

Padtec Holding S.A.

Interim financial statements for the quarter ended June 30, 2023, accompanied by the Review Report on the Quarterly Information

Padtec Holding S.A.

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Report on the Review of Quarterly Information

To the Shareholders and the Management of
Padtec Holding S.A.
Campinas - SP

Introduction

We have reviewed the individual and consolidated interim financial information of Padtec Holding S.A. ("Company"), contained in the Quarterly Information Form (ITR) for the quarter ended June 30, 2023, which comprises the Balance Sheet as of June 30, 2023 and the respective statements of profit of loss and comprehensive income for the three- and six-month period then ended and changes in equity and cash flows for the six-month period then ended, including the accompanying notes.

The Company's Management is responsible for preparing the individual and consolidated interim financial statements in compliance with Technical Pronouncement CPC 21 (R1) and international standard IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board ("IASB"), as well as for its presentation in a manner consistent with the rules issued by the Brazilian Securities and Exchange Commission ("CVM"), applicable to the preparation of the Quarterly Information (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the review

We conducted our review in compliance with Brazilian and international standards for the review of interim financial information (NBC TR 2410 - Interim Financial Information Review Performed by the Entity's Auditor and ISRE 2410 - *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, respectively). A review of interim information consists of making inquiries, mainly to persons responsible for financial and accounting matters, and applying analytical procedures and other review procedures. The scope of a review is significantly lower than an audit conducted in compliance with audit standards and, accordingly, has not allowed us to obtain assurance that we are aware of all significant matters that could be identified through an audit procedure. Therefore, we do not express an audit opinion.

Conclusion on the individual and consolidated interim information

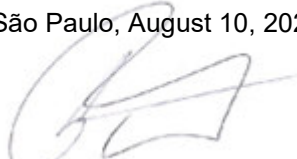
Based on our review, we are not aware of any facts that would lead us to believe that the individual and consolidated interim financial information included in the aforementioned quarterly information was not prepared, in all material respects, in compliance with Technical Pronouncement CPC 21(R1) and International Standard IAS 34, applicable the preparation of Quarterly Information - ITR and presented in a manner consistent with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Statement of value added

The aforementioned quarterly information includes the individual and consolidated statements of value added (SVA) for the six-month period ended June 30, 2023, prepared under the responsibility of the Company's management and presented as supplementary information for the purposes of IAS 34. Such statements were submitted to review procedures carried out together with the review of the quarterly information, in order to determine whether they are reconciled with the interim financial information and accounting records, as applicable, and whether their form and content comply with the criteria defined in Technical Pronouncement CPC 09 - Statement of Value Added. Based on our review, we are not aware of any facts that would lead us to believe that these statements of value added were not prepared, in all material respects, in compliance with the criteria defined in this Standard and in a consistent manner in relation to the individual and consolidated interim financial information taken together.

São Paulo, August 10, 2023.

A handwritten signature in blue ink, appearing to read "FRM", is written over a faint circular stamp.

Fernando Radaich de Medeiros
Accountant CRC 1SP 217.532/O-6

RSM Brasil Auditores Independentes Ltda.
CRC 2SP-030.002/O-7

PADTEC HOLDING S.A.

BALANCE SHEETS

AS OF JUNE 30, 2023 AND DECEMBER 31, 2022

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

ASSETS	NOTE	Parent		Consolidated	
		06/30/23	12/31/22	06/30/23	12/31/22
CURRENT					
Cash and cash equivalents	4	1	60	31,915	49,620
Tradable securities	5	-	-	11,835	3,703
Trade accounts receivable	6	-	-	113,031	134,999
Inventories	7	-	-	119,326	93,435
Taxes recoverable	8	1,753	1,788	32,996	34,330
Financial transactions	17	-	-	39,906	41,125
Other credits	9	92	197	6,958	5,494
TOTAL CURRENT ASSETS		1,846	2,045	355,967	362,706
NON-CURRENT					
Trade accounts receivable	6	-	-	16,848	13,267
Restricted financial investments		-	-	698	212
Financial transactions	17	-	-	40,239	36,112
Judicial deposit	22.2	510	567	1,113	1,167
Other credits	9	-	-	141	409
		510	567	59,039	51,167
Investments	11.1	158,577	156,847	-	-
Net PPE	12	-	-	36,476	37,571
Net intangible assets	13	24	24	46,139	45,175
		158,601	156,871	82,615	82,746
TOTAL CURRENT ASSETS		159,111	157,438	141,654	133,913
TOTAL ASSETS		160,957	159,483	497,621	496,619

The accompanying notes are an integral part of these interim financial statements

PADTEC HOLDING S.A.

BALANCE SHEETS

AS OF JUNE 30, 2023 AND DECEMBER 31, 2022

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Parent		Consolidated	
		06/30/23	12/31/22	06/30/23	12/31/22
CURRENT					
Loans and financing	14	-	-	5,828	23,595
Derivative financial instruments	34.1	-	-	4,105	-
Debentures	15	-	-	-	10,517
Lease transactions	16	-	-	6,041	6,044
Suppliers	19	247	80	74,539	68,223
Related parties	10	-	-	387	344
Taxes and contributions payable	20	166	60	4,719	14,541
Taxes and contributions payable - installment payment	21	977	119	2,030	1,931
Labor charges	23	314	285	27,246	22,774
Miscellaneous provisions	22.1	661	713	2,501	2,689
Financial transactions	17	-	-	39,906	41,125
Advances from customers		-	-	7,249	1,458
Other accounts payable		-	-	744	355
TOTAL CURRENT LIABILITIES		2,365	1,257	175,295	193,596
NON-CURRENT					
Loans and financing	14	-	-	89,220	68,769
Debentures	15	-	-	-	10,440
Suppliers	19	-	-	508	522
Provision for labor, tax and civil risks	22.2	9,304	9,662	18,486	19,308
Lease transactions	16	-	-	15,551	18,909
Taxes and contributions payable - installment payment	21	-	8	1,610	2,016
Related parties	10	14,201	12,877	-	-
Financial transactions	17	-	-	40,239	36,112
Transactions with senior FIDC quotas	18	-	-	20,814	10,393
Other accounts payable		-	-	875	875
TOTAL NON-CURRENT LIABILITIES		23,505	22,547	187,303	167,344
TOTAL LIABILITIES		25,870	23,804	362,598	360,940
SHAREHOLDERS' EQUITY					
Share Capital	25.1	199,211	199,211	199,211	199,211
Accumulated losses		(59,232)	(60,780)	(59,296)	(60,780)
Goodwill on capital transaction		599	599	599	599
Other comprehensive income	25.2	(5,491)	(3,351)	(5,491)	(3,351)
TOTAL EQUITY ASSIGNED		135,087	135,679	135,023	135,679
TOTAL LIABILITIES AND EQUITY		160,957	159,483	497,621	496,619

The accompanying notes are an integral part of these interim financial statements

PADTEC HOLDING S.A.

STATEMENTS OF PROFIT OR LOSS FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Note	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
		Parent Company		Consolidated		Parent Company		Consolidated	
		06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Net operating revenue	27	-	-	96,903	84,892	-	-	176,067	157,649
Cost of goods sold and services provided	28	-	-	(62,011)	(56,740)	-	-	(112,686)	(108,832)
Gross profit		-	-	34,892	28,152	-	-	63,381	48,817
Operating revenues (expenses)									
Administrative expenses	29.1	(1,199)	(976)	(8,213)	(8,247)	(2,117)	(2,081)	(15,586)	(15,136)
Selling expenses	29.1	-	-	(8,924)	(8,754)	-	-	(17,931)	(16,782)
Research and development expenses	29.1	-	-	(9,339)	(9,235)	-	-	(19,063)	(17,673)
Equity income	11.5	1,707	(1,741)	-	-	3,870	(6,581)	-	-
Other operating revenues (expenses), net	29.2	1,389	(792)	(1,852)	(877)	940	761	(2,668)	1,596
Profit (loss) before finance income (costs)		1,897	(3,509)	6,564	1,039	2,693	(7,901)	8,133	822
Financial result	31	(1,026)	(278)	(5,772)	(4,918)	(1,145)	(363)	(6,664)	(9,177)
Profit (loss) before income tax and social contribution		871	(3,787)	792	(3,879)	1,548	(8,264)	1,469	(8,355)
Income tax and social contribution									
Current	32	-	-	15	92	-	-	15	91
Profit (loss) for the period		871	(3,787)	807	(3,787)	1,548	(8,264)	1,484	(8,264)
Profit (loss) attributable to:									
Controlling shareholders		871	(3,787)	807	(3,787)	1,548	(8,264)	1,484	(8,264)
Profit (loss) for the period		871	(3,787)	807	(3,787)	1,548	(8,264)	1,484	(8,264)
Earnings (losses) per share									
Diluted earnings (losses) per share	26					0.0197	(0.1053)	0.0189	(0.1053)
Diluted earnings (losses) per share	26					0.0197	(0.1053)	0.0189	(0.1053)

The accompanying notes are an integral part of these interim financial statements

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PADTEC HOLDING S.A.

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022**

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
	Parent Company		Consolidated		Parent Company		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Profit (loss) for the period	871	(3,787)	807	(3,787)	1,548	(8,264)	1,484	(8,264)
Items that may be reclassified subsequently to the statement of income (loss)								
Other comprehensive income								
Translation adjustments of balance sheet of subsidiaries abroad	674	(103)	674	(103)	402	(375)	402	(375)
Cash flow hedge	(2,542)	-	(2,542)	-	(2,542)	-	(2,542)	-
COMPREHENSIVE INCOME FOR THE PERIOD	(997)	(3,890)	(1,061)	(3,890)	(592)	(8,639)	(656)	(8,639)
Comprehensive income attributable to:								
Controlling shareholders	(997)	(3,890)	(1,061)	(3,890)	(592)	(8,639)	(656)	(8,639)
COMPREHENSIVE INCOME FOR THE PERIOD	(997)	(3,890)	(1,061)	(3,890)	(592)	(8,639)	(656)	(8,639)

The accompanying notes are an integral part of these interim financial statements

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PADTEC HOLDING S.A.

STATEMENTS OF CHANGES IN EQUITY FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Note	Share Capital	Goodwill on capital transaction	Other comprehensive income	Retained earnings/accumulated losses	Total equity
BALANCE AS OF DECEMBER 31, 2021		<u>199,211</u>	<u>599</u>	<u>(939)</u>	<u>(70,534)</u>	<u>128,337</u>
Loss for the period		-	-	-	(8,264)	(8,264)
Exchange variation adjustment of subsidiaries	25.2	-	-	(375)	-	(375)
BALANCE AS OF JUNE 30, 2022		<u>199,211</u>	<u>599</u>	<u>(1,314)</u>	<u>(78,798)</u>	<u>119,698</u>
BALANCE AS OF DECEMBER 31, 2022		<u>199,211</u>	<u>599</u>	<u>(3,351)</u>	<u>(60,780)</u>	<u>135,679</u>
Net income (loss) for the period	25.2	-	-	-	1,484	1,484
Exchange variation adjustment of subsidiaries	25.2	-	-	402	-	402
Cash flow hedge		-	-	(2,542)	-	(2,542)
BALANCE AS OF JUNE 30, 2023		<u>199,211</u>	<u>599</u>	<u>(5,491)</u>	<u>(59,296)</u>	<u>135,023</u>

The accompanying notes are an integral part of these interim financial statements

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PADTEC HOLDING S.A.

