Padtec Group

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail.)

Consolidated and combined financial statements and independent auditor's report

December 31, 2020, 2019 and 2018

Grant Thornton

Contents

(Free translation from the original issued in Portuguese. In the event of any discrepancies, the Portuguese language version shall prevail. See Note 27 to the financial statements.)

Independent auditor's report on the consolidated and combined financial statements

Grant Thornton Auditores Independentes

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To the Shareholders and Management
Padtec Group
Campinas – SP

Opinion

We have audited the consolidated and combined financial statements of Padtec Group (comprised of the companies listed in Note 1), which comprise the balance sheets, consolidated as of December 31, 2020 and combined as of December 31, 2019 and 2018 (referred to as consolidated and combined), and the statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including significant accounting policies and other explanatory information.

In our opinion, the aforementioned consolidated and combined financial statements present fairly, in all material respects, the consolidated and combined financial and equity position of Padtec Group as of December 31, 2020, 2019 and 2018, respectively, and the combined performance of its operations and respective combined cash flows for the years then ended, in accordance with the accounting practices adopted in Brazil and international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB), and technical pronouncement NBC TG 44 – Combined Statements.

Basis for opinion

We conducted our audit in accordance with Brazilian and international auditing standards. Our responsibilities under those standards are further described in the section "auditor's responsibilities for the audit of the consolidated and combined financial statements". We are independent of Padtec Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Brazil, and we have fulfilled our 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

Presentation of the consolidated and combined financial statements

As described in Note no. 1.2, on June 01, 2020 Padtec Holding S.A. (formerly Ideiasnet S.A.) absorbed the shares of Padtec S.A., in accordance with corporate legislation and as approved at the Extraordinary General Meeting held April 27, 2020, with Padtec S.A. consequently being converted into its wholly-owned subsidiary, making Padtec Holding S.A. the sole shareholder of Padtec S.A. Management elected to present these consolidated and combined financial statements of Padtec Group assuming Padtec S.A. has been a subsidiary of Padtec Holding S.A. since January 01, 2018. As mentioned in Note 1.2, the consolidated and combined financial statements are only being presented to provide additional analyses to third parties, and do not represent the individual or consolidated financial statements of the company and its subsidiaries. These statements should not therefore be relied on for the purpose of calculating dividends and taxes or for any other corporate purpose. Our opinion does not make a qualification regarding this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the current year. These matters were addressed in the context of our audit of the consolidated and combined financial statements as a whole, and in forming our opinion thereon, and we are not therefore expressing a separate opinion on these matters.

Revenue recognition

Why the matter was determined to be a KAM

As mentioned in notes 3.15. and 26, due to the materiality and risks involved in the revenue recognition process, in the current year we considered this to be a key audit matter. Padtec Group recognizes revenue based on Pronouncement NBC TG 47 – Revenue from contracts with customers. Revenue from sales of hardware and installation services have separate performance obligations, impacting the moment revenue is recognized as/when Padtec Group satisfies its performance obligations. We understand that the risk of early recognition, or recognition before Padtec Group has satisfied all contractual performance obligations, could be present, as a number of Padtec Group's activities related to revenue recognition are controlled manually, thereby increasing the risk of involuntary mistakes occurring in this process. It was therefore necessary to conduct additional specific audit procedures and tests to address the revenue recognition risks we deem material.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- We assessed the internal controls introduced by management for the flow of sales and provision of services;
- We conducted substantive analytical procedures and detailed tests, including confirmation with third parties, to certify that the sales existed and had been recorded in the correct period;
- We tested the effective delivery of the products and services with control over the risks and rewards being transferred to the clients;
- We checked the consistency of the revenue recognition accounting policy applied by testing sales transactions conducted during and at the end of the year;
- We analyzed the disclosures required in the consolidated and combined financial statements and whether they were consistent with management information and representations.

Based on the procedures conducted, we consider the assumptions and methodologies used by Padtec Group to recognize revenue to be reasonable and that the information presented in the consolidated and combined financial statements is consistent with the information analyzed in our audit procedures in the context of said consolidated and combined financial statements taken as a whole.

Intangible assets - Initial recognition of cost and recoverability of the balance

Why the matter was determined to be a KAM

As described in Notes 3.7. and 13, Padtec Group's consolidated and combined financial statements present significant balances in the item intangible assets of R$ 29,217 thousand, R$ 21,849 thousand and R$ 48,073 thousand as of December 31, 2020, 2019 and 2018 respectively. Padtec Group recognizes intangible assets for development projects, which are initially recorded at acquisition cost and are definite-lived. Because of the materiality of the balances involved, subject to estimates and assumptions made by Padtec Group Management in relation to projects under development, which can be de-recognized or be classified as assets, subject to impairment if there are no prospects of economic recovery, or variance in the cost of the projects that might not be recovered or make the projects unfeasible for Padtec Group, we considered this to be a key audit matter.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- We assessed the internal control framework implemented by management for the initial recognition of amounts recorded in the item;
- We conducted sample-based substantive procedures to certify that the capitalized amounts were eligible and conducive with the nature of operations in relation to intangible asset definition;
- We challenged the criteria and assumptions used by management to determine the useful life and consequently the amortization terms of these assets, checking whether they were adequately supported by documents;
- We tested these assets for impairment, based on studies presented by management;
- We tested the calculations and assumptions used by management to support the conclusion that these assets were not impaired.

Based on the procedures conducted, we consider that the assumptions and methodologies used by Padtec Group to measure definite-lived intangible assets and to test them for impairment are reasonable, and that the information presented in the consolidated and combined financial statements is consistent with the information analyzed in our audit procedures in the context of said consolidated and combined financial statements taken as a whole.

Other matters

Combined statements of value added

The combined statements of value added (DVA) for the years ended December 31, 2020, 2019 and 2018, which are the responsibility of Padtec Group management and are presented as supplementary information under IFRS, were subject to audit procedures conducted in conjunction with the audit of Padtec Group's combined financial statements. To form our opinion we assessed whether these statements have been reconciled against the combined financial statements and accounting records, as applicable, and whether their form and content comply with the criteria set out in NBC TG 09 – Statements of Value Added.

In our opinion, these combined statements of value added have been adequately prepared, in all material respects, in accordance with this Standard and are consistent with the combined financial statements taken as a whole.

Audit of the prior year's figures

Neither we nor any other independent auditors have audited the figures in the combined balance sheet for the year ended December 31, 2017 (opening balances at January 01, 2018), presented to facilitate a comparative analysis.

Responsibilities of management and those charged with governance for the consolidated and combined financial statements

Padtec Group management is responsible for the preparation and fair presentation of the consolidated and combined financial statements in accordance with Brazilian generally accepted accounting principles and the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of consolidated and combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and combined financial statements, management is responsible for assessing Padtec Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting to prepare the consolidated and combined financial statements, unless management either intends to liquidate Padtec Group or to cease its operations, or has no realistic alternative but to discontinue its operations.

Those charged with Padtec Group's governance are responsible for overseeing the consolidated and combined financial reporting process.

Auditor's responsibilities for the audit of the consolidated and combined financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit 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 auditing standards and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and combined financial statements.

As part of an audit in accordance with Brazilian auditing standards and ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and combined 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 collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Padtec Group's internal control.
- Evaluate 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 Padtec Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our audit report to the related disclosures in the consolidated and combined 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 auditors' report. However, future events or conditions may cause Padtec Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and combined financial statements, including the disclosures, and whether the consolidated and combined financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and combined financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our 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 have been identified during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

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

Campinas, March 23, 2021.

