

Padtec Holding S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

Individual and consolidated financial statements for the year ended December 31, 2021, accompanied by the Independent Auditor's Report

Padtec Holding S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

Content

	Page
Independent Auditor's Report	2
Individual and consolidated financial statements for the year ended December 31, 2021	9
Management's notes to the individual and consolidated financial statements for the year ended December 31, 2021	16

Independent Auditor's Report on the individual and consolidated financial statements

(Free translation from the original issued in Portuguese. In the event of discrepancy, the Portuguese language version prevails. See Note 37 to the financial statements)

To the Shareholders and the Management of

Padtec Holding S.A.

Campinas - SP

Opinion

We have audited the individual and consolidated financial statements for **Padtec Holding S.A.** ("Company"), identified as Parent and Consolidated, which comprise the individual and consolidated balance sheet as of December 31, 2021, and the related statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, as well as the related notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the aforementioned financial statements properly present, in all material respects, the equity and financial position of **Padtec Holding S.A.** as of December 31, 2021, the individual and consolidated performance of its operations and its individual and consolidated cash flows for the year then ended, in compliance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB).

Basis for the opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing (ISAs). Our responsibilities, in accordance with such standards, are described in the following section entitled "Auditor's responsibilities for the audit of individual and consolidated financial statements". We are independent of the Company in compliance with the relevant ethical requirements set forth in the Code of Ethics for Professional Accountants and the professional standards issued by the Federal Accounting Council and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

Corporate restructuring

Pursuant to note No.1.1, in June 2020, the Company merged the shares issued by Padtec S.A., then its only asset and in which it held 34.16% of shareholding, with the consequent conversion of Padtec S.A. into its wholly-owned subsidiary. Accordingly, this transaction shall be considered in comparability analyzes between the results of the years ended December 31, 2021 and 2020. Our opinion does not contain any reservations related to this matter.

Key audit matters

Key Audit Matters (KAM) are those that, in our professional judgment, were the most significant in our audit for the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole and in forming our opinion on these individual and consolidated financial statements and, therefore, we do not express a separate opinion on these matters.

Revenue recognition

As mentioned in notes No. 3.15 and 27 to the financial statements, the Company and its subsidiaries recognize their revenues based on CPC Pronouncement 47 – Revenue from Contracts with Customers. Revenues from hardware and installation services have different performance obligations, where the customer immediately benefits from the good or service provided, and are recognized when the Company and its subsidiaries meet the performance obligation.

Due to the relevance of the amounts involved and the inherent characteristics of the revenue recognition process, including the volume and assurance of capturing all sales within the accounting period, we consider this topic as a significant matter in our audit work.

How the matter was addressed in our audit

Our audit procedures included, among others:

- Understanding the flows of sales and provision of services and assessment of the internal control environment for the recognition of revenues and the respective accounts receivable;
- Analytical procedures on revenue changes, using data disaggregated by type of revenue, to identify changes inconsistent with our expectations obtained from our prior knowledge of the Company and the sector and that may indicate potential problems of revenue recognition out of the accounting period;
- External confirmation procedures for a base sample that makes up the accounts receivable balance by sending confirmation letters;
- Checking, by sampling, of supporting documentation for sales and services rendered in the period;
- Checking of financial inflows of the balance of accounts receivable, subsequent to the base date of the financial statements; and
- Accounting period cut-off test on revenues, by checking documentation evidencing the delivery of goods or provision of services within the correct accounting period.

Based on the evidence obtained through the procedures described above, we consider the recognition of revenue, as well as the related disclosures, acceptable in the context of the individual and consolidated financial statements taken together, for the year ended December 31, 2021.

Existence and valuation of inventories and costs of goods sold

As described in Note 6 to the financial statements, as of December 31, 2021, the Company had a consolidated balance of inventories in the amount of R\$ 81,442 thousand. The inventories of the Company and its subsidiaries comprises raw materials (in-house, in possession of third parties and under import process), products in process and finished products. As raw materials have high added value, is mostly imported, and there are several direct and indirect costs for production, the amounts involved are relevant.

Thus, due to the amounts involved, the complexity of costing the products, the involvement of third parties in the custody of part of the raw materials and the technical features of the products, we consider this topic as a significant matter in our audit work.

How the matter was addressed in our audit

Our audit procedures included, among others:

- Understanding of the Company's internal processes related to purchases and inventory monitoring and assessment of production cost allocation criteria;
- Monitoring, on a sample basis, of the physical counting of inventories;
- Confirmation with the custodians of the main balances of inventories held by third parties;
- Sample checking of documentation of purchase and delivery for production and recalculation of the average cost of selected items;
- Sample checking of documentation of direct and indirect production costs and the respective appropriations to products in process;
- Assessment of the criteria used by management to calculate the provision for losses in the realization of inventories and review of the calculations made; and
- Assessment of the need for provision for losses in the realization of inventories based on sales made.

Based on this result, we consider that the audit evidence obtained is appropriate to support the existence and valuation of inventories and costs of goods sold, as well as the respective disclosures made, in the context of the individual and consolidated financial statements taken together.

Other matters**Audit of the corresponding amounts**

The individual and consolidated balance sheets as of December 31, 2021 and related statements of income, comprehensive income, changes in equity and cash flows as well as the related notes for the year then ended, shown as corresponding amounts in the individual and consolidated financial statements for the current year were previously audited by other independent auditors who issued a report dated February 11, 2021, with no modifications and including an emphasis of matter paragraph related to the corporate restructuring. The corresponding amounts related to the individual and consolidated statements of value added (SVA) for the year ended December 31, 2020 were submitted to the same audit procedures by those independent auditors and, based on their review, those auditors issued a report without modification.

Statement of value added

The individual and consolidated statements of value added (SVA) for the year ended December 31, 2021, prepared under the responsibility of the Company's management and presented as supplementary information for the purposes of IFRS, were submitted to audit procedures performed carried out together with the audit of the Company's financial statements. In order to form our opinion, we assessed whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in Technical Pronouncement NBC TG 09 - Statement of Added Value. In our opinion, these statements of value added have been properly 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 financial statements taken together.

Other information accompanying individual and consolidated financial statements and the Auditor's Report

The Company's management is responsible for such other information that comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion on this report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether that report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work performed, we conclude that there is a material misstatement in the Management Report, we are required to report this fact. We have nothing to report in this regard.

Responsibility of Management and governance for the individual and consolidated financial statements

Management is responsible for preparing and properly presenting the individual and consolidated financial statements in compliance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB) and for such internal controls that it has determined to be required to allow the preparation of individual and consolidated financial statements free of material misstatement, whether caused by fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the individual and consolidated financial statements, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative to avoid doing so.

Those charged with governance of the Company and its subsidiaries are responsible for overseeing the process of preparing the individual and consolidated financial statements.

Auditors' responsibilities for the audit of individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements, taken together, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material when, individually or taken as a whole, they might reasonably be considered likely to influence the economic decisions taken by users, based on the individual and consolidated financial statements.

As a part of the audit carried out in compliance with Brazilian and international auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition, we:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve override of internal control, collusion, forgery, intentional omissions or misrepresentations.

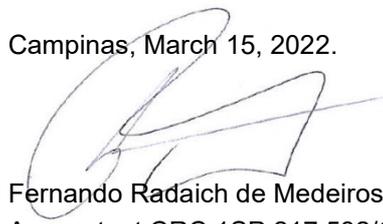
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Assess the overall presentation, structure and content of the individual and consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtain sufficient appropriate audit evidence regarding the financial information of the group's entities or business activities to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group's audit and, consequently, for the audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements, including applicable independence requirements, and communicate any relationships or matters that could materially affect our independence, including, where applicable, related safeguards.

Of the matters that were the subject of communication with those charged with governance, we determined those that were considered to be most significant in the audit of the individual and consolidated financial statements for the current year and that, therefore, constitute the key audit matters. We describe these matters in our audit report unless law or regulation prohibits public disclosure of the matter, or when, in extremely rare circumstances, we determine that the matter should not be communicated in our report because the adverse consequences of such communication could, within a reasonable perspective, outweigh the benefits of communication for the public interest.

Campinas, March 15, 2022.

A handwritten signature in black ink, appearing to be "Fernando Radaich de Medeiros".

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

RSM Brasil Auditores Independentes - Sociedade Simples
CRC 2SP-030.002/O-7

A smaller version of the RSM logo, consisting of three colored squares (grey, green, blue) to the left of the letters "RSM".

Padtec Holding S.A.
Balance sheets as of December 31, 2021 and 2020
(In thousands of Brazilian reais)

	Note	Parent		Consolidated	
		2021	2020	2021	2020
Assets					
Current					
Cash and cash equivalents	4	-	1	87,468	64,680
Trade accounts receivable	5	-	-	95,121	100,296
Inventories	6	-	-	81,442	61,989
Taxes recoverable	7	1,706	1,717	25,226	23,562
Financial transactions	17	-	-	32,770	37,139
Other credits	9	202	356	4,873	2,356
Total current assets		1,908	2,074	326,900	290,022
Non-current					
Trade accounts receivable	5	-	-	-	2,377
Taxes recoverable	7	-	-	-	324
Related parties	10	372	6,072	-	-
Restricted financial investments	8	-	-	11,737	19,395
Financial transactions	17	-	-	13,225	11,460
Judicial Deposit	22.2	991	1,187	1,373	2,364
Other credits	9	-	925	69	2,905
Investments	11.1	152,561	122,227	-	-
Property, Plant & Equipment	12	-	-	38,702	18,540
Intangible assets	13	24	24	37,985	29,217
Total non-current assets		153,948	130,435	103,091	86,582
Total assets		155,856	132,509	429,991	376,604

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

Padtec Holding S.A.
Balance sheets as of December 31, 2021 and 2020
(In thousands of Brazilian reais)

Liabilities	Note	Parent		Consolidated	
		2021	2020	2021	2020
Current					
Loans and borrowings	14	-	-	10,087	11,151
Debentures	15	-	-	10,546	7,765
Lease transactions	16	-	-	4,086	2,733
Trade accounts payable	18	4	-	62,497	55,832
Forfeiting	19	-	-	1,110	1,971
Related parties	10	-	2,188	6	948
Taxes and contributions payable	20	48	4	9,107	9,204
Taxes and contributions payable - installment payment	21	-	-	7,129	6,331
Labor charges	23	199	186	24,660	18,976
Miscellaneous provisions	22.1	-	-	2,450	2,745
Financial transactions	17	-	-	32,770	37,139
Advances from customers and deferred revenue		-	-	6,865	-
Other accounts payable		-	121	766	4,946
Total current liabilities		251	2,499	172,079	159,741
Non-current					
Provision for labor, tax and civil risks	22.2	17,779	23,110	30,985	35,970
Loans and borrowings	14	-	-	42,206	32,281
Debentures	15	-	-	20,859	31,313
Trade accounts payable	18	-	-	1,101	-
Lease transactions	16	-	-	20,023	624
Taxes and contributions payable - installment payment	21	-	-	1,176	2,203
Related parties	10	4,911	-	-	-
Financial transactions	17	-	-	13,225	11,460
Provision for unsecured liabilities	11.2	4,578	3,888	-	-
Total non-current liabilities		27,268	26,998	129,575	113,851
Total liabilities		27,519	29,497	301,654	273,592
Equity					
Capital	25.1	199,211	199,211	199,211	199,211
Capital reserve	25.2	-	(2,674)	-	(2,674)
Accrued losses		(70,534)	(83,331)	(70,534)	(83,331)
Goodwill on capital transaction		599	599	599	599
Other comprehensive income	25.3	(939)	(10,793)	(939)	(10,793)
Total equity		128,337	103,012	128,337	103,012
Total liabilities and equity		155,856	132,509	429,991	376,604

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

Padtec Holding S.A.
Income statements for the years ended December 31, 2021 and 2020
(In thousands of Brazilian reais)