STATEMENTS OF CASH FLOWS

FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Parent		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22
Cash flows from operating activities				
Profit (loss) for the period before taxes	1,548	(8,264)	1,469	(8,355)
Adjustments to reconcile net income (loss) for the period with cash provided by (used in) operating activities:				
Depreciation and amortization	-	-	12,432	7,934
Interest and inflation adjustments on loans	-	-	1,829	2,264
Interest and inflation adjustments on debentures	-	-	1,221	2,184
Interest and inflation adjustment on lease transactions	-	-	-	222
Amortization of costs with issuance of debentures	-	-	474	125
Provision (reversal) for expected credit losses	-	-	1,251	(1,015)
Set up (reversal) of miscellaneous provisions	(52)	-	(188)	169
Provision for labor, tax and civil risks	564	(2,995)	733	(4,528)
Provision (reversal) for obsolescence of inventory	-	-	(2,669)	1,752
Equity income	(3,870)	6,581	-	-
Write-off of PPE and intangible assets	-	-	136	24
Cash flow hedge	-	-	(2,542)	-
Decrease (increase) in operating assets:				
Trade accounts receivable	-	-	17,136	20,011
Tradable securities	-	-	(8,132)	(11,197)
Inventories	-	-	(23,222)	(35,078)
Taxes recoverable	35	-	1,334	(7,109)
Related parties	-	(154)	-	-
Judicial deposit	57	411	54	346
Other credits	105	91	(1,196)	(3,089)
Increase (decrease) in operating liabilities:				
Derivative financial instruments	-	-	4,105	-
Lease transactions	-	-	(3,361)	(2,198)
Suppliers	167	17	6,302	18,800
Labor charges	29	104	4,472	(895)
Taxes and contributions payable	956	(2)	(10,129)	(7,082)
Related party transactions	1,324	-	43	370
Transactions with senior FIDC quotas	-	-	10,421	10,243
Income tax and social contribution - paid	-	-	15	91
Charges on loans and financing - paid	-	-	(2,639)	(1,873)
Debenture charges - paid	-	-	(1,319)	(2,193)
Labor, tax and civil indemnities - paid	(922)	-	(1,555)	-
Advances from customers	-	-	5,791	(6,122)
Other accounts payable	-	-	389	(269)
Net cash used in (provided by) operating activities	(59)	(4,211)	12,655	(26,468)
Cash flows from investment activities				
Restricted financial investments	-	-	(486)	8,444
Acquisition of PPE and intangible assets	-	-	(12,437)	(7,697)
Related party loan agreement	-	4,212	-	-
Net cash used in (provided by) investing activities	-	4,212	(12,923)	747
Cash flows from financing activities				
Forfeiting	-	-	-	(1,110)
Raising of loans and financing	-	-	33,134	21,500
Payment of loans and financing - principal	-	-	(29,640)	(6,515)
Payment of debentures - principal	-	-	(21,333)	(5,333)
Net cash used in (provided by) financing activities	-	-	(17,839)	8,542
Exchange variation of cash in foreign currency	-	-	402	(375)
Increase (decrease) in cash and cash equivalents	(59)	1	(17,705)	(17,554)
Cash and cash equivalents at the beginning of the period	60	-	49,620	87,468
Cash and cash equivalents at the end of the period	1	1	31,915	69,914
Non-cash transactions				
Right-of-use of lease	-	-	-	4,243

The accompanying notes are an integral part of these interim financial statements

PADTEC HOLDING S.A.

STATEMENTS OF VALUE ADDED FOR THE PERIODS ENDED JUNE 30, 2023 AND 2022 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Parent Company		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22
1 - Revenues	345	2,052	216,909	200,584
1.1. Sale of goods, products and products	-	-	219,607	197,218
1.2. Provision for expected credit losses	-	-	(1,251)	1,015
1.3. Other revenues	345	2,052	(1,447)	2,351
2 - Inputs purchased from third parties	(561)	(2,146)	(87,295)	(88,789)
2.1. Cost of products, goods and services sold	-	-	(69,612)	(64,706)
2.2. Energy, third-party services and other operating expenses	(561)	(2,146)	(17,683)	(24,083)
3 - Retentions.	-	-	(12,432)	(7,934)
3.1. Depreciation and amortization	-	-	(12,432)	(7,934)
4 - Value added produced, net	(216)	(94)	117,182	103,861
5 - Value added received on transfer	3,784	(6,581)	9,014	11,672
5.1. Equity income	3,870	(6,581)	-	-
5.2. Financial revenues	(86)	-	9,014	11,672
6 - Total value added to distribute	3,568	(6,675)	126,196	115,533
7 - Distribution of value added	3,568	(6,675)	126,196	115,533
7.1. Personnel and charges	804	1,049	54,280	52,838
Direct compensation	755	928	38,214	41,371
Benefits	49	121	13,378	8,705
Severance Fund (FGTS)	-	-	2,688	2,762
7.2. Taxes, fees and contributions	157	177	53,343	48,196
Federal	153	174	37,255	33,446
State	-	-	14,546	13,217
Municipal	4	3	1,542	1,533
7.3. Third-party capital remuneration	1,059	363	17,089	22,763
Financial costs	1,059	363	15,678	20,849
Rents	-	-	1,411	1,914
7.4. Equity remuneration	1,548	(8,264)	1,484	(8,264)
Profit (loss) for the period	1,548	(8,264)	1,484	(8,264)

The accompanying notes are an integral part of these interim financial statements

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE
INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
ENDED JUNE 30, 2023

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

1. GENERAL INFORMATION

1.1. Operational context

Padtec Holding S.A. ("Company", B3: PDTC3), started its operations as an investment company in Internet projects in 2000, the year it went public on B3 S.A. – Brasil, Bolsa, Balcão ("B3").

In June 2020, the Company completed the process of merging shares issued by Padtec S.A. and the consequent conversion of Padtec S.A. into its wholly-owned subsidiary, which is currently its only investee.

Padtec S.A. was incorporated in 2001 and aims to provide high-capacity connections throughout Brazil, the Americas and around the world.

The Company holds direct and indirect interests in the following subsidiaries and investment fund:

	Equity interest (%)			
	06/30/23		12/31/22	
	Direct	Indirect	Direct	Indirect
Padtec S.A. (a)	100.00%		100.00%	
Sucursal Argentina (b)	-	100.00%	-	100.00%
Padtec EUA (c)	-	100.00%	-	100.00%
Padtec Colômbia (d)	-	100.00%	-	100.00%
Padtec Chile (e)	-	100.00%	-	100.00%
Padtec Peru (f)	-	100.00%	-	100.00%
Padtec Soluções Para Redes Ltda. (g)	-	100.00%	-	100.00%
FIDC FUNTTEL PADTEC - Fundo de Investimento em Direitos Creditórios (h)	-	20.00%	-	20.00%

- Padtec S/A is a privately held company focused on the development, manufacture, and commercialization of turnkey solutions for optical systems. Its portfolio includes equipment for corporate access, Data Center Interconnect, Storage Area Network Extension, metropolitan networks, and terrestrial multi-terabit long-distance networks, as well as providing platforms and solutions for the telecom system.
- Padtec Sucursal Argentina is an operating company, headquartered in Argentina, incorporated in 2007. Its main purpose is to perform sales activities, resell Group Padtec's products and provide implementation, operation and maintenance services. Padtec S.A. holds 100% equity interest.
- Padtec Estados Unidos da América is an operating company headquartered in the USA, in the state of Georgia, incorporated in 2014. Its main purpose is to perform sales activities, resell Group Padtec's products and provide implementation, operation and maintenance services. Padtec S.A. holds 100% equity interest.
- Padtec Colombia is an operating company headquartered in Colombia, incorporated in 2014. Its main purpose is to perform commercial activities, reselling the Group's products and providing implementation, operation and maintenance services. Padtec S.A. holds 100% equity interest.
- Padtec Chile is an operating company headquartered in Chile, incorporated in 2019, with 100% of its shares subscribed by Padtec Sucursal Argentina. Its main purpose is to perform sales activities, resell Group Padtec's products and provide implementation, operation and maintenance services.
- Padtec Peru is an operating company headquartered in Chile, incorporated in 2022, with 99% of its shares subscribed by Padtec S.A and 1% by Padtec Sucursal Colômbia. Its main purpose is to perform sales activities, resell Group Padtec's products and provide implementation, operation and maintenance services.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2023

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

- g) Padtec Soluções Para Redes Ltda. is a privately-held company focused on leasing of equipment and solutions for optical systems. Its portfolio includes rental equipment for corporate access, Data Center Interconnect, Storage Area Network Extension, metropolitan networks, and terrestrial multi-terabit long-distance networks.
- h) FIDC Funttel Padtec - Fundo de Investimento em Direitos Creditórios, was created for the purpose of providing its shareholders with the appreciation of their shares through the allocation of their resources predominantly in credit rights arising from transactions of Equipment Purchase and Sale Agreements, entered into between Padtec S.A., as seller, and its customers, as buyers. The fund is managed by Finvest D.T.V.M. Ltda. and its operations began in April 2022. The paid-in capital of FIDC Funttel Padtec will be up to R\$ 100 million, with contributions of up to R\$ 80 million from BNDESPAR (senior quotas) and up to R\$ 20 million from Padtec S.A. (subordinated quotas, shown in the individual balance sheet of the investee in the group of tradable securities). Senior quotas are shown in the fund as shareholders' equity and in the Company's consolidated financial statements in the liability group (Note No. 17).

2. Presentation of the individual and consolidated interim financial statements

2.1. Basis of preparation

The individual and consolidated interim financial statements were prepared in compliance with IAS 34 - "Interim Financial Reporting", issued by the International Accounting Standards Board ("IASB"), as well as Technical Pronouncement CPC 21 (R1) - "Interim Reporting" and are presented in a manner consistent with the rules issued by the Brazilian Securities and Exchange Commission ("CVM"), applicable to the preparation of the Quarterly Information - ITR.

The accounting policies adopted in preparing the individual and consolidated interim financial information are consistent with those adopted and disclosed in the financial statements for the year ended December 31, 2022, and, therefore, both should be read together.

The presentation of the individual and consolidated Statement of Value Added (SVA) is required by Brazilian corporate law and accounting policies adopted in Brazil applicable to publicly held companies. IFRS standards do not require the presentation of such statement. Accordingly, under IFRS, this statement is presented as a supplementary information without prejudice to the set of financial statements.

The consolidated interim financial statements include the financial statements of Padtec Holding S.A. and the companies in which the Company holds direct or indirect control, as detailed in Note 1, whose fiscal years and accounting practices are coincident. Direct and indirect subsidiaries have been consolidated since the acquisition date, which corresponds to the date on which the Company acquired control

The Company's Management represents that all relevant information applicable to the interim financial statements is evidenced in the notes and corresponds to that used in its management.

The authorization for the issuance of this individual and consolidated interim financial information was given by Management on August 10, 2023.