Élica Daniela da Silva Martins
CT CRC 1SP-223.766/O-0

Grant Thornton Auditores Independentes
CRC 2SP-025.583/O-1

Padtec Group

Consolidated balance sheets as of December 31, 2020 and combined balance sheets as of December 31, 2019 and 2018

(Amounts stated in thousands of reais – R$)

Assets	Note	12/31/20	12/31/19	12/31/18
Current				
Cash and cash equivalents	4	64,680	49,606	45,497
Trade accounts receivable	5	100,296	62,196	70,987
Inventory	6	61,989	55,657	41,211
Recoverable taxes	7	23,562	11,581	15,160
Financing operations	16	37,139	41,060	16,734
Other credits	9	2,356	1,452	3,484
Total current assets		290,022	221,552	193,073
Noncurrent assets available-for-sale				
Assets held for sale	11	-	255	25,917
Total noncurrent assets held-for-sale		-	255	25,917
Non-current				
Trade accounts receivable	5	2,377	3,771	4,793
Recoverable taxes	7	324	10,123	5,626
Restricted investments	8	19,395	14,787	11,456
Financing operations	16	11,460	18,973	12,263
Judicial deposit	21.2	2,364	12,172	11,679
Other credits	9	2,905	2,988	8,320
Property and equipment	12	18,540	19,070	11,785
Intangible assets	13	29,217	21,849	48,073
Total noncurrent assets		86,582	103,733	113,995
Total assets		376,604	325,540	332,985

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

Padtec Group

Consolidated balance sheets as of December 31, 2020 and combined balance sheets as of December 31, 2019 and 2018

(Amounts stated in thousands of reais – R$)

Liabilities	Note	12/31/20	12/31/19	12/31/18
Current				
Borrowings and financing	14	11,151	23,927	31,445
Debentures	15	7,765	-	-
Lease with related parties	10.1	2,733	2,753	-
Trade payables	17	55,832	34,674	25,217
Factoring	18	1,971	1,655	2,036
Related parties	10	948	3,250	3
Taxes and contributions payable	19	9,204	7,812	9,035
Taxes and contributions payable - financing	20	6,331	7,212	5,483
Payroll obligations	22	18,976	13,859	16,487
Other provisions	21.1	2,745	2,765	1,768
Financing operations	16	37,139	41,060	16,734
Other accounts payable		4,946	1,236	1,281
Total current liabilities		159,741	140,203	109,489
Non-current				
Provisions for labor and tax risks	21.2	35,970	41,707	50,291
Borrowings and financing	14	32,281	21,888	57,158
Debentures	15	31,313	-	-
Lease with related parties	10.1	624	3,290	-
FINEP		-	-	3,582
Taxes and contributions payable	19	-	-	423
Taxes and contributions payable - financing	20	2,203	12,070	14,440
Related parties	10	-	610	8,261
Financing operations	16	11,460	18,973	12,263
Other accounts payable		-	-	549
Total non-current liabilities		113,851	98,538	146,967
Total liabilities		273,592	238,741	256,456
Equity				
Capital	24.1	199,211	200,297	195,080
Capital reserves	24.2	(2,674)	(2,674)	(2,674)
Retained earnings / accumulated losses		(83,331)	(100,542)	(105,981)
Goodwill on capital transaction	24.3	599	-	-
Other comprehensive income	24.4	(10,793)	(10,282)	(9,896)
Total equity		103,012	86,799	76,529
Total liabilities and equity		376,604	325,540	332,985

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

Padtec Group

Combined statements of income
for the years ended December 31, 2020, 2019 and 2018

(Amounts stated in thousands of reais - R$, except for earnings per share, stated in reais – R$)

	Note	12/31/20	12/31/19	12/31/18
Continuing operations				
Net operating revenue	26	247,712	220,804	229,384
Cost of goods sold and services provided	27	(162,490)	(153,768)	(156,952)
Gross profit		85,222	67,036	72,432
Operating income (expense)				
Administrative expenses	28.1	(24,228)	(28,302)	(29,013)
Sales expenses	28.1	(21,987)	(22,917)	(20,092)
Research and development expenses	28.1	(28,657)	(26,801)	(19,434)
Share of profit (loss) of investees		-	2,984	5,626
Other net operating income (expenses)	28.2	4,646	2,156	30,850
Income (loss) before finance income (expenses)		14,996	(5,844)	40,369
Finance income (costs)				
Finance income	29.1	15,067	18,899	19,026
Finance expenses	29.2	(20,281)	(27,720)	(27,307)
Net income (loss) before income tax and social contribution		9,782	(14,665)	32,088
Income tax and social contribution				
Current	30	(912)	(912)	(679)
Deferred	30	-	2,611	1,906
Net income (loss) for the year from continuing operations		8,870	(12,966)	33,315
Discontinued operations				
Profit for the year from discontinued operations		7,423	24,669	-
Net income for the year from discontinued operations		7,423	24,669	-
Profit for the year		16,293	11,703	33,315
Income attributable to:				
Owners of the Company		16,293	11,703	33,315
Profit for the year		16,293	11,703	33,315
Earnings per share				
Basic and diluted earnings per share	25	0.2077	0.7161	2.0383

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

Padtec Group

Combined statements of comprehensive income
for the years ended December 31, 2020, 2019 and 2018

(Amounts stated in thousands of reais – R$)

	12/31/20	12/31/19	12/31/18
Profit for the year	16,293	11,703	33,315
Items that may be subsequently reclassified to profit or loss:			
Other comprehensive income			
Adjustments arising on translation of balance sheets of overseas subsidiaries	(511)	(386)	(409)
Comprehensive income for the year	15,782	11,317	32,906
Comprehensive income attributable to:			
Owners of the Company	15,782	11,317	32,906
Comprehensive income for the year	15,782	11,317	32,906

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

Padtec Group

Combined statements of changes in equity
for the years ended December 31, 2020, 2019 and 2018

(Amounts stated in thousands of reais – R$)

	Capital	Capital reserves	Goodwill on capital transaction	Asset and liability valuation adjustments	Accumulated translation adjustments	Retained earnings / accumulated losses	Total
Balances at December 31, 2017	131,846	(2,922)	-	(8,472)	(767)	(117,283)	2,402
Profit for the year	-	-	-	-		33,315	33,315
Exchange variance adjustment of subsidiaries	-	-	-	-	(657)	-	(657)
	-		-	-		-	
Capital gain on change in interest in subsidiaries	-	248	-	-	-	-	248
Capital increase	63,234	-	-	-	-	-	63,234
Share change due to merger on 6/01/2020	-	-	-	-	-	(22,013)	(22,013)
Balances at December 31, 2018	195,080	(2,674)	-	(8,472)	(1,424)	(105,981)	76,529
Profit for the year	-	-	-	-	-	11,703	11,703
Exchange variance adjustment of subsidiaries	-	-	-	(191)	(195)	-	(386)
Capital increase	5,217	-	-	-	-	-	5,217
Share change due to merger on 6/01/2020	-	-	-	-	-	(6,264)	(6,264)
Balances at December 31, 2019	200,297	(2,674)	-	(8,663)	(1,619)	(100,542)	86,799
Profit for the year	-	-	-	-	-	16,293	16,293
Exchange variance adjustment of subsidiaries	-	-	-	-	(511)	-	(511)
Capital increase	(1,086)	-	-	-	-	-	(1,086)
Goodwill on capital transaction	-		599				599
Share change due to merger on 6/01/2020	-	-	-	-	-	918	918
Balances at December 31, 2020	199,211	(2,674)	599	(8,663)	(2,130)	(83,331)	103,012

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

Padtec Group

Combined statements of cash flows for the years ended December 31, 2020, 2019 and 2018

(Amounts stated in thousands of reais – R$)