	Note	Parent		Consolidated	
		2021	2020	2021	2020
Net operating revenue	27	-	-	343,740	169,293
Cost of goods sold and services provided	28	-	-	(221,131)	(107,614)
Gross profit		-	-	122,609	61,679
Operating revenues (expenses)					
Administrative expenses	29.1	(4,199)	(3,332)	(27,769)	(15,928)
Selling expenses	29.1	-	-	(31,562)	(13,754)
Research and development expenses	29.1	-	-	(33,494)	(17,852)
Provisions		-	-	-	-
Equity income	11.5	29,869	25,650	-	(476)
Other operating revenues (expenses), net	29.2	42	(6,033)	153	4,088
Profit before financial income (costs)		25,712	16,285	29,937	17,757
Financial income (costs)					
Financial income	30.1	9	1,026	16,804	7,239
Financial costs	30.2	(171)	(100)	(25,708)	(7,595)
Profit before income tax and social contribution		25,550	17,211	21,033	17,401
Income tax and social contribution					
Current	31	-	-	(8,764)	(190)
Deferred	31	-	-	-	-
Net income after taxes and before shareholdings		25,550	17,211	12,269	17,211
Profit-sharing		-	-	-	-
Management's interest		-	-	-	-
Earnings (losses) after taxes from continuing operations and shareholdings		25,550	17,211	12,269	17,211
Reversal of interest and equity		-	-	-	-
Profit for the year from continuing operations		25,550	17,211	12,269	17,211
Discontinued operations					
Profit (loss) from discontinued operations	32	-	-	13,281	-
Equity income	11.5	-	-	-	-
Profit for the year from discontinued operations		-	-	13,281	-
Net income for the year		25,550	17,211	25,550	17,211
Profit (loss) attributable to:					
Controlling shareholders		25,550	17,211	25,550	17,211
Non Controlling shareholders		-	-	-	-
Net profit for the year		25,550	17,211	25,550	17,211
Earnings per share					
Basic and diluted earnings per share	26	0.3257	0.2194	0.3257	0.2194
Diluted earnings per share	26	0.3257	0.2194	0.3257	0.2194
Earnings per share from continuing operations					
Basic and diluted earnings per share from continuing operations	26	0.3257	0.2194	0.1564	0.2194
Diluted earnings per share from continuing operations	26	0.3257	0.2194	0.1564	0.2194
Earnings per share from discontinued operations					
Basic and diluted earnings per share from discontinued operations	26	-	-	0.1693	-
Diluted earnings per share from discontinued operations	26	-	-	0.1693	-

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

Statements of changes in equity for the years ended December 31, 2021 and 2020
(In thousands of Brazilian Reais)

		Parent Company and Consolidated						
	Note	Capital Stock	Capital reserve	Goodwill on capital transaction	Equity valuation adjustment	Accumulated translation adjustments	Retained earnings/losses	Total equity
Balance as of December 31, 2019		131,846	(2,674)	-	(8,663)	(1,619)	(100,542)	18,348
Net income for the year		-	-	-	-	-	17,211	17,211
Exchange variation adjustment of subsidiaries	25.3	-	-	-	-	(511)	-	(511)
Capital increase		67,365	-	-	-	-	-	67,365
Goodwill on capital transaction	-	-	-	599	-	-	-	599
Balance as of December 31, 2020		199,211	(2,674)	599	(8,663)	(2,130)	(83,331)	103,012
Net profit for the year		-	-	-	-	-	25,550	25,550
Transfer of earnings reserve fo retained earnings	25.2	-	2,674	-	8,663	-	(11,337)	-
Exchange variation adjustment of subsidiaries	25.3	-	-	-	-	1,191	(1,416)	(225)
Balance as of December 31, 2021		199,211	-	599	-	(939)	(70,534)	128,337

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

Padtec Holding S.A.
Statements of comprehensive income for the years ended December 31, 2021 and 2020
(In thousands of Brazilian reais)

	Parent Company and Consolidated	
	2021	2020
Profit for the year	25,550	17,211
Items that may be reclassified subsequently to the statement of income (loss)		
Other comprehensive income		
Translation adjustments of balance sheet of subsidiaries abroad	(225)	(511)
Comprehensive income for the year	25,325	16,700
Comprehensive income (loss) attributable to:		
Controlling shareholders	25,325	16,700
Comprehensive income for the year	25,325	16,700

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

Padtec Holding S.A.
Statements of cash flows for the years ended December 31, 2021 and 2020
(In thousands of Brazilian Reals)

	Parent		Consolidated	
	2021	2020	2021	2020
Profit for the year before taxes:	25,550	17,211	34,314	17,401
Adjustments to reconcile net income (loss) for the year with cash provided by (used in) operating activities:				
Depreciation and amortization	-	3	15,301	7,163
Interest and inflation adjustments on loans	-	-	3,292	3,080
Interest and inflation adjustments on debentures	-	-	3,032	-
Amortizaion of costs with issuance of debentures	-	-	200	-
Allowance for doubtful accounts	-	(3)	(493)	(7,906)
Creation (reversal) of miscellaneous provisions	-	-	(295)	284
Provision for labor, tax and civil risks	(5,331)	330	(4,985)	(5,547)
Provision for inventory obsolescence	-	-	3,635	230
Equity income	(29,869)	(25,650)	-	476
Write-off of PPE and intangible assets	-	13	403	271
Decrease (increase) in operating assets:				
Trade account receivables	-	3	8,045	(22,784)
Inventories	-	-	(23,088)	(11,909)
Asset held for sale	-	255	-	255
Recoverable taxes	11	153	(1,340)	1,539
Related parties	5,700	(3,487)	-	-
Judicial deposit	196	9,912	991	9,407
Other credits	1,079	(273)	319	(747)
Increase (decrease) in operating liabilities:				
Lease transactions	-	-	(2,630)	(1,550)
Trade accounts payable	4	-	7,766	24,337
Forfeiting	-	-	-	(1,937)
Labor charges	13	60	5,684	2,262
Taxes and contributions payable	44	(248)	(326)	(8,980)
Related party transactions	-	-	(942)	(1,340)
Income tax and social contribution - paid	-	-	(8,764)	(190)
Charges on loans and financing - paid	-	-	(2,948)	(3,052)
Debenture charges - paid	-	-	(2,905)	-
Advances from customers and deferred revenue	-	-	6,865	-
Other accounts payable	(121)	(139)	(4,180)	2,780
Net cash used in (provided by) operating activities	(2,724)	(1,860)	36,951	3,543
Cash flows from investment activities				
Capital increase in subsidiary (cash)	-	(336)	-	(336)
Financial investments as collateral	-	-	7,658	(5,389)
Purchase of fixed and intangible assets	-	-	(21,252)	(12,654)
Related party loan agreement	2,723	2,188	-	-
Net cash used in (provided by) investing activities	2,723	1,852	(13,594)	(18,379)
Cash flows from financing activities				
Capital payment	-	8	-	8
Forfeiting	-	-	(862)	-
Raising of loans and financing	-	-	17,843	49,364
Issuance of debentures	-	-	-	39,078
Payment of loans and financing - principal	-	-	(9,325)	(66,327)
Payment of debentures - principal	-	-	(8,000)	-
Net cash used in (provided by) financing activities	-	8	(344)	22,123
Exchange variation of cash in foreign currency	-	-	(225)	(511)
Increase (decrease) in cash and cash equivalents	(1)	-	22,788	6,776
Initial cash and cash equivalents from consolidation	-	-	-	54,576
Cash and cash equivalents at the beginning of the year	1	1	64,680	3,328
Cash and cash equivalents at the end of the year	-	1	87,468	64,680
Non-cash transactions				
Right-of-use of lease	-	-	23,382	-

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

Padtec Holding S.A.
Statements of value added for the years ended December 31, 2021 and 2020
(In thousands of Brazilian reais)

	Parent		Consolidated	
	2021	2020	2021	2020
1 - Revenues	2,037	3	489,393	230,718
1.1. Sale of goods, products and products	-	-	470,845	222,812
1.2. Allowance for doubtful accounts	-	3	493	7,906
1.3. Other revenues	2,037	-	18,055	-
2 - Inputs purchased from third parties	(4,317)	(7,437)	(208,182)	(91,267)
2.1. Cost of products, goods and services sold	-	-	(162,696)	(67,219)
2.2. Energy, third-party services and other operating expenses	(4,317)	(1,916)	(45,486)	(21,337)
2.3. Other	-	(5,521)	-	(2,711)
3 - Retentions.	-	(3)	(15,301)	(7,163)
3.1. Depreciation and amortization	-	(3)	(15,301)	(7,163)
4 - Value added produced, net	(2,280)	(7,437)	265,910	132,288
5 - Value added received on transfer	29,878	26,632	16,804	6,681
5.1. Equity income	29,869	25,650	-	(476)
5.2. Financial income	9	982	16,804	7,157
6 - Total value added to distribute	27,598	19,195	282,714	138,969
7 - Distribution of value added	27,598	19,195	282,714	138,969
7.1. Personnel and charges	1,576	1,624	97,424	48,691
Direct compensation	1,552	1,312	70,400	36,653
Benefits	29	286	22,436	9,556
Severance Fund (FGTS)	(5)	26	4,588	2,482
7.2. Taxes, fees and contributions	301	257	129,744	62,966
Federal	298	257	89,634	43,943
State	-	-	37,405	17,975
Municipal	3	-	2,705	1,048
7.3. Third-party capital remuneration	171	103	29,996	10,101
Financial costs	171	56	25,708	7,513
Rents	-	47	4,288	2,588
7.4. Equity remuneration	25,550	17,211	25,550	17,211
Profit for the year	25,550	17,211	25,550	17,211

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

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (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. Its focus was on investing in fast-growing technology companies in a variety of areas, such as SaaS (Software as a Service) in the security and construction industry, technology in the financial and payments sector, digital commerce, digital media, mobility, broadband and optics. For many years, the Company has positioned itself as a technology venture capital in Brazil, actively participating in all stages of development of its investees, consolidating itself as a reference in the sector and was synonymous with entrepreneurship with a high level of Corporate Governance.

In 2015, already under a disinvestment process and after the sale of most of its assets, it started a process to simplify its corporate structure.

In June 2020, the Company merged shares issued by Padtec S.A., then its only asset and in which it held 34.16% of shareholding, with the consequent conversion of Padtec S.A. into its wholly-owned subsidiary. Today, Padtec Holding is the sole shareholder of Padtec S.A., a privately held company.

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

	Equity interest (%)			
	12/31/21		12/31/20	
	Direct	indirect	Direct	Indirect
Chenonceau Participações S.A. (a)	100.00%		100.00%	
Automatos Participações Ltda. (b)	100.00%		100.00%	
Padtec S.A. (c)	100.00%		100.00%	
Sucursal Argentina (d)		100.00%		100.00%
Padtec EUA (e)		100.00%		100.00%
Padtec Colombia (f)		100.00%		100.00%
Padtec Chile (g)		100.00%		100.00%

- Chenonceau Participações S.A. is a non-operating company which corporate purpose is to hold interests in other companies. It currently does not hold any investments.
- Automatos Participações Ltda. is a non-operating company which corporate purpose is to hold interests in other companies. It currently does not hold any investments.
- 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.
- Padtec Sucursal Argentina is an operating company, headquartered in Argentina, incorporated in 2007. Its main purpose is to perform sales activities, resell Group's products and provide implementation, operation and maintenance services. Padtec S.A. holds 100% equity interest.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

- e) Padtec EUA 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's products and provide implementation, operation and maintenance services. Padtec S.A. holds 100% equity interest.
- f) 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.
- g) 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's products and provide implementation, operation and maintenance services.

2. PRESENTATION OF INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

2.1. Basis of preparation

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

Consolidated 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 are consolidated since each acquisition date, which corresponds to the date on which the Company acquired control.

Management states that all relevant information pertinent to financial statements are being disclosed, and correspond to that used in the management of Padtec Group.

The issuance of these financial statements was authorized by the Company's Management on March 15, 2022.

