a straight-line basis, using the amortization rates according to the Management's assessment of the technical, technological and commercial aspects to establish the useful life for each product developed.

Intangible assets with undefined useful lives are not amortized but testes o identify possible impairment losses on an annual basis. Individually or as cash generating unit.

Development phase involves a plan or project aiming at the production of new or substantially improved existing products. Development expenses are capitalized only if they can be reliably measured, if the product or process has viable technical and commercial aspects, the future economic benefits are likely, and the Company has sufficient funds to complete it for the use or sale of the asset.

The Company analyses the amount of projects under development annually and if it does not have

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

technical and/or commercial evidence to ensure its economic and financial feasibility to support its classification as an intangible asset, said amounts are written-off as a loss and recognized in the statement of income under "Other operating revenues (expenses), net" (note 27).

The expenses capitalized include the cost of material and direct labor and overhead costs that are directly attributable to preparing the asset for its intended use. Since the beginning of its use, subsequent expenses are capitalized only if the future economic benefits arising from the specific asset increase.

Software licenses acquired by the Company are capitalized and amortized over their estimated useful lives.

i) Asset impairment

The Company evaluates the net book value of assets on an annual basis to identify if there was or will be non-recoverable losses, or still, whenever events or significant changes in the circumstances indicate that the book value may not be recoverable.

Intangible assets in the "defense" segment are very specific and have high added value. The Company evaluates its intangible assets classified as having an indefinite useful life annually to measure the need to record a provision for impairment by segregating it into cash generating units and in future cash flow projections.

j) Loans and financing

Recognized at fair value upon receipt of funds, net of transaction costs, in the applicable cases, and plus charges, interest, inflation adjustment and exchange-rate as contractually provided for, incurred up to the balance sheet dates (note 12).

k) Advances from clients

Corresponds to the amounts received in advance of the delivery of the contracted products. Advances in foreign currency are translated at the Exchange rate on the date of the transaction as detailed in item "a" of this note.

l) Other liabilities

They are recorded at known or estimated amounts, plus, when applicable, the corresponding charges, inflation adjustments up to balance sheet date.

m) Post-employment benefit plan

The Company has a health plan contracted for its employees in which part of the group of employees contribute or have contributed to the cost of the monthly payment of the plan and for the granting of this benefit there is a contract in force.

Said readjustment occurs every twelve months and consists of the analysis of the loss ratio of the collective health plan agreement. If the utilization rate (loss ratio) established as a target in the contract is exceeded, the technical adjustments added to the monthly fee in force at the time, thus correcting the monthly fee paid by the Company and employees.

Thus, even though the Company does not directly contribute to the cost of the inactive employee's plan, the fact that they remain in the same plan as the active employees results in an expectation of future obligation for the Company since it is expected that the monthly cost of the active employees (partly funded by the Company) will increase as a result of the permanence of the inactive employees, guaranteed by specific law.

The estimated costs for the provision of post-employment medical benefits and coverage of dependents are provisioned during the years of employee services based on actuarial studies to identify future exposure which main assumptions are:

- a) Discount rate – used to bring future benefit flows to present values is defined based in Brazilian government bond rates;
- b) Medical cost growth rate – represents the increase in the value of medical plans and is not applied linearly, as companies historically tend to take actions aimed at reducing costs or even change the health plan provider;

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

- c) Mortality rate – using the AT-2000 table, It shows the mortality rate by age group and sex; and
- d) Retirement probability – estimates the probability of retirement by age group.

The Company recognizes changes in the provision for its plan against other comprehensive income in net equity, net of taxes, to the extent that there are changes in assumptions and against income when dealing with a change in the costs of the current benefit plan (note 18).

n) Provision for tax, civil and labor risks

Provisions are recognized when the Company and its subsidiaries have a presented or not formalized obligation, as a result of past events, and it is likely that an outflow of funds will be necessary to settle the obligation, and their amount can be reliably estimated. Provisions are stated at the present value of disbursement expected to settle the obligation and proper discount rate is used in accordance with risks related to the liability.

Provisions for tax, civil and labor risks are restated up to balance sheet dates at the estimated amount of probable losses, considering their nature and based in the opinion of the Company's legal advisors.

o) Operating Revenue

In the defense and security segments, the Company has its operations supported by short and long-term product supply contracts and revenues are recognized as the Company fulfils the performance obligation determined by the percentage of physical evolution obtained, according to the production plan for each product.

For contracts for the development of new Technologies and products, it recognizes its respective revenues in the income (loss) by the evolution of the costs incurred.

Revenues not covered by the contract, that is, obtained only via sales order such as spare parts, training services, industrialization or resale, are recorded in the income (loss) when the product is transferred to the client.

p) Cost of products sold and services rendered

For product supply contracts, costs are determined by applying the percentage of physical completion of production over the estimated cost.

Contracts for the development of new Technologies and product gave their costs determined by the incurred cost method.

Costs of supplying products not covered by contracts, via sales orders only, are recorded at the average value of the items upon convincing.

Production idleness costs are not allocated to the production cost of the product (inventory) and are recorded directly in the income (loss) for the year, as cost of products sold.

Cost of sales are comprised by:

- **Inputs and materials**
National or imported material costs are supported by purchase orders or contracts, with deliveries established in accordance with the production plan and with pre-agreed adjustments.
- **Workforce**
Comprise salaries, charges and benefits of direct and indirect labor from industrial cost centers.
- **Depreciation**
Production equipment is depreciated on a straight-line basis over its useful life. The depreciation rates used are estimates based on the useful and economic life of the asset.
- **General manufacturing expenses**
General expenses of the production areas are prorated in proportion to the hours available for direct labor from industrial cost centers and including trips, maintenance, services provided by third parties and other general costs.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

q) Commercial expenses

Commercial expenses are the expenses required for the disclosure, distribution and sale of products. They include personnel expenses, freight on sales, traveling, services provided by third parties and commissions to agents abroad for business intermediation.

Commercial expenses for the current year related to commissions to agents abroad for business intermediation are being provisioned in the income (loss) according to the percentages provided for in the contract with the agents, applied on the recognition of the revenue from sales of export contracts from which they intermediated.

r) Financial revenues and expenses

The Company's financial revenues mainly comprise:

- Yield of interest earning bank deposit;
- Restatement of judicial deposits;
- Discounts obtained.

Financial expenses are comprised by:

- Interest and charges on taxes;
- Interest on loans and financing;
- Fees and commissions on bank guarantees.

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

s) Current and deferred income tax and social contribution

The Company qualifies for taxation based on taxable income, opting for monthly calculation by estimate. The rates applied for income tax are 15% on taxable income, plus an additional 10% for the portion that exceeds R\$ 240,000 in the year. The rate applied to social contribution is 9% on taxable income.

Taxable income is calculated based on the net income for the year, before taxation, adjusted by additions and exclusions, as provided for in Decree 9580, and dated November 22, 2018.

The calculated amounts of income tax and social contribution, current and deferred, are recognized in the statement of income for the year, except for items directly recognized in shareholder's equity and stated in "Other comprehensive income" note.

The current income and social contribution tax expenses are calculated based on the laws and tax rules enacted at the closing date of the year, according to the Brazil tax regulations and also according to specific tax standards related to Taxation at Universal Basis.

Deferred income tax and social contribution are calculated on temporary differences between the tax bases of assets and liabilities and their book values. They are determined based on the rates enacted on the balance sheet dates and must be applied when the assets and liabilities are realized.

t) Consolidation

Investments in subsidiaries are calculated under the equity method. The investment attributable to the Company on the net income or loss for the year of the Subsidiaries is recognized in the income (loss) under "Equity income (loss)".

The financial statements of subsidiaries are prepared for the same reporting date as the parent company.

The consolidated financial statements include the financial statements of Avibras Indústria Aeroespacial S/A that controls and holds direct in its subsidiaries. As follows:

	Interest	
	2022	2021
Avibras Divisão Aérea e Naval S.A.	95.43%	95.43%
Powertronics S.A.	99.23%	99.23%

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

Procedures for the consolidation of the subsidiaries' balance sheets:

- Elimination of intercompany asset and liability account balances;
- Elimination of investments in the capital, reserves and retaining earnings of consolidated companies;
- Elimination of intercompany revenues and expense balances arising from intercompany transactions;
- Identification of non-controlling interest amount.

4 CASH AND CASH EQUIVALENTS

	Parent Company		Consolidated	
	2022	2021	2022	2021
Cash and banks				
In domestic currency	115	87	115	88
In foreign currency	168	343	168	343
Interest earning bank deposit (a)				
In domestic currency	76	1,719	1,547	5,259
	<u>359</u>	<u>2,149</u>	<u>1,830</u>	<u>5,690</u>

The item "Cash and cash equivalents" is comprised of cash in kind, cash in transit (amounts received from clients who, at the end of the year, were being released by the intervening financial institution), current account balances in Brazil and abroad, as well as short-term interest earning bank deposits. The amounts are presented at historical cost, plus remuneration and Exchange-rate change recognized up to the balance sheet closing date.