	Note	12/31/20	12/31/19	12/31/18
Cash flows from operating activities				
Net income before tax on ongoing operations		9,782	(14,665)	32,088
Net income before tax on discontinued operations		7,423	24,669	-
Profit for the period before tax		17,205	10,004	32,088
Adjustments to reconcile net income for the year to cash provided by (used in) operating activities:				
Depreciation and amortization		11,759	5,268	7,660
Interest and monetary variance on loans		4,106	5,336	7,421
Allowance for expected credit losses		(8,681)	256	(7,770)
Adjustment of accounts receivable to present value		-	(692)	(547)
Creation (reversal) of other provisions		(20)	809	(4,279)
Provisions for labor, tax and civil risks		(5,737)	(7,400)	6,625
Provisions for obsolete inventory		763	(872)	(8,200)
Share of profit (loss) of investees		-	(1,143)	11,921
Creation (reversal) of negative equity		-	(1,841)	-
Write-off of property, plant and equipment and intangible assets		3,337	65,383	231
Deferred income tax and social contribution		-	(2,611)	(1,906)
Gain on write-off of non-current assets		-	(79,268)	-
Interest on financial investments		-	(506)	(712)
Loss on the sale of properties		-	991	(17,547)
Decrease (increase) in operating assets:				
Trade accounts receivable		(28,025)	10,249	(6,693)
Inventory		(7,095)	(13,108)	10,981
Assets held for sale		255	(23,671)	-
Recoverable taxes		(2,182)	3,529	4,993
Income tax and social contribution		-	(1,836)	-
Financing operations		11,434	(31,036)	-
Judicial deposit		9,808	(422)	(104)
Other accounts receivable		(821)	3,471	(3,077)
Increase (decrease) in operating liabilities:				
Lease with related parties		(2,686)	-	-
Trade payables		20,964	9,457	3,819
Factoring		316	(381)	2,036
Payroll obligations		5,117	(2,648)	3,980
Taxes payable and contributions		(9,356)	(2,267)	(6,536)
Related-party transactions		(2,912)	(4,404)	406
Financing operations		(11,434)	31,036	-
Income and social contribution taxes paid		(912)	1,699	637
Debt charges - paid		(3,807)	(6,982)	(8,262)
Other accounts payable		4,469	(24)	(2,997)
Net cash provided by (used in) operations		5,865	(33,624)	24,168
Cash flows from investment activities				
Capital increase at subsidiary (cash)		(336)	-	-
Cash and cash equivalents of held-for-sale assets		-	1,000	-
Restricted investments		(4,608)	(547)	16,733
Acquisition of PPE and intangible assets		(21,740)	(19,483)	(23,444)
Sale of investment		-	102,939	5,559
Grant-in-aid		-	(3,582)	-
Net cash used in (provided by) investment activities		(26,684)	80,327	(1,152)
Cash flows from financing activities				
Capital subscription		8	(880)	(402)
Obtainment of borrowings and financing	14.2	68,260	379	18,028
Payment of borrowings and financing - principal	14.1	(70,942)	(41,521)	(16,478)
Debentures		39,078	-	-
Net cash used in (provided by) financing activities		36,404	(42,022)	1,148
Cash exchange variance in foreign currency		(511)	(572)	(1,017)
Increase in cash and cash equivalents		15,074	4,109	23,147
Cash and cash equivalents at beginning of year		49,606	45,497	22,350
Cash and cash equivalents at end of year		64,680	49,606	45,497

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

Padtec Group

Combined statements of value added
for the years ended December 31, 2020, 2019 and 2018

(Amounts stated in thousands of reais – R$)

	12/31/20	12/31/19	12/31/18
1 - Revenue	333,979	285,630	279,504
1.1. Sales of merchandise, goods and services	317,875	261,217	271,734
1.2. Allowance for doubtful accounts	8,681	(256)	7,770
1.3. Other income	7,423	24,669	-
2 - Consumables acquired from third parties	(130,725)	(127,988)	(98,291)
2.1. Cost of goods, merchandise and services sold	(96,900)	(77,809)	(75,591)
2.2. Energy, outsourced services and other operating expenses	(31,134)	(50,179)	(22,700)
2.3. Loss / recovery of assets	(2,691)	-	-
3- Withholdings	(11,759)	(5,268)	(7,660)
3.1. Depreciation and amortization	(11,759)	(5,268)	(7,660)
4 - Net added value	191,495	152,374	173,553
5 - Transferred added value	15,067	27,340	25,304
5.1. Share of profit (loss) of investees	-	2,984	5,626
5.2. Finance income	15,067	18,899	19,026
5.3. Other	-	5,457	652
6 - Total wealth for distribution	206,562	179,714	198,857
7 - Wealth distributed	206,562	179,714	198,857
7.1. Personnel and payroll taxes	79,670	80,445	75,022
Direct compensation	60,501	63,642	56,248
Benefits	14,750	12,308	14,499
FGTS	4,419	4,495	4,275
7.2. Taxes and contributions	85,991	53,059	57,122
Federal taxes	59,536	33,838	36,500
State	24,827	17,322	18,350
Municipal	1,628	1,899	2,272
7.3. Remuneration of third party capital	24,608	34,507	33,398
Finance costs	20,281	27,767	27,225
Rent	4,327	6,740	6,173
7.4. Interest earnings	16,293	11,703	33,315
Profit retained in the year	16,293	11,703	33,315

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

Notes to the consolidated and combined financial statements for the years ended December 31, 2020, 2019 and 2018

(Amounts stated in thousands of reais – R$, unless stated otherwise)

1. General information

1.1. Operations

Although it is not actually a group in accordance with corporate legislation, Padtec Group presents consolidated and combined financial statements in order to present the joint operation of Padtec Holding S.A. (“Company”, B3: PDTC3), (previously called Ideiasnet S.A. or “Ideiasnet”). The latter started its operations as an investment company in Internet projects in 2000, the year it went public on B3. It was founded to invest in fast-growing technology companies in several segments, such as SaaS (*Software as a Service*) in the security and construction industries, technology in the financial and payments sector, digital commerce, digital media, mobility, broadband and optical systems. For many years, the Company has positioned itself as a technology venture capital firm in Brazil, actively participating in all stages of its’ investees development, becoming a leading player in the sector and renowned for the superior levels of Corporate Governance in its businesses.

Padtec Group’s combined statements include the following companies:

	12/31/20					
	Chenonceau Participações S.A.	Automatos Participações Ltda.	Padtec S.A.	Sucursal Argentina	Padtec EUA	Padtec Colômbia
Asset	294	6,655	364,917	2,701	1,720	9,169
Liability	-	10,543	242,984	931	1,492	7,771
Equity	294	(3,888)	121,933	1,770	228	1,398
Profit (loss)	(2)	6,679	18,055	930	(2,952)	(208)
Eliminations	2	(6,679)	(18,973)	(930)	2,952	208
Combined	-	-	(918)	-	-	-

	12/31/19					
	Chenonceau Participações S.A.	Automatos Participações Ltda.	Padtec S.A.	Sucursal Argentina	Padtec EUA	Padtec Colômbia
Asset	2,882	11,001	296,983	1,631	429	4,753
Liability	2,586	21,904	193,017	616	13	3,301
Equity	296	(10,903)	103,966	1,015	416	1,452
Profit (loss)	(2,232)	2,689	9,500	(6)	(4,073)	(632)
Eliminations	2,232	(2,689)	(3,236)	6	4,073	632
Combined	-	-	6,264	-	-	-

	12/31/18					
	Chenonceau Participações S.A.	Automatos Participações Ltda.	Padtec S.A.	Sucursal Argentina	Padtec EUA	Padtec Colômbia
Asset	5,868	8,932	300,280	2,287	465	898
Liability	3,340	4,295	204,382	695	402	573
Equity	2,528	4,637	95,898	1,592	63	325
Profit (loss)	(84)	7,285	33,383	816	(2,268)	(738)
Eliminations	84	(7,285)	(11,370)	(816)	2,268	738
Combined	-	-	22,013	-	-	-

	Ownership percentage %					
	12/31/20		12/31/19		12/31/18	
	Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership	Direct Ownership	Indirect Ownership
Chenonceau Participações S.A. (a)	100.00%		100.00%		100.00%	
Automatos Participações Ltda. (b)	100.00%		100.00%		100.00%	
Padtec S.A. (c)	100.00%			34.16%		34.06%
Sucursal Argentina (d)		100.00%		100.00%		100.00%
Padtec EUA (e)		100.00%		100.00%		100.00%
Padtec Colômbia (f)		100.00%		100.00%		100.00%
Padtec Chile (g)		100.00%		100.00%		100.00%

a) Chenonceau is a non-operating company founded to hold interests in other companies. It holds a noncontrolling interest in the company Batanga Media Inc. This noncontrolling interest incurred impairment (loss recognition) in December 2019, as Management believes that the chances of the Company recovering this investment are slim;

b) Automatos Participações is a non-operating company founded to hold interests in other companies. It does not currently hold any investments;

c) Padtec S/A, is a privately held company, founded to develop, manufacture and sell turnkey solutions for optical systems. Its portfolio includes equipment for corporate access, Data Center Interconnect, Storage Area Network Extension, metropolitan networks and multi-terabit long-distance terrestrial networks.

d) Padtec Argentina Branch is an Argentinian operating company set up as a branch of Padtec S/A in 2007. Its core activity is sales activities, reselling the Group's products and providing installation,
operation and maintenance services. Its entire share capital is held by Padtec S.A.;

e) Padtec USA América is an operating company established in the USA, in the state of Georgia, founded in February 2014. Its core activity is sales activities, reselling the Group's products and providing installation, operation and maintenance services. Its entire share capital is held by Padtec S.A.;

f) Padtec Colombia is an operating company based in Colombia in the state/province of Bogotá. It was set up as a branch in October 2014 and its core activity is sales, reselling the Group's products and providing installation, operation and maintenance services. Its entire share capital is held by Padtec S.A.; and

g) Padtec Chile is an operating company established in Chile. Founded in June 2019, 100% of its shares are subscribed by the Padtec Argentina branch. Its core activity is sales activities, reselling the Group's products and providing installation, operation and maintenance services.