2.2. Basis of measurement

The individual and consolidated financial statements have been prepared at the historical cost, except for the following items recorded on the balance sheets: i) derivative financial instruments measured at fair value; and ii) non-derivative financial instruments measured at fair value through profit or loss. The classification of the fair value measurement into categories on levels 1, 2 or 3 (depending on the degree of observance of the variables used) is presented in Note 35, Financial Instruments.

2.3. Use of estimates and judgments

The preparation of individual and consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses.

Actual results may differ from accounting estimates. Thus, Management reviews estimates and assumptions on a regular basis, based on historical experience and other factors deemed relevant. Adjustments arising from these reviews are recognized in the period in which the estimates are reviewed and applied.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

The main accounting items requiring the adoption of assumptions and estimates, which are subject to a higher level of uncertainty and which have a risk of resulting in a material adjustment if such assumptions and estimates are significantly changed in subsequent periods are:

- Note 5 – Trade accounts receivable (provision for doubtful accounts: main assumptions in relation to the expectation of expected credit loss);
- Note 6 – Inventories (provision for realization and obsolescence of inventories: main assumptions in relation to the expected loss of inventories);
- Note 12 – Property, plant and equipment (application of defined useful lives and main assumptions in relation to recoverable amounts);
- Note 13 – Intangible assets (main assumptions in relation to recoverable amounts);
- Note 16 – Lease transactions (determination of whether a contract contains a lease);
- Note 22.1 – General accruals (recognition and measurement: main assumptions on the likelihood of cash outflows);
- Note 22.2 – Provision for labor, tax and civil risks (recognition and measurement: main assumptions on the likelihood of cash outflows); and
- Note 24 – Private pension plan (main actuarial assumptions in the measurement of defined benefit obligations).

2.4. Functional currency and presentation currency

The individual and consolidated financial statements are presented in Brazilian Reais (R\$), which is the Company's functional currency (Parent Company). The functional currency of subsidiaries located in the United States and Argentina is the US dollar, in Colombia is the Colombian peso and in Chile it is the Chilean peso. The effects of converting 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.

2.5. Statement of Value Added

The Company prepared the individual and consolidated Statements of Value Added ("SVA") in accordance with Technical Pronouncement CPC 09 - Statement of value added, which are presented as an integral part of the financial statements in accordance with accounting practices adopted in Brazil and as supplementary information to the financial statements in IFRS, as this is not an expected or mandatory statement under IFRS.

2.6. Statement of Cash Flows

Statements of Cash Flows were prepared using the indirect method and are presented in compliance with CPC 03 (R2).

3. Significant accounting policies

The significant accounting policies used in preparing these individual and consolidated financial statements are described below. These policies have been applied consistently for all the reporting years presented.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

3.1. Basis of Consolidation

Investments in subsidiaries and affiliates are accounted for in the Parent Company, under the equity pick-up method. The Company's share in results of subsidiaries is recognized in the profit or loss for the year, as share of profit (loss) of investees. For the exchange variation on investments abroad, which have a functional currency other than the Company's functional currency, changes in the amount of the investment arising exclusively from exchange variation are recorded in equity as other comprehensive income - translation adjustment of investments abroad - and are only taken to the profit or loss for the year when the investment is sold or written off for loss.

For the calculation of equity pick-up, unearned profits from operations with subsidiaries are fully eliminated, both in sales transactions from the Parent Company to the subsidiary, and between subsidiaries. Unrealized losses are eliminated, but only if there is no evidence of impairment loss. Intercompany balances and transactions and any revenues or expenses from these transactions are fully eliminated in the preparation of the consolidated financial statements.

Investments in subsidiaries, affiliates or jointly-controlled companies with negative net worth are presented in non-current liabilities. The Company's Management understands that there is no difference between the accounting practice adopted in Brazil and IFRS, since the Company acts as joint and several liable for the debt of its subsidiaries with negative net worth.

3.2. Transactions and balances in a currency other than its functional currency

Foreign currency transactions are translated into the respective Padtec Group's functional currency (R\$ - Brazilian reais) at the exchange rates on the dates of transactions. Balance sheet account balances are translated at the exchange rate prevailing on the balance sheet dates. Exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognized in profit or loss for the year, in "Financial income" and "Financial expenses"

3.3. Financial instruments

i. Financial assets

Financial assets are initially recognized on the date they were originated or on the trade date on which the Company or its subsidiaries become a party to the contractual provisions of the instrument. Derecognition of a financial asset occurs when the contractual rights to the related asset's cash flows expire or when the rights and benefits of holding such financial assets are transferred.

Measurement:

- Financial assets measured at fair value through profit or loss: These assets are subsequently measured at fair value. The net result, including interest or dividend income, is recognized in profit or loss.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

- Financial assets measured at amortized cost: These assets are subsequently measured at amortized cost, using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

- Debt instruments measured at fair value through other comprehensive income: These assets are subsequently measured at fair value. Net results are recognized in other comprehensive income, except for interest income calculated using the effective interest method, foreign exchange gains and losses and impairment, which are recognized in profit or loss. Upon derecognition, the accumulated effect in other comprehensive income is reclassified to profit or loss. The Company and its subsidiaries do not have financial assets of this classification.

- Equity instruments measured at fair value through other comprehensive income: These assets are subsequently measured at fair value. All changes are recognized in other comprehensive income and will never be reclassified to profit or loss, except for dividends received as a gain in profit or loss (unless the dividend clearly represents a recovery of part of the investment cost). The Company and its subsidiaries do not have financial assets of this classification.

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

Financial assets are not reclassified subsequently to initial recognition, unless the Company changes the business model for the management of financial assets, and therefore all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets the following two conditions and is not designated as measured at fair value through profit or loss:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specific dates, to cash flows representing only payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if it meets the following two conditions and is not designated as measured at fair value through profit or loss:

- it is held within a business model which purpose is achieved both by the receipt of contractual cash flows and by the sale of financial assets; and
- its contractual terms give rise, on specific dates, to cash flows representing only the payment of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost, fair value through other comprehensive income, as described above, are classified as measured at fair value through profit or loss.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

Business model assessment:

The Company carries out an assessment of the purpose of the business model in which a financial asset is held in a portfolio because this better reflects the way in which the business is managed. The information is provided to Management and includes:

- the policies and purposes stipulated for the portfolio and the practical operation of these policies. They include the question of whether management's strategy is focused on obtaining contractual interest income, maintaining a particular interest rate profile, matching the duration of financial assets to the duration of related liabilities or expected cash outflows, or the realization of cash flows through the sale of assets;
- how the performance of the portfolio is assessed and reported to the Company's Management;
- the risks affecting the performance of the business model (and the financial asset held in that business model) and the way in which those risks are managed;
- how business managers are compensated - for example, whether compensation is based on the fair value of assets under management or contractual cash flows gained; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and their expectations about future sales.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales, consistent with the ongoing recognition of the Company's assets.

Financial assets held for trading or managed with performance assessed based on fair value are measured at fair value through profit or loss.

Assessment of whether contractual cash flows are principal and interest payments only

For purposes of assessing contractual cash flows, principal is defined as the fair value of the financial asset at initial recognition. Interest is defined as the consideration for the time value of money and the credit risk associated with the principal amount outstanding over certain period of time and for other basic loan risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

The Company considers the contractual terms of the instrument to assess whether the contractual cash flows are payments of principal and interest only. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows in such a way that it would not meet that condition. When making this assessment, the Company considers:

- contingent events that change the value or timing of cash flows;
- terms that may adjust the contractual rate, including variable rates;
- prepayment and extension of the term; and

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

- the terms that limit the Company's access to cash flows from specific assets (e.g., based on the performance of an asset).

Purchases or sales of financial assets requiring the delivery of assets within a period established by regulation or agreement in the market (regular trading) are recognized on the trade date, i.e., on the date on which the Company undertakes to buy or sell the asset.

ii. Financial liabilities

Financial liabilities are initially recognized on the date they were originated or on the trade date on which the Company or its subsidiaries become a party to the contractual provisions of the instrument. Classifications of financial liabilities are as follows:

- Measured at fair value through profit or loss: these are financial liabilities that: (i) are held for trading, (ii) are designated at fair value aiming to compare the effects of the recognition of income and expenses to obtain more relevant and consistent accounting information or (iii) derivatives. These liabilities are recorded at their respective fair values, and their changes are recognized in profit or loss for the year and any change in the subsequent measurement of fair values that is attributable to changes in the liability's credit risk is recorded against other comprehensive income.

- Measured at amortized cost: refer other financial liabilities that do not fit into the above classification. These are initially recognized at fair value less any costs attributable to the transaction and subsequently recorded at amortized cost using the effective interest rate method.

iii. Derivative financial instruments

The Company and its subsidiaries did not carry out, in the years ended December 31, 2021 and 2020, any transactions with derivative financial instruments. Pursuant to its financial policies, the Company and its subsidiaries do not carry out transactions involving financial instruments of a speculative nature.

3.4. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and financial investments with original maturity of three months or less from the date of contracting, which are subject to an insignificant risk of change in fair value at the time of their settlement and are used by the Company in the management of short-term obligations. The purpose of determining the composition of the Company's cash and cash equivalents is to maintain sufficient cash to ensure the continuity of investments and the fulfillment of short- and long-term obligations, maintaining the return of its capital structure at adequate levels, aiming at the continuity of its business and the increase in the Company's value.

3.5. Trade accounts receivable

Trade accounts receivable are recorded at their nominal value and deducted from the allowance for expected credit losses, which is estimated based on the weighting of the risk of loss for each group, considering the different risks according to the collection operation. Present value calculation, when applicable, is performed on the transaction date based on an interest rate that reflects the term and market conditions at the time.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

3.6. Inventories

Recorded at the lower of net realizable value (estimated sales value in the normal course of business, less estimated expenses to carry out the sale) and average production cost or average acquisition price. The Company and its subsidiaries cost their inventories by absorption, using the weighted moving average for these. Provisions for slow-moving or obsolete inventories are recognized when considered necessary by management.

3.7. Property, Plant & Equipment

Property, plant and equipment are measured at acquisition and/or construction cost, plus interest capitalized during the construction period, when applicable for qualifying assets and reduced by accumulated depreciation and, when applicable, by accumulated impairment losses. It also includes any other costs for placing the asset in the proper location and condition for them to be able to operate as intended by Management, the costs of disassembly and restoring the location where these assets are located and loan costs on other qualified assets.

The rights related to tangible assets intended for the maintenance of the activities of the Company and its subsidiaries, arising from financial leasing transactions, are recorded as if they were a financed purchase, recognizing at the beginning of each transaction a fixed asset and a financing liability, with the assets also subject to depreciation calculated according to the estimated useful lives of the respective assets or effective term of the agreement, in cases where there is no purchase option.

Depreciation is recognized based in the estimated useful life of each asset or group of assets, using the straight-line method, so that its residual value after its useful life is fully written off. The estimated useful life, residual values and depreciation methods are reviewed on an annual basis, and the effect of any changes in estimates is accounted for on a prospective basis.

Gains and losses on the disposal/write-off of a property, plant and equipment item are calculated by comparing the proceeds from disposal with the asset's residual value, and are recognized at their net amount, in other operating revenues/expenses.

3.8. Intangible assets

i) Software

Purchased computer program licenses are capitalized and amortized over their estimated useful lives. Costs associated with developing or maintaining software are recognized as an expense, as incurred. Expenses directly associated with identifiable and unique software, controlled by the Company and which are likely to give rise to economic benefits higher than costs for more than one year, are recognized as intangible assets. The estimated useful lives of significant items of intangible assets for the years presented are disclosed in Note 13.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

ii) Product research and development

Research expenditures are recognized in profit or loss as incurred. Development expenses are recognized in intangible assets only when they meet all of the following criteria: (i) development costs can be measured reliably; (ii) the product or process is technically and commercially feasible and future economic benefits are likely; and (iii) the Company and its subsidiaries intend and have sufficient resources to complete the development and use or sell the asset. Capitalized development costs are measured at cost, less accumulated amortization and any impairment losses, when applicable. Intangible assets are amortized based on the straight-line method, and amortization is recognized in profit or loss over the estimated useful lives of the assets, from the date they are available for use.