(a) Interest earning bank deposit

All instruments have immediate liquidity, classified as presenting a low credit risk and the floating interest rate referenced to the CDI, present a low Market risk. The average remuneration of very short-term funds corresponded to 54.8% of CDI (57.7% in 2021).

5 ACCOUNTS RECEIVABLE

	Parent Company		Consolidated	
	2022	2021	2022	2021
Domestic clients	72	72	1,447	1,357
Foreign clients	2,539	143	2,539	143
	<u>2,611</u>	<u>215</u>	<u>3,986</u>	<u>1,500</u>
(-) Impairment of accounts receivable	(16)	(12)	(16)	(12)
	<u>2,595</u>	<u>203</u>	<u>3,970</u>	<u>1,488</u>
Current	2,566	174	3,941	1,459
Non-current	29	29	29	29

Amounts receivable from domestic customers basically refer to electrostatic painting services for the automotive industry and evolution of the product development service contract. Customers abroad are related to export receivables for parts and instruments of the Astros Artillery System. The amount recorded in the long term refers to a contractual percentage linked to the end of the guarantee for exported products that will be received in 2024.

The amounts of accounts receivable are presented net of offsetting for advances received from clients, according to the evolution of the respective contract.

AVIBRAS INDÚSTRIA AEROSPAÇIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

The aging of the notes, calculated by the maturity date, is presented below:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Falling due	2,591	190	3,966	1,475
Overdue (days):				
Up to 60	1	13	1	13
60 - 180	3	-	3	-
> 180	16	12	16	12
	<u>2,611</u>	<u>215</u>	<u>3,986</u>	<u>1,500</u>

Changes in the estimate for impairment of accounts receivable are as follows:

	Parent Company		Consolidated	
	2022	2021	2022	2021
As of January 1st	(12)	(119)	(12)	(119)
Formation	(6)	(35)	(6)	(35)
Reversal	3	132	3	132
Foreign exchange variation	(1)	10	(1)	10
On December 31st	<u>(16)</u>	<u>(12)</u>	<u>(16)</u>	<u>(12)</u>

6 INVENTORIES

	Parent Company		Consolidated	
	2022	2021	2022	2021
Raw material and intermediaries	18,710	18,851	18,749	18,889
Work in process	5,971	7,989	5,950	8,005
Services in process	7,012	6,325	7,197	6,497
Finished goods	4,222	2,587	4,222	2,587
Advance to suppliers of materials	1,394	1,053	1,394	1,054
	<u>37,309</u>	<u>36,805</u>	<u>37,512</u>	<u>37,032</u>
(-) impairment of inventories (i)	<u>(554)</u>	<u>(443)</u>	<u>(557)</u>	<u>(446)</u>
	<u>36,755</u>	<u>36,362</u>	<u>36,955</u>	<u>36,586</u>

Inventories are designed to meet current contracts and short-term strategic inventories to meet ongoing negotiations.

- (i) Refers to items recorded in raw materials and intermediate products, with no change in the last seven years, obsolete items due to not being included in the current product structures and materials held by third parties not recognized by the suppliers.

Changes in the “(-) impairment of inventories”:

	Parent Company		Consolidated	
	2022	2021	2022	2021
As of January 1st	(443)	(414)	(446)	(454)
Formation	(367)	(35)	(368)	(35)
Reversal	281	132	282	132
Foreign exchange variation	(25)	(126)	(25)	(89)
On December 31st	<u>(554)</u>	<u>(443)</u>	<u>(557)</u>	<u>(446)</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

**Explanatory notes from Management to the Financial Statements
As of December 31, 2022 and December 31, 2021
(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)**

7 RECOVERABLE TAXES

	Parent Company		Consolidated	
	2022	2021	2022	2021
Current				
ICMS recoverable (a)	1,216	11,008	1,743	12,021
IPI recoverable	31	44	145	152
PIS and Cofins recoverable	25	78	148	248
IRRF withholding tax	210	356	392	697
PIS, Cofins e CSLL - withholding	53	254	519	688
Negative IRPJ and CSLL	425	161	612	338
Refund of PIS and Cofins (b)	34	41	700	1,937
Other	14	10	19	16
(-) impairment of taxes	-	(50)	-	(50)
	<u>2,008</u>	<u>11,902</u>	<u>4,278</u>	<u>16,047</u>
Non-current				
ICMS recoverable (a)	387	10,174	387	10,174
IPI recoverable (c)	-	-	8,365	7,822
	<u>387</u>	<u>10,174</u>	<u>8,752</u>	<u>17,996</u>
	<u>2,395</u>	<u>22,076</u>	<u>13,030</u>	<u>34,043</u>

(a) Sales of ICMS tax credits to electric power companies in the total amount of US\$ 19,855 with 2.8% discount (note 27).

(b) Reimbursement of PIS and COFINS in the Parent Company in the total amount of US\$ 2,842.

(c) In the consolidated, the registered amount of US\$ 8,365 in the non-current asset, refers to the administrative process filed in 2011 in which the Company demands the reimbursement of the values related to the IPI credit that were transferred through debit notes issued by the Parent Company. In June 2020, the Regional Judgment Office recognized the right to credit and the Company presented voluntary appeal to the Administrative Council of Tax Appeals (CARF) requesting a change in the aforementioned decision, claiming reimbursement of the tax. There is a legal provision for the Excise Tax - IPI credit to be refunded, as well as we have two decisions of the Regional Judgment Office recognizing our right to the credit. At present, we wait the distribution of the voluntary appeal of the company. The possibility of a favorable judgment in CARF is probable.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

8 OTHER ASSETS

	Parent Company		Consolidated	
	2022	2021	2022	2021
Current				
Restricted interest earning bank deposits (a)	633	9,752	633	9,752
Deposit linked to contractual guarantees (b)	1,226	2,026	1,226	2,026
Advance to suppliers (c)	801	18	802	18
Advance to employees	72	361	72	369
Insurance - contractual guarantees	26	66	26	66
Insurance	47	280	55	280
Other	30	347	31	347
	<u>2,835</u>	<u>12,850</u>	<u>2,845</u>	<u>12,858</u>
Non-current				
Restricted interest earning bank deposits (a)	387	2,248	387	2,248
Tax judicial deposit – instalments (d)	6,944	5,904	6,944	5,904
Deposit linked to contractual guarantees (b)	461	-	881	386
Tax and labor judicial deposit	299	237	1,782	1,631
Insurance - contractual guarantees	8	32	8	32
Insurance	40	2	40	2
Other	5	114	5	115
	<u>8,144</u>	<u>8,537</u>	<u>10,047</u>	<u>10,318</u>
Total	<u>10,979</u>	<u>21,387</u>	<u>12,892</u>	<u>23,176</u>

- (a) Amounts linked to guarantees of loans taken from national financial institutions. The redemptions refer to the amounts linked to loan agreements of creditors in the court-demanded reorganization, with the balance of the debt considered net.
- (b) Refer to counter guarantees required by financial institutions abroad for the issuance of international guarantees required for the fulfilment of export contracts.
- (c) Advances to domestic suppliers are presented net of provision for adjustment to impairment.
- (d) Retention of portion of the receipts in the contracts signs with National Defense Agencies aiming to ensure the payment of the Parent Company's tax instalment payment (note 16).

The changes in the provision for impairment of advances to domestic suppliers are as follows:

	Parent Company		Consolidated	
	2022	2021	2022	2021
In January 1st	(561)	(662)	(561)	(662)
Formation	(71)	(35)	(71)	(35)
Reversal	7	132	7	132
Foreign exchange variation	(40)	4	(40)	4
In December 31st	<u>(665)</u>	<u>(561)</u>	<u>(665)</u>	<u>(561)</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

9 INVESTMENTS

a) Breakdown of the balance

	Parent Company	
	2022	2021
Investments		
Avibras Divisão Aérea e Naval S.A.	2,521	741
Powertronics S.A.	7,247	6,776
	<u>9,768</u>	<u>7,517</u>
Investment losses		
Powertronics S.A.	<u>(7,247)</u>	<u>(6,776)</u>
	<u>2,521</u>	<u>741</u>

b) Changes in investments

	2021	Equity in net income of subsidiaries	Paid-up Capital (i)	Translation adjustments	2022
Subsidiaries					
Avibras Divisão Aérea e Naval S.A.	741	1,725	-	55	2,521
Powertronics S.A.	-	-	-	-	-
	<u>741</u>	<u>1,725</u>	<u>-</u>	<u>55</u>	<u>2,521</u>
	2020	Equity in net income of subsidiaries	Paid-up Capital (i)	Translation adjustments	2021
Subsidiaries					
Avibras Divisão Aérea e Naval S.A.	2,746	(2,387)	576	(194)	741
Powertronics S.A.	-	-	-	-	-
	<u>2,746</u>	<u>(2,387)</u>	<u>576</u>	<u>(194)</u>	<u>741</u>

c) Information of the subsidiaries

	2022		2021	
	Avibras Divisão Aérea e Naval S.A.	Powertronics S.A.	Avibras Divisão Aérea e Naval S.A.	Powertronics S.A.
Interest in capital (note 3)	95.43%	99.23%	95.43%	99.23%
Total asset	24,961	-	23,481	-
Shareholders' equity	2,471	(909)	634	(891)
Net income for the year	1,885	(18)	2,449	(16)
Equity in net income of subsidiaries	1,725	-	(2,387)	-