1.2. Merger of Padtec S.A. shares into the Company

Company Management had been studying the merger of Padtec S.A. shares for two years, in accordance with article 252 of Brazilian Corporation Law. On April 27, 2020 an Extraordinary General Meeting was held to resolve this Share Merger. On June 01, 2020 the Company completed the merger of Padtec S.A. shares, its only asset at the time, with Padtec S.A. consequently being converted into its wholly-owned subsidiary. The Company is now the sole shareholder of Padtec S.A.

Management elected to present the Company's consolidated and combined financial statements including the share payment of the subsidiary Padtec S.A. on January 01, 2018, to convey the effects of paying in its investee's shares. The consolidated and combined financial statements of Padtec Group, which are the responsibility of Padtec Group, are being presented for the sole purpose of providing information in a single financial statement about the activities of Padtec Group, regardless of its corporate structure. The consolidated and combined financial statements are being presented to provide additional analyses about the operations of Padtec Group, and do not constitute the individual financial statements of Padtec Holding S.A., Padtec S.A., Automatos Participações Ltda. and Chenonceau Participações S.A. and should not therefore be relied on for calculating dividends or taxes or for any other corporate purposes.

1.3. Covid-19 impacts

Management has been constantly evaluating the impact of Covid-19 on operations and the equity and financial position of Padtec Group, so it can roll out suitable measures to mitigate the pandemic's possible impacts on its operations. By the date of authorization for issue of these consolidated and combined financial statements, the following measures had been taken and the main matters under constant monitoring are listed below:

- Creation of the Covid-19 Commission in the first quarter of 2020, in order to continually analyze the situation, ensure operational continuity, protect cash, enhance liquidity and protect the health and safety of all employees, officers and other stakeholders of Padtec Group;
- Home office introduced for administrative, commercial and technology staff in March 2020, to remain in place until the first half of 2021;
- Monitoring and assessing lead times and DPOs for international raw material suppliers, where to date there are no signs of significant risks of delays that could impact operations;
- Assessing the contractual terms of borrowings and financing. In the first half of 2020 the principal payment terms were lengthened at certain financial institutions in an amount totaling R$ 7,300, in order to mitigate any liquidity risks; and
- Monitoring customer default risk, there being no significant impact to be disclosed to date;

The analyses performed on the possible impacts of Covid-19 on Padtec Group's businesses up to the period ended December 31, 2020 did not reveal material effects significantly impacting its equity and financial situation in relation to its consolidated and combined financial statements. However, the financial and economic effect for Padtec Group will depend on the outcome of the crisis and its macroeconomic impacts, above all economic growth. Management will continue to constantly monitor the effects of the crisis and its impacts on operations and the consolidated and combined financial statements.

2. Presentation of the consolidated and combined financial statements

2.1. Basis of preparation

The consolidated and combined financial statements have been prepared and are being presented in accordance with accounting practices adopted in Brazil, as issued by the Brazilian Accounting Pronouncements Committee - CPC and approved by the Brazilian Securities Commission – CVM and the Federal Accounting Council (CFC), International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), and technical pronouncement NBC TG 44 – Combined Statements.

The consolidated and combined financial statements include the financial statements of Padtec Holding S.A. (formerly Ideiasnet S.A.) and its direct or indirect subsidiaries, as detailed in Note 1. The year is the same for all companies comprising Padtec Group's consolidated and combined financial statements, and the accounting policies adopted in its financial statements are consistent and uniform.

The process of combining the balance sheets and income statements consists of horizontally totaling the balances of the assets, liabilities, revenue and expenses, according to their nature, complemented by the elimination of the balances of assets, liabilities and profit and loss between said companies under joint control.

Management considered the guidelines set out in OCPC 07 in preparing its financial statements, and only disclosed relevant information that helps the users of the statements make decisions, whilst complying with the minimum requirements. Management also asserts that all material information is being disclosed and consists of that used in the management of Padtec Group.

On March 23, 2021 Padtec Group management approved the issuance of the consolidated and combined financial statements and authorized the disclosure thereof.

2.2. Basis of measurement

The consolidated and combined financial statements have been prepared on the historical cost basis, except for the following items registered in the balance sheet: **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 levels 1, 2 or 3 (depending on the degree of compliance of the variables used) is presented in Note 33, Financial Instruments.

2.3. Use of estimates and judgments

Preparing the financial statements requires Management to make judgments and adopt estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, revenue and expenses.

Accounting estimates may differ from their actual results. Management accordingly reviews the estimates and assumptions on an ongoing basis, based on historical experience and other factors considered relevant. Adjustments arising from these revisions are recognized in the period in which the estimates are reviewed and applied.

The main accounts that require the adoption of assumptions and estimates and which are subject to a greater degree of uncertainty and a risk of resulting in a material adjustment if these assumptions and estimates suffer significant changes in periods subsequent are:

- Note 5 - Trade receivables (allowance for expected credit losses: main assumptions regarding the expected credit loss);
- Note 6 - Inventory (provision for inventory realization and obsolescence: main assumptions regarding the expected inventory loss);
- Note 12 - Property and equipment (applying defined useful lives and main assumptions underlying the recoverable amounts);
- Note 13 – Intangible assets (main assumptions underlying the recoverable amounts);

- Note 10.1 – Leases (determining whether a contract contains a lease);
- Note 21.1 – Other provisions (recognition and measurement: main assumptions regarding the probability and size of outflows);
- Note 21.2 – Provisions for labor, tax and civil risks (recognition and measurement: main assumptions regarding the probability and size of outflows); and
- Note 23 – Private pension plans (main actuarial assumptions in the measurement of defined-benefit obligations);

2.4. Functional currency and presentation currency

The consolidated and combined financial statements are presented in Reais, the Company's functional currency and presentation currency. The functional currency of the subsidiaries in the United States and Argentina is the US dollar and in Colombia it is the Colombian peso. The effects of converting the overseas subsidiaries' functional currency into the Brazilian Real are recorded in equity as other comprehensive income - effects of overseas investment translation adjustment. All balances have been rounded to the nearest thousand, unless otherwise indicated.

2.5. Statement of value added

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

2.6. Statement of cash flows

The combined Statements of Cash Flows have been prepared by the indirect method and are being presented in accordance with CPC 03 (R2).

2.7. Basis of consolidation

Investments in subsidiaries and associates were valued at the Parent Company using the equity method. The Company's share in the profit or loss of subsidiaries is recognized in the income statement for the year as equity income. In the case of exchange variance on overseas investments with a functional currency other than the Company's functional currency, the changes in the value of the investment caused solely by exchange variance are recorded in equity as other comprehensive income - overseas investment translation adjustment - and are only recorded in profit or loss for the year when the investment is sold or written off.

To calculate equity income, unrealized profits on operations with subsidiaries are eliminated in their entirety, both for sales of the Parent company to the subsidiary and sales between subsidiaries. Unrealized losses are eliminated, but only to the extent that there is no evidence of impairment. Balances and transactions between the companies and any revenue or expenses deriving from these transactions are eliminated from the consolidated financial statements in their entirety.

Investments in subsidiaries, associates or joint subsidiaries with negative equity (unsecured liabilities) are presented in non-current liabilities. Company Management understands that there is no difference between the accounting practice adopted in Brazil and IFRS as the Company is jointly liable for the debt of its subsidiaries with negative equity.