3.9. Impairment

Management reviews the carrying amount of its tangible and intangible assets on an annual basis to determine whether there is any indication that such assets will not be recoverable through operations or their disposal. If there is such an indication, the recoverable amount of the asset is estimated for the purpose of measuring the amount of loss, if any. When it is not possible to estimate the individual recoverable amount of an asset, the Company and its subsidiaries calculate the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent allocation basis can be identified, corporate assets are also allocated to each cash-generating unit or the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life or not yet available for use are tested for impairment, at least once a year and whenever there is any indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flow is discounted to present value at a pre-tax discount rate that reflects a current market assessment of the time value of currency and the specific risks of said asset.

If the calculated recoverable amount of an asset (or cash-generating unit) is less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The impairment loss is recognized immediately in profit or loss.

When the impairment loss is subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, provided that it does not exceed the carrying amount that would have been determined if no impairment had been recognized for the asset (or cash-generating unit) in prior years. Reversal of impairment loss is recognized immediately in profit or loss.

3.10. Provisions

Provisions are recognized as a result of a past event when there is a legal or constructive obligation that may be reliably estimated and it is likely that a economic resource will be required to settle the obligation. When applicable, provisions are calculated by discounting expected future cash flows at a rate that considers current market assessments and specific risks for the liability. Provisions for labor, tax, civil and administrative risks are set based on legal opinions and Management's assessment of the proceedings known at the balance sheet date for risks considered as probable loss.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

3.11. Lease

At the lease agreement starting date, the Company recognizes in the balance sheet the fair value of the leased asset and the present value of the minimum payments for said lease. Each installment of the lease paid is allocated partly to liabilities and partly to finance charges. The corresponding obligations, net of financial charges, are classified in current and non-current liabilities according to the term of the agreement. Property, plant and equipment acquired through a lease is depreciated according to the term set in the respective lease agreement.

3.12. Employee Benefits

Pension plan

The Company provides its employees with a private pension plan benefit, recognized on the accrual basis in accordance with CPC 33 – Employee Benefits, and is considered the Sponsor of these plans. Plans are managed by Fundação Sistel de Seguridade Social and have the following characteristics:

- **Defined contribution plan:** post-employment benefit plan whereby the Sponsor pays fixed contributions, to a separate entity, with no liability for the actuarial deficiencies of that plan. Obligations are recognized as expenses in profit or loss for the year in which the services are provided.
- **Defined benefit plan:** net obligation is calculated as the difference between the present value of the actuarial obligation obtained through assumptions, biometric studies and interest rates consistent with market yields, and the fair value of plan assets at the balance sheet date. Actuarial obligation is calculated annually by independent actuaries, under the responsibility of Management, using the projected credit unit method. Actuarial gains and losses are recognized in other comprehensive income, as incurred.

Share-based compensation - Phantom Shares

The Company has a Long-Term Incentive and Retention Plan approved in October 2021, referring to 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, based on shares issued by the Company and settled in cash, as established in the Long-Term and Retention Incentive 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.

Pursuant to CPC 10 (R1) - Share-Based Payment, the amounts related to Phantom Shares are recorded as a provision payable, with a corresponding entry in the profit or loss for the year, based on the fair value of the Phantom Shares granted and in the vesting period. The fair value of this liability is reviewed and adjusted at each reporting period of quarterly and annual results, according to the change in the fair value of the benefit granted and the acquisition of the exercise right by the beneficiaries.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

3.13. Earnings per share

Basic earnings per share are calculated using the income for the year attributable to shareholders and the weighted average number of shares outstanding in the respective year. Diluted earnings per share are calculated using the income for the year attributable to shareholders, adjusted for the effects of instruments that would potentially impact the year's income, and the average number of shares outstanding, adjusted for instruments potentially convertible into shares, with a dilutive effect, in the years presented, pursuant to CPC 41/IAS 33.

3.14. Current and deferred income tax and social contribution

Current and deferred income tax and social contribution are calculated at the rate of 15%, plus a 10% surtax on taxable income exceeding R\$ 240 for income tax, and 9% on taxable income for social contribution; this calculation considers tax loss carryforwards, limited to 30% of taxable income. Income tax and social contribution expense comprises current and deferred income tax and social contribution. Current and deferred taxes are recognized in profit or loss, unless they relate to the business combination or to items directly recognized in equity or other comprehensive income.

Current income tax and social contribution expense is calculated according to legal tax bases in force as of the reporting date of the financial statements in countries where the Company and its subsidiaries operate and generate a taxable income. Management assesses on a regular basis its approach to tax matters that are subject to interpretation and recognizes a provision when there is an expectation of payment of income tax and social contribution according to the tax bases.

Deferred income tax and social contribution are recognized on differences generated between assets and liabilities recognized for tax purposes and the corresponding amounts are recognized in the individual and consolidated financial statements. However, deferred income tax and social contribution are not recognized if they arise on the initial recording of assets and liabilities in transactions that do not affect tax bases, except in business combination transactions. Deferred income tax and social contribution are determined considering the rates (and laws) in force on the date of preparation of the individual and consolidated financial statements and applicable when the respective income tax and social contribution are realized, and are recognized only to the extent that it is probable that there will be a positive tax base, for which temporary differences can be used and tax losses can be offset. Deferred income tax and social contribution assets are revised at each closing of the reporting period and are reduced to the extent their realization is no longer probable. The Company and its subsidiaries do not present balances of deferred assets recorded by December 31, 2021.

3.15. Revenue recognition

Operating revenues from the normal course of the business of the Company and its subsidiaries is measured through the consideration received or receivable. Operating revenue is recognized when it represents the transfer (or promise to transfer) of goods or services to customers so as to reflect consideration of what amount it expects to exchange for those goods or services.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

IFRS 15/CPC 47 provides a model for revenue recognition that includes five steps: (i) identifying the agreement with the customer; (ii) identifying the performance obligation defined in the agreement; (iii) determining the transaction price; (iv) allocating the transaction price to the performance obligations in the agreement; and (v) recognizing revenue if and when the company fulfills performance obligations.

Accordingly, revenue is recognized only when (or if) the performance obligation is fulfilled, i.e., when "control" of goods or services of a certain transaction is effectively transferred to the customer. If discounts are likely to be granted and the amount can be reliably measured, then the discount is recognized as a reduction in operating revenue as sales are recognized.

3.16. Product warranty

Warranty expenses related to spare parts are recognized at the time the revenue is recorded in the income statement. Registration is done through estimated amounts based on historical factors. Warranty coverage period ranges from one to three years.

3.17. New standards and revised interpretations issued

I. New or revised pronouncements applied for the first time in 2021

The main regulations amended, issued or under discussion by the International Accounting Standards Board ("IASB") and the Accounting Pronouncements Committee ("CPC"), are as follows:

a) Reform of the Reference Interest Rate - IBOR "phase 2" (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

These amendments to various IFRS standards are mandatory for periods beginning on or after 01/01/2021 and complement those made in 2019 ("phase 1"). The amendments provided relief to the Company in connection with certain loans, the contractual terms of which are affected by the reference interest rate reform.

b) Impacts of COVID-19 on rental concessions (Amendments to IFRS 16):

Effective June 2020, and then as of March 2021, IFRS 16/CPC 06 (R2) was amended to include a practical expedient for lessees who account for rent concessions obtained from lessors as a direct consequence of the COVID-19 pandemic and meet all of the following conditions:

- i. the change in lease payments results in a reviewed consideration for the lease that is substantially equal to or lower than the consideration for the lease immediately prior to the change;
- ii. any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- iii. there is no material change to other terms and conditions of the lease.

The effect of the application of the practical expedients for IFRS 16/CPC 06 (R2) adoption is disclosed in Note 16.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

The changes described above in this sub-item I, specifically in letters a) and b) did not have a material impact on the financial statements.

II. New standards, reviews and interpretations issued but not yet in effect on 12/31/2021

a) Onerous contracts - Contract performance cost (Amendments to IAS 37);

Apply to annual periods beginning on or after 01/01/2022 for contracts existing on the date the amendments are first applied. The change specifically determines which costs should be considered when calculating the cost of the contract performance. The Company does not expect significant impacts upon the adoption of this standard.

b) Other standards

For the following standards or amendments, the Company's Management has not yet determined whether there will be significant impacts on its financial statements; namely:

- Amendment to IAS 16 Property, plant and equipment – Classification of income generated before the property, plant and equipment is in the expected conditions of use. It clarifies aspects to be considered for the classification of items produced before the property, plant and equipment is in the expected conditions of use. This amendment to the standard is effective for years beginning on or after 01/01/2022;
- Annual improvements to IFRS 2018-2020 effective for periods beginning on or after 01/01/2022. This standard amends IFRS 1, addressing aspects of first-time adoption in a subsidiary; such as: IFRS 9-Financial Instruments, comments on the 10% test criterion for the reversal of financial liabilities; IFRS 16-Leases, includes illustrative examples of leasing. These amendments are effective for years beginning on or after 01/01/2022;
- Amendment to IFRS 3- Business Combinations - Include also the requirement that, for obligations within the scope of IAS 37- Provisions, Contingent Liabilities and Contingent Assets, the buyer applies it to determine whether an obligation exists at the acquisition date as a result of past events. For any tax within the scope of IFRIC 21 -Taxes, the buyer applies it to determine whether the event that resulted in the obligation to pay the tax occurred up to the acquisition date. Finally, the amendments add an explicit statement that the buyer does not recognize contingent assets acquired in a business combination.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

The amendments are applicable to business combinations for which the acquisition date is on or after the beginning of the first reporting period beginning on or after 01/01/2022. Early adoption is allowed if the entity also adopts all other updated references (published together with the Conceptual Framework for Financial Reporting - CPC 02 (R2) on or before the same date. These changes had no impact on the Company's individual and consolidated financial statements, but may impact future periods if the Company enters into any business combinations;

- Amendment to IAS 8 - Accounting Policies, Changes in Estimates and Error Rectification: amends the definition of accounting estimates, which are now considered as "monetary amounts in the financial statements subject to measurement uncertainty", effective for periods beginning on or after 01/01/2023;
- Amendment to IAS 12 – Taxes on Profit (IRPJ and CSLL): establishes an additional exception to the exemption from the initial recognition of deferred income taxes related to assets and liabilities resulting from a single transaction, effective for periods beginning on or after 01/01/2023;
- Amendment to IAS 1 (CPC 26) - Presentation of Financial Statements - Classification of liabilities as Current or Non-current. Paragraphs 69 to 76 of this amended IAS specify requirements on how to proceed. They clarify:
 - a) the meaning of a right to defer settlement;
 - b) that the right to defer must exist at the base date of the report;
 - c) that this classification is not affected by the likelihood that an entity will exercise its right of deferral; and
 - d) that only if a derivative embedded in a convertible liability is itself an equity instrument would the terms of a liability not affect its classification.

The aforementioned amendments are valid for periods beginning on or after 01/01/2023 and shall be applied retrospectively. Currently, the Company and its subsidiaries are assessing the impact of these changes on their current practice.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

4. CASH AND CASH EQUIVALENTS

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Cash bank deposits	-	-	16,680	24,358
Highly-liquid financial investments	-	1	70,788	40,322
	<u>-</u>	<u>1</u>	<u>87,468</u>	<u>64,680</u>

Immediately-liquid financial investments refer to investments in CDB (Bank Deposit Certificate), held in top-tier financial institutions, remunerated at rates from 97% to 105% of CDI (Interbank Deposit Certificate), and are subject to an insignificant risk of change in value. (Average rate 97% to 106% of CDI as of December 31, 2020).