AVIBRAS INDÚSTRIA AEROSPAÇIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

10 PROPERTY, PLANT AND EQUIPMENT

	Parent Company				2022
	2021	Addition	Write-offs	Translation adjustments	
Cost value:					
Land	8,078	-	-	561	8,639
Buildings	45,360	92	-	3,161	48,613
Facilities	9,163	113	-	636	9,912
Machinery and equipment	32,111	321	(63)	2,220	34,589
IT and Communication Equipment	1,228	-	-	85	1,313
Furniture and fixtures	1,228	-	-	85	1,313
Vehicles	820	3	-	57	880
Right-of-use assets	3,262	-	(33)	229	3,458
Total cost	<u>101,250</u>	<u>529</u>	<u>(96)</u>	<u>7,034</u>	<u>108,717</u>
Amount of depreciation:					
Buildings	(13,367)	(1,186)	-	(910)	(15,463)
Facilities	(2,686)	(386)	-	(181)	(3,253)
Machinery and equipment	(13,611)	(1,757)	54	(913)	(16,227)
IT and Communication Equipment	(647)	(294)	-	(40)	(981)
Furniture and fixtures	(738)	(102)	-	(50)	(890)
Vehicles	(607)	(34)	-	(42)	(683)
Right-of-use assets	(2,779)	(520)	33	(181)	(3,447)
Total depreciation	<u>(34,435)</u>	<u>(4,279)</u>	<u>87</u>	<u>(2,317)</u>	<u>(40,944)</u>
Overall total	<u>66,815</u>	<u>(3,750)</u>	<u>(9)</u>	<u>4,717</u>	<u>67,773</u>
	Parent Company				2021
	2020	Addition	Write-offs	Translation adjustments	
Cost value:					
Land	8,498	164	-	(584)	8,078
Buildings	46,293	2,387	(69)	(3,251)	45,360
Facilities	9,021	794	-	(652)	9,163
Machinery and equipment	31,661	2,807	(148)	(2,209)	32,111
IT and Communication Equipment	1,314	37	(29)	(94)	1,228
Furniture and fixtures	1,319	7	(6)	(92)	1,228
Vehicles	867	38	(26)	(59)	820
Right-of-use assets	3,587	-	(81)	(244)	3,262
Total cost	<u>102,560</u>	<u>6,234</u>	<u>(359)</u>	<u>(7,185)</u>	<u>101,250</u>
Amount of depreciation:					
Buildings	(13,263)	(1,109)	59	946	(13,367)
Facilities	(2,517)	(354)	-	185	(2,686)
Machinery and equipment	(12,840)	(1,846)	132	943	(13,611)
IT and Communication Equipment	(502)	(212)	27	40	(647)
Furniture and fixtures	(695)	(99)	4	52	(738)
Vehicles	(645)	(32)	26	44	(607)
Right-of-use assets	(2,071)	(877)	-	169	(2,779)
Total depreciation	<u>(32,533)</u>	<u>(4,529)</u>	<u>248</u>	<u>2,379</u>	<u>(34,435)</u>
Overall total	<u>70,027</u>	<u>1,705</u>	<u>(111)</u>	<u>(4,806)</u>	<u>66,815</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

	Consolidated				2022
	2021	Addition	Write-offs	Translation adjustments	
Cost value:					
Land	8,078	-	-	561	8,639
Buildings	45,360	92	-	3,161	48,613
Facilities	9,163	113	-	636	9,912
Machinery and equipment	32,776	321	(63)	2,266	35,300
IT and Communication Equipment	1,229	-	-	85	1,314
Furniture and fixtures	1,228	-	-	85	1,313
Vehicles	906	3	-	63	972
Right-of-use assets	3,262	-	(33)	229	3,458
Total cost	102,002	529	(96)	7,086	109,521
Amount of depreciation:					
Buildings	(13,367)	(1,186)	-	(909)	(15,462)
Facilities	(2,686)	(386)	-	(181)	(3,253)
Machinery and equipment	(13,814)	(1,758)	54	(929)	(16,447)
IT and Communication Equipment	(648)	(294)	-	(40)	(982)
Furniture and fixtures	(738)	(102)	-	(49)	(889)
Vehicles	(680)	(45)	-	(47)	(772)
Right-of-use assets	(2,779)	(520)	33	(181)	(3,447)
Total depreciation	(34,712)	(4,291)	87	(2,336)	(41,252)
Overall total	67,290	(3,762)	(9)	4,750	68,269

	Consolidated				2021
	2020	Addition	Write-offs	Translation adjustments	
Cost value:					
Land	8,498	164	-	(584)	8,078
Buildings	46,293	2,387	(69)	(3,251)	45,360
Facilities	9,021	794	-	(652)	9,163
Machinery and equipment	32,375	2,807	(148)	(2,258)	32,776
IT and Communication Equipment	1,315	37	(29)	(94)	1,229
Furniture and fixtures	1,319	7	(6)	(92)	1,228
Vehicles	974	38	(39)	(67)	906
Right-of-use assets	3,587	-	(81)	(244)	3,262
Total cost	103,382	6,234	(372)	(7,242)	102,002
Amount of depreciation:					
Buildings	(13,263)	(1,109)	59	946	(13,367)
Facilities	(2,517)	(354)	-	185	(2,686)
Machinery and equipment	(13,054)	(1,849)	132	957	(13,814)
IT and Communication Equipment	(503)	(213)	27	41	(648)
Furniture and fixtures	(695)	(99)	4	52	(738)
Vehicles	(726)	(43)	37	52	(680)
Right-of-use assets	(2,071)	(877)	-	169	(2,779)
Total depreciation	(32,829)	(4,544)	259	2,402	(34,712)
Overall total	70,553	1,690	(113)	(4,840)	67,290

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

The useful lives of property, plant and equipment items are reviewed annually at each reporting date and are shown below:

	<u>Useful life (in years)</u>
Buildings and facilities	20 - 50
Machinery and equipment	2 - 15
IT and Communication Equipment	3 - 15
Furniture and fixtures	2 - 10
Vehicles	2 - 5

The property, plant and equipment were depreciated in the consolidated amount of US\$ 4,291 (US\$ 4,395 in 2021), of which US\$ 2,465 recorded in the cost of products and services sold, US\$ 1,397 to general and administrative expenses, US\$ 9 to sales expenses, US\$ 7 related to technical support and US\$ 413 were appropriated in the development of new intangible assets.

As the accounting standard CPC 20 - Loan Costs, the total capitalized amounts of charges for loan operations obtained from BNDES to expand our facilities in the period was US\$ 265 (US\$ 752 in 2021).

The Company records real estate as a guarantee of tax foreclosures included in the REFIS program and financing contracted with BNDES and FINEP:

- (i) Special instalment payment program ("REFIS"), unit located in São José dos Campos, instalments in breaking process, debit balance of US\$ 22,162 (US\$ 24,094 in 2021) (note 16);
- (ii) Guarantee of financial operation with BNDES, unit located in Lorena, debt balance included in under-court organization of US\$ 8,195 and open balance related to loan guarantee of machinery and equipment of US\$ 596 (US\$ 8,030 in 2021) (note 12);
- (iii) Guarantee of financial operation with FINEP, unit located in Jacareí, debit included in under-court organization after redemption of guarantees (note 8) and execution of Bank Guarantee US\$ 6,304 (US\$ 13,915 in 2021) (note 12).

Land items are recorded net of its impairment by US\$ 1,478 (US\$ 1,382 in 2021).