2.2. Basis of measurement

The individual and consolidated interim financial statements were prepared based on the historical cost.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE
INDIVIDUAL AND CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR THE PERIOD
ENDED JUNE 30, 2023

(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

2.3. Functional currency and presentation currency

The individual and consolidated interim financial statements are presented in Brazilian reais, the functional currency used by the Company (Parent Company). The functional currency of subsidiaries located abroad corresponds to the currency of their respective countries. The effects of translating the functional currency of subsidiaries abroad into Brazilian reais are recorded in equity as other comprehensive income – effects of conversion of investments abroad. All balances have been rounded to the closest thousands, except when otherwise indicated.

2.4. New standards and revised interpretations issued

I. New or revised pronouncements applied for the first time in 2023

1. CPC 26 (R1)/IAS 1 - Classification of Liabilities as Current or Non-Current (Applicable for annual periods beginning on/or after January 1, 2023, early adoption allowed)

The amendments to CPC 26/IAS 1 affect only the presentation of liabilities as current or non-current in the balance sheet and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about these items. The amendments clarify that the classification of liabilities as current or non-current is based on rights existing at the reporting date, specify that the classification is not affected by expectations about whether an entity will exercise its right to postpone settlement of the liability, explain that the rights exist if covenants are complied with on the reporting date, and introduce the definition of "settlement" to clarify that it refers to the transfer, to a counterparty, of an amount of cash, equity instruments, other assets or services.

The Company assessed the content of this pronouncement and did not identify impacts.

2. CPC 26 (R1)/ IAS 1 and practical file 2 of IFRS – Disclosure of Accounting Policies (Applicable for annual periods or periods beginning on/or after January 1, 2023)

Amend the requirements of CPC 26/IAS 1 with regard to the disclosure of accounting policies. The amendments replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence the decisions made by the main users of the financial statements. In applying the amendments, the entity discloses its material accounting policies, rather than its significant accounting policies. Supporting paragraphs of CPC 26/IAS 1 were also amended to clarify that accounting policy information related to transactions, other events or irrelevant conditions are irrelevant and do not need to be disclosed. Accounting policy information may be material due to the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is, in itself, material.

The Company assessed the content of this pronouncement and did not identify impacts.

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3. CPC 23/ IAS 8 - Definition of Accounting Estimates (Applicable for annual periods or periods beginning on/or after January 1, 2023)

The amendment replaces the definition of "change in accounting estimate" with "accounting estimate". According to the new definition, accounting estimates are "monetary amounts in the financial statements that are subject to uncertainty in measurement". The definition of change in accounting estimate has been deleted. However, IASB maintained the concept of changes in accounting estimates in the standard, with the following clarifications:

- (i) A change in accounting estimate that results from new information or new developments is not a correction of an error; and
- (ii) The effects of a change in the data or measurement technique used to develop an accounting estimate are changes in accounting estimates if do not result from correcting prior period errors.

The Company assessed the content of this pronouncement and did not identify impacts.

4. CPC 32/ IAS 12 - Deferred Tax Related to Assets and Liabilities Resulting from a Single Transaction Applicable for annual years or periods beginning on/or after January 1, 2023

The amendments introduce a further exception to the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption to transactions that result in equal taxable and deductible temporary differences. Depending on the applicable tax law, taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting profit nor taxable profit. For example, this could arise on the recognition of a lease liability and the corresponding right-of-use asset applying CPC 06 (R2)/IFRS 16 - Leases on the starting date of a lease. In line with the amendments to CPC 32/IAS 12, an entity is required to recognize the respective deferred assets and liabilities, and the recognition of deferred tax assets is subject to the recoverability criteria of CPC 32/IAS 12. The amendments apply to transactions occurring on or after the beginning of the earliest comparative period shown. In addition, at the beginning of the earliest comparative period, an entity recognizes:

- (i) A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be used) and a deferred tax liability for all deductible and taxable temporary differences associated with: • right-of-use assets and lease liabilities; and • decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset.
- (ii) The cumulative effect of the initial application of the amendments as an adjustment to the opening balance of retained earnings or other component of shareholders' equity, as applicable, at that date.

The Company assessed the content of this pronouncement and did not identify impacts.

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3. Significant accounting policies

The individual and consolidated interim financial statements were prepared based on the same accounting policies described in Notes Nos. 3.1 to 3.17 disclosed in the financial statements for the year ended December 31, 2022, published on March 22, 2023. The effect of changes in accounting policies also is expected in the consolidated financial statements for the year ended December 31, 2023.

New accounting procedures adopted in 2Q23

1. Hedge accounting

For hedge accounting purposes, the following classifications apply: (i) fair value hedge: hedge for protection against exposure to changes in fair value of recognized asset or liability or unrecognized firm commitment, as well as a component of any of these items, which is attributable to a specific risk and which may affect profit or loss; (ii) cash flow hedge: hedge of exposure to changes in cash flows that are attributable to a specific risk associated with a recognized asset or liability or a highly probable forecast transaction that may affect profit or loss; or (iii) net investment hedge in a foreign transaction in a foreign operating unit.

The Company has the following structure for hedge accounting:

Cash flow hedge

When a derivative is designated as a cash flow hedge instrument, the effective portion of changes in fair value of the derivative is recognized in other comprehensive income and presented in the cash flow hedge account. The effective portion of changes in fair value of the derivative recognized in other comprehensive income is limited to the cumulative change in the fair value of the hedged item, determined on a present value basis, since the inception of the hedge. Any ineffective portion of the fair value of the derivative is recognized immediately in profit or loss.

If the hedge no longer meets the cash flow hedge accounting criteria, or the hedging instrument expires or is sold, terminated or exercised, hedge accounting is discontinued prospectively and gains or losses previously recognized in comprehensive income remain in shareholders' equity until the expected transaction or firm commitment affect profit or loss.

4. Cash and cash equivalents

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Cash bank deposits	1	60	6,066	17,000
Highly-liquid financial investments	-	-	25,849	32,620
	1	60	31,915	49,620

Immediately-liquid financial investments as of June 30, 2023 refer to investments in CDB (Bank Deposit Certificate), held in top-tier financial institutions, yielding rates from 100% to 110% of CDI (Interbank Deposit Certificate), and are subject to a low risk of change in value (100% to 104% as of December 31, 2022).

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5. Tradable securities

	Consolidated	
	06/30/23	12/31/22
FIDC Funttel Padtec - Fundo de Investimento em Direitos Creditórios		
ICVM 355 Fund Shares	11,608	3,490
Federal Bonds	227	213
	11,835	3,703

The investment in the credit rights investment fund is diversified in quotas of other immediately liquid investment funds, government bonds, and credit rights arising from transactions generated by investee Padtec S.A. (Notes 6 and 18).

6. Trade receivables

	Consolidated	
	06/30/23	12/31/22
Referred in national currency	81,155	103,554
Referred in foreign currency (a)	35,836	38,638
FIDC FUNTEL - Padtec (b)	14,008	8,969
	130,999	151,161
(+) Court-Supervised Reorganization Oi (c)	2,493	2,493
(-) Provision for recognition of revenue outside the accounting period (d)	(536)	(3,562)
(-) Provision for expected credit losses (e)	(3,077)	(1,826)
	129,879	148,266
Current	113,031	134,999
Non-current	16,848	13,267
	129,879	148,266

- a) Consolidated represented by US\$ 7,436 thousand as of June 30, 2023 (US\$ 7,405 thousand as of December 31, 2022).
- b) Credits related to FIDC FUNTTEL PADTEC consolidation, according to Note 18.
- c) Grupo Oi filed for court-supervised reorganization on June 20, 2016, based on the Court-Supervised Reorganization and Bankruptcy Law (Law No. 11.101/2005). On December 20, 2017, subsidiary Padtec S.A. adhered to Clause 4.3.6 of Oi's Court-Supervised Reorganization Plan, which provides that: "Payments of debt instruments included in the court-supervised reorganization will be paid with a 20-year grace period, as of the homologation date, in 5 annual, equal and successive installments, plus TR per year, the first installment falling due January 2039." Due to the risk associated with this receipt, the Company decided to set up a provision for loss, the amount of which is included in item e) below.
- d) Provision for reversal of revenue recognition outside the accrual period ("cut-off").
- e) Provisions for expected credit losses are based on the assumptions of CPC 48 – Financial Instruments, and considers the analysis of the level of historical losses and knowledge and monitoring of the individual situation of customers. Management constantly monitors all bills and the individual situation of its customers, as well as the quality of credit granted. Based on these assessments, Management understands that the amounts provisioned as of June 30, 2023 are sufficient to cover possible losses with default

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Below are the amounts of Trade Accounts Receivable due and past due, by maturity period:

	Consolidated	
	06/30/23	12/31/22
Falling due	127,203	143,317
01-30 days past due	661	215
31-60 days past due	916	153
61-90 days past due	703	259
91-120 days past due	441	113
121-150 days past due	684	1,194
151-180 days past due	30	697
181-360 days past due	118	1,577
Over 361 days past due	243	3,636
	130,999	151,161

Changes in provision for expected credit losses are as follows:

	Consolidated				
	12/31/22	06/30/23			
	Opening balance	Addition to provision	Reversal	Effective losses	Closing balance
Provision for expected credit losses	(1,826)	(3,042)	401	1,390	(3,077)
Total	(1,826)	(3,042)	401	1,390	(3,077)

The changes on effective losses refer to the realization of losses recognized in the Company's results and the reversal of amounts resulting from the renegotiation and receipt from customers that were provisioned as losses (Note 29.2).

7. Inventories

	Consolidated	
	06/30/23	12/31/22
Finished products	22,481	19,650
Products in progress	1,899	2,094
Raw materials	65,138	52,120
Resale materials	5,480	2,738
Import in progress	12,082	10,492
Inventories held on third parties (a)	24,567	21,331
	131,647	108,425
Provision for inventories		
(-) Provision for obsolescence and slow turnover (b)	(12,321)	(14,990)
	119,326	93,435

- a) Refers substantially to raw materials under manufacturing process and pieces of equipment held as guarantee by customers.
- b) For this estimate, discontinued inventories are considered materials out of the quality standard and items with no movements whose realization is considered unlikely by Management, since newer technologies and/or solutions are available in the market. The provision for the realization of inventories is constituted based on the analysis of the sales prices charged, net effects of taxes and fixed expenses incurred in sales efforts.

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Changes in provisions for obsolescence and slow turnover are as follows:

	12/31/22	Consolidated		
	Opening balance	Addition to provision	Reversal	Closing balance
Inventories	(11,269)	(2,306)	5,049	(8,526)
Inventories held on third parties	(3,721)	(960)	886	(3,795)
Total	(14,990)	(3,266)	5,935	(12,321)

8. Recoverable taxes

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Tax on the circulation of goods and services - ICMS	-	-	6,012	1,011
Industrialized product tax forwarding in transit - IPI	-	-	338	237
Financial credit (a)	-	-	7,775	13,695
Social Integration Program (PIS)	-	-	505	443
Contribution to Social Security Financing - COFINS	-	-	2,283	2,000
Social contribution on net income - CSLL (b)	2	8	913	1,609
Corporate Income Tax - IRPJ (b)	1,745	1,774	9,777	6,326
Brazilian Social Security Institute (INSS)	-	-	3	692
Income tax withholding - IRRF	6	6	669	1,650
Withholding tax from public agencies	-	-	1,578	2,651
Other	-	-	3,143	4,016
	1,753	1,788	32,996	34,330

- a) In December 2019, the amendment to Law No. 8.248/1991 (Information Technology Law) by Law No. 13.969/2019 was published, effective from April 1, 2020, until December 2029. Accordingly, the tax incentive has become the receipt of financial credit proportional to the investments in research and development (R&D) made in advance. The financial credit is calculated on a quarterly basis and used to pay federal taxes controlled by the Brazilian Federal Revenue Service.
- b) Balances arising from overpayments due to mandatory monthly advances.