5. TRADE ACCOUNTS RECEIVABLE

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Accounts receivable				
Referred in local currency	-	880	68,134	79,585
Referred in foreign currency (a)	-	-	30,265	18,232
	<u>-</u>	<u>880</u>	<u>98,399</u>	<u>97,817</u>
(+) Provision Oi Project (b)	-	-	5,388	14,847
(+) Court-Supervised Reorganization Oi (d)	-	-	1,828	3,347
(-) Allowance for doubtful accounts (e)	-	(880)	(9,777)	(10,270)
(-) Provision for recognition of revenue out of the accounting period (c)	-	-	(717)	(3,068)
	<u>-</u>	<u>-</u>	<u>95,121</u>	<u>102,673</u>
Current assets	-	-	95,121	100,296
Non-current assets	-	-	-	2,377
	<u>-</u>	<u>-</u>	<u>95,121</u>	<u>102,673</u>

a) In consolidated, it is represented by US\$ 5,423 as of December 31, 2021 (US\$ 3,508 as of December 31, 2020).

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

- b) Subsidiary Padtec S.A. has a contract with the telecommunications operator Oi to supply equipment, materials and services for the implementation of new DWDM systems, as well as for the expansion of the network. The object of the contract is divided into two parts: (a) "common parts" associated with the installation of the equipment; and (b) portion associated with the use of the 10G, 100G, or 200G equivalent transponder. Common parts comprise common hardware, software, materials, and associated services. These items will be billed 100% after delivery of the product and/or after the issuance of the Agreement for Experimental Acceptance (TAF). Licenses used will be billed quarterly after auditing how many are properly in use. The balance receivable as of December 31, 2021 is R\$ 5,388 referring to 818 licenses. Padtec S.A. recognizes the license revenue when it satisfies a performance obligation when transferring the good or service (that is, an asset) promised to the client, as required by accounting practices adopted in Brazil and IFRS. These amounts are written off quarterly with the use of the installed capacity, through billing.
- c) Provision for reversal of revenue recognition outside the accrual period ("cut-off").
- d) Grupo Oi filed for judicial reorganization on June 20, 2016, based on the Judicial Reorganization and Bankruptcy Law (Law No.11.101/2005). On March 14, 2018, subsidiary Padtec S.A. adhered to Clause 4.3.5.2 of Oi's Judicial Reorganization Plan, which states that: "the securities that are part of the judicial reorganization will be paid with a 10% discount in 5 annual installments, equal and successive, plus TR + 0.5% per year, with the first installment due on the last business day of the first year after the expiry of the term for choosing the credit payment option". So far, Padtec S.A. has received four installments related to this Plan.
- e) The allowance for doubtful accounts is based on CPC 48 – Financial instruments assumptions, and considers the analysis of the level of historical losses and knowledge and monitoring of the individual situation of customers. The allowance for doubtful accounts is based on CPC 48 – Financial instruments assumptions, and considers the analysis of the level of historical losses and knowledge and monitoring of the individual situation of customers and is considered sufficient to cope with any losses on credit realization. Management constantly monitors all bills and the individual situation of its customers, as well as the quality of credit granted. When the result of these assessments implies risks of credit realization, negotiations are held to monitor the terms with these customers. Based on these assessments, the Management understands that the amounts provisioned as of December 31, 2021 are sufficient to cover possible losses with default.

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
To be due	-	-	81,558	62,241
01-30 days past due	-	-	523	7,072
31-60 days past due	-	-	68	5,629
61-90 days past due	-	-	1,887	2,361
91-120 days past due	-	-	1,380	1,102
121-150 days past due	-	-	246	1,094
151-180 days past due	-	-	471	384
181-360 days past due	-	-	472	6,023
Over 361 days past due	-	880	11,794	11,911
	-	880	98,399	97,817

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

Changes in the allowance for doubtful accounts are as follows:

	Consolidated			
	12/31/2020	12/31/2021		
	Initial balance	Addition	Reversal	Final balance
(-) Allowance for doubtful accounts	(10,270)	(2,461)	2,954	(9,777)
	<u>(10,270)</u>	<u>(2,461)</u>	<u>2,954</u>	<u>(9,777)</u>

6. INVENTORIES

	Consolidated	
	12/31/21	12/31/20
Finished products	17,216	13,648
Products in progress	1,626	1,691
Raw materials	50,201	32,687
Resale materials	3,937	3,340
Import in progress	5,683	13,195
Inventories held on third parties (a)	16,113	7,127
Provision for obsolescence and slow turnover (b)	<u>(13,334)</u>	<u>(9,699)</u>
	<u>81,442</u>	<u>61,989</u>

- a) These refer substantially to raw materials held in custody by third parties and the lending of equipment on consignment to customers.
- b) Refers to an allowance for inventory obsolescence and slow-moving inventory items. 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.

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

	Consolidated			
	12/31/20	12/31/21		
	Initial balance	Addition	Reversal	Final balance
Inventories	(8,604)	(5,310)	2,639	(11,275)
Inventories held on third parties	<u>(1,095)</u>	<u>(1,265)</u>	<u>301</u>	<u>(2,059)</u>
Total	<u>(9,699)</u>	<u>(6,575)</u>	<u>2,940</u>	<u>(13,334)</u>

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

7. TAXES RECOVERABLE

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Tax on the circulation of goods and services - ICMS	-	-	611	1,162
Industrialized product tax forwarding in transit - IPI	-	-	417	518
Financial credit (a)	-	-	5,293	4,385
Social Integration Program (PIS)	-	4	161	385
Contribution to Social Security Financing - COFINS	-	15	680	1,773
Social contribution on net income - CSLL (c)	-	-	1,572	1,600
Corporate Income Tax - IRPJ (b)	1,706	1,698	7,672	4,820
Service Tax - ISS	-	-	760	-
Brazilian Social Security Institute (INSS)	-	-	681	683
Income tax withholding - IRRF	-	-	1,140	1,356
Withholding tax from public agencies	-	-	3,380	4,967
Other	-	-	2,859	2,237
	1,706	1,717	25,226	23,886
Current assets	1,706	1,717	25,226	23,562
Non-current assets	-	-	-	324
	1,706	1,717	25,226	23,886

- a) Financial Credit: 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. Pursuant to Law No. 13.969/2019, the tax incentive becomes the receiving of a financial credit proportional to the R&D investments 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 payments resulting from monthly prepayments based on estimates.

8. RESTRICTED FINANCIAL INVESTMENTS

As of December 31, 2021, subsidiary Padtec S.A. has a total of R\$ 11,737 (R\$ 19,395 as of December 31, 2020) in restricted financial investments, as follows:

- (a) FIDC transaction with Grupo Sifra in the amount of R\$ 5,408 (R\$ 5,171 as of December 31 2020) in long-term senior quotas of FIC FIDC OSHER, aimed to finance customers and anticipate (receivables) resources. The average yield rate is 110% of the CDI.
- (b) Financial investment with Banco Bradesco in the amount of R\$ 5,364 (R\$ 5,229 as of December 31, 2020) in CDB modality, of which R\$ 3,393 for judicial performance bond (referring to the lawsuit related to ICMS exclusion from PIS and COFINS calculation base) and R\$ 1,970 given as collateral for the suretyship, which guarantees the debt with FINEP. The average yield rate is 99% of the CDI.
- (c) Financial investments in Banco Alfa and Banco do Brasil in the amount of R\$ 965 in CDB modality, given as collateral for the debt with FINEP. The average yield rate is 97% to 99% of the CDI.
- (d) Financial investment in Banco Safra in the amount of R\$ 8,995 as of December 31, 2020, CDB (Bank Deposit Certificate) modality, given as collateral for the suretyship, which in turn guaranteed a debt with BNDES, settled in November 2020. The average yield rate is 99% of the CDI.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

9. OTHER CREDITS

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Avais Officer	-	913	-	913
Credits of ammounts receivable (a)	-	-	2,265	1,980
Rental guarantee deposit	-	-	163	175
Payroll advance	-	-	609	544
Other advances	99	-	821	690
Other credits receivable	103	368	1,084	959
	202	1,281	4,942	5,261
Current assets	202	356	4,873	2,356
Non-current assets	-	925	69	2,905
	202	1,281	4,942	5,261

(a) Amount receivable from the Mecominas Group, yielding 100% of the CDI maturing in October 2022.

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 SA – BNDESPAR (as of December 31, 2021 we did not have any transactions with this related party).

Direct and indirect interests in operating subsidiaries are described in the Note No.1.

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

The main transactions and respective types are shown below:

- Loan:** Financial transactions performed between the Company and its subsidiaries. The balance of assets and liabilities on loans does not provide for interest charges, as these are transactions entered into with wholly-owned subsidiaries, with a maturity of less than one year.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

- b) **Technological development services:** An agreement was made with Fundação CPQD to perform research & development activities. The amounts relating to technological services with Fundação CPQD result from the Company's and its subsidiaries' investments in a center of excellence in optical communication for the development of innovative technologies for use in all the solutions offered by subsidiary Padtec S.A. to the market, which are performed at market prices and under arm's-length conditions.
- c) **Sales of products:** Refers to the sale 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.
- d) **Other assets and liabilities:** Transactions between Fundação CPQD and subsidiary Padtec S.A., referring to expenses with infrastructure and administrative expenses according to the apportionment defined between contractual parties.

	Parent				Consolidated			
	12/31/21		12/31/20		12/31/21		12/31/20	
	Automatos	Chenonceau	Padtec S/A	Total	Total	Fundação CPqD	Total	Total
Assets								
Loan (a)	372	-	-	372	6,072	-	-	-
	<u>372</u>	<u>-</u>	<u>-</u>	<u>372</u>	<u>6,072</u>	<u>-</u>	<u>-</u>	<u>-</u>
Non-current assets	372	-	-	372	6,072	-	-	-
	<u>372</u>	<u>-</u>	<u>-</u>	<u>372</u>	<u>6,072</u>	<u>-</u>	<u>-</u>	<u>-</u>
Liabilities								
Technological development services (b)	-	-	-	-	-	-	-	948
Other services (d)	-	-	-	-	-	6	6	-
Loan (a)	-	835	4,076	4,911	2,188	-	-	-
	<u>-</u>	<u>835</u>	<u>4,076</u>	<u>4,911</u>	<u>2,188</u>	<u>6</u>	<u>6</u>	<u>948</u>
Current liabilities	-	-	-	-	2,188	6	6	948
Non-current liabilities	-	835	4,076	4,911	-	-	-	-
	<u>-</u>	<u>835</u>	<u>4,076</u>	<u>4,911</u>	<u>2,188</u>	<u>6</u>	<u>6</u>	<u>948</u>

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Consolidated					12/31/20
	12/31/21				Total	
	Fundação CPqD	Padtec Argentina	Padtec Colômbia	Padtec EUA	Total	Total
Revenues						
Sales of products (c)	-	9,738	10,686	1,648	22,072	575
	<u>-</u>	<u>9,738</u>	<u>10,686</u>	<u>1,648</u>	<u>22,072</u>	<u>575</u>
Expenses / Costs						
Technological development services (b)	417	-	-	-	417	182
Other services (d)	110	-	-	-	110	3
	<u>527</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>527</u>	<u>185</u>

Key management personnel compensation

Compensation paid to Executive Officers, members of Board of Directors and members of Supervisory Board, when in operation, is set by the Shareholders Meeting and is consistent with market standards. The maximum global amount approved for fiscal year 2021 was up to R\$ 8,698. The annual compensation of key Management personnel includes the following expenses:

	12/31/21	12/31/20
Short-term benefits		
Salaries including bonuses	4,267	1,588
Social security charges	869	269
Private Pension Fund	243	80
	<u>5,379</u>	<u>1,937</u>

Subsidiary Padtec S.A. sponsors two private pension plans for 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 or other seniority benefits. The Company does not grant either any severance benefits to members of its senior management in addition to those defined in the employment contract, signed between them and the Company.

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

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 year, are presented below:

11.1. Breakdown of investments

	Parent	
	12/31/21	12/31/20
Investments in subsidiaries		
Chenonceau Participações S.A.	1,188	294
Padtec S.A.	151,373	121,933
	<u>152,561</u>	<u>122,227</u>

11.2. Provision for unsecured liabilities

	Parent	
	12/31/21	12/31/20
Investments in subsidiaries		
Automatos Participações Ltda.	(4,578)	(3,888)
	<u>(4,578)</u>	<u>(3,888)</u>

PADTEC HOLDING S.A.