2.8. Basis of combination

The combined financial statements include all the individual financial statements of the Company and its subsidiaries mentioned in Note 1. The combined financial statements are only being presented to provide additional analyses to third parties, and do not represent the individual financial statements of the company and its subsidiaries. The combined statements should not therefore be relied on for the purpose of calculating dividends and taxes or for any other corporate purpose.

The following criteria were adopted to combine the financial statements of each entity subject to the combination:

- Elimination of inter-company asset and liability account balances.
- Elimination of inter-company transactions, including balances, profits, gains or losses. Unrealized losses are also eliminated in their entirety in the combined financial statements, unless the transaction provides evidence of impairment of the asset transferred between the entities.

3. Description of significant accounting policies

The main accounting policies used to prepare these consolidated and combined financial statements are as follows.

3.1. Transactions and balances in a currency other than the functional currency.

Transactions in foreign currency are translated to the respective functional currency of Padtec Group (R$ - reais) at the exchange rates in force on the dates of each transaction. Balance sheet items are translated at the exchange rate in force at the reporting date. Exchange variance gains and losses resulting from the settlement of these transactions and the translation of monetary assets and liabilities denominated in foreign currency are recognized in the income statement for the year under “Financial revenue” and “Finance costs”.

3.2. Financial instruments

(i) Financial assets

Financial assets are initially recognized on the date they originated or on the trading date on which the Company and its subsidiaries became party to the instrument’s contractual terms. A financial asset is derecognized when the contractual rights to the respective cash flows expire or when the risks and rewards of owning the financial asset are transferred.

Measurement:

- Financial assets stated at fair value through profit or loss: These assets are subsequently stated at fair value. The profit including interest or dividend revenue is recognized in profit or loss.
- Financial assets at amortized cost: These assets are measured subsequently at amortized cost using the effective interest rate method. The amortized cost is reduced for *impairment.* Revenue from interest, exchange variance gains and losses and impairment is recognized in profit or loss. Any gain or loss resulting from derecognition is recognized in profit or loss.
- Debt instruments at fair value through other comprehensive income: These assets are subsequently stated at fair value. Profit is recognized in other comprehensive income except for interest earnings calculated using the effective interest method, exchange gains and losses and impairment, which should be recognized in profit or loss. Upon derecognition, the gain or loss accumulated in other comprehensive income is reclassified to profit or loss. Padtec Group does not have financial instruments classified in this category.

- Equity instruments at fair value through other comprehensive income: These assets are subsequently stated at fair value. All changes are recognized in other comprehensive income and will never be reclassified to profit or loss, except dividends, which are recognized as a gain in profit and loss (unless the dividend clearly represents a recovery of part of the investment cost). Padtec Group does not have financial instruments classified in this category.

Upon initial recognition, a financial asset is classified as measured at amortized cost, at fair value through other comprehensive income or at fair value through profit or loss.

The financial assets are not reclassified subsequent to their initial recognition unless Padtec Group changes its business model to managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if both of the following conditions are met and it is not stated as measured at fair value through profit or loss:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms generate the cash flows on specified dates that constitute solely payments of principal and interest on the outstanding principal.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and it is not stated as measured at fair value through profit or loss:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- its contractual terms generate the cash flows on specified dates that constitute payments of principal and interest on the outstanding principal.

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

Assessment of the business model:

Padtec Group assesses the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed. The information is provided to Management and includes.

- the policies and objectives stipulated for the list and the practical functioning of these policies. These include whether Management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows, or realizing cash flows through the sale of the assets;
- how the portfolio’s performance is assessed and reported to Group Management;
- the risks affecting the performance of the business model (and the financial asset maintained in said business model) and how such risks are managed;
- how business managers are compensated - for example, if the compensation is based on the fair value of the assets managed or the contractual cash loans obtained; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group’s continuing recognition of the 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 as to whether the contractual cash flows are merely payments of principal and interest.

For the purposes of assessing contractual cash flows, 'principal' is defined as the fair value of the financial asset on initial recognition. The interest is defined as a payment for the value of the money over time and the credit risk posed by the outstanding principal over a given period of time and the other underlying loan costs and risks (for example liquidity risk and administrative cost), in addition to a spread.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group has considered:

- contingent events modifying the value or timing of the cash flows;
- terms that could adjust the contractual rate, including variable fees;
- prepayment and extending the term; and
- the terms limiting the Company's access to specific cash flows from specific assets (for example based on an asset's performance).

Purchases and sales of financial assets that require the delivery of assets in a time frame established by regulations or market conventions (regular transactions) are recognized at the transaction date, i.e., the date on which the Company undertakes to purchase or sell the asset.

(ii) Financial liabilities

Financial liabilities are initially recognized on the date they originated or on the trading date on which the Company and its subsidiaries become party to the instrument's contractual terms. Financial liabilities are classified as follows:

- Stated at fair value through profit or loss: these are financial liabilities that are: **(i)** held for trading, **(ii)** designated to fair value in order to compare the effects of recognizing revenue and expenses to obtain more relevant and consistent accounting information or **(iii)** derivatives. These liabilities are measured at their respective fair value and changes therein are recognized in profit or loss for the year. Any change in the subsequent measurement of fair values that is attributable to changes in the liability's credit risk are recorded against other comprehensive income.
- Measured at amortized cost: other financial liabilities not in the above classification. Initially recognized at fair value less any costs attributable to the transaction and subsequently registered at amortized cost by the effective interest rate method.

Borrowings and financing, debentures, balances payable to suppliers and supplier financing operations are measured at amortized cost using the effective interest method.

(iii) Derivative financial instruments

In the years ended December 31, 2020, 2019 and 2018 the Company and its subsidiaries did not carry out operations involving derivative financial instruments. In accordance with their financial policies, the Company and its subsidiaries do not make any speculative investments in derivatives.

3.3. Cash and cash equivalents

Cash and cash equivalents consist of cash and short-term investments originally maturing within three months or less as from the date they are procured. They are subject to an insignificant risk of change in fair value on settlement and are used by Padtec Group to manage short-term obligations. The breakdown of the Company's cash and cash equivalents is determined to maintain sufficient cash to ensure continuity of investments and performance of short and long-term obligations, maintaining the return from its capital structure at suitable levels, with a view to business continuity and creating value for Padtec.

3.4. Trade receivables

Trade receivables are recognized at nominal value less the provision for expected credit losses, which is estimated by weighing each group's loss risks, considering the different risks posed by each collection operation. When applicable, the present value is calculated for each transaction based on an interest rate that reflects the term and market conditions at the time.

3.5. Inventory

Inventory is stated at the lower of the net realization amount (estimated sale price in the normal course of business less estimated expenses to make the sale) and the average production cost or average acquisition price. Provisions for slow-moving or obsolete items are made as and when deemed necessary by management. The Company and its subsidiaries pay for their inventory via absorption using the weighted moving average for them.

3.6. Property and equipment

Property and equipment is measured at acquisition and/or construction cost, plus interest capitalized during the construction period, when applicable, for qualifying assets, less accumulated depreciation and, when applicable, accumulated impairment losses. It also includes any other costs to bring the asset to its location and condition necessary so it can be operated as intended by management, dismantling costs, and restoring the site where these assets are located, and loan costs of other qualifying assets.

Rights on tangible assets intended for the maintenance of the Company and its subsidiaries' activities, arising from finance lease transactions, are recognized as if they were a financed purchase. At the start of each transaction, a property and equipment item and a financing liability are recognized, with assets being subject to depreciation calculated in accordance with the estimated useful lives of the respective assets or contractual duration, in cases where there is no purchase option.

Depreciation is recognized over the estimated useful life of each asset or group of assets using the straight-line method, such that the residual value after its useful life is fully written off. Estimated useful life, residual carrying amounts and depreciation methods are reviewed annually and the effects of any changes in estimates are recognized prospectively.

Any gain or loss on disposal/write-off of an item of property and equipment is calculated as the difference between the proceeds from the disposal and item's residual value and is recognized net in operating revenue/expenses.