9. Other credits

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Rental guarantee deposit	-	-	149	149
Payroll advance	-	-	1,245	609
Advances to suppliers (a)	78	99	3,046	2,934
Prepaid insurance premiums (b)	14	98	1,123	1,608
Other credits receivable	-	-	1,536	603
	92	197	7,099	5,903
Current assets	92	197	6,958	5,494
Non-current	-	-	141	409
	92	197	7,099	5,903

- (a) Advances made to service providers;
- (b) Performance bond related to Finep transactions. (Note No. 14).

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10. Related parties

The Company has the following shareholders with a relevant interest (interest over five percent (5%) in its capital):

- Fundação CPqD – Centro de Pesquisa e Desenvolvimento em Telecomunicações, and
- BNDES Participações S.A. – BNDESPAR.

Company's direct and indirect interests in subsidiaries are described in Note No. 1.

Controlling shareholders, subsidiaries and affiliates, entities with joint control and entities under common control that somehow have significant influence over the Company and its subsidiaries were considered as related parties.

The main related-party transactions and respective types are shown below:

- Intercompany loan:** Financial transactions performed between the Company and its subsidiaries. The balances of the loan agreements are adjusted with interest of 2% per month, maturing in 24 months.
- Sales of products:** Sales of finished products between Padtec S.A. and its subsidiaries, performed under conditions considered by the Company to be similar to those of the market at the time of the negotiation, in line with the internal policies pre-established by the Management.
- Other services:** Transactions between Fundação CPqD and Padtec S.A., referring to expenses with infrastructure, property rental and administrative expenses according to the apportionment defined between contractual parties.

	Parent Company			Consolidated			
	06/30/23		12/31/22	06/30/23		12/31/22	
	Padtec	Total	Total	Fundação CPqD	Total	Total	
Liabilities							
Loan (a)	14,201	14,201	12,877	-	-	-	
Other services (c)	-	-	-	387	387	344	
	14,201	14,201	12,877	387	387	344	
Current liabilities	-	-	-	387	387	344	
Noncurrent liabilities	14,201	14,201	12,877	-	-	-	
	14,201	14,201	12,877	387	387	344	
	Consolidated						
					06/30/23		06/30/22
	Padtec Argentina	Padtec Colômbia	Padtec Peru	Padtec Redes	Total	Total	
Revenues							
Sales of products (b)	1,522	8,632	880	524	11,558	17,203	
	1,522	8,632	880	524	11,558	17,203	

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Key management personnel compensation

Key management staff of the Company, its subsidiaries or its controllers are also considered to be Related Parties to the Company (see the Policy on Related Party Transactions of Padtec Holding S.A.).

Compensation paid to Executive Officers, members of Board of Directors and members of Supervisory Board, when in operation, and to the members of the Statutory Audit and Risks Committee is set by the Shareholders Meeting and is consistent with market standards. The maximum global amount (covering fixed and variable compensation) for the year 2023, approved at the Shareholders' Meeting held on April 28, 2023 is R\$ 12,689. The annual compensation effectively paid to key management personnel includes the amounts related to monthly fees, bonuses related to the performance of the previous year, contributions to official social security and private pension:

	<u>06/30/23</u>	<u>06/30/22</u>
Short-term benefits		
Salaries including bonuses	2,200	3,732
Social security charges	396	381
Private Pension Fund	110	131
Other	70	97
Total Compensation	<u>2,776</u>	<u>4,341</u>

Subsidiary Padtec S.A. sponsors two private pension plans for its Management and employees, managed by Fundação Sistel de Seguridade Social, as described in Note No. 24.

The Company has no additional post-employment obligations to its Management and does not grant any other long- term benefits, such as length-of-service leave. The Company does not grant either any severance benefits to members of senior management in addition to those defined in the employment contract, signed between them and the Company.

The amounts shown in the table above are included in the total of "labor expenses and social charges" shown in the table in Note 29.1.

11. Investments and provision for unsecured liabilities

The summarized accounting information of the Company's subsidiaries, including the total amounts of assets, liabilities, unsecured liabilities, income and loss for the period, are presented below:

11.1. Breakdown of investments

	<u>Parent</u>	
	<u>06/30/23</u>	<u>12/31/22</u>
Investments in subsidiaries		
Padtec S.A.	158,577	156,847
	<u>158,577</u>	<u>156,847</u>

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11.2. Summary of financial information of subsidiaries

	Automatos Participações Ltda. (a)		Chenonceau Participações S.A. (a)		Padtec S.A.	
	06/30/23	12/31/22	06/30/23	12/31/22	06/30/23	12/31/22
Share Capital	-	-	-	-	230,003	230,003
Total assets	-	-	-	-	498,580	502,457
Total liabilities	-	-	-	-	340,003	345,610
Equity	-	-	-	-	158,577	156,847
Income (loss) for the period	-	906	-	73	3,870	7,885
Number of shares (in thousands)	-	-	-	-	230,003	230,003
Number of shares held (in thousands)	-	-	-	-	230,003	230,003
Shareholding percentage	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

a) Companies merged by the Company in November 2022.

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11.3. Summary of financial information of indirect subsidiaries

	Padtec Sucursal Argentina		Padtec EUA		Padtec Colômbia		Padtec Peru		Padtec Soluções Para Redes Ltda (a)	
	06/30/23	12/31/22	06/30/23	12/31/22	06/30/23	12/31/22	06/30/23	12/31/22	06/30/23	12/31/22
Share Capital	2,160	2,160	26,336	23,877	16,400	16,400	259	-	-	-
Total assets	9,756	12,935	460	645	28,492	26,118	1,323	-	507	-
Total liabilities	8,551	10,385	279	1,113	19,937	16,077	1,059	-	524	-
Net equity (negative net worth)	1,205	2,550	181	(468)	8,555	10,041	264	-	(17)	-
Income (loss) for the period	(1,054)	748	(1,873)	(3,181)	(2,119)	(1,305)	7	-	(17)	-
Number of shares (in thousands)	2,160	2,160	26,336	23,877	16,400	16,400	10,000	10,000	100	100
Number of shares held (in thousands)	2,160	2,160	26,336	23,877	16,400	16,400	10,000	10,000	100	100
Shareholding percentage	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

(a) Shown in number of shares.

11.4. Changes in investments at the Parent Company

	Automatos Participações Ltda.		Chenonceau Participações S.A.		Padtec S.A.		Total	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Opening balance of investments	-	-	-	1,188	156,847	151,373	156,847	152,561
Opening balance - loss of investment	-	(4,578)	-	-	-	-	-	(4,578)
Equity income	-	985	-	33	3,870	(7,599)	3,870	(6,581)
Cash flow hedge	-	-	-	-	(2,542)	-	(2,542)	-
Translation adjustment of balance sheet of subsidiaries abroad	-	-	-	-	402	(375)	402	(375)
Balance of the provision for losses in subsidiaries	-	3,593	-	-	-	-	-	3,593
Closing balance of investments	-	-	-	1,221	158,577	143,399	158,577	144,620

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12. Property, Plant & Equipment, net

	Consolidated					Total
	Machinery and equipment	Computer equipment	Furniture and fixtures	Third-party property improvement	Right to use lease (a)	
Balance as of December 31, 2022						
Cost	22,539	12,613	2,677	4,025	32,013	73,888
Accumulated depreciation	(18,825)	(8,038)	(1,763)	(1,870)	(5,800)	(36,317)
Balance as of December 31, 2022	3,714	4,575	914	2,155	26,213	37,571
Acquisitions	2,675	814	4	-	-	3,493
Write-offs and disposals (acquisition)	616	(10)	-	-	(676)	(70)
Write-offs and disposals (depreciation)	(76)	-	(6)	-	25	(57)
Depreciation	(748)	(895)	(120)	(497)	(2,201)	(4,461)
Balance as of June 30, 2023	6,181	4,484	792	1,658	23,361	36,476
Cost	25,830	13,417	2,681	4,025	31,337	77,311
Accumulated depreciation	(19,649)	(8,933)	(1,889)	(2,367)	(7,976)	(40,835)
Balance as of June 30, 2023	6,181	4,484	792	1,658	23,361	36,476

- a) The Company adopted IFRS 16/CPC 6 (R2) - Lease transactions on January 1, 2020, considering as a basis for analysis the agreements with identifiable assets, for which the control of the use of the asset, economic benefits, among other aspects provided for in the pronouncement, are exclusive to the Company, irrespective of the legal form given to the agreement. Service agreements and supply agreements were treated as leasing agreements when there is an identifiable asset.

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13. Intangible assets

	Parent		Consolidated					
	Brands and patents	Total	Software	Brands and patents	Technical Information License	Development projects completed	Development projects in progress	Total
Cost	24	24	11,724	27	6,250	43,585	17,149	78,735
Balance as of December 31, 2022	24	24	(8,413)	-	(5,737)	(19,410)	-	(33,560)
Cost	24	24	3,311	27	513	24,175	17,149	45,175
Balance as of June 30, 2023	24	24	2,663	27	443	27,893	15,113	46,139
Acquisitions	-	-	-	-	373	-	8,571	8,944
Transfer in development to completed	-	-	-	-	-	10,607	(10,607)	-
Write-offs and disposals (acquisition)	(23)	-	(23)	-	-	-	-	(23)
Write-offs and disposals (amortization)	14	-	14	-	-	-	-	14
Amortization	(639)	-	(639)	-	(443)	(6,889)	-	(7,971)
Balance as of June 30, 2023	2,663	27	2,663	27	443	27,893	15,113	46,139
Cost	11,701	27	11,701	27	6,623	54,192	15,113	87,656
Accumulated amortization	(9,038)	-	(9,038)	-	(6,180)	(26,299)	-	(41,517)
Balance as of June 30, 2023	2,663	27	2,663	27	443	27,893	15,113	46,139

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Development projects in progress refer to new technologies under development that meet the recognition criteria related to the completion and use of assets and generation of future economic benefits.

14. Loans and financing

Modality	Agreed rate per year	Annual average effective rate	Due date	Guarantee	Consolidated	
					06/30/23	12/31/22
<u>Local currency</u>						
Finep Working Capital - Safra	TR+2.30% and 2.80%	3.93%	02/15/20 to 12/15/42	Bank-issued guarantee	63,774	62,788
Working Capital - Daycoval	CDI+5.53%	19.33%	10/22/20 to 09/23/25	-	-	6,752
Working Capital - ABC Brasil	CDI+5.9%	19.72%	10/29/20 to 09/30/24	Receivables	-	3,007
Letter of credit with FINIMP	CDI+4.38%	18.13%	12/23/20 to 05/23/24	Receivables	-	5,130
	10.14%	10.14%	03/20/2023	Credit letter	-	14,687
<u>Foreign currency</u>						
NCE - Votorantim	Exchange rate variation + 8.55%	8.55%	07/26/23 to 06/27/26	Escrow account flow	31,274	-
					95,048	92,364
				Current liabilities	5,828	23,595
				Non-current liabilities	89,220	68,769
					95,048	92,364

Repayment schedule by year of maturity:

	Consolidated											
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033-2042	TOTAL
Loans and financing	2,914	12,462	19,101	9,146	4,169	4,169	4,169	4,169	4,169	3,509	27,071	95,048

Loans and Financing raised by the Company do not require the fulfillment of any covenants.