Free translation from the original issued in Portuguese. In the event of discrepancies, the Portuguese language version prevails.)

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020 (Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

11.3. Summary of financial information of subsidiaries

	Automatos Participações Ltda.		Chenonceau Participações S.A.		Padtec S.A.	
	12/31/21	12/31/20	12/31/21	12/31/20	12/31/21	12/31/20
Capital	15,966	15,966	18,696	18,696	230,003	230,003
Total assets	30	6,655	1,188	294	432,257	364,917
Total liabilities	4,608	10,543	-	-	280,884	242,984
Net equity (negative net worth)	(4,578)	(3,888)	1,188	294	151,373	121,933
Profit (Loss) for the year	(690)	6,679	894	(2)	29,664	19,450
Number of shares (in thousands)	15,966	15,966	18,696	18,696	230,003	230,003
Number of shares held (in thousands)	15,966	15,966	18,696	18,696	230,003	230,003
Shareholding percentage	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

11.4. Summary of financial information of indirect subsidiaries

	Padtec S.A Sucursal Argentina		Padtec EUA		Padtec Colômbia	
	12/31/21	12/31/20	12/31/21	12/31/20	12/31/21	12/31/20
Capital	2,160	2,160	19,556	18,213	949	949
Total assets	8,252	2,701	262	1,720	16,717	9,169
Total liabilities	5,588	931	2,111	1,492	19,029	7,771
Net equity (negative net worth)	2,664	1,770	(1,849)	228	(2,312)	1,398
Profit (Loss) for the year	1,212	930	(3,363)	(2,952)	(3,860)	(208)
Number of shares (in thousands)	2,160	2,160	19,556	18,213	1,456	1,456
Number of shares held (in thousands)	2,160	2,160	19,556	18,213	1,456	1,456
Shareholding percentage	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

11.5. Changes in investments at the Parent Company

	Automatos Participações Ltda.		Chenonceau Participações S.A.		Padtec S.A.		Total	
	12/31/21	12/31/20	12/31/21	12/31/20	12/31/21	12/31/20	12/31/21	12/31/20
Initial balance of investments	-	-	294	296	121,933	35,515	122,227	35,811
Initial balance - loss of investment	(3,888)	10,903	-	-	-	-	(3,888)	10,903
Capital payment	-	-	-	-	-	67,357	-	67,357
Investments / contributions (redemptions)	-	336	-	-	-	-	-	336
Goodwill on capital transaction	-	-	-	-	-	599	-	599
Share of profit (loss) of investees	(690)	6,679	895	(2)	29,664	18,973	29,869	25,650
Translation adjustment of balance sheet of subsidiaries abroad	-	-	-	-	(225)	(511)	(225)	(511)
Other	-	(14,030)	-	-	-	-	-	(14,030)
Balance of the provision for losses in subsidiaries	4,578	(3,888)	-	-	-	-	4,578	(3,888)
Final balance of investments	-	-	1,189	294	151,372	121,933	152,561	122,227

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

12. PROPERTY, PLANT & EQUIPMENT

	Consolidated						Total
	Machinery and equipment	Computer equipment	Furniture and fixtures	Telephone devices	Third-party property improvement	Right to use lease (a)	
Balance as of December 31, 2020							
Cost	21,616	9,792	2,527	21	2,943	6,043	42,942
Accumulated depreciation	(15,572)	(4,636)	(1,263)	(19)	(226)	(2,686)	(24,402)
Balance as of December 31, 2020	6,044	5,156	1,264	2	2,717	3,357	18,540
Acquisitions	327	2,047	124	-	1,082	23,382	26,962
Write-offs and disposals (acquisition)	(31)	(25)	20	-	-	-	(36)
Write-offs and disposals (depreciation)	34	23	(8)	-	-	(200)	(151)
Depreciation	(1,611)	(1,653)	(251)	(1)	(667)	(2,430)	(6,613)
Balance as of December 31, 2021	4,763	5,548	1,149	1	3,132	24,109	38,702
Cost	21,913	11,814	2,671	21	4,025	26,539	66,983
Accumulated depreciation	(17,150)	(6,266)	(1,522)	(20)	(893)	(2,430)	(28,281)
Balance as of December 31, 2021	4,763	5,548	1,149	1	3,132	24,109	38,702

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

- (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.

On the date of initial adoption, the Company used the modified retrospective approach, choosing to measure the cost of the right of use of the leased asset at an amount equivalent to the present value of the lease liability payable as of January 1, 2019, with no adjustment of comparative information.

Depreciation of the right of use is calculated based on the term of each lease agreement.

The table below shows the average depreciation rates for PP&E for the year:

	In years	% per year
Machinery and equipment	02 to 10 years	10% per year to 50% per year
Computer equipment	01 to 5 years	20% per year to 100% per year
Furniture and fixtures	06 to 15 years	6.67% per year to 16.67% per year
Telephone device	04 to 10 years	10% per year to 25% per year
Right-of-use	06 years	16% per year
Other	05 years	20% per year

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

13. INTANGIBLE ASSETS

	Parent	
	Brands and patents	Total
Balance as of December 31, 2020		
Cost	24	24
Balance as of December 31, 2020	24	24
Balance as of December 31, 2021	24	24

	Consolidated					Total
	Software	Brands and patents	Technical Information License	Development projects completed	Development projects in progress	
Balance as of December 31, 2020						
Cost	10.211	27	5.144	20.169	14.068	49.619
Accumulated amortization	(6.097)	-	(4.256)	(10.049)	-	(20.402)
Balance as of December 31, 2020	4.114	27	888	10.120	14.068	29.217
Acquisitions	596	-	592	2.616	13.868	17.672
Transfer in development to completed	-	-	-	9.293	(9.293)	-
Write-offs and disposals (amortization)	(11)	-	(205)	-	-	(216)
Amortization	(1.130)	-	(1.231)	(6.327)	-	(8.688)
Balance as of December 31, 2021	3.569	27	44	15.702	18.643	37.985
Cost	10.807	27	5.736	26.949	18.643	62.162
Accumulated amortization	(7.238)	-	(5.692)	(11.247)	-	(24.177)
Balance as of December 31, 2021	3.569	27	44	15.702	18.643	37.985

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.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

The table below shows the average depreciation rates for intangible assets for the year:

Description	In years	% per year
Software	05 years	20% per year
Development of new products	05 years	20% per year

14. LOANS AND FINANCING

Modality	Agreed Rate	Annual average effective rate	Due date	Guarantee	Consolidated	
					12/31/21	12/31/20
<i>Local currency</i>						
Working Capital - Safra	CDI + 5.53% p.a.	5.68%	from 10/22/20 to 09/23/24	-	8,602	10,020
Working Capital - Daycoval	CDI + 5.9% and 10.08% p.a.	8.33%	from 07/29/20 to 09/30/24	Receivables	7,646	15,036
Working Capital - ABC Brasil	CDI + 4.38% p.a.	4.48%	from 12/23/20 to 05/23/24	Receivables	7,801	8,011
Finep	TR + 2.80% p.a.	2.84%	from 02/15/20 to 02/15/40	Bank-issued guarantee	28,244	10,365
					52,293	43,432
Current liabilities					10,087	11,151
Non-current liabilities					42,206	32,281
					52,293	43,432

Repayment schedule by year of maturity:

Updated table below.

	Consolidated											total
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032-2041	
Loans and Financing	10,087	11,152	7,519	1,985	1,985	1,985	1,985	1,985	1,985	1,985	9,640	52,293

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

14.1. Payments

During 2021, R\$ 12,273 was paid in the consolidated, referring to interest and principal on loans raised by the Company.

14.2. Raising of Loans and Financing

In July 2021, subsidiary Padtec S.A. raised a credit line from FINEP, intended for technological investments. The financing granted amounts to R\$ 19,653 and the funds are released according to the disbursement and proof of costs under the strategic innovation plan of Padtec S.A. So far, R\$ 7,588 have been capitalized. Interest will be paid in 217 consecutive monthly installments, with a 30-month grace period for principal payment.

Throughout 2021, R\$ 10,255 of financing had been released with FINEP, arising from agreements signed in 2020. The credit line granted amounts to R\$ 23,964 and the funds are released according to the disbursement and proof of costs under the strategic plan.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

14.3.Reconciliation of liabilities resulting from financing activities

	Consolidated
Balances as of January 1, 2020	<u>0</u>
Balance from consolidation	60,367
Interest expenses	3,080
Interest Payment	(3,052)
Loans Raised	49,364
Amortization	(66,327)
Balance as of December 31, 2020	<u>43,432</u>
Interest expenses	3,292
Interest Payment	(2,948)
Loans Raised	17,843
Amortization	(9,326)
Net cash flow for the current year	<u>8,861</u>
Balance as of December 31, 2021	<u>52,293</u>

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 ("Debentures").

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

The change in the issuance of Debentures is shown below:

Modality	Consolidated				
	Balance as of 12/31/2020	Principal Amortization	Charges	Charges paid	Balance as of 12/31/2021
<i>Measured at amortized cost - post fixed</i>					
Post fixed					-
CDI	40,000	(8,000)	3,032	(2,905)	32,127
Total at cost	40,000	(8,000)	3,032	(2,905)	32,127
Funding expenses (*)	(922)	200	-	-	(722)
Total	39,078	(7,800)	3,032	(2,905)	31,405
Current liabilities	7,765				10,546
Non-current liabilities	31,313				20,859
	39,078				31,405

Repayment schedule by year of maturity:

	Consolidated			
	2022	2023	2024	TOTAL
Debentures	10,546	10,667	10,192	31,405

(*) Pursuant to CPC 48/IFRS 9, these refer to funding costs directly attributable to the issuance of the respective debts, measured at cost.

Debentures have a maturity term of 4 (four) years, counted from their issue date, therefore maturing on December 21, 2024. Net proceeds raised through this issue were used for reprofiling and lengthening the Company's debts, including the full payment of debts originally contracted with Banco do Brasil and with Banco Itaú.

Covenants

The Debentures require compliance with some covenants, in addition to additional obligations, which are calculated on an annual basis. The financial covenant establishes that: Net Financial Debt to EBITDA ratio must be maintained at a ratio of up to two integers and five tenths (2.5) until the full payment of the Guaranteed Obligations, to be determined on an annual basis, from the year 2020 ("Financial Covenant"), based on the annual statements of the issuer (Padtec S.A.) for the immediately previous period, audited by an Independent Auditor, which should include the mention of compliance or not with the Financial Covenant of the issue of the Debentures.

The Company monitors these indexes on a systematic and constant basis, in order to ensure that the conditions are met. In Management's understanding, all covenants and financial and non-financial clauses are duly complied with as of December 31, 2021.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

15.1. Reconciliation of liabilities resulting from financing activities

	<u>Consolidated</u>
Balances as of January 1, 2020	0
Issuance of debentures	40,000
Costs with Issuance of debentures	(922)
Balance as of December 31, 2020	<u>39,078</u>
Interest expenses	3,032
Interest Payment	(2,905)
Amortization of costs with issuance of debentures	200
Payment of debentures - principal	<u>(8,000)</u>
Current net cash flow	<u>(7,673)</u>
Balance as of December 31, 2021	<u>31,405</u>

16. LEASE TRANSACTIONS

On the initial date of measurement of the liability, the provision for lease 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 incremental rate on the loan (discount rate), plus other contractual obligations provided for in the lease agreements adjusted to present value.

The Company opted to define a single discount rate for leases with similar characteristics, considering as criteria for defining the discount rate the financial costs of loans and financing for the acquisition of similar assets.

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 6.30%, in accordance with the effective term of each lease agreement.