3.7. Intangible assets

i) ***Software***

Software licenses acquired are capitalized and amortized over their estimated useful life. Expenses related *to software* maintenance or development are expensed as and when they are incurred. Expenses directly related to identifiable unique software programs controlled by the Company and which will probably generate economic rewards greater than their cost 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.

ii) **Product research and development**

Research expenses are recognized in profit or loss as incurred. Development expenses are recognized in intangible assets only when they meet the following criteria: **(i)** the development costs can be measured reliably, **(ii)** the product or process is technically and commercially feasible and the future economic rewards are probable and **(iii)** the Company and its subsidiaries have the intention and resources to conclude the development and use or sell the asset. Capitalized development expenses are measured at cost, less accumulated amortization and any impairment losses, when applicable. Intangible assets are amortized on a straight-line basis and the amortization is recognized in profit or loss over their estimated useful lives, from the date they become available for use.

3.8. Impairment

Every year Management reviews the carrying amount of its tangible and intangible assets for signs of impairment. If there are signs of impairment, the asset's recoverable value is estimated in order to measure the impairment. When an asset's individual recoverable value cannot be estimated, the Company and its subsidiaries calculate the recoverable value of the cash generating unit to which the asset belongs. When a reasonable and consistent allocation basis can be identified, the corporate assets are also allocated to the cash generating units or the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Indefinite-lived intangible assets or intangible assets not yet available for use are submitted to impairment tests at least once a year or whenever there are signs that the asset could have incurred impairment.

The recoverable value is the greater of its fair value less costs to sell or value in use. When appraising the value in-use, the estimated future cash flows are discounted to their present values at a before-tax discount rate that reflects a current market valuation of the currency over time and the asset's specific risks.

If the recoverable amount of an asset (or cash generating unit) calculated is lower than its carrying amount, the asset's (or cash generating unit) carrying amount is reduced to its recoverable value. Impairment losses are recognized in profit or loss immediately.

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

3.9. Assets held for sale

Noncurrent assets (or disposal group) are classified as held for sale if their carrying amount can be recovered principally from sale rather than continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Non-current assets (or disposal group) classified as held for sale are measured at the lower of their previously recorded carrying amount and fair value less costs to sell.

3.10. Provisions

A provision is recognized as a result of a past event when there is a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of funds will be required to settle the obligation. When applicable, provisions are calculated by discounting future expected cash flows at a rate that reflects current market assessments and the risks specific to the liability. Provisions for labor, tax, civil and administrative risks are made based on legal opinions and Management's assessment of the proceedings known at the reporting date for risks rated as a probable defeat.

3.11. Leases

Padtec Group recognizes in the balance sheet at the start of the lease the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is partly allocated to the liabilities and partly to finance charges. The corresponding obligations net of finance charges are classified in current liabilities and non-current liabilities depending on the contractual term. The item of property and equipment acquired under lease is depreciated over the time frame established 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.
The plans are administrated by Fundação Sistel de Seguridade Social and have the following features:

- **Defined-contribution plan:** post-employment benefits plan by which the Sponsor pays fixed contributions to a separate entity, having no responsibility over this plan's actuarial deficit.
  The obligations are expensed in profit or loss for the period in which the services are provided.
- **Defined-benefit plan:** the net obligation is calculated as the difference between the present value of the actuarial obligation obtained through the assumptions, biometric studies and interest rates in line with market yields and the fair value of the plan's assets at the reporting date. Independent auditors calculate the actuarial obligation annually, under Management responsibility, by the projected credit unit method. Actuarial gains and losses are recognized in other comprehensive income, as they arise.

3.13. Earnings (loss) per share

Basic earnings per share are calculated through profit or loss for the year attributable to the shareholders and the weighted average of the shares in circulation in the respective year. The diluted earnings per share are calculated according to the profit and loss for the year attributable to shareholders, adjusted for the effects of instruments potentially impacting profit and loss for the year and the average outstanding shares, adjusted for instruments potentially convertible into shares with a dilutive effect in the reported years, pursuant to CPC 41/IAS 33.

3.14. Current and deferred income tax and social contributions

The income taxes and social contributions, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 thousand for income tax and 9% on taxable income for social contribution on profit and consider the offsetting of tax loss carryforwards and negative basis of social contribution limited to 30% of the taxable income. Income tax and social contribution expense comprises current and deferred income tax and social contribution. They are recognized in profit or loss except to the extent that they relate to a business combination, or items recognized directly in equity or in OCI.

The current income and social contribution tax expense is calculated in accordance with the legal tax bases in force at the reporting date of the individual financial statements in the countries where the Group and its subsidiaries operate and generate taxable income. Management periodically assesses positions regarding tax matters subject to interpretation and recognizes a provision when it expects to pay income tax and social contribution, according to the tax basis.

Deferred income tax and social contribution are recognized on differences between the assets and liabilities recognized for tax purposes and the corresponding amounts are recognized individually in the financial statements for each Group company. Deferred income tax and social contribution are not recognized, however, if they are generated on the initial recognition of assets and liabilities in transactions that do not affect the tax bases, except for business combinations. Deferred income tax and social contribution are determined in accordance with the rates (and laws) in force on the date the financial statements are prepared individually for each Group company and are applicable when the respective income tax and social contribution are realized, and are only recognized to the extent it is probable that future taxable income will exist against which the temporary differences can be used and tax losses can be offset. Deferred income and social contribution tax assets are reviewed at each reporting date and are reduced to the extent that realization is no longer probable. The Group did not present balances of deferred assets in the years ended December 31, 2020, 2019 and 2018.

Padtec Group only provisions for tax matters if a past event originates a present obligation. Padtec Group determines whether a present obligation exists at the end of the year by taking into account all evidence available, including, for example, the opinion of legal advisers. The Company also takes into account whether an outflow of assets will probably arise and whether it can be reliably estimated.

3.15. Revenue recognition

Operating revenue from the normal course of Padtec Group's business is stated at the consideration received or receivable. An entity recognizes operating revenue that represents the transfer (or promise) of goods or services to customers when it reflects the amount it expects to receive for such goods or services.

IFRS 15/CPC 47 provides a five-step model framework to be applied to revenue: **(i)** identifying contracts with clients; **(ii)** identifying performance obligations established in the contracts; **(iii)** determining the transaction price; **(iv)** allocating the transaction price to performance obligations established in the contracts and **(v)** recognizing revenue when (or as) the Company satisfies a performance obligation.

The Company therefore recognizes revenue only when (or if) the performance obligation is realized, i.e., when the control of the goods and services in a given transaction is transferred to the client. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized.

3.16. Product warranties

Warranty expenses for spare parts are recognized when the revenue is recorded in the income statement. The amounts are estimated based on historic factors. The warranty coverage period ranges from one to three years.

3.2. New standards, amendments and interpretations

New accounting pronouncements adopted in 2018

IFRS 15 – Revenue from Contracts with Customers (NBC TG 47)

IFRS 15 (NBC TG 47 - Revenue from Contracts with Customers) was issued in May 2014, amended in April 2016 and provides a five-step model framework to be applied to revenue from contracts with customers. Under IFRS 15, the revenue is recognized at an amount that reflects the payment an entity can expect in exchange for transferring goods or services to a client, based on a five-step model, as mentioned earlier in item 3.14.

On December 12, 2018 the Accounting and Audit Standards Department (SNC) and Company Relations Department (SEP) issued Official Circular CVM/SNC/SEP/no. 02/2018, setting out the CVM's position regarding the application of NBC TG 47 to Brazilian real estate development entities registered at the CVM, asserting that a high level of cancellations in the sector does not call into question the recognition of revenue by the POC method for the company's main property purchase and sale contracts with the outstanding balance being settled by a private bank or the company itself, where accounting adjustments should be made by way of "provisions for cancellations". The official circular states that applying the revenue recognition method based on POC requires company management to implement and operate robust systems of internal controls to ensure perfect representation.

The changes set out the criteria for measuring and recording sales in the form they were effectively made with the respective presentation, and recording at the amount the Group's entities are entitled to receive, including any estimated impairment. Following the standard's application, the Group's entities maintained recognition of revenue for contracts with customers by using the "*Percentage of Completion Method* (POC)" and recognized the "Provision for cancellations".

IFRS 9 - Financial Instruments (NBC TG 48)

In 2014 the IASB issued the final version of IFRS 9 - Financial Instruments (NBC TG 48 – Instrumentos Financeiros), replacing IAS 39 - Financial Instruments: Recognition and Measurement (NBC TG 38 – Instrumentos Financeiros) and all previous versions of IFRS 9.
The new standard brings together the three aspects of the project for the accounting of financial instruments: classification and measurement, impairment and hedge accounting.