14.1. Payments

In 1H23, R\$ 32,279 was paid in the consolidated referring to interest and principal on loans raised by the Company.

14.2. Raising of Loans and Financing

In April 2023, Padtec S.A. raised R\$ 32 million from Banco Votorantim, in an export credit note, NCE modality, with a three-year term, with payment of quarterly interest and principal in nine quarterly installments, with a grace period of 12 months from the signing of this agreement. The transaction is guaranteed by the financial flow of receivables in a restricted account.

For this funding, a SWAP was issued for the exchange rate variation and interest, subject to remuneration at the CDI rate + 1.65% p.a.

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These funds allowed the settlement of the amounts of loans and financing that were outstanding with private institutions (Banco Daycoval, Banco ABC and Banco Safra) and the debentures issued by Padtec S.A. in 2020, in the amount of R\$ 34 million. Such restructuring allowed the Company to reduce its financial cost, in addition to benefiting from the grace period of the new transaction.

In addition, subsidiary Padtec S.A. has eight financing facilities with FINEP for technological investments in the amount of R\$ 118,455. The funds are released according to the disbursement and proof of costs under the strategic innovation plan of Padtec S.A. So far, R\$ 63,831 have been capitalized.

The following table presents each of these financing facilities:

Modality/Contract	Effective Term	Rate	Credit Released	Loans raised				
				2020	2021	2022	2023	Total
FINEP - 02.22.0026.00	02/07/2020 to 02/15/2032	TR+2.8%	7,793	3,896	3,896	-	-	7,792
FINEP - 02.20.003.00	02/07/2020 to 02/15/2040	TR+2.8%	16,172	6,469	6,359	3,344	-	16,172
FINEP - 02.21.032.00	04/20/2021 to 05/15/2039	TR+2.8%	16,819	-	5,887	-	-	5,887
FINEP - 02.21.033.00	04/20/2021 to 05/15/2039	TR+2.8%	2,835	-	1,701	-	1,134	2,835
FINEP - 02.22.0025.00	04/16/2022 to 04/15/2042	TR+2.3%	39,953	-	-	15,000	-	15,000
FINEP - 02.22.0026.00	04/16/2022 to 04/15/2040	TR+2.8%	4,101	-	-	2,000	-	2,000
FINEP - 02.22.0027.00	04/16/2022 to 04/15/2040	TR+2.8%	9,349	-	-	4,500	-	4,500
FINEP - 02.22.0511.00	11/21/2022 to 12/15/2042	TR+2.8%	21,434	-	-	9,645	-	9,645
			<u>118,455</u>	<u>10,365</u>	<u>17,843</u>	<u>34,489</u>	<u>1,134</u>	<u>63,831</u>

14.3.Reconciliation of liabilities resulting from financing activities

	Consolidated
Balance as of December 31, 2021	<u>52,293</u>
Interest expenses	2,264
Interest Payment	(1,873)
Loans raised	21,500
Amortization	(6,515)
Balance as of June 30, 2022	<u>67,669</u>
Balance as of December 31, 2022	<u>92,364</u>
Interest expenses	1,829
Interest Payment	(2,639)
Loans raised	33,134
Amortization	(29,640)
Balance as of June 30, 2023	<u>95,048</u>

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15. Debentures

In December 2020, subsidiary Padtec S.A. issued R\$ 40,000 in simple debentures not convertible into shares, with security interests (fiduciary assignment of bank account), in a single series, for public distribution placed with restricted efforts pursuant to CVM Instruction 476 (in force at that time, "Debentures").

Modality	Agreed Rate	Due date	Annual average effective rate	Consolidated	
				06/30/23	12/31/22
<u>Local currency</u>					
Debentures – Padtec S.A	CDI + 3.8% p.a.	03/21/21 to 12/21/24	16.60%	-	20,957
				-	20,957
Current liabilities		Current liabilities		-	10,517
Noncurrent liabilities		Noncurrent liabilities		-	10,440
				-	20,957

In 1H23, the Company settled the outstanding amount of R\$ 20,957 related to this transaction.

15.1.Reconciliation of liabilities resulting from financing activities

	Consolidated
Balance as of December 31, 2021	31,405
Interest expenses	2,184
Interest Payment	(2,193)
Amortization of costs with issuance of debentures	125
Payment of debentures - principal	(5,333)
Balance as of June 30, 2022	26,188
Balance as of December 31, 2022	20,957
Interest expenses	1,221
Interest Payment	(1,319)
Amortization of costs with issuance of debentures	474
Payment of debentures - principal	(21,333)
Balance as of June 30, 2023	-

16. Lease transactions

The leased amount was calculated based on the present value of the fixed lease payments not made until that date. The amounts of the installments payable were discounted at the contractual rate or rates on loans (discount rate), plus other contractual obligations provided for in the lease agreements adjusted to present value.

Subsidiary Padtec S.A. has lease agreements with Daycoval Leasing – Banco Multiplo S/A, referring to the lease of equipment that is being used in the Company's operation. The leases last for 36 months and include a call option clause at the end of the respective terms. Lease payments will be made in 36 equal installments with final maturity by June 2026. The effect of this accounting is the recording of R\$ 7,464 in property, plant and equipment in the group of right-of-use, with a corresponding entry to the rental obligation in current and no-current liabilities.

The discount rate in force and used to calculate the present value of the provision for leasing of the identified assets and, consequently, for the monthly appropriation of financial interest, is 3.29% to 6.30%, in accordance with the effective term of each lease agreement.

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Lease with Related Parties

The Company and its subsidiaries have a commitment arising from an operating lease agreement for the property where its administrative headquarters are located, executed with CPqD Foundation. The lease has a three-year term (expiring in 2025), with an option to renew after this period, and has no purchase option clauses at its termination. The lease payment is adjusted annually by the IGPM, and the actual rate of 6.3% per year was applied to reflect market prices. The effect of this accounting is the recording in property, plant and equipment, with a corresponding entry to the rental obligation in current liabilities (see Note No. 10).

	Consolidated	
	06/30/23	12/31/22
LIABILITIES		
Lease	21,592	24,953
	21,592	24,953
Current liabilities	6,041	6,044
Noncurrent liabilities	15,551	18,909
	21,592	24,953

Below is the change in leases:

	Consolidated				
	12/31/2022	Adjustment Contract and interest	Payment	Interest Financial	06/30/23
Machinery and equipment	5,734	-	(1,417)	216	4,533
Building lease - related parties	19,219	(524)	(1,741)	105	17,059
	24,953	(524)	(3,158)	321	21,592
Current liabilities	6,044				6,041
Noncurrent liabilities	18,909				15,551
	24,953				21,592

17. Financial transactions

As of June 30, 2023, the Company has recorded financial transactions of Vendor, Forfait and FIDC with Grupo Sifra in the amount of R\$ 39,906 (R\$ 41,125 as of December 31, 2022) in current liabilities and R\$ 40,239 (R\$ 36,112 as of December 31, 2022) in non-current liabilities. The corresponding entries for such entries are recorded in current assets and non-current assets and the transactions are described below:

	Consolidated	
	06/30/2023	12/31/2022
Financial transactions		
Vendor	56,473	50,371
Forfait	23,672	26,835
Fidc - Sifra	-	31
	80,145	77,237
Current	39,906	41,125
Non-current	40,239	36,112
	80,145	77,237

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17.1. Vendor Transactions

The Company entered into Vendor agreements with Banco do Brasil, Banco Safra, Banco Industrial, Banco Sofisa, Banco Paulista, Banco Regional de Desenvolvimento do Extremo Sul, Banco Daycoval and Cresol Noroeste, which consist of sales financing transactions based on the principle of credit assignment. As of June 30, 2023 these financial institutions granted credits to 27 customers of the Company, upon Financing Promise Agreements, with a balance drawn of R\$ 86,840 maturing by December 2032. This amount is used to purchase the Company's products and services. As of June 30, 2023 there was no default and the amount recorded is R\$ 26,505 in the short term and R\$ 29,968 in the long term.

17.2. Discount without recourse (forfait)

THE Company entered into Forfait agreements with Banco do Brasil, Banco ABC, and Banco Fibra, which consist of financing transactions for international sales, based on the principle of discounting receivables, providing terms and better conditions for customers. As of June 30, 2023, credits were granted to 4 of the Company's customers, with a balance drawn of R\$ 38,210 with maturity by October, 2025. This amount is used for the acquisition of Company's products. So far, there was no default and the amount recorded is R\$ 13,401 in the short term and R\$ 10,271 in the long term.

18. Transactions with senior FIDC FUNTTEL PADTEC quotas

FIDC FUNTTEL PADTEC - Fundo de Investimentos em Direitos Creditórios (FIDC FUNTTEL Padtec) aims to provide to its shareholders the appreciation of its shares by means of investing resources mainly in credit rights arising from the transaction of Equipment Purchase and Sale Contracts, entered into between Padtec S.A., as seller, and its customers, as buyers of equipment of equipment for the telecommunications sector, which are recognized as Goods or Products Developed in Brazil by the Ministry of Science, Technology and Innovations, or equivalent government body, under the terms of the MCT Ordinance No. 950, of December 12, 2006 and/or that are qualified as being part of a Basic Productive Process.

FIDC FUNTTEL Padtec was launched as a closed condominium and for an indefinite period. The fund has BNDES PARTICIPAÇÕES S/A as its senior shareholder (a party related to the Company, see Note 10) and exclusively PADTEC S.A. as a subordinate shareholder in the proportion 80% / 20% respectively. FIDC FUNTTEL PADTEC operation began in April 2022.

In April 2023, the Company made its second capital contribution in the amount of R\$ 2.5 million referring to its stake in this fund.