11 INTANGIBLE ASSETS

	<u>Parent company</u>				<u>2022</u>
	<u>2021</u>	<u>Additions</u>	<u>Write-offs</u>	<u>Translation adjustments</u>	
Cost value:					
Artillery Saturation Rocket System (ASTROS II)	303,435	-	-	21,098	324,533
Launcher, ammunition and engines	5,029	-	-	350	5,379
Under development	62,785	6,970	-	4,141	73,896
Software	3,419	41	-	238	3,698
Total cost	<u>374,668</u>	<u>7,011</u>	<u>-</u>	<u>25,827</u>	<u>407,506</u>
Amount of amortization:					
Launcher, ammunition and engines	(2,000)	(187)	-	(135)	(2,322)
Software	(3,135)	(169)	-	(216)	(3,520)
Total amortization	<u>(5,135)</u>	<u>(356)</u>	<u>-</u>	<u>(351)</u>	<u>(5,842)</u>
Overall total	<u>369,533</u>	<u>6,655</u>	<u>-</u>	<u>25,476</u>	<u>401,664</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

	Parent company				2021
	2020	Additions	Write-offs	Translation adjustments	
Cost value:					
Artillery Saturation Rocket System (ASTROS II)	323,478	2,339	-	(22,382)	303,435
Launcher, ammunition and engines	5,400	-	-	(371)	5,029
Under development	52,259	14,799	(187)	(4,086)	62,785
Software	3,614	53	-	(248)	3,419
Total cost	384,751	17,191	(187)	(27,087)	374,668
Amount of amortization:					
Launcher, ammunition and engines	(1,963)	(178)	-	141	(2,000)
Software	(3,068)	(300)	-	233	(3,135)
Total amortization	(5,031)	(478)	-	374	(5,135)
Overall total	379,720	16,713	(187)	(26,713)	369,533
	Consolidated				
	2021	Additions	Write-offs	Translation adjustments	2022
Cost value:					
Artillery Saturation Rocket System (ASTROS II)	303,435	-	-	21,098	324,533
Launcher, ammunition and engines	6,540	-	-	455	6,995
Under development	64,153	6,996	-	4,237	75,386
Software	3,420	41	-	237	3,698
Total cost	377,548	7,037	-	26,027	410,612
Amount of amortization:					
Launcher, ammunition and engines	(2,411)	(242)	-	(163)	(2,816)
Software	(3,136)	(169)	-	(215)	(3,520)
Total amortization	(5,547)	(411)	-	(378)	(6,336)
Overall total	372,001	6,626	-	25,649	404,276
	Consolidated				
	2020	Additions	Write-offs	Translation adjustments	2021
Cost value:					
Artillery Saturation Rocket System (ASTROS II)	323,478	2,339	-	(22,382)	303,435
Launcher, ammunition and engines	7,023	-	-	(483)	6,540
Under development	53,472	15,053	(193)	(4,179)	64,153
Software	3,614	53	-	(247)	3,420
Total cost	387,587	17,445	(193)	(27,291)	377,548
Amount of amortization:					
Launcher, ammunition and engines	(2,350)	(230)	-	169	(2,411)
Software	(3,068)	(300)	-	232	(3,136)
Total amortization	(5,418)	(530)	-	401	(5,547)
Overall total	382,169	16,915	(193)	(26,890)	372,001

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

The item “Artillery Saturation Rocket System (ASTROS II)” corresponds to the value of the technology applied in the development of the ballistic rocket artillery system, used both in the area saturation artillery and in defense of the coast.

In 2004, the Proprietary Technology of the Artillery Saturation Rocket System (ASTROS II) was evaluated by the Aerospace Technical Center (CTA), which issued a valuation report in the amount of US\$ 323 million. The report was based on the capacity for scientific and technological development that is formed by the technical assets; specialized human resources; equipment technology; machinery; production facilities and processes; quality systems and military and civilian certifications. Based on the analysis of all relevant factors, the Company’s Management concluded that there is no foreseeable limit for the period during which it should continue generating positive net cash flows for the Company, reason why the intangible asset is treated as an asset with indefinite useful life.

Intangible assets with undefined useful lives are not amortized, but tested to identify possible impairment losses on an annual basis, individually or as a cash generating unit, and whether this classification remains justifiable. In 2021 and 2022, an assessment of the recoverable value of the intangible asset with indefinite useful life was not carried out by an independent company, however the management identifies that there were no significant changes in the Market so that the ASTROS II Artillery Saturation Rocket System is recorded as impairment as identified in 2020.

Intangible assets “In development” correspond to investments used in strategic projects for the innovation of new products, productive capacity and technological updates developed internally, which are identifiable as generators of future economic benefits, using reasonable and verifiable assumptions that represent the best management’s estimate of the set of economic conditions that will exist during the asset’s useful life. Once it is identified that a project under development no longer meets the recognition criteria, as described in CPC 04 – Intangible Assets, we recognize its loss in the statement of income “Other operating revenues (expenses), net” (note 27).

The useful lives of intangible asset items are reviewed annually at each reporting date and are shown below:

	<u>Useful life (in years)</u>
Artillery Saturation Rocket System (ASTROS II)	Undefined
Launcher, ammunition and engines	9 - 25
Software	2 - 5

12 LOANS AND FINANCING

	Annual effective interest rate	Parent Company		Consolidated	
		2022	2021	2022	2021
Current					
FINEP (i)	1.5% + TJLP	-	3,577	-	3,577
BNDES (ii)	3.09% - 3.20% + TJLP	596	2,540	596	2,540
Working capital (iii)	4.28% - 22.9% + Selic CDI	18,259	31,315	18,259	31,315
Leases (iv)	2.88% - 17.93% + CDI	115	409	115	409
Bank guarantee execution (v)	8.1% + CDI	5,348	-	5,348	-
Related parties (note 20) (vi)	6.17%+ CDI	755	4,464	755	4,464
		<u>25,073</u>	<u>42,305</u>	<u>25,073</u>	<u>42,305</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

Non-current					
FINEP (i)	1.5% + TJLP	6,304	10,340	6,304	10,340
	3.09% - 3.20% +				
BNDES (ii)	TJLP	8,125	5,489	8,125	5,489
	3.32% + Selic				
Working capital (iii)	4.28% - 22.9% +	18,500	6,481	18,500	6,481
	CDI				
Related parties	0% - 6.17%	10,800	-	29,191	18,433
(note 20) (vi)	+ CDI				
		<u>43,729</u>	<u>22,310</u>	<u>62,120</u>	<u>40,743</u>
		<u>68,802</u>	<u>64,615</u>	<u>87,193</u>	<u>83,048</u>
<i>Restricted interest earning bank deposits</i>					
(note 8)		1,020	12,000	1,020	12,000

The item "Loans and financing" is broken down by funds raised for the purpose of providing working capital and financing for industrial expansion projects and technological innovations.

(i) FINEP

In November 2015, FINEP granted the Company a credit in the amount of US\$ 20,709, and it was fully released to partially cover expenses incurred in the preparation and execution of the Strategic Innovation Plan. The Company assigned its unit located in Jacareí as collateral for the financial transaction with FINEP (note 10).

The financing was originally made available in instalments in accordance with the disbursement schedule and according to the needs for carrying out the Innovation Strategic Plan and amortized in instalments as per the contract, however FINEP was included in the court-ordered reorganization as a creditor and the balance is presented net of the interest earning bank deposits in this note (note 8) and the bank guarantee with BTG Pactual Bank.

(ii) BNDES

Financing for a project to expand the manufacturing facility in the municipality of Lorena – SP, its facility being the collateral for the financial transaction. The total funding was US\$ 11,898. The debt balance that compose the amount of the court-ordered reorganization are of US\$ 8,125, and US\$ 596 classified as post-petition since they are guaranteed with machinery and equipment of the Jacareí facility (note 10).

(iii) Working capital

They refer to short-term loans with national financial institutions through Advances on Foreign Exchange Contracts (ACC) of export contracts in foreign currency, intended for the maintenance of the Company's operating activities, mostly related to collateralized interest earning bank deposits (note 8). The amounts and deadlines of payments are constantly being renegotiated by the Company.

(iv) Leases

The Company has lease agreements for the IT equipment with fixed financial charges, recognized on a pro rata basis. The amounts and deadlines of payments are constantly being renegotiated by the Company.

(v) Bank guarantee

FINEP executed the bank guarantee contracted by the Company linked to the financing released by FINEP (item i), so that the amounts are compensated with the balance of FINEP loans and the debt recorded in favor of BTG Pactual Bank.

(vi) Related parties

The Company has outstanding balances with its related parties, CL Administradora e Comercial Ltda.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

for the settlement of short-term debts and long-term loans between its Parent Company and Avibras International Ltd. (note 20).

Changes in balance of loans and financing are detailed as follows:

	Parent Company		Consolidated	
	2022	2021	2022	2021
As of January 1st	64,615	57,575	83,048	76,079
Funding	18,502	43,319	18,502	43,319
Amortizations	(23,739)	(26,411)	(23,739)	(26,411)
Provision for financial charges	(568)	(3,779)	(568)	(3,779)
Capital contribution (a)	-	87	80	158
Debt forgiveness	-	(8,977)	-	(8,977)
Allocation of financial charges	5,780	5,647	5,780	5,647
Exchange-rate change	(1,120)	897	(2,725)	1,940
Foreign exchange variation	5,332	(3,743)	6,815	(4,928)
On December 31st	<u>68,802</u>	<u>64,615</u>	<u>87,193</u>	<u>83,048</u>

(a) The Company, by means of its subsidiary, has loans obtained from a related party abroad, on which there is no interest levied. As of 2020, aiming to provide greater alignment with international accounting standards, the Company chose to recognize this non-levy of interest as a capital contribution at the time of granting the loans (reducing loans and increasing shareholders' equity).

13 SUPPLIERS

	Parent Company		Consolidated	
	2022	2021	2022	2021
Domestic suppliers	11,071	3,599	11,105	3,606
Foreign suppliers	4,639	1,880	4,639	1,880
Related parties (note 20)	-	497	-	-
	<u>15,710</u>	<u>5,976</u>	<u>15,744</u>	<u>5,486</u>

14 ADVANCE FROM CLIENTS

	Parent Company		Consolidated	
	2022	2021	2022	2021
National Defense Agencies	-	-	1,317	1,187
Related parties (note 20)	6,067	1,037	-	-
	<u>6,067</u>	<u>1,037</u>	<u>1,317</u>	<u>1,187</u>

Advances from clients are defined in a contract and offset against accounts receivable, as sales revenues are recognized, according to the physical evolution of the goods produced or the billing of products.