The main changes to IFRS 9 are the new criteria for classifying financial assets into three categories (measured at fair value through other comprehensive income, measured at amortized cost and measured at fair value through profit or loss), depending on the features of each instrument and the purpose for which they were acquired, where they may be classified as finance income or comprehensive income. The standard also introduces a new impairment model for financial assets, a prospective expected credit losses model instead of the previous incurred losses model, and relaxes hedge accounting requirements.

The classifications of financial liabilities remain the same as in IAS 39 (NBC TG 39) – Financial Instruments: Presentation, only including rules for financial liabilities measured at fair value, which do not apply to the Group's operations.

(i) Classification and measurement

Assessments were made by verifying the business model adopted by the Group's entities to manage their financial assets in detriment to the classifications established by IAS 39/NBC TG 38. The Group did not identify significant impacts on its combined balance sheets or equity as a result of applying the new classification and measurement requirements of IFRS 9.

The Group's entities therefore continued assessing at fair value all financial assets previously maintained at fair value. For assets measured at amortized cost, such as trade and other receivables, the contractual features of the cash flows were assessed and whether these assets are maintained within a business model which aims to capture contractual cash flows consisting solely of the payment of principal and interest.

(ii) Impairment

NBC TG 48 / IFRS 9 replaces the 'incurred loss' model in IAS 39 with a 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under NBC TG 48 / IFRS 9, the credit losses are recognized earlier than under NBC TG 38 / IAS 39.

Asset impairment losses included in the NBC TG 48 / IFRS 9 model's scope are expected to increase and become more volatile.

The Group management's analysis identified that the main difference in the measurement of financial assets and liabilities resulting from adopting the new pronouncement is related to the change to the concept of accounts receivable impairment, which in addition to the verified loss concept also includes the expected loss concept.
However, the Group used the prospective method and did not detect a significant impact on the provisions for expected credit losses.

Accounting pronouncements adopted from January 01, 2019:

Interpretation IFRIC 23 – Uncertainty over Income Tax Treatments

The Interpretation addresses the recording of taxes in case where the tax treatments involve uncertainty affecting the application of IAS 12 (NBC TG 32) and does not apply to taxes not embraced by IAS 12 nor does it specifically include the requisites for interest and fines associated with uncertain tax treatments. The Interpretation specifically addresses the following: **(i)** whether the company considers uncertain tax treatments independently; **(ii)** the assumptions made by the Group regarding the examination of tax treatment by the tax authorities **(iii)** how the company determines taxable income (tax loss), calculation bases, unused tax losses, extempore tax credits and tax rates **(iv)** how the entity should consider changes in facts and circumstances.

The Group's entities adopted the interpretation on January 01, 2019. In management's best understanding, applying the interpretation did not impact the consolidated and combined financial statements, as management - with the support of its legal advisers - believe the tax authorities will probably accept the main tax treatments.

IFRS 16 - Leases (NBC TG 6 (R-2))

The standard came into force for annual reporting periods commencing on or after January 01, 2019 and replaces NBC TG 06 (R1) - Leases (IAS 17) and corresponding interpretations. NBC TG 06 (R2) states that all commercial lease contracts, be they operating or financial, should be recorded by recognizing the assets and liabilities involved, where certain short-term or low-value contracts might not be subject to this new standard.

At the start date of a lease contract, the lessee recognizes a liability relating to the lease payments (i.e. a lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. right-of-use assets). Lessors are obliged to separately recognize the interest expense on the lease liability and the depreciation expense on right-of-use assets.

Lessors should also revalue the lease liability in the case of certain events (for example, a change to the lease term or a change to future payments deriving from the lease as a result of changing an index or rate already used to determine such payments). The lessee will generally recognize the value of the revalued lease liability as an adjustment to the right-of-use asset.

The lessee may opt to adopt the standard using the full retrospective approach or modified respective approach. The standard's transitory provisions permit certain exemptions.

The Group's entities adopted the standard NBC TG 06 with the respective approach and a cumulative effect on the initial adoption date (i.e. from January 01, 2019, considering the right of use equal to the lease liability at the initial adoption date). Comparative information was not re-presented. The Company used the incremental rate of 5.9% p.a. to bring the future payment flows to present value.

The Group's entities only classified rental contracts for lots as leases in accordance with the standard, and opted to use the exemptions proposed by the standard for short-term lease contracts (i.e. that terminate within 12 months as from the start date), and lease contracts for which the underlying asset is low-value.

The effects on the consolidated and combined financial standards of adopting the standard are shown in the table below:

Assets	01/01/2019
Right of use	6,043
Non-current	6,043
Liabilities	
Lease payable -current	(2,753)
Lease payable - non-current	(3,290)
Total	(6,043)

Other standards and interpretations effective for annual periods beginning after January 01, 2019

The following amended standards and interpretations are effective for annual periods beginning after January 01, 2019, but did not have significant impacts on the Group's combined statements:

- Amendments to references to conceptual framework in IFRS Standards;
- Defining a business (amendments to NBC TG 15/IFRS 3).
- Defining materiality (amendments to NBC TG 26/IAS 1 and NBC TG 23/IAS 8).

a) New revised standards and interpretations issued, effective for periods beginning on or after January 01, 2020:

- CPC 00 (R2) - Conceptual Framework for Financial Reporting (applicable from January 01, 2020). The reviewed standard makes the following key changes to CPC 00 (R1): the financial reporting objective; definitions of assets, liabilities, equity, revenue and expenses; criteria for including assets and liabilities in the financial statements (recognition) and guidelines on when to remove them (derecognition); measurement bases and guidelines on when to use them and concepts and guidelines around presentation and disclosure;
- IAS 1 /CPC 26 and IAS 8/ CPC 23 – Modifies the definition of “material”, clarifying aspects of the application of materiality in the information disclosed;
- IFRS 3 / CPC 15 - Definition of business - This amendment constitutes a revision of the definition of “business” for the purpose of accounting for business combinations;
- Review of technical pronouncements No. 14 - Establishes changes in several pronouncements, interpretations and technical guidelines;
- Review of technical pronouncements 15 - Changes to technical pronouncements due to the definition of the term "Reference Interest Rate Reform", regarding hedge accounting;
- IFRS 17 /CPC 50 – Insurance contracts. IFRS 17 replaces IFRS 4 / CPC11 - Insurance contracts. The purpose of the amendment is to ensure that an entity provides relevant information that reliably represents the essence of these contracts, through a consistent accounting model.

The following amended standards and interpretations are effective for annual periods beginning after January 01, 2020, but did not have significant impacts on the Group’s combined statements.

4 Cash and cash equivalents

	12/31/20	12/31/19	12/31/18
Cash Bank deposits	24,358	11,808	12,337
Financial investments of liquid ratio	40,322	37,798	33,160
	64,680	49,606	45,497

Short-term investments with immediate liquidity are investments in CDBs (Certificates of Deposit) at tier-one financial institutions, remunerated between the rates of 97% to 106% of the CDI rate (Interbank Deposit Certificate rate), subject to an insignificant risk of impairment. (Yielding 94% to 100% of the CDI rate as of December 31, 2019 and 94% to 99% of the CDI rate as of December 31, 2018).

5 Trade accounts receivable

	12/31/20	12/31/19	12/31/18
Accounts Receivable:			
Referred in domestic currency	79,585	58,418	72,017
Referred in foreign currency (a)	18,232	15,221	6,837
	97,817	73,639	78,854
(+) Provision for revenue	-	-	93
(+) Provision Oi Engagement (b)	14,847	10,250	10,275
(+) Oi Judicial Recovery (c)	3,347	4,829	6,390
(-) Allowance for doubtful accounts (d)	(10,270)	(18,950)	(18,694)
(-) Provision for recognition of revenue outside the cut-off period (e)	(3,068)	(3,801)	(446)
(-) Adjustment to present value of accounts receivable (f)	-	-	(692)
	102,673	65,967	75,780
Current assets	100,296	62,196	70,987
Non-current assets	2,377	3,771	4,793
	102,673	65,967	75,780

a) Consists of USD 3,508 as of December 31, 2020 (USD 3,579 as of December 31, 2019 and USD 1,783 as of December 31, 2018);

b) The subsidiary Padtec S.A. has a contract with the telecommunications operator Oi, to supply equipment, materials and services for the implementation of new DWDN systems, as well as for the expansion of the network. 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 Experimental Acceptance document (TAF). Licenses used will be billed quarterly after an audit finds out how many are being used. The balance receivable as of December 31, 2020 is R$ 14,847 for 1,063 licenses.