FIDC Funttel Padtec's equity structure as of June 30, 2023 is shown below:

	Quantity of contractual quotas	Subscribed			Total
		Total amount of shares	Padtec Interest	Third-Party interest	
FIDC FUNTTEL PADTEC					
Senior	80,000	1.054	-	20,814	20,814
Subordinated	20,000	1.000	5,000	-	5,000
Total	100,000		5,000	20,814	25,814

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The financial statement as of June 30, 2023 is presented below:

FIDC FUNTTEL PADTEC	06/30/23	12/31/22
Assets		
Tradable securities	11,835	3,703
Trade accounts receivable	14,009	8,969
Other receivables	7	258
Total assets	25,851	12,930
Liabilities		
Other accounts payable	37	37
	37	37
Net equity		
Share capital	25,000	12,500
Retained earnings	1,207	780
Amortization of shares - LE	(393)	(387)
Total equity	25,814	12,893
Total Liabilities and Net Equity	25,851	12,930
Profit (loss)	06/30/23	12/31/22
Finance Revenues	971	1,025
Financial Expenses	(157)	(245)
Net income for the period	814	780

19. Suppliers

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Domestic suppliers	234	80	25,289	25,016
International suppliers	13	-	49,758	43,729
	247	80	75,047	68,745
Current liabilities	247	80	74,539	68,223
Noncurrent liabilities	-	-	508	522
	247	80	75,047	68,745

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20. Taxes and contributions payable

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Tax on the circulation of goods and services - ICMS	-	-	444	1,074
Corporate Income Tax - IRPJ	-	9	-	37
Excise Tax - IPI	-	-	2,604	6,077
Social contribution on Net Income - CSLL	-	5	-	6
Social Integration Program- PIS	18	-	103	711
Contribution to social security financing - COFINS	88	6	497	3,281
Service Tax - ISS	31	31	393	423
Other	29	9	678	2,932
Current liabilities	166	60	4,719	14,541

21. Taxes and contributions payable - installment payment

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Installment payment of tax on the circulation of goods and services - ICMS (a)	-	-	2,664	3,585
Installment payment of tax on service - ISS	977	127	976	127
Other	-	-	-	235
Total liabilities	977	127	3,640	3,947
Current liabilities	977	119	2,030	1,931
Noncurrent liabilities	-	8	1,610	2,016
	977	127	3,640	3,947

- a) Subsidiary Padtec S.A. adhered to the installment payment plan to refinance its ICMS-related debts, pursuant to Joint Resolution SP/PGE 02/12 and SF 72/12, in the amount of R\$ 5,181 with an outstanding balance as of June 30, 2023 in the amount of R\$ 2,664 with final maturity by January 2027.

22. Provisions

22.1. Miscellaneous provisions

	Consolidated			
	12/31/22	06/30/23		
	Opening balance	Addition to provision	Reversals	Final balance
Provision for commission (a)	855	586	(780)	661
Repairs during warranty (b)	1,121	108	(50)	1,179
Other	713	-	(52)	661
	2,689	694	(882)	2,501

- a) Refers to the provision of fixed monthly salaries to salespeople, for the payment of commissions on sales made to customers, pursuant to contractual clauses.
- b) Recognized to meet expenditures relating to products, including warranty and contractual obligations.

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22.2. Provision for labor, tax and civil risks

The Company and its subsidiaries are parties to lawsuits and administrative proceedings, arising from the normal course of their operations, involving tax, civil, labor, and other matters. Provision is made only for amounts whose as risk of loss is classified as probable.

	Parent				
	12/31/22	06/30/23			
	Opening balance	Additions	Reversals	Payments	Final balance
Labor (a)	8,914	1,327	(161)	(776)	9,304
Tax	748	41	(643)	(146)	-
Total provisions	9,662	1,368	(804)	(922)	9,304
Judicial deposits (c)	(567)	(26)	83	-	(510)
Total	9,095	1,342	(721)	(922)	8,794

	Consolidated				
	12/31/22	06/30/23			
	Opening balance	Additions	Reversals	Payments	Final balance
Labor (a)	10,942	1,680	(133)	(1,328)	11,161
Civil	3,977	555	-	-	4,532
Tax (b)	4,130	151	(1,424)	(146)	2,711
Administrative	259	-	(96)	(81)	82
Total provisions	19,308	2,386	(1,653)	(1,555)	18,486
Judicial deposits (c)	(1,167)	(115)	169	-	(1,113)
Total	18,141	2,271	(1,484)	(1,555)	17,373

(a) Labor

Lawsuits filed by former employees of the Company (which succeeded Automatos Participações Ltda. in two lawsuits, due to the merger completed in November 2022), of subsidiary Padtec S.A., as well as former investees (Officer, Pini, ETML and Latin eVentures- Softcorp), claiming labor rights.

In 1H23, the Company transacted in its provisions the amount of R\$ 219 and paid labor indemnities in the amount of R\$ 1,328 (Note 29.2).

(b) Tax

The main proceeding refers to Tax on Industrialized Products (IPI) of subsidiary Padtec S.A., which was assessed by the Brazilian Federal Revenue Service for the alleged sale of incentivized product accessories unaccompanied by the final products, allegedly not complying with the requirement to enjoy the tax benefit provided for in the Information Technology Law then in force (reduction of IPI rate). The subsidiary was assessed for the periods of 2011 and 2012 and the accrued risk is R\$ 2,709.

(c) Judicial Deposits

The amounts refer to judicial deposits held on behalf of investee Padtec S.A. and the Company in labor lawsuits.

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(d) Contingencies with estimated losses classified as possible

In the consolidated statements, there are other lawsuits with a total amount at risk of R\$ 81,024 assessed by the legal advisors as having a possible risk of loss as of June 30, 2023 (R\$ 89,745 as of December 31, 2022), for which no provision has been made, given that accounting practices adopted in Brazil do not require their accounting and the Company does not expect extraordinary situations justifying a provision, in its opinion. This amount comprises R\$ 65,775 related to tax risks, R\$ 11,826 related to labor risks, R\$ 3,264 civil risks and R\$ 159 administrative risks. The main proceedings that fall under the classification of possible risk of loss are detailed below:

- The Company is a party to a civil proceeding filed by Banco Santander, requiring the piercing of the corporate veil of former investee Editora Pini, seeking to affect the then shareholders of this former investee. The object of the charge is a bank credit note issued by Editora Pini in default. The adjusted amount is R\$ 2,074.
- Subsidiary Padtec S.A. is a party to a tax foreclosure proceeding related to ICMS tax, which is in the appeal stage, in the amount of R\$ 6,603. The lower court decision was partially favorable to cancel the tax charged, maintaining, however, the requirement of fines.
- Subsidiary Padtec S.A. is a party to a tax foreclosure process embodied in CDA No.80 6 21 127486-04, demanding the payment of debts arising from Administrative Proceeding No.10831 724290/2014-65, already concluded at the administrative level, referring to the Tax Assessment Notice issued for requirement of a Regulatory Fine and differences calculated under II, IPI, PIS and COFINS, as a result of the alleged error in the tax classification of imported products. The purpose of the foreclosure is only the regulatory fine of 1% on the customs value, totaling R\$ 2,224. The Subsidiary guaranteed the foreclosure with the submission of a performance bond, to discuss in court the charge that it considers undue.
- There is a tax assessment notice issued against subsidiary Padtec S.A. by the Brazilian Federal Revenue Service referring to the payment of PIS and COFINS calculated on a non-cumulative basis, for the period from January 2009 to December 2010. The proceeding is at the Tax Control and Monitoring Service of the Federal Revenue Service of Sorocaba/SP and is awaiting judgment of the challenge, in the amount of R\$ 6,570. This process was stayed by a lawsuit filed by the subsidiary in 2008. Due to STF decision in the leading case and of the final and unappealable decision of the aforementioned lawsuit linked to this proceeding, in favor of the plaintiff, such developments were informed in the records in May 2021 and the immediate cancellation of the tax assessment notice under analysis was requested.
- Subsidiary Padtec S.A. has tax assessment notices and challenge of fine due to alleged non-compliance with the Basic Productive Process (PPB), for allegedly selling products with undue use of the tax benefit of IPI reduction in 2011 and 2012, in the amount of R\$ 47,384. In January 2018, Padtec S.A. received a subpoena, which dismissed the challenge presented and maintained the assessment. In September 2019, the judgment of the Voluntary Appeals presented to CARF converted the proceeding into a diligence, which was started in 2021. The reports and statements of the subsidiary's technical assistants were presented; and are awaiting assessment by the CARF.
- PerDComp Federal Taxes: Refers to Reimbursement Requests linked to the Offset Statements of subsidiary Padtec S.A., with credits arising from non-cumulative overpayment of taxes (IPI, COFINS, Cide and others), referring to several periods that were fully rejected and not ratified, amounting to R\$ 15,062 as of June 30, 2023. The records are at the National Process Management Center of the Federal Revenue Office in Ribeirão Preto/SP. There are also infraction notices of fines for non-approved offsets resulting from the same proceedings.

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Tax Assessment Notices issued by the Municipality of Belo Horizonte/MG, referring to (i) ISSQN payment at the rate of 5% related to alleged services rendered and fine for the issuance of a document other than that established by the municipal tax legislation, by the company PSG - Padtec Serviços Global de Telecomunicações Ltda (merged into subsidiary Padtec S.A.), by its branch located in that city from April 2015 to July 2016; and (ii) fine for issuing a document other than that established by the municipal tax legislation in the same period, with tax loss.. In the judgment of the appeal, it was decided to cancel the qualified fine and exclude the liability of the partners and, by majority, maintain the assessment referring to the ancillary obligation and principal obligation. The lawsuits amount to R\$ 5,584, with a "possible risk of loss", and the judgment is pending publication.

23. Labor charges

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Wages	81	91	3,482	3,424
Social charges	41	51	7,050	6,522
Private pension fund	-	-	-	994
Profit sharing provision	-	-	3,315	2,194
Provision for vacation pay / Christmas bonus	-	-	10,122	7,087
Share-based compensation provision - Phantom Shares (a)	192	143	3,038	2,364
Other	-	-	239	189
	314	285	27,246	22,774

- a) The Company has a Long-Term Incentive and Retention Plan ("Plan") approved in October 2021, comprising a compensation program for certain beneficiaries (officers and/or employees of the Company or its subsidiaries who are considered key professionals) that consists of granting Phantom Shares, with yield based on the market price of the Company's shares traded at B3 S.A. – Brasil, Bolsa, Balcão and settled in cash, as established in this Plan and in the First Long-Term and Retention Incentive Program under the Company's Long-Term and Retention Incentive Plan. There is no forecast of effective trading of shares issued by the Company, since there will be no issuance and/or delivery of shares for settlement of this Plan.

24. Private pension plan

Subsidiary Padtec S.A. sponsors two pension plans for its Management and employees, managed by Fundação Sistel de Seguridade Social. Supplementary pension plans are established as a defined contribution plan ("InovaPrev") or defined benefit ("CPqDPrev").

Under the defined benefit, the contribution and benefit amounts are defined when the plan is contracted, and funding is determined by actuarial calculations, to ensure that the plan can be granted and maintained. Under the defined contribution plan, the benefit amount is consistently adjusted, according to the applicable account balance held on behalf of the participant, which, in turn, results from the contribution amounts, contribution time, income arising from investments made, among other variables

Pursuant to the regulations for both plans, funding varies according to a contribution table based on salary ranges, from 1% to 8% of the employees' compensation.

As of June 30, 2023, there were no actuarial liabilities on behalf of Padtec S.A. arising from the supplementary pension plan.

Contributions made amounted to R\$ 1,511 on June 30, 2023 (R\$ 1,458 as of December 31, 2022), which were recorded as "labor expenses and social charges" in P&L for the period and included in the table of Note 29.1.

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25. Equity

25.1. Share Capital

As of June 30, 2023, the Company's subscribed and paid-in capital is R\$ 199,211, divided into 78,450 book-entry common shares, with no par value.