The amount of the adjustment to the present value will be appropriated on a monthly basis, as financial interest in the profit or loss for the year.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

Subsidiary Padtec S.A. has a lease agreement with Daycoval Leasing – Banco Multiplo S/A, referring to the lease of equipment that is being used in the service provision operation. The lease lasts for 33 months with a 3-month grace period and a call option clause at the end of this term. Lease payment will be made in 33 equal installments beginning in December 2021. The effect of this accounting is the recording of R\$ 3,745 in property, plant and equipment in the group of right-of-use, with a corresponding entry to the rental obligation in current and non-current liabilities.

	<u>Consolidated</u>	
LIABILITIES	<u>12/31/20</u>	<u>12/31/21</u>
Provision for leasing	3,357	24,109
	<u>3,357</u>	<u>24,109</u>
Current liabilities	2,733	4,086
Non-current liabilities	624	20,023
	<u>3,357</u>	<u>24,109</u>

Change in provision for leasing

	<u>Consolidated</u>				
	<u>01/01/20</u>	<u>New Agreements</u>	<u>Payment</u>	<u>Financial interest</u>	<u>12/31/21</u>
Provision for leasing					
Machinery and equipment	-	4,719	(143)	(757)	3,819
Building lease - related parties	3,357	19,563	(1,394)	(1,236)	20,290
	<u>3,357</u>	<u>24,282</u>	<u>(1,537)</u>	<u>(1,993)</u>	<u>24,109</u>
Current liabilities	2,733				4,086
Non-current liabilities	624				20,023
	<u>3,357</u>				<u>24,109</u>

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. 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.

17. FINANCIAL TRANSACTIONS

As of December 31, 2021, the Company has recorded financial transactions of Vendor and FIDC in the amount of R\$ 32,770 (R\$ 37,139 as of December 31, 2020) in current liabilities and R\$ 13,225 (R\$ 11,460 as of December 31, 2020) in non-current liabilities. The corresponding entry of this entry is recorded in current assets and non-current assets. Such transactions are described as follows:

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

17.1. Vendor Transactions

The Company entered into Vendor and Forfait agreements (factoring) with Banco do Brasil, Banco Safra, Banco Industrial, Banco Paulista, Banco Alfa and Banco Daycoval, which consist of sales financing transactions based on the principle of credit assignment. By the end of the 2021, these financial institutions granted credits to 23 customers of the Company upon the signing of Financing Promise Agreements in the global limit of R\$ 77,552 maturing by December 2024. This amount is used for the acquisition of the Company's products and implementation of services, with R\$ 31,598 recorded in short-term and R\$ 13,194 in long-term.

17.2. Transactions with the credit rights investment fund (FIDC)

Credit Rights Investment Fund was established in October 2019, by Padtec S.A. together with other shareholders, and proceeds will be used for the acquisition of the Company's products and implementation services. Padtec S.A holds a 25% interest and the other shareholders hold a 75% interest. FIDC is managed by the Sifra Group, for the purpose of financing clients and anticipating funds (receivables). The credit limit will be R\$ 20 million. The assignment rate for Padtec's receivables is 1.95% p.m., with a term limited to the investment amount described below. This investment will be recorded with a chattel mortgage in favor of the Sifra Group, to exclusively guarantee Padtec operations as assignor.

As of December 31, 2021, 6 customers of the Company were granted credit in the total amount of R\$ 8,722, maturing up to January 2023. As of December 31, 2021 there was no default and the amount recorded is R\$ 1,172 in the short term and R\$ 31 in the long term.

18. TRADE ACCOUNTS PAYABLE

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Domestic suppliers	4	-	18,112	12,801
International suppliers	-	-	45,486	43,031
	4	-	63,598	55,832
Current liabilities	4	-	62,497	55,832
Non-current liabilities	-	-	1,101	-
	4	-	63,598	55,832

19. FORFAITING

The Company has an agreement with a Banco do Brasil to allow domestic suppliers to early collect their receivables. Under this transaction, suppliers assign receivables from sales of goods to financial institutions. The consolidated balance as of December 31, 2021 is R\$ 1,110 (R\$ 1,971 as of December 31, 2020), with a maximum term of 180 days. The Company has no financial expenses related to this transaction, as the cost is paid by the supplier.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

20. TAXES AND CONTRIBUTIONS PAYABLE

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Tax on the circulation of goods and services - ICMS	-	-	4,371	3,320
Corporate Income Tax - IRPJ	-	-	196	558
Excise Tax - IPI	-	-	1,680	2,728
Social contribution on Net Income - CSLL	-	-	-	203
Social Integration Program- PIS	-	-	299	314
Contribution to social security financing - COFINS	-	4	1,404	1,341
Service Tax - ISS	36	-	527	189
Other	12	-	630	551
Current liabilities	48	4	9,107	9,204

21. TAXES AND CONTRIBUTIONS PAYABLE - INSTALLMENT PAYMENT

	Consolidated	
	12/31/21	12/31/20
Installment payment of tax on the circulation of goods and services - ICMS (a)	8,047	5,043
Special program for tax regularization - PERT	9	-
Installment payment of tax on service - ISS (b)	249	3,257
Other	-	234
Total liabilities	8,305	8,534
Current liabilities	7,129	6,331
Non-current liabilities	1,176	2,203
	8,305	8,534

- a) 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\$ 18,468, with an outstanding balance as of December 31, 2021 in the amount of R\$ 8,047 with final maturity up to November 2023.
- b) The consolidated amount is represented by municipal tax debts of subsidiary Automatos Participações.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

22. PROVISIONS

22.1. Miscellaneous provisions

	Consolidated			
	12/31/20		12/31/21	
	Initial balance	Addition to provision	Reversals	Final balance
Provision for commission (a)	724	1,087	(1,045)	766
Repairs during warranty (b)	1,892	729	(1,669)	952
Other	129	677	(74)	732
Total	2,745	2,493	(2,788)	2,450

a) Refers to the provision for payment of commissions on sales made to customers at the percentage of 0.4% to 4% or fixed amounts of monthly salaries, pursuant to the contractual clauses.

b) Recognized to meet expenditures relating to products, including warranty and contractual obligations.

22.2. Provision for labor, tax and civil risks

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

	Parent			
	12/31/20		12/31/21	
	Initial balance	Addition to provision	Reversals	Final balance
Labor (a)	20,235	543	(2,999)	17,779
Civil	2,875	-	(2,875)	-
Administrative	-	29	(29)	-
Total provisions	23,110	572	(5,903)	17,779
Judicial deposits (c)	(1,187)	(339)	535	(991)
Total	21,923	233	(5,368)	16,788

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

	Consolidated			
	12/31/20	12/31/21		
	Initial balance	Addition to provision	Reversals	Final balance
Labor (a)	22,734	1,331	(3,717)	20,348
Civil	5,937	1,773	(4,224)	3,486
Tax (b)	7,014	3,143	(3,260)	6,897
Administrative	285	111	(142)	254
Total provisions	35,970	6,358	(11,343)	30,985
Judicial deposits (c)	(2,364)	(639)	1,630	(1,373)
Total	33,606	5,719	(9,713)	29,612

(a) Labor

Lawsuits filed by former employees of subsidiaries Padtec S.A. and Automatos Participações, as well as former subsidiaries Officer, Pini, Latin and Ventures (Softcorp) and ETML - already divested, claiming labor rights.

(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. The total provisioned risk amounts to R\$ 2,395 and an additional a provision was set in the amount of R\$ 577 for the periods 2016 to 2018.

(c) Judicial Deposits

The amounts refer to judicial deposits held in the name of the Parent Company and investees Padtec S.A. and Automatos Participações Ltda., mainly in labor lawsuits.

(d) Contingencies with estimated losses classified as possible.

In the consolidated, there are other lawsuits with a total amount at risk of R\$ 75,805 assessed by the legal advisors as having a possible risk of loss as of December 31, 2021 (R\$ 74,225 as of December 31, 2020), 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 includes R\$ 61,157 referring to tax risks, R\$ 6,169 to labor risks, R\$ 8,260 to civil risks and R\$ 219 to administrative risks. The main proceedings that fall under the description above are detailed below:

- Subsidiary Padtec S.A. has a tax foreclosure proceeding related to ICMS tax, which is in the appeal stage, in the amount of R\$ 6,290. The lower court decision was partially favorable to cancel the tax charged, maintaining, however, the requirement of fines.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

- Subsidiary Padtec S.A. has 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\$ 1,820. The Subsidiary guaranteed the foreclosure with the submission of a performance bond, to discuss in court the charge that it considers undue.
- Subsidiary Padtec S.A. has a tax assessment notice issued 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 process 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\$ 5,929. 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\$ 39,474. In January 2008, 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
- 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\$ 10,482 as of December 31, 2021. The records are at the National Process Management Center of the Federal Revenue Office in Ribeirão Preto/SP.
- Civil Actions F.P. e A. Ltda.: Padtec Holding S.A. (formerly Ideiasnet S.A.) is a defendant in three civil lawsuits filed by the plaintiff, namely: 0014757-87.2014.8.16.0001 (precautionary action); 0021446-50.2014.8.16.0001 (main case); and 0009306-47.2015.8.16.0001 (accountability action). Such lawsuits address the validity of the guarantees given by the plaintiff (fiduciary sale of real estate instruments) in favor of Padtec Holding S.A. in connection with the sale of the former investee Softcorp and the amounts due to Padtec Holding versus the amount executed by it through the guarantees. The lawsuits are conducted under a closed proceeding, together, separate from the main proceeding, with risk classified as "possible loss" by the lawyers, therefore, the amount involved (R\$ 5,749) is not provisioned.
- 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 the city of Belo Horizonte/MG 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.. Such proceedings amount to R\$ 4,805, with a risk of "possible loss" according to the lawyers who sponsor the cases, so no provision is made.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

23. LABOR CHARGES

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Wages	99	44	3,322	2,542
Profit sharing	-	-	7,102	3,211
Social charges	80	62	6,199	5,792
Provision for vacation	-	-	6,751	6,499
Private pension fund	-	-	958	844
Share-based compensation - Phantom Shares	20	-	210	-
Other	-	80	118	88
	199	186	24,660	18,976

24. PRIVATE PENSION PLAN

The subsidiary Padtec S.A. sponsors two pension plans for 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 these plans, funding varies according to a contribution table based on salary ranges, from 1% to 8% of the employees' compensation.

As of December 31, 2021, there were no actuarial liabilities on behalf of Padtec S.A. arising from the supplementary pension plan.

Contributions made amounted to R\$ 2,932 as of December 31, 2021, which were recorded as an expense in P&L for the year.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

25. EQUITY

25.1. Capital

As of December 31, 2021, 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	12/31/21		12/31/20	
	Number of Shares	Shareholding - %	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%	3,927,649	5.01%
Other	13,362,763	17.03%	13,362,763	17.03%
Total	78,449,779	100.00%	78,449,779	100.00%

25.2. Capital reserve and equity valuation adjustment

Capital

Corresponding to gains or losses on the change of interest in subsidiaries with no loss of control, transferred to accumulated losses in 2021.

25.3. 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.

25.4. Dividends

The Company's Bylaws sets forth the allocation of 25% of net income, adjusted pursuant to Article 202 of Law 6.404/76, to be paid as mandatory minimum dividends, when profits are determined for the year. No distribution of dividends was made for the year ended December 31, 2021, as the profit for the year was absorbed by the accumulated loss. As of December 31, 2020, no dividends were distributed as well.

25.5. Share-based compensation - Phantom Shares

The Company has a Long-Term Incentive and Retention Plan approved in October 2021, referring to 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, based on shares issued by the Company and settled in cash, as established in the Long-Term and Retention Incentive 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.

As of December 31, 2021, the amount of R\$ 210 referring to the fair value of Phantom Shares granted is recognized under "Social obligations".

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

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.

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.