15 SALARIES, PAYROLL CHARGES AND PROVISIONS

	Parent Company		Consolidated	
	2022	2021	2022	2021
Social charges (a)	14,052	1,294	14,113	1,318
Liabilities payable on payroll (b)	10,582	-	10,846	-
Vacation provisions and 13th	5,049	4,772	5,120	4,854
	<u>29,683</u>	<u>6,066</u>	<u>30,079</u>	<u>6,172</u>

(a) Changes due to the non-payment of payroll charges, interest and fines updated according to current legislation.

(b) Increase due to late payment of salaries, terminations and vacations, the balances are updated with the respective fines provided in the current labor legislation and union agreements.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

16 TAXES PAYABLE

	Parent Company		Consolidated	
	2022	2021	2022	2021
Interrupted instalments (a)	43,482	43,595	43,482	43,595
Interrupted instalments in active debts (b)	5,685	4,783	5,685	4,783
Active instalments (c)	2,386	1,889	2,394	1,896
Current taxes and fees (d)	4,385	931	4,548	1,439
Measurement of short-term billable taxes (e):	526	1,019	1,141	2,082
Long-term tax payable (f):	-	-	703	657
	<u>56,464</u>	<u>52,217</u>	<u>57,953</u>	<u>54,452</u>
Current	40,779	14,684	41,557	16,255
Non-current	15,685	37,533	16,396	38,197

- (a) Instalments interrupted in 2022 that were not included in the Active Debt are related to the instalments PRT (MP 766/17), REFIS (Law 11.941/09) and REFIS (Law 12.996/14) of federal tax debts and others.
- (b) Instalments interrupted in 2022 that were included in the Active Debt are related to the instalments PERT (MP 783/17) and Simplified and Ordinary instalment payments of federal tax debts and others.
- (c) Maintenance of FGTS instalments in Caixa Econômica Federal (due to 09/2025) and SESI/SENAI instalments by means of REFIS (Law 11.941/09) (87 instalments) and direct agreement (57 instalments).
- (d) Past due or due taxes and fees of current year updated with fines and interest in accordance with current legislation.
- (e) Tax amounts recorded in accordance with the evolution of the development contracts and that will be collected according to the billing of each phase of the contract.
- (f) Legal dispute between the Federal District and the State of Goiás, regarding the difference in the ICMS rate of invoices in 2018. Awaits judicial decision on the State to which the tax must be paid (Goiás, place of delivery of the product, or the Federal District, headquarters of the contractor), amount deposited in judicial account (note 8).

On September 2022, the company presented its Individual Tax Transaction Proposal according to Law 13.988/2020 and 14.375/2022, as well as PGFN no. 6757/2022, for the equalization of its tax debts by means of new instalment of all remaining debts in the date of the consolidation with the benefits offered by law. The Individual Tax Transaction Proposal remains in progress with perspective to be finalized in 2023.

17 CONTRACT LIABILITIES

	Parent Company		Consolidated	
	2022	2021	2022	2021
Onerous liabilities from commercial contracts	2,650	3,984	2,650	3,984
Contingency liability for development contracts	1,720	1,458	1,720	1,458
Liabilities of technical support warranty contracts	824	1,187	824	1,187
	<u>5,194</u>	<u>6,629</u>	<u>5,194</u>	<u>6,629</u>

The Company analyzed its current commercial contracts and, in accordance with current accounting standards, recorded the following contractual liabilities:

- Onerous liabilities from commercial contracts: refers to the provision recorded when the Company becomes aware that the remaining costs necessary to conclude a contract, or the costs to leave it, exceed the expected revenues for that contract. The reversal in the year of the provision for onerous contracts is due to the effective recognition of their results for the year;
- Contingency liability for development contracts, losses assumed as a cost of development projects and that are likely to be realized due to the individual history of each contract.
- Technical assistance guarantee: provision for costs that the Company estimates to meet demands related to technical assistance for products under warranty.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

18 OTHER LIABILITIES

	Parent Company		Consolidated	
	2022	2021	2022	2021
Current				
Commission for business intermediation (a)	18,160	18,160	18,160	18,160
Payroll-related obligations	307	233	312	236
Other accounts payable	807	530	816	530
Legal labor agreements paid in instalments	12	23	12	23
	<u>19,286</u>	<u>18,946</u>	<u>19,300</u>	<u>18,949</u>
Non-current				
Post-employment benefit provision (note 18.1)	905	846	905	846
Other accounts payable	837	280	839	282
	<u>1,742</u>	<u>1,126</u>	<u>1,744</u>	<u>1,128</u>
Total	<u>21,028</u>	<u>20,072</u>	<u>21,044</u>	<u>20,077</u>

(a) Commission for business intermediation is comprised of amounts payable for shipments made; the creditor is listed in the court-ordered reorganization.

(b) Recognition of provision for post-employment benefit.

18.1 PROVISION TO POST-EMPLOYMENT BENEFIT

The Company has a health care plan for employees related to the maintenance of employees, both active and inactive after their retirement or termination with no cause, within the medical plan provided by the Company which, given its conditions, is characterized as a post-employment benefit.

The form of recognition of this benefit is described in note 3 – significant accounting practices item m – Post-employment medical benefit.

The amounts recorded in the balance sheet are:

	2022	2021
Recognition of post-employment benefit plan	<u>846</u>	<u>846</u>
Benefit obligation - at the end of the year	<u>846</u>	<u>846</u>

The Company changed its Healthcare Plan reducing contractual commercial conditions, therefore the Management decided to maintain the provision at the same previous amount. The changes in the provision for post-employment benefits during the year, as well as the statements of changes in the present value of obligations (VPO), are shown below on a gross basis, that is, without the incidence of deferred taxes:

	2022	2021
Changes in provision for post-employment benefit		
Present value of liabilities (PVL) at the end of prior year	846	-
Cost of service	-	607
Interest costs on PVL	-	212
Revaluation effects recognized in OCI	-	27
Benefits paid directly by the company	-	-
PVL at the end of current year	<u>846</u>	<u>846</u>

Below is a reconciliation of the changes in the provision for post-employment benefits with the respective records in the statement of income and in the statements of comprehensive income, considering the nature of the change:

AVIBRAS INDÚSTRIA AEROSPAÇIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

	2022	2021
Income (loss) for the year		
Cost of current service	-	607
Net interest on net liabilities	-	212
Cost of defined benefit in income (loss) (DRE)	-	819
Other comprehensive income (OCI)		
(Earning) / actuarial loss on the evolution of liabilities	-	27
(Earning) / actuarial loss of changes in assumptions	-	-
(Earning) / actuarial loss recognized in the year	-	27
Cost of the defined benefit		
Service cost	-	607
Net interest on net liabilities	-	212
Revaluation effects recognized in OCI	-	27
Cost of the defined benefit	-	846

The main assumptions in determining the cost of the defined benefit in 2021 were determined by management together with its advisors and are shown below.

	2021
Discount rate	5,43%
Inflation rate	5,38%
Initial growth rate of medical costs	6,33%
Final growth rate of medical costs	6,33%
Growth rate of medical costs	6,33%

19 INCOME TAX AND SOCIAL CONTRIBUTION

a. Reconciliation between the effective rate and the nominal rate

	Parent Company		Consolidated	
	2022	2021	2022	2021
Loss before income tax and social contribution	(64,620)	(36,067)	(64,435)	(36,109)
Credit from income tax and social contribution at a rate of 34%	21,971	12,263	21,908	12,277
Tax incentives	2	4	2	4
Equity in net income of subsidiaries	586	(812)	-	-
Other permanent differences (a)	(1,383)	(341)	(524)	(771)
Unrecognized deferred income tax (b)	-	-	(225)	(409)
Translation adjustments	(557)	(12)	(565)	(19)
Credit from income tax and social contribution recognized in income (loss)	20,619	11,102	20,596	11,082
Income tax and social contribution - current	-	-	-	-
Income tax and social contribution - deferred	20,619	11,102	20,596	11,082
Effective rate - %	-	-	-	-

(a) Other permanent differences mainly include: permanent non-deductible additions and exclusions to the tax calculation basis permitted by legislation, such as fines, inventory adjustments, realization of the asset revaluation reserve, other non-deductible costs and expenses, etc.

(b) Deferred unrecognized income tax, the Subsidiary does not have a profit projection to offset in the future the deferred amounts in part B, therefore the amount recorded refers to the presumption of estimated profits for the next years based on the current contracts.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

b. Breakdown of balance of deferred income tax and social contribution

The deferred income tax and social contribution are presented in net balance sheets and are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values.