Shareholder	06/30/23		12/31/22	
	Number of Shares	Interest - %	Number of Shares	Interest - %
Fundação CPqD – Centro de Pesquisa e Desenvolvimento em Telecomunicações	43,075,127	54.91%	43,075,127	54.91%
BNDES Participações S.A. – BNDESPAR	18,084,240	23.05%	18,084,240	23.05%
LMC Brazil, LLC	-	-	3,927,649	5.01%
Other	17,290,412	22.04%	13,362,763	17.03%
	78,449,779	100.00%	78,449,779	100.00%

25.2. Other comprehensive income

Translation adjustments

Refers to the accumulated translation adjustments for all foreign currency differences resulting from the conversion of the financial statements of operations abroad.

Cash flow hedge

The Company recognizes under this heading the variability of future cash flows attributable to changes in the USD/BRL exchange rate, arising from payments of principal and interest on financial liabilities (loans) contracted by the Company. The amounts recognized in other comprehensive income during the effectiveness of the hedging relationship shall be reclassified to financial income as a reclassification adjustment in the same period, or periods, in which the expected future transactions affected P&L. On June 30, 2023, the amount of R\$ 2,542 was recorded in other comprehensive income, referring to Market to Market in the Cash Flow Hedge account, as per Note 34.1.

26. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of common shares issued in the year.

The diluted earnings per share is calculated by adjusting the weighted average number of outstanding common shares to assume the conversion of all potential diluted common shares by the stock options, and number of shares that could have been bought is determined at fair value, based on the monetary value of all subscription rights linked to outstanding stock options. The Company does not hold outstanding shares with dilutive potential or other instruments that could result in a dilution of the earnings per share calculation.

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The number of shares calculated, as described above, is compared with the number of shares issued, assuming the period of stock options. The following shows the basic and diluted earnings per share as of June 30, 2023 and 2022:

	Consolidated		Parent Company Continued operations	
	06/30/23	06/30/22	06/30/23	06/30/22
Basic numerator				
Profit (loss) for the period	1,484	(8,264)	1,548	(8,264)
Number of Shares	78,450	78,450	78,450	78,450
Basic and diluted earnings (losses) per share - in Brazilian reais	0.0189	(0.1053)	0.0197	(0.1053)

27. Net operating revenue

	Period from April 1 to June 30		Period from January 1 to June 30	
	Consolidated		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22
Gross operating revenue	122,935	108,157	228,766	203,368
Products sold	102,275	74,354	188,987	141,568
Services rendered	20,660	33,803	39,779	61,800
Taxes on sales	(22,046)	(18,578)	(43,540)	(39,569)
Returns and cancellations	(3,986)	(4,687)	(9,159)	(6,150)
Net operating revenue	96,903	84,892	176,067	157,649

28. Cost of goods sold and services provided

	Period from April 1 to June 30		Period from January 1 to June 30	
	Consolidated		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22
Materials	(44,966)	(35,591)	(74,731)	(70,105)
Labor	(13,520)	(11,855)	(25,761)	(23,116)
Depreciation/amortization	(1,154)	(795)	(2,351)	(1,537)
Cut-Off Provision	(50)	(881)	(1,442)	(199)
Provisions/reversals (a)	2,856	(1,445)	2,533	(2,436)
Travel	(3,156)	(3,444)	(5,953)	(5,973)
Other costs	(2,021)	(2,729)	(4,981)	(5,466)
	(62,011)	(56,740)	(112,686)	(108,832)

a) Refers to obsolescence provisions and reversals, repairs and others.

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29. Operating revenues (expenses)

29.1. Administrative, selling and research and development expenses

	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
	Parent Company		Consolidated		Parent Company		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Labor expenses and social charges	(462)	(587)	(14,561)	(18,099)	(938)	(1,209)	(29,909)	(33,226)
Third-party services	(323)	(235)	(1,404)	(1,756)	(653)	(648)	(2,513)	(3,152)
Selling and marketing expenses	-	(69)	(362)	(352)	-	(69)	(719)	(571)
General and administrative expenses (a)	(405)	(62)	(3,125)	(2,255)	(509)	(138)	(5,421)	(4,200)
Depreciation / amortization	-	-	(5,145)	(3,473)	-	-	(10,081)	(6,390)
Travel	-	-	(699)	(615)	-	-	(1,342)	(1,131)
Lease of properties and equipment	-	-	(134)	(164)	-	-	(244)	(317)
Other	(9)	(23)	(1,046)	478	(17)	(17)	(2,351)	(604)
	(1,199)	(976)	(26,476)	(26,236)	(2,117)	(2,081)	(52,580)	(49,591)

Reported as follows:

	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
	Parent Company		Consolidated		Parent Company		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Administrative expenses	(1,199)	(976)	(8,213)	(8,247)	(2,117)	(2,081)	(15,586)	(15,136)
Selling expenses	-	-	(8,924)	(8,754)	-	-	(17,931)	(16,782)
Research and development expenses	-	-	(9,339)	(9,235)	-	-	(19,063)	(17,673)
	(1,199)	(976)	(26,476)	(26,236)	(2,117)	(2,081)	(52,580)	(49,591)

a) Refers to expenses with insurance, legal advice, corporate systems, among others.

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29.2. Other operating revenues/(expenses), net

	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
	Parent Company		Consolidated		Parent Company		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
ISS credit granted	-	-	-	90	-	-	-	90
Administrative indemnities	-	-	(64)	(16)	-	-	(81)	(16)
Inflow of civil indemnities	1,305	192	1,305	192	1,517	380	1,517	380
Labor indemnities	(295)	(2,613)	(582)	(3,405)	(776)	(2,613)	(1,328)	(3,445)
Tax indemnities	(146)	-	(146)	-	(146)	-	(146)	-
Loss of trade account receivables	-	1	(99)	29	-	-	(1,390)	(683)
Provision for expected credit losses	-	-	(2,428)	(25)	-	-	(1,251)	1,015
Provision (reversal) for labor contingencies	(265)	1,613	(250)	2,388	(390)	2,994	(219)	3,376
Reversal of provision for tax contingencies	789	-	788	90	748	-	1,476	1,488
Provision for civil contingencies	-	-	(400)	(195)	-	-	(555)	(360)
Reversal of provision for administrative contingencies	-	-	63	11	-	-	177	7
Other	1	15	(39)	(36)	(13)	-	(868)	(256)
	1,389	(792)	(1,852)	(877)	940	761	(2,668)	1,596

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30. Net financial result

	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
	Parent Company		Consolidated		Parent Company		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Financial revenues								
Income from financial investments	-	-	1,107	1,721	-	-	2,713	3,324
Income from financial transactions	-	-	209	320	-	-	1,404	833
Foreign exchange gains	-	-	1,648	3,210	-	-	4,502	6,872
Inflation adjustment on taxes and contributions	-	-	10	516	-	-	32	621
Pis and Cofins on financial income	(143)	-	(351)	-	(143)	-	(351)	-
Other revenues	54	-	570	6	57	-	714	22
	(89)	-	3,193	5,773	(86)	-	9,014	11,672
Financial costs								
Interest on loans and financing	(73)	(100)	(2,165)	(3,843)	(146)	(107)	(4,621)	(7,139)
Interest on transaction with derivatives	-	-	(836)	-	-	-	(836)	-
Costs on financial transactions	-	-	(348)	(434)	-	-	(888)	(592)
Foreign exchange losses	-	-	(3,464)	(4,849)	-	-	(6,071)	(9,703)
Banking expenses	(1)	(2)	(141)	(81)	(5)	(2)	(327)	(531)
IOF expenses	(20)	(160)	(186)	(324)	(41)	(160)	(347)	(722)
Other expenses	(843)	(16)	(1,825)	(1,160)	(867)	(94)	(2,588)	(2,162)
	(937)	(278)	(8,965)	(10,691)	(1,059)	(363)	(15,678)	(20,849)
Financial result	(1,026)	(278)	(5,772)	(4,918)	(1,145)	(363)	(6,664)	(9,177)

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31. Income tax and social contribution

Current

The reconciliation of tax expenses calculated by applying the combined tax rate and the income tax and social contribution expense charged to profit or loss is as follows:

	Period from April 1 to June 30		Period from April 1 to June 30		Period from January 1 to June 30		Period from January 1 to June 30	
	Parent		Consolidated		Parent		Consolidated	
	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22	06/30/23	06/30/22
Profit (loss) before taxes	871	(3,787)	792	(3,879)	1,548	(8,264)	1,469	(8,355)
Equity Income	(1,707)	1,741	-	-	(3,870)	6,581	-	-
(+/-) Other additions and deletions	(509)	(611)	(3,053)	(9,320)	(311)	(1,931)	(6,113)	(18,192)
Provision/reversal for obsolescence of inventory	-	-	(2,889)	1,062	-	-	(2,669)	1,752
Provision/reversal of contingencies	(524)	(672)	(143)	(858)	(359)	(2,052)	(40)	(2,920)
Provision/reversal of revenues	-	-	58	(951)	-	-	(679)	(2,970)
Provision/reversal for expected credit losses	-	-	2,428	1,040	-	-	1,251	(1,015)
Loss on account receivables	-	-	160	(29)	-	-	346	683
Provision/reversal - other	16	-	(1,074)	(5,928)	49	-	811	(4,552)
Financial credits	-	-	(5,956)	(4,865)	-	-	(11,250)	(9,871)
Other Additions and deletions	(1)	61	4,363	1,209	(1)	121	6,117	701
Tax loss (IT basis)	(1,345)	(2,657)	(2,261)	(13,199)	(2,633)	(3,614)	(4,644)	(26,547)
Income tax	-	-	15	89	-	-	15	88
Social contribution	-	-	-	3	-	-	-	3
Current income tax and CSLL	-	-	15	92	-	-	15	91

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32. Insurance (unaudited)

The Company and its subsidiaries adopt the policy of contracting insurance coverage for assets subject to risks for amounts considered sufficient to cover possible claims, considering the nature of its activity. The risk assumptions adopted by the Company, given their nature, are not part of the audit scope of the individual and consolidated interim financial statements and, consequently, were not examined by the independent auditors.

Below, we show the amounts insured by risk coverage:

	Covered risk	Current period		Insured amount
		From	Up to	
Equity Insurance	Basic coverage: fire, lightning and explosion Additional coverage: loss of profits, flooding, goods, electrical damage, landslide, equipment, machinery breakdown, registration and document recomposition, RC Commercial and Industrial establishments, theft and windstorm	04/28/23	04/28/24	197,823
Group Life Insurance (employees) - Principal	Death, accident, disability	06/30/23	06/30/24	1,089
Group Life Insurance (employees) - Supplement	Death, accident, disability	06/30/23	06/30/24	490
Group Life Insurance (interns)	Death, accident, disability	06/30/23	06/30/24	38
National Transportation	Road hazards	10/31/21	10/31/23	4,000
International Shipping (in US\$)	Broad coverage (Imports)	10/31/21	10/31/23	USD 2,000
International Shipping (in US\$)	Broad coverage (Export)	10/31/21	10/31/23	USD 2,000
Management civil liability- D&O	Executive Board	07/10/23	07/09/24	50,000
Comprehensive General Liability	General RC, Operations, Products	07/13/23	07/12/24	15,000

33. Risk management

The Company and its subsidiaries manage their financial instruments through operating strategies and internal controls to ensure liquidity, profitability and security. The Company and its subsidiaries do not make financial investments of a speculative nature and gains resulting from these transactions are consistent with the policies and strategies defined by Management. The management of risks and financial instruments used is performed by means of policies, strategy definitions and implementation of control systems, defined by Management. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and on the characteristics of contractual cash flows.