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 December 31, 2021 and 2020:

	Parent				Consolidated		
	Parent Company and Consolidated		Continued operations		Continued operations		Discontinued operations
	12/31/21	12/31/20	12/31/21	12/31/20	12/31/21	12/31/20	12/31/21
Basic numerator							
Profit for the year	25,550	17,211	25,550	17,211	12,269	17,211	13,281
Number of Shares	78,450	78,450	78,450	78,450	78,450	78,450	78,450
Basic and diluted earnings per share - in Brazilian reais	0.3257	0.2194	0.3257	0.2194	0.1564	0.2194	0.1693
Diluted numerator							
Profit for the year	25,550	17,211	25,550	17,211	12,269	17,211	13,281
Number of Shares	78,450	78,450	78,450	78,450	78,450	78,450	78,450
Diluted earnings per share - in Brazilian reais	0.3257	0.2194	0.3257	0.2194	0.1564	0.2194	0.1693

27. NET OPERATING REVENUE

	Consolidated	
	12/31/21	12/31/20
Gross operating revenue	460,774	230,780
Products sold	338,457	187,722
Services rendered	122,317	43,058
Taxes on sales	(105,032)	(53,519)
Returns and cancellations	(12,002)	(7,968)
Net operating revenue	343,740	169,293

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

28. COST OF GOODS SOLD AND SERVICES PROVIDED

	Consolidated	
	12/31/2021	12/31/2020
Materials	(160,149)	(66,359)
Labor	(40,586)	(20,718)
Depreciation / amortization	(3,059)	(1,091)
Reversal of provisions (a)	2,600	3,249
Travel	(9,666)	(2,327)
Other costs	(10,271)	(20,368)
	(221,131)	(107,614)

(a) Balance Referring to Cut-Off reversals and inventory obsolescence occurred in the year.

29. OPERATING REVENUES (EXPENSES)

29.1. Administrative, selling and research and development expenses

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Labor expenses and social charges	(1,853)	(1,882)	(62,067)	(30,775)
Third-party services	(1,818)	(771)	(9,383)	(4,478)
Selling and marketing expenses	(190)	(185)	(1,211)	(345)
General and administrative expenses	(316)	(447)	(7,266)	(5,780)
Depreciation / amortization	-	-	(5,908)	(2,820)
Travels	-	-	(689)	(55)
Lease of properties and equipment	-	(47)	(537)	(377)
Other	(22)	-	(5,764)	(2,904)
	(4,199)	(3,332)	(92,825)	(47,534)

Reported as follows:

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Administrative expenses	(4,199)	(3,332)	(27,769)	(15,928)
Selling expenses	-	-	(31,562)	(13,754)
Research and development expenses	-	-	(33,494)	(17,852)
	(4,199)	(3,332)	(92,825)	(47,534)

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

29.2. Other operating revenues/(expenses), net

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Tax gain - PIS/Cofins credit - ICMS exclusion	-	-	1,736	-
Tax gain - ISS credit granted (b)	-	-	1,532	-
Administrative indemnities	-	-	(260)	(119)
Civil indemnities	1,232	-	166	-
Labor indemnities	(3,226)	(110)	(4,135)	(579)
Tax indemnities	-	-	(51)	-
Loss / gain - asset held for sale	-	(345)	-	(345)
Loss of trade account receivables	4	-	(2,250)	(2,615)
Allowance for doubtful accounts	-	3	(387)	7,906
Provision for labor contingencies	4,207	(1,092)	4,047	(442)
Provision for tax contingencies	-	-	2,707	(1,652)
Provision for civil contingencies	2,875	(4,083)	2,450	3,454
Provision for administrative contingencies	-	-	216	(1,112)
Other (c)	(5,050)	(406)	(5,618)	(408)
	42	(6,033)	153	4,088

- a) Booking of principal of PIS/COFINS Credit of R\$ 1,736 and attorney fees related to the success of the case.
- b) ISSQN credit granted to subsidiary Padtec S.A., equivalent to R\$ 1,532 to be offset in 24 months on the ISS due in each future period.

30. FINANCIAL RESULT

30.1. Financial income

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Income from financial investments	7	1,026	4,393	1,967
Income from financial transactions	-	-	720	894
Foreign exchange gains	-	-	8,381	3,047
Inflation adjustment on taxes and contributions	2	-	3,261	171
Other revenues	-	-	49	1,160
	9	1,026	16,804	7,239

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

30.2. Finance costs

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Interest on loans and financing	(25)	(1)	(10,314)	(3,600)
Costs on financial transactions	-	-	(253)	(85)
Foreign exchange losses	-	-	(10,462)	(2,188)
Pis and cofins on financial income	(109)	(44)	(231)	(82)
Other expenses	(37)	(55)	(4,448)	(1,640)
	(171)	(100)	(25,708)	(7,595)

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:

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Income before taxes	25,550	17,211	21,033	17,401
Share of profit (loss) of investees	(29,869)	(25,650)	-	476
Law No. 11,196/05	-	-	(9,987)	(5,484)
(+/-) Other additions and deletions	(7,018)	535	14,558	(14,385)
Provision/reversal for obsolescence of inventory	-	-	3,635	230
Provision/reversal of contingencies	(7,082)	476	(9,350)	1,618
Provision/reversal of revenues	-	-	9,014	(10,986)
Provision/reversal for doubtful accounts	-	(3)	388	(7,906)
Loss on account receivables	-	-	-	2,615
Provision/reversal - other	-	(344)	3,871	3,049
Financial credits	-	-	(20,876)	(8,378)
Discontinued operations	-	-	13,281	-
Other Additions and deletions	64	406	14,595	5,373
Tax profit (loss) (IR basis)	(11,337)	(7,904)	25,604	(1,992)
Income tax	-	-	(6,431)	(182)
Social contribution	-	-	(2,333)	(8)
Current income tax and CSLL	-	-	(8,764)	(190)

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

32. DISCONTINUED OPERATIONS

On January 18, 2019, subsidiary Padtec S.A. entered into an agreement for the sale of its submarine division with IPG Photonics, for a total amount of R\$ 75,000.

On March 15, 2019, the deal was concluded and Padtec S.A. received the amount of R\$ 56,250 referring to 75% of this business sale and the remaining 25% was to be received in two installments, the first, of 10%, after fulfillment of contractual obligations in 2019 and the second, of 15%, after 2 years from the signing of the agreement, after overcoming the risks of failures that were to be covered by Padtec S.A.

The net income from discontinued operations in 2021 amounted to R\$ 13,281. In the first half of the year, the remaining 15%, in the amount of R\$ 11,968 as described above was recorded (inflation adjusted pursuant the contractual provision) as well as R\$ 1,313 from the sale of the remaining interest in Batanga, an investee of former Ideiasnet.

33. 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	To	12/31/21
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	04/28/21	04/28/22	228,652
Death, accident, disability	07/01/20	06/30/22	932
Death, accident, disability	07/01/20	06/30/22	419
Death, accident, disability	07/01/20	06/30/22	32
Road hazards	10/31/20	10/31/21	4,000
Broad coverage (Imports)	10/31/20	10/31/21	USD 2,000
Broad coverage (Export)	10/31/20	10/31/21	USD 2,000
D&O insurance	07/09/21	07/09/22	50,000
General RC, Operations, Products	07/13/21	07/13/22	15,000

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

34. 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 does not make speculative investments. The proceeds derived from these transactions are consistent with the policies and strategies defined by Management. Risk management and management of financial instruments are performed through 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.

35. 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	
		12/31/21	12/31/20	12/31/21	12/31/20
Assets					
<i>Amortized cost</i>					
Trade accounts receivable		95,121	102,673	95,121	102,673
				-	-
<i>Fair value through profit or loss</i>					
Cash and cash equivalents	Level 2	87,468	64,680	87,468	64,680
Restricted financial investments	Level 2	11,737	19,395	11,737	19,395
Total		194,326	186,748	194,326	186,748
Liabilities					
<i>Amortized cost</i>					
Loans and financing (current)		(10,087)	(11,151)	(10,087)	(11,151)
Loans and financing (non-current)		(42,206)	(32,281)	(42,206)	(32,281)
Debentures (current)		(10,546)	(7,765)	(10,546)	(7,765)
Debentures (non-current)		(20,859)	(31,313)	(20,859)	(31,313)
Lease transactions (current)		(4,086)	(2,733)	(4,086)	(2,733)
Lease transactions (non-current)		(20,023)	(624)	(20,023)	(624)
Trade accounts payable		(62,497)	(55,832)	(62,497)	(55,832)
Trade accounts payable (non-current)		(1,101)	-	(1,101)	-
Forfeiting		(1,110)	(1,971)	(1,110)	(1,971)
Total		(172,515)	(143,670)	(172,515)	(143,670)

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.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

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, financing and debentures – are contracted under market conditions and, therefore, the carrying amounts approximate their market value for transactions of similar terms, source and risks.

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.

35.1. 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 the Company. The Company's and subsidiaries' 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:

35.2. 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.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

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

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

	Parent		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Debt	-	-	83,698	82,510
Cash and cash equivalents, financial investments	-	1	99,205	84,075
Net Debt (net cash)	-	(1)	(15,507)	(1,565)
Shareholders' Equity	128,337	103,012	128,337	103,012
Debt (cash) ratio, net	0%	0%	-12%	-2%

35.3. 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 5 (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.

35.4. 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 HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

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	2-136 years
Restricted financial investments	11,737	-	11,737	-
Financial transactions	45,995	32,770	13,225	-
Lease transactions	(24,109)	(4,086)	(20,023)	-
Loans and borrowings	(52,293)	(10,087)	(11,157)	(31,049)
Debentures	(31,405)	(10,546)	(10,667)	(10,192)
Trade Accounts Payable	(63,598)	(62,497)	(1,101)	-
Forfaiting	(1,110)	(1,110)	-	-
Financial transactions	(45,995)	(32,770)	(13,225)	-
Total	(160,778)	(88,326)	(31,211)	(41,241)

35.5. Currency risk

It results from the possibility of fluctuations in the exchange rates of foreign currencies used by Padtec Group. 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	
	12/31/21		12/31/20	
	R\$	US\$	R\$	US\$
Assets				
Trade accounts receivable	30,265	5,423	18,232	3,508
Liabilities				
Trade Accounts Payable	(45,486)	(8,151)	(43,031)	(8,280)
Total	(15,221)	(2,728)	(24,799)	(4,772)

35.6. 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 Group's results.

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts In thousands of Brazilian reais - R\$, unless otherwise indicated)

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		Consolidated	
	12/31/21	12/31/20	12/31/21	12/31/20
Assets				
Cash and cash equivalents	-	1	87,468	64,680
Restricted financial investments	-	-	11,737	19,395
Financial transactions (current)	-	-	32,770	37,139
Financial transactions (non-current)	-	-	13,225	11,460
Liabilities				
Loans and borrowings	-	-	(52,293)	(43,432)
Debentures	-	-	(31,405)	(39,078)
Forfaiting	-	-	(1,110)	(1,971)
Financial transactions (current)	-	-	(32,770)	(37,139)
Financial transactions (non-current)	-	-	(13,225)	(11,460)
Net exposure	-	1	14,397	(406)

35.7. 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 qualifies the risks through the net exposure of the variables (Dollar, CDI, IGP-M, IPCA, TJLP and Selic), as shown.

Exchange rate	Consolidated		
	Probable scenario	25% Increase	50% Increase
Trade accounts receivable	30,265	7,566	15,133
Trade accounts payable	(45,486)	(11,372)	(22,743)
Impact on profit or loss		(3,806)	(7,610)

Interest rate	Consolidated		
	Probable scenario	25% Increase	50% Increase
Cash and cash equivalents	87,468	21,867	43,734
Restricted financial investments	11,737	2,934	5,869
Loans and financing	(52,293)	(13,073)	(26,147)
Debentures	(31,405)	(7,851)	(15,703)
Forfaiting	(1,110)	(278)	(555)
Impact on profit or loss		3,599	7,198

PADTEC HOLDING S.A.

MANAGEMENT'S NOTES TO THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

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

36. INFORMATION BY SEGMENT

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

37. EXPLANATION ADDED TO THE TRANSLATION FOR THE ENGLISH VERSION

The accompanying financial statements were translated into English from the original Portuguese version prepared for local purposes. Certain accounting practices applied by the Company that conform to those accounting practices adopted in Brazil may not conform to the generally accepted accounting principles in the countries where these financial statements may be used.