Breakdown of deferred income tax and of social contribution - Assets:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Tax losses and the negative social contribution base	34,790	11,515	34,983	11,715
Control - future cash exchange change	-	277	-	277
Difference between corporate x tax depreciation and amortization rates	99	171	99	171
Provision for impairment losses on property, plant and equipment (note 10)	503	470	503	470
Provision for losses from related parties	242	220	242	220
Provision for impairment losses on inventories (Note 6)	188	151	188	151
Provision for losses on allowance for doubtful accounts (Note 5)	6	4	6	4
Provision for losses in realization of advance to suppliers (Note 8)	112	86	112	86
Provisions for tax, civil and labor risks (Note 21).	2,246	2,721	2,246	2,721
Provision for guarantee (customer assistance) (Note 17)	280	404	280	404
Provision of onerous commercial contracts (Note 17)	901	1,355	901	1,355
Contingency provision for contracts (note 17)	585	496	585	496
Provision for commission for business intermediation (Note 18)	2,626	2,626	2,626	2,626
Provision for post-employment benefit (Note 18)	308	288	308	288
Provision for impairment losses on taxes (Note 7)	-	17	-	17
Financial leases	37	-	37	-
Other temporary differences	18	17	18	17
	<u>42,941</u>	<u>20,818</u>	<u>43,134</u>	<u>21,018</u>

Breakdown of deferred income tax and of social contribution - Liabilities:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Fair value valuation of property, plant and equipment	6,560	6,270	6,560	6,270
Expenditures on deferred innovation projects, Art. 17 of Law 11196/05	2,289	2,140	2,289	2,140
Effect of reclassification of loan cost in accordance with CPC 20 (note 10)	622	505	622	505
Control - future cash exchange change	371	205	371	205
Difference between corporate x tax depreciation and amortization rates	209	77	209	77
Financial leases	-	12	-	11
	<u>10,051</u>	<u>9,209</u>	<u>10,051</u>	<u>9,208</u>
Deferred tax assets, net	<u>32,890</u>	<u>11,609</u>	<u>33,083</u>	<u>11,810</u>

AVIBRAS INDÚSTRIA AEROSPAÇIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

c. Changes in deferred income tax and social contribution

	Parent Company		
	Assets	Liabilities	Net
Balance on January 1st, 2021	11,602	(10,715)	887
Changes in income (loss) for the period	10,471	631	11,102
Changes in other comprehensive income	(9)	159	150
Translation adjustment	(1,246)	716	(530)
Balance on December 31st, 2021	<u>20,818</u>	<u>(9,209)</u>	<u>11,609</u>
Changes in income (loss) for the period	20,966	(347)	20,619
Changes in other comprehensive income	-	148	148
Translation adjustment	1,157	(643)	514
Balance on December 31st, 2022	<u>42,941</u>	<u>(10,051)</u>	<u>32,890</u>

	Consolidated		
	Assets	Liabilities	Net
Balance on January 1st, 2021	11,836	(10,715)	1,121
Changes in income (loss) for the period	10,452	630	11,082
Changes in other comprehensive income	(9)	159	150
Translation adjustment	(1,261)	718	(543)
Balance on December 31st, 2021	<u>21,018</u>	<u>(9,208)</u>	<u>11,810</u>
Changes in income (loss) for the period	20,943	(347)	20,596
Changes in other comprehensive income	-	148	148
Translation adjustment	1,173	(644)	529
Balance on December 31st, 2022	<u>43,134</u>	<u>(10,051)</u>	<u>33,083</u>

d. Unrecognized deferred income tax and social contribution assets

Deferred tax assets were not recognized in the Subsidiary since there is no forecast of future income that would justify their use:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Timing differences	-	-	534	(364)
Accumulated tax losses	-	-	(225)	(409)
	<u>-</u>	<u>-</u>	<u>309</u>	<u>(773)</u>

20 RELATED PARTIES

The balances of assets and liabilities, as well as the transactions that influenced income (loss) for the year, relating to operations with related parties derive from transactions between the Company, its subsidiaries and its related parties, which were carried out according to prices and conditions set forth between parties.

A - Accounts receivable

	Parent Company	
	2022	2021
Powertronics S.A.	353	330
(-)impairment loss of accounts receivable	(353)	(330)
	<u>-</u>	<u>-</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

B - Advance to supplier

	Parent Company	
	2022	2021
Powertronics S.A.	335	307
(-) Impairment loss on advance to supplier	(335)	(307)
	<u>-</u>	<u>-</u>

C - Suppliers

	Parent Company	
	2022	2021
Avibras Divisão Área e Naval S.A.	-	497

D - Advance from customers

	Parent Company	
	2022	2021
Avibras Divisão Área e Naval S.A. (i)	6,067	1,036

E - Loans

	Parent Company		Consolidated	
	2022	2021	2022	2021
CL Administradora e Comercial LTDA (note 12) (ii)	11,555	4,464	11,555	4,464
Avibras International (note 12) (iii)	-	-	18,391	18,433
	<u>11,555</u>	<u>4,464</u>	<u>29,946</u>	<u>22,897</u>

- (i) Outstanding advance related to commercial transactions.
- (ii) Loans for settlements of short-term debts and Company's working capital (note 12), part of the amount is considered in the court-ordered reorganization US\$ 10,800.
- (iii) Loans signed with a foreign related party in the Subsidiary, in North American dollars and euros, interest-free, properly registered in Banco Central do Brasil, with dues renegotiated up to December 2024.

Operations recognized in income (loss) with subsidiaries:

	Parent Company	
	2022	2021
Revenues from development agreement services	3,450	4,713
Real estate rental revenues	58	54
	<u>3,508</u>	<u>4,767</u>

Management remuneration

The statutory Executive Board is remunerated pursuant to the resolution at the General Shareholders' Meeting, held on April 29, 2022, duly registered with the Commercial Registry of the State of São Paulo, and will be distributed in the statutory manner provided for and paid in monthly instalments, updated on the same dates and using the same indices and criteria adopted for the salary readjustments of the Company's employees.

21 PROVISION FOR TAX, CIVIL AND LABOR RISKS

The Company and its subsidiary are parties to administrative and legal lawsuits arising from the normal course of their operations. These lawsuits involve labor, tax and civil matters. Based on the information and assessments of its internal and external legal advisors, Management measured and recognized provisions for contingencies in an estimated amount of the value of obligation and which reflect the expected outflow of funds (probable loss).

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

	Parent Company			Total
	Labor	Civil	Tax	
Opening balance January 2021	6,527	55	171	6,753
Provisions	465	-	11	476
Reversals	(194)	-	(51)	(245)
Restatements	1,555	7	2	1,564
Translation adjustment	(518)	(4)	(11)	(533)
Closing balance December 2021	7,835	58	122	8,015
Provisions	292	-	499	791
Reversals	(3,520)	(54)	(50)	(3,624)
Restatements	898	-	2	900
Translation adjustment	532	4	10	546
Closing balance December 2022	6,037	8	583	6,628

The Company has an escrow deposit of US\$ 299 for labor claims (note 8).

	Consolidated			Total
	Labor	Civil	Tax	
Opening balance January 2021	6,529	55	946	7,530
Provisions	473	-	11	484
Reversals	(194)	-	(51)	(245)
Restatements	1,557	7	10	1,574
Translation adjustment	(519)	(4)	(65)	(588)
Closing balance December 2021	7,846	58	852	8,756
Provisions	292	-	499	791
Reversals	(3,533)	(54)	(157)	(3,744)
Restatements	900	-	2	902
Translation adjustment	533	4	70	607
Closing balance December 2022	6,038	8	1,266	7,312

The Company has in the consolidated US\$ 299 of escrow deposit for labor claims and US\$ 1,483 for tax claims (note 8), and part of the liability of this judicial deposit was listed in invoice and is registered as tax payable (note 16).

Labor contingencies

- Probable loss: 99 lawsuits with a total amount of US\$ 6,038 (93 lawsuits in the amount of US\$ 7,846 in 2021), provisioned in the accounting. The most relevant collective labor claim was filed by the Metalworkers Union demanding that the minutes of *In Itinere* hours (employee commuting to the Company) be considered as overtime).
- Possible Loss: 12 lawsuits with a total amount of US\$ 605 (20 lawsuits in the amount of US\$ 701 in 2021).

Civil contingencies

The Company has 1 probable loss lawsuit in the amount of US\$ 8 (US\$ 58 in 2021).

Tax contingencies

The Company and its subsidiaries have tax lawsuits in progress, which are assessed as having a probable chance of an unfavorable outcome. Main lawsuits are:

- Legal dispute between the Federal District and the State of Goiás, regarding the difference in the ICMS rate of invoices issued in 2019. Awaits judicial decision on the State to which the tax must be paid (Goiás, place of delivery of the product, or the Federal District, headquarters of the contractor). Amount of the lawsuit US\$ 684 (US\$ 640 in 2021).

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

- Other tax provisions in the amount of US\$ 582 (US\$ 213 in 2021).