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34. Financial instruments

All financial instrument transactions are recognized in the financial statements of the Company and its subsidiaries, as shown in the table below:

	Fair Value Hierarchy	Consolidated			
		Book Value		Fair value	
		06/30/23	12/31/22	06/30/23	12/31/22
Assets					
Amortized cost					
Trade accounts receivable		129,879	148,266	129,879	148,266
				-	-
Fair value through profit or loss					
Cash and cash equivalents	Level 2	31,915	49,620	31,915	49,620
Restricted financial investments	Level 2	698	212	698	212
Tradable securities	Level 2	11,835	3,703	11,835	3,703
Total		174,327	201,801	174,327	201,801
Liabilities					
Amortized cost					
Loans and financing (current)		(5,828)	(23,595)	(5,828)	(23,595)
Loans and financing (non-current)		(89,220)	(68,769)	(89,220)	(68,769)
Derivative financial instruments		(4,105)	-	(4,105)	-
Debentures (current)		-	(10,517)	-	(10,517)
Debentures (current)		-	(10,440)	-	(10,440)
Lease transactions (current)		(6,041)	(6,044)	(6,041)	(6,044)
Lease transactions (non-current)		(15,551)	(18,909)	(15,551)	(18,909)
Trade accounts payable		(74,539)	(68,223)	(74,539)	(68,223)
Trade accounts payable (non-current)		(508)	(522)	(508)	(522)
Bonds with senior FIDC quotas (non-current)		(20,814)	(10,393)	(20,814)	(10,393)
Total		(216,606)	(217,412)	(216,606)	(217,412)

The classification of financial assets at amortized cost or at fair value through profit or loss is based on the business model and cash flow characteristics expected by the Company and its subsidiaries for each instrument.

Fair value against book values

The fair values of financial assets and liabilities, with the book values presented in the balance sheet, are as follows:

- Cash and cash equivalents and restricted financial investments – interest rates used to calculate yield on the Company's cash equivalents and restricted financial investments, at the end of the year, approximate their fair value for transactions of similar nature, term and risk.
- Loans and financing – are contracted under market conditions and, therefore, the carrying amounts approximate their market value for transactions of similar terms, source and risks.

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Valuation of financial instruments

The fair value of a security corresponds to its maturity value (redemption value) brought to present value by the discount factor (relating to the maturity date of the security) obtained from the market yield curve in Brazilian reais.

CPC 40 (R1) and IFRS 7 require the classification based on a three-level hierarchy to measure the financial instruments at fair value, based on observable and unobservable information related to the financial instrument valuation on the measurement date. CPC 40 (R1) and IFRS 7 also define observable information as market data obtained from independent sources and non-observable information reflecting market assumptions.

The three fair value hierarchy levels are:

- Level 1: Prices quoted in an active market for identical instruments.
- Level 2: Observable information other than prices quoted in an active market that are observable for the asset or liability, directly (as prices) or indirectly (price derivatives).
- Level 3: Valuation techniques under which inputs to measure the fair value are not available.

34.1. Financial instruments designated for cash flow hedge

As a procedure for managing its market risks, the Company manages its exposures in foreign currency by contracting derivative financial instruments pegged to US dollar, considering the payment forecast.

In April 2023, subsidiary Padtec S/A designated derivative instruments for hedge accounting of cash flows to protect against the variability of future cash flows attributable to changes in the USD/BRL exchange rate arising from the payment of principal and interest on the liability financial instrument (loan) contracted by the Company (see Note 14).

Hedge accounting structure consists of the risk management strategy that seeks to converge its funding cost to the Interbank Deposit Certificates (CDI), as follows:

<u>Modality</u>	<u>Terms</u>	<u>Asset indexer</u>	<u>Liability indexer</u>	<u>Amount</u>
SWAP	Apr/23 to Apr/26	VC* + 8.55% p.a.	CDI + 1.65% p.a.	USD 6,339

*exchange rate variation

As of June 30, 2023, the Company has the derivative financial instrument, as follows:

Bank	Agreement.	Consolidated					
		Fair value - Long Position		Fair value - Short Position		Gain/loss	
		06/30/2023	12/31/2022	06/30/2023	12/31/2022	06/30/2023	12/31/2022
Votorantim							
Curve - Swap	SWAP	31,274	-	32,836	-	(1,563)	-
Market to Market	SWAP	31,181	-	33,723	-	(2,542)	-
						(4,105)	-

The measurement of SWAP mark-to-market was made considering the effect of changes in the liability and asset indexes, based on market information available at the time, of this measurement.

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The change in the derivative financial instrument is shown below:

	<u>Cash Flow Hedge</u>
Balance as of December 31, 2022	-
Interest on the transaction recognized in P&L	1,563
Losses recognized in Other Comprehensive Income	2,542
Balance as of June 30, 2023	4,105

34.2. Financial risk factors

The economic and financial risks mainly reflect the behavior of macro variables and exchange and interest rates, as well as the characteristics of the financial instruments used by Padtec Group. The Group's activities are exposed to various financial risks, capital risk, interest rate risk, exchange rate, credit and liquidity risk. The Company's practice is to manage existing risks on a conservative basis. The main purposes of this practice are to preserve the value and liquidity of financial assets and ensure the inflow of funds for the good development of business.

The Company's exposure to each of these risks, the purposes, practices and processes for risk measurement and management and capital management are described below.

34.3. Capital risk

The Company manages its capital to ensure the continuity of their regular activities while seeking to maximize the return on their operations for all stakeholders or parties involved in their operations, by optimizing the use of debt and equity instruments.

The capital structure of the Company and its subsidiaries is made up by net indebtedness (loans and financing), less cash and cash equivalents and restricted financial investments and the Company's equity.

Padtec Group has net debt and its net cash (debt) ratio is:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>06/30/23</u>	<u>12/31/22</u>	<u>06/30/23</u>	<u>12/31/22</u>
Debt	-	-	115,862	123,714
Cash and cash equivalents, financial investments	1	60	32,613	49,832
Net Debt (net cash)	(1)	(60)	83,249	73,882
Net equity	137,629	135,679	135,023	135,679
Debt (cash) ratio, net	0%	0%	62%	54%

34.4. Credit risk

Credit risk is the risk of the Company incurring a financial loss if a customer or a counterparty to a financial instrument fails to fulfill its contractual obligations, mostly arising from receivables from recurring customers and financial investments. To mitigate this risk, the Company and its subsidiaries adopt the procedure of making a detailed analysis of their customers' equity and financial position and constantly monitoring their outstanding debt balances. Impairment losses are shown in Note 6 (Trade accounts receivable), according to the recoverability assessment performed by Management.

For financial investments, Padtec Group only carries out transactions with low-credit-risk institutions and setting a maximum limit of investment balances, as determined by Management. Management understands that there is no significant risk to which Padtec Group is exposed, considering the concentration levels and materiality of the amounts in relation to revenue.

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34.5. Liquidity risk

It is the risk of Padtec Group may face difficulties for the settlement of its obligations related to financial liabilities settled in cash.

The approach to the liquidity risk is to ensure the payment of obligations, thus, the purpose of maintaining available cash to settle short-term obligations, doing its best to always have sufficient liquidity to meet maturing obligations, under normal and stress conditions, without causing unacceptable losses or risking damage to the reputation of the Company and its subsidiaries.

Padtec Group works to align fund availability and fund generation to settle its obligations on the agreed terms. Contractual maturity is based on the most recent date when the Company and its subsidiaries should settle the related obligations:

	Consolidated			
	Book Value	Up to 1 year	1-2 years	2-20 years
Restricted financial investments	698	-	698	-
Financial transactions	80,145	39,906	30,835	9,404
Lease transactions	(21,592)	(6,041)	(5,055)	(10,496)
Loans and financing	(95,048)	(5,827)	(19,099)	(70,122)
Trade accounts payable	(75,047)	(74,539)	(508)	-
Financial transactions	(80,145)	(39,906)	(30,835)	(9,404)
Total	(190,989)	(86,408)	(23,964)	(80,618)

34.6. Currency risk

This risk arises from the possibility of fluctuations in the exchange rates of foreign currencies used by the Company. Management analyzes and monitors its exposures in order to take decisions on contracting instruments to hedge the respective exposures in foreign currency.

The net exposure in foreign currency is shown in the table below:

	Consolidated		Consolidated	
	06/30/23		12/31/22	
	R\$	US\$	R\$	US\$
Assets				
Trade accounts receivable	35,836	7,436	38,638	7,405
Liabilities				
Loans and financing	(31,274)	(6,489)	-	-
Trade accounts payable	(49,758)	(10,325)	(43,729)	(8,381)
Total	(45,196)	(9,378)	(5,091)	(976)

34.7. Interest rate risk

Padtec Group's operations are indexed to fixed rates, Long-Term Interest Rate (TJLP) and CDI. Thus, Management understands that any fluctuation in interest rates would not have any significant impact on the Company's results.

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The book value of financial instruments representing the maximum exposure to interest rate risk as of the date of the interim financial statements was:

	Parent Company		Consolidated	
	06/30/23	12/31/22	06/30/23	12/31/22
Assets				
Cash and cash equivalents	1	60	31,915	49,620
Restricted financial investments	-	-	698	212
Tradable securities			11,835	3,703
Financial transactions			80,145	77,237
Liabilities				
Loans and financing	-	-	(95,048)	(92,364)
Debentures	-	-	-	(20,957)
Financial transactions			(80,145)	(77,237)
Net exposure	1	60	(50,600)	(59,786)

34.8. Sensitivity analysis

Padtec Group performed a sensitivity analysis of the main risks to which its financial instruments are exposed, basically represented by variation in exchange rates and interest rates.

When exposure to risk is considered to be active, the risk to be considered is a reduction in linked indexes due to a consequent negative impact on profit or loss. Likewise, when exposure to risk is considered passive, the risk is an increase in the linked indexes, also with a negative impact on profit or loss. Thus, Padtec Group is qualifying the risks through the net exposure of the variables (Dollar, CDI, IGP-M, IPCA, TJLP and Selic), as shown.

	Probable scenario	Consolidated	
		25% Increase	50% Increase
<u>Exchange rate</u>			
Trade accounts receivable	35,836	8,959	17,918
Trade accounts receivable	(49,758)	(12,440)	(24,879)
Loans and financing	(31,274)	(7,819)	(15,637)
Impact on profit or loss		(11,300)	(22,598)
<u>Interest rate</u>			
Cash and cash equivalents	31,915	7,979	15,958
Restricted financial investments	698	175	349
Tradable securities	11,835	2,959	5,918
Loans and financing	(95,048)	(23,762)	(47,524)
Impact on profit or loss		(12,649)	(25,299)

35. Information by segment

The Company and its subsidiaries have only one operating segment defined in the operational context. They are organized, and their performance is assessed, as a single business unit for operational, commercial, managerial, and administrative purposes.

36. Subsequent events

In July, the Company received R\$ 5.4 million as compensation for a civil lawsuit in which Ideiasnet S.A. was a party. R\$ 1 million related to this proceeding had already been received in 2Q23.