The subsidiary recognizes the license revenue when it satisfies a performance obligation upon transferring the good or service (i.e., an asset) promised to the client, as required by accounting practices adopted in Brazil and IFRSs. These amounts are effectively cleared quarterly through realization via the use of installed capacity;

c) Oi Group applied for judicial reorganization on June 20, 2016, invoking the Bankruptcy and Judicial Reorganization Law (Law 11.101 / 2005). On March 14, 2018, the subsidiary Padtec S.A. complied with Article 4.3.5.2 of Oi's Judicial Reorganization Plan, which states that: "the securities subject to the judicial reorganization will be paid with a 10% discount in 04 annual equal and successive installments, plus TR + 0.5% per year, with installment one due on the last business day of the first year after the term for choosing the credit payment option expires". To date Padtec S.A. has received two installments under this Plan.

d) The allowances for doubtful accounts are made based on individual analyses of receivables, and incurred losses and expected losses that may arise during credit collection;

e) Provision for reversal of revenue recognition outside the accrual period ("cut-off"); and

f) Sales operations were stated at present value through December 31, 2018. The interest rate used to calculate the adjustment of sales to present value was 8.82% per annum, equal to the market rate. The adjustment to present value was no longer deemed worthy of recognition on January 01, 2019;

For the reported years, the Company and its subsidiaries had overdue accounts receivable not provisioned for, except that more than 730 days overdue. These receivables belong to a series of clients with no history of default or expected default. The amounts and aging list of this accounts receivable are presented below:

	12/31/20	12/31/19	12/31/18
On Maturity date	73,400	48,421	52,991
Overdue from 01 to 30 days	2,169	253	1,227
Overdue from 31 to 60 days	1,963	1,868	279
Overdue from 61 to 90 days	3,888	778	645
Overdue from 91 to 120 days	419	952	390
Overdue from 121 to 150 days	-	413	322
Overdue from 151 to 180 days	768	143	491
Overdue from 181 to 360 days	4,319	1,194	2,912
Overdue from 361 to 730 days	621	667	903
Overdue over 730 days	10,270	18,950	18,694
	97,817	73,639	78,854

The balances of trade receivables by exposure to the risk of losses for balances more than 730 days overdue follows, which has been provisioned for in its entirety:

	12/31/20	12/31/19	12/31/18
Overdue from 731 to 1095 days	1,138	2,013	3,204
Overdue from 1096 to 1460 days	786	2,422	1,430
Overdue from 1461 to 1825 days	2,739	1,362	3,561
Overdue from 1826 to 2190 days	3,023	3,170	5,451
Overdue from 2191 to 2555 days	1,701	5,274	2,793
Overdue upper to 2556 days	883	4,709	2,255
	10,270	18,950	18,694

6 Inventory

	31/12/20	31/12/19	31/12/18
Finished goods	13,648	10,421	9,334
Work in Progress	1,691	920	940
Raw materials	32,687	45,803	34,755
Resale materials	3,340	241	286
Import in transit	13,195	4,877	-
Inventory in possession of third parties (a)	7,127	2,331	6,170
Provision for obsolesce and slow moving (b)	(9,699)	(8,936)	(9,808)
Assets held for sale	-	-	(466)
	61,989	55,657	41,211

a) Refers substantially to raw materials under manufacturing and equipment lent to customers under warranty;

b) Denotes the allowance for obsolete and slow-moving inventory items. This estimate considered discontinued inventories, subquality materials and non-moving items in the inventory, whose realization is considered unlikely by Management, since newer technologies and/or solutions are available in the market. This provision is made by analyzing pre-tax sale prices practiced, net of fixed selling expenses incurred.

Changes in the provisions for obsolete and slow-moving inventory are as follows:

	12/31/17	12/31/18		
	Initial Balance	Addition to the provision	Use	Final balance
Inventories	(13,795)	(6,045)	11,612	(8,228)
Inventory in possession of third parties	(4,213)	(817)	3,450	(1,580)
Total	(18,008)	(6,862)	15,062	(9,808)

	12/31/18	12/31/19		
	Initial Balance	Addition to the provision	Use	Final balance
Inventories	(8,228)	(5,314)	4,953	(8,589)
Inventory in possession of third parties	(1,580)	(713)	1,946	(347)
Total	(9,808)	(6,027)	6,899	(8,936)

	12/31/19	12/31/20		
	Initial Balance	Addition to the provision	Use	Final balance
Inventories	(8,589)	(6,193)	6,178	(8,604)
Inventory in possession of third parties	(347)	(1,328)	580	(1,095)
Total	(8,936)	(7,521)	6,758	(9,699)

7 Recoverable taxes

	12/31/20	12/31/19	12/31/18
Tax on Circulation of Goods and Services - ICMS	1,162	595	457
Tax on industrialized products remittance in transit - IPI	518	29	12
Financial credit (a)	4,385	-	-
Social Integration Program - PIS	385	70	493
Contribution to Social Security Financing - COFINS	1,773	431	2,274
Social contribution over net profit - CSLL (b)	1,600	1,341	1,390
Corporate Income Tax - IRPJ (b)	4,820	5,674	6,755
Special tax regularization program - PERT (c)	-	8,143	3,652
National Institute of Social Security - INSS	683	13	13
Income Tax Withheld at Source - IRRF	1,356	859	1,296
Income and Tax Withholdings Return	4,967	1,632	2,299
Others	2,237	2,370	2,145
	23,886	21,157	20,786
Current assets	23,562	11,034	15,160
Non-current assets	324	10,123	5,626
	23,886	21,157	20,786

(a) Financial Credit: In December 2019, the amendment to Law No. 8.248 / 1991 (IT Law) by Law No. 13.969/2019 was published, effective from April 1, 2020, until December 2029. Under the new law, the tax incentive becomes the receipt of financial credit proportional to the R&D investments made in advance. The financial credit is calculated quarterly and will be used to pay federal taxes controlled by the Federal Tax Authorities;

(b) Negative balances arising from overpayments due to mandatory monthly advances

(c) Tax loss carryforwards and negative basis of social contribution tax credits used to pay down the debit balance of the Special Tax Regularization Program (PERT).

8 Restricted investments

As of December 31, 2020 the subsidiary Padtec S.A. had R$ 19,395 related to:

a) Short-term investment at Safra Bank of R$ 8,995 (CDB - Certificate of Deposit), securing the letter of guarantee, which in turn secures a debt to the BNDES, repaid in November 2020. This investment yields an average of 99% of the CDI rate and the Company is waiting for release of this letter of guarantee. (R$ 9,749 as of December 31, 2019 and R$ 11,456 as of December 31, 2018)

b) FIDC operation with Sifra Group of R$ 5,171 in senior quotas of FIC FIDC OSHER, in order to finance customers and factor funds (receivables). The average yield is 125% of the CDI rate; (R$ 5,038 as of December 31, 2019, which did not exist as of December 31, 2018) and

c) Short-term investment at Banco Bradesco in the amount of R$ 5,229 (CDB), with R$ 3,288 for the judicial surety bond (regarding the inclusion of ICMS in the PIS and COFINS calculation base) and R$ 1,941 securing a letter of guarantee securing a FINEP loan. The average yield is 99% of the CDI rate (there was no such investment as of December 31, 2019 and 2018).

9 Other accounts receivable

	12/31/20	12/31/19	12/31/18
Avais Officer (a)	913	913	913
Credit receivables (b)	1,980	1,980	1,980
Security deposit (rent)	175	266	579
Payroll advance	544	536	703
Others advances	690	-	-
Other financial instruments (c)	-	-	2,278
Other accounts receivable	959	745	5,351
	5,261	4,440	11,804
Current assets	2,356	1,452	3,484
Non-current assets	2