The Company and its subsidiaries are also parties to other tax lawsuits, for which the expectation of loss was considered possible. Therefore, in accordance with the accounting standards in force, no provision was recognized. The most relevant ones are as follows:

	Estimated amount
Tax assessment notice - IRPJ/CSLL - calendar year 2016	572
ICMS tax assessment notice	31
Refund rejection PIS/COFINS credit	505
ICMS DIFAL (DF x GO) - 2017 - (Estimated attorney's fees awards)	83
Lack of option for Social Security Contribution on Gross Revenue - CPRB and disqualification of credit offset in GFIP	5,140
Reinstate	21
	<u>6,352</u>

22 SHAREHOLDER'S EQUITY

Capital

The Company's paid-up capital is US\$ 792,335, represented by 61,869,091 common shares, 95,318 class A preferred shares, and 489,229 registered class B preferred, book-entry, without par value shares:

Shareholders	Total shares in 2022	(%) 2022	Realized capital in 2022	Total shares in 2021	(%) 2021
João Brasil Carvalho Leite	59,149,235	94.71%	750,413	59,149,235	94.71%
Treasury	2,686,141	4.30%	34,078	2,686,141	4.30%
Minority interests	618,262	0.99%	7,844	618,262	0.99%
	<u>62,453,638</u>	<u>100%</u>	<u>792,335</u>	<u>62,453,638</u>	<u>100%</u>

Treasury shares

Own shares acquired by the Company between 2016 and 2020, recognized under treasury shares at acquisition cost and deducted from shareholders' equity. No gains or losses on acquisitions were recognized in the statements of income.

Nature and purpose of reserves

▪ Tax incentive reserve

Established in accordance with Article 195-A of Law 6404/76 (amendment introduced by Law 11638 of 2007), this reserve records the allocation of the portion of retained earnings resulting from government grants received by the Company, which cannot be distributed to shareholders in the form of dividends.

▪ Legal reserve

Profit reserve formed annually with allocation of 5% of net income for the year, after deductions, before any interest in accumulated losses and the provision for income tax, as provided for in Article 189 of Law 6404/76, limited to 20% of capital.

▪ Capital contribution

The capital contribution arises from the recognition of the fair value of the loan granted by a related party without incurring interest (note 12).

▪ Capital reserve

The capital reserve is formed in accordance with the Company's bylaws, by allocating 1% of the distributable profit to acquisitions of preferred shares, limited to the total value of preferred shares.

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

▪ Dividends

According to the statutory provision, dividends are guaranteed, which together correspond to at least 25% of the company's net income for the year, adjusted in accordance with Law 6404/76 (amendment introduced by Law 11638/2007).

▪ Profit retention reserve

The retained revenue reserve is made up of the allocation of net income from previous years, as resolved at the Annual General Meeting.

▪ Equity valuation adjustment

Aiming to maintain the cost of its property, plant and equipment at fair value in 2001 and 2010, the Company valued its properties at the deemed cost. The balance of the valuation adjustment, net of deferred taxes, totals US\$ 32,598 (US\$ 32,823 in 2021). It is presented in detail in the Statement of Changes of Shareholder's Equity.

23 NET OPERATING REVENUE

	Parent Company		Consolidated	
	2022	2021	2022	2021
Domestic market product	2,565	21,097	2,732	19,765
Foreign market product	2,794	13,482	2,794	13,482
Services - Domestic market	3,648	6,336	3,892	6,916
Services - Foreign market	-	4,059	-	4,059
	<u>9,007</u>	<u>44,974</u>	<u>9,418</u>	<u>44,222</u>
Sales tax	(736)	(3,507)	(841)	(3,331)
Sales returns	(99)	(41)	(99)	(41)
	<u>8,172</u>	<u>41,426</u>	<u>8,478</u>	<u>40,850</u>

The table below shows the breakdown of gross sales by segment, discounting sales returns:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Parts, pieces and other	3,647	15,610	3,647	15,610
Ammunition	655	11,777	655	11,777
Technical support	3,648	10,396	3,892	10,975
Vehicle division	-	4,900	0	4,900
Space sector	270	1,541	437	210
Electrostatic painting	688	709	688	709
	<u>8,908</u>	<u>44,933</u>	<u>9,319</u>	<u>44,181</u>

We listed below the breakdown of net revenue in the domestic and foreign markets:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Exports	2,794	17,541	2,794	17,541
National	5,378	23,885	5,684	23,309
	<u>8,172</u>	<u>41,426</u>	<u>8,478</u>	<u>40,850</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

24 COST OF PRODUCTS SOLD AND SERVICES RENDERED

	Parent Company		Consolidated	
	2022	2021	2022	2021
Inputs and materials	1,956	18,844	2,024	18,935
Liabilities from onerous contracts and contingencies (note 17)	(1,378)	(3,719)	(1,378)	(3,719)
Personnel expenses	2,308	7,869	2,308	7,869
Depreciation and amortization	238	685	238	685
Traveling	4	178	4	178
Maintenance	1	148	1	148
Services rendered by third parties	9	75	9	75
Other costs	140	822	140	826
Costs not absorbed in production	23,956	17,480	23,956	17,479
	<u>27,234</u>	<u>42,382</u>	<u>27,302</u>	<u>42,476</u>

25 SALES EXPENSES

	Parent Company		Consolidated	
	2022	2021	2022	2021
Commissions for business intermediation	8	7,627	8	7,627
Freight and insurance on sales	14	377	14	377
Personnel expenses	2,618	3,837	2,809	3,837
Traveling	460	442	460	442
Services rendered by third parties	2,602	245	2,611	255
Depreciation and amortization	9	23	9	23
Fines on taxes/labor matters	159	-	220	-
Other expenses	23	808	57	874
	<u>5,893</u>	<u>13,359</u>	<u>6,188</u>	<u>13,435</u>

26 GENERAL AND ADMINISTRATIVE EXPENSES

	Parent Company		Consolidated	
	2022	2021	2022	2021
Personnel expenses	16,655	14,403	17,196	14,787
Personnel expenses - layoff	1,828	-	1,833	-
Services rendered by third parties	3,236	1,939	3,445	1,946
Depreciation and amortization	1,552	1,969	1,616	2,010
Taxes and rates	526	1,492	530	1,492
Traveling	83	331	83	333
Fines on taxes/labor matters	8,607	53	8,800	78
Maintenance	189	610	189	610
Other expenses	1,485	3,183	1,553	3,250
Systems and software	1,539	1,997	1,539	1,997
COVID-19-related paid leave	-	9,909	-	9,909
	<u>35,700</u>	<u>35,886</u>	<u>36,784</u>	<u>36,412</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements

As of December 31, 2022 and December 31, 2021

(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

27 OTHER OPERATING REVENUES (EXPENSES), NET

	Parent Company		Consolidated	
	2022	2021	2022	2021
Revenues				
Write-off of liability from commission for business intermediation	-	21,270	-	21,270
Debt forgiveness of loans	-	8,364	-	8,364
Recovered expenses	104	691	104	692
Rental revenues and other	118	152	118	158
Gains in tax lawsuits	255	-	592	-
Reintegra	7	12	7	12
	484	30,489	821	30,496
Expenses				
Customer service guarantee	(324)	(1,278)	(324)	(1,278)
Write-off of intangible assets	-	(186)	-	(192)
Cost of trials and tests	(5)	(165)	(5)	(165)
Losses with clients	(5)	(117)	(5)	(117)
Write-off of property, plant and equipment	(10)	(114)	(10)	(114)
Loss due to write-off of advance to domestic supplier	-	(57)	-	(57)
ICMS tax sale discount (note 7)	(559)	-	(559)	-
COVID-19 donations	-	(11)	-	(11)
	(903)	(1,928)	(903)	(1,934)
Other Provisions				
Reversal (Provision) for tax, civil and labor risks	1,933	(1,794)	2,052	(1,812)
Provision for post-employment benefit	-	(835)	-	(835)
Reversal (Provision) for impairment loss of taxes	36	(53)	36	(53)
Reversal (Provision) for assistance guarantee of contracts	510	(65)	510	(65)
Reversal (Provision) for loss with advance to domestic suppliers	(64)	64	(64)	64
	2,415	(2,683)	2,534	(2,701)
	1,996	25,878	2,452	25,861

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

**Explanatory notes from Management to the Financial Statements
As of December 31, 2022 and December 31, 2021
(Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)**

28 FINANCIAL INCOME (LOSS)

	Parent Company		Consolidated	
	2022	2021	2022	2021
Financial revenues				
Yield of interest earning bank deposit	451	637	485	639
Interest on tax credit	538	315	1,832	326
Adjustment of judicial deposits	637	210	644	210
Discounts obtained	66	17	67	18
	<u>1,692</u>	<u>1,179</u>	<u>3,028</u>	<u>1,193</u>
Financial expenses				
Interest on loans and financing	(5,531)	(4,566)	(5,531)	(4,566)
Guarantee/bank fees (a)	(909)	(1,473)	(910)	(1,475)
Interest and charges on taxes (b)	(4,030)	(1,403)	(4,033)	(1,403)
Tax on financial revenues	(90)	(308)	(152)	(309)
Interest on suppliers	(272)	(215)	(278)	(215)
Other	(79)	(128)	(95)	(129)
	<u>(10,911)</u>	<u>(8,093)</u>	<u>(10,999)</u>	<u>(8,097)</u>
Exchange-rate change (net)	<u>1,536</u>	<u>(2,541)</u>	<u>2,883</u>	<u>(3,690)</u>
Financial income (loss)	<u>(7,683)</u>	<u>(9,455)</u>	<u>(5,088)</u>	<u>(10,594)</u>

(a) Commissions on bank guarantees are expenses charged by financial institutions to intermediate the issuance of performance bonds and refunded bonds for export contracts.

(b) The interest on taxes mainly refers to the updating of late tax debts, interrupted instalments and by the SELIC rate (note 16).

The breakdown below shows the impacts of exchange-rate changes on the Company's income (loss):

	Parent Company		Consolidated	
	2022	2021	2022	2021
Loans	911	(969)	2,258	(2,118)
Commission of agent	690	(2,746)	690	(2,746)
Suppliers	129	(134)	129	(134)
Cash in foreign currency	(194)	1,627	(194)	1,627
Clients	-	(319)	-	(319)
Exchange-rate change (net)	<u>1,536</u>	<u>(2,541)</u>	<u>2,883</u>	<u>(3,690)</u>

29 FINANCIAL INSTRUMENTS

The financial instruments recorded in assets are represented mainly by the balances of cash and cash equivalents, accounts receivable and restricted interest earning bank deposits. In liabilities, they are represented by suppliers, loans, financing and other liabilities.

AVIBRAS INDÚSTRIA AEROSPAÇIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

Financial instruments by category

The balances of financial assets and liabilities are as follows:

	Note	Level	Parent Company		Consolidated	
			2022	2021	2022	2021
Assets at fair value through profit or loss:						
Interest earning bank deposits	4	2	76	1,719	1,547	5,259
Restricted interest earning bank deposits (secured loans)	8	2	1,020	12,000	1,020	12,000
Financial assets at amortized cost:						
Cash and banks	4	2	283	430	283	431
Trade accounts receivable	5	2	2,595	203	3,970	1,488
Other assets	8	2	9,959	9,387	11,872	11,176
Financial liabilities at amortized cost:						
Suppliers	13	2	15,710	5,976	15,744	5,486
Financings	12	2	68,802	64,615	87,193	83,048
Other liabilities	15	2	21,028	20,072	21,044	20,077

Fair value is the amount for which an asset could be exchanged, or a liability settled, between independent parties with knowledge of the deal and interest in performing it, in a transaction where none of the parties is favored.

Amortized cost is the amount by which the financial asset or liability is measured at initial recognition, net of capital amortizations, plus or minus accrued interest calculated using the effective interest rate method.

The different hierarchy levels were defined as follows:

- Level 1 – Prices quoted in active markets
- Level 2 – prices quoted for similar assets and liabilities
- Level 3 – models with unobservable data

Risk factors that may affect business

- **Credit risk**

It is derived from the possibility of the Company not receiving amounts resulting from sale operations. Aiming to mitigate this risk in export operations, the Company requires a letter of credit submitted by the client and issued by a first-rate financial institution. In the domestic market, for sales to National Defense Agencies, the Company is supported by contractual clauses, in addition to an Allotment Advice from contracting agencies. For sales in the civilian area, except for transactions with related parties, the Management thoroughly analyzes the clients' financial situation, establishing ongoing monitoring of the counterparties' debt balance.

- **Risk related to interest earning bank deposits**

Interest earning bank deposits are mainly represented by very short-term, fixed open-ended funds, whose portfolios are mainly composed of federal government bonds and fixed-rate and floating-rate securities issued by a national financial institution.

- **Price risk of goods sold or produced or of input acquired**

It derives from the possibility of market oscillation of the price of products marketed or produced by the Company and inputs used in the production process. This price oscillation may cause material

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

alterations in revenues and costs. In order to mitigate such risks, the local and international markets are permanently monitored, trying to be ahead of price changes.

- **Interest rate risk**

It derives from the possibility of the Company incurring losses (or gains) due to fluctuations in interest rates that are applied to liabilities and assets invested in the market. To minimize possible impacts deriving from fluctuations in interest rates, the Company adopted the policy of diversifying, alternating contracting of fixed and variable rates (such as CDI), and follows-up the market on a permanent basis in order to evaluate possible necessity of contracting transactions to protect itself against the risk of rate volatility.

- **Currency risk**

This risk is linked to the possibility of changes occurring in foreign exchange rates, thus affecting the balance of contract liabilities and/or assets indexed at foreign currency.

The Company does not use derivative financial instruments, hedges or the like. However, seeking to mitigate foreign exchange risks, it maintains a current account abroad, whose balance arises from export contracts to support the payment of future obligations contracted in foreign currency.

Sensitivity analysis of changes in the fixed interest rates

The scenarios showing the risk of deterioration of 25% and 50% of the risk variable for floating interest rates are as follows:

	Parent Company			
	Accumulated up to 2022	Current scenario	Scenario 1 -25%	Scenario 2 -50%
CDI rate	12.39%	12.39%	9.29%	6.20%
Annual yield of interest earning bank deposits	451	9	7	5
Effect on yield - decrease	-	-	(2)	(5)

	Consolidated			
	Accumulated up to 2022	Current scenario	Scenario 1 -25%	Scenario 2 -50%
CDI rate	12.39%	12.39%	9.29%	6.20%
Annual yield of interest earning bank deposits	485	192	144	96
Effect on yield - decrease	-	-	(48)	(96)

Sensitivity analysis of changes in the exchange rates

The Company is exposed to currency risks in financial instruments, represented by cash and cash equivalents, accounts receivable, advances to suppliers, loans and financing, advances from clients and suppliers payable, and seeks to minimize the risks of exchange volatility by maintaining reserves of foreign currency that can support the payment of future obligations denominated in foreign currency.

The balances of assets and liabilities in Dollar exposed to exchange rate fluctuations are as follows:

	Parent Company	Consolidated
Suppliers	(4,639)	(4,639)
Loans and financing	(16,211)	(34,720)
Commission from business intermediation	(18,160)	(18,160)
Cash and cash equivalents	168	168
Accounts receivable	2,539	2,539
Deposit linked to contractual guarantees	1,687	1,687
	<u>(34,616)</u>	<u>(53,125)</u>

AVIBRAS INDÚSTRIA AEROSPACIAL S.A. - UNDER COURT-ORDERED REORGANIZATION

Explanatory notes from Management to the Financial Statements As of December 31, 2022 and December 31, 2021 (Amounts expressed in thousands of dollars - US\$, unless otherwise indicated)

In line with the accounting practices adopted, the Company carried out a sensitivity analysis to the risk of fluctuation in the exchange rates to which its financial instruments are exposed, thus determining the probable scenario – based on reports and analysis of available markets – and measured the possible impact on income (loss). Moreover, as recommended by accounting practices, the following was presented:

- Scenario I: 25% decrease
- Scenario II: 50% decrease

The table containing the results of the sensitivity analysis is as follows:

	Company's risk	Parent Company		
		Probable scenario US\$	Scenario I (25%)	Scenario II (50%)
Net exposure	Dollar incr.	(158)	6,290	12,580

	Company's risk	Consolidated		
		Probable Scenario US\$	Scenario I (25%)	Scenario II (50%)
Net exposure	Dollar incr.	(274)	10,919	21,837

The probable scenario considers the projection of the US dollar, according to the price published by BACEN, through the Focus Bulletin, of R\$ 5,25/US\$ 1,00, applied to financial instruments with foreign exchange exposure. Scenarios II and III consider an additional deterioration in the US dollar of 25% (R\$ 3.94/US\$ 1.00) and 50% (R\$ 2.63/US\$ 1.00), respectively. Our financial analysis considers the probable scenario in the evaluation of possible changes in Exchange-rate and presents the referred scenario in compliance with IFRS 7/CPC 40 – Financial Instruments: Disclosures.

Management of liquidity risk

The ultimate responsibility for the liquidity risk management rests with the Company's Financial Executive Board, which prepared an appropriate model of liquidity risk management for managing the needs of funding and liquidity management in short, medium and long-term. Liquidity risk management is carried out through the continuous monitoring of expected and actual cash flows, combining the maturity profiles of financial assets and liabilities, and maintaining a close relationship with financial institutions, with frequent disclosure of information to support credit decisions when third party funds are required.

30 ADDITIONAL INFORMATION TO STATEMENTS OF CASH FLOWS

The following table presents additional information on transactions related to the statement of cash flows:

	Parent Company		Consolidated	
	2022	2021	2022	2021
Capitalization of the cost of loans in the acquisition of property, plant and equipment	265	778	265	778

31 SUBSEQUENT EVENTS

Sale of ICMS – on April 14th, 2023, the company filed through its legal advisors the request to transfer the residual of US\$ 427 contained in the E-Credac statement for sale to electricity companies through the Pro-Active program, round 6.

32 APPROVAL FOR INSSUANCE OF FINANCIAL STATEMENTS

These financial statements were approved to be disclosed by Management on April 18, 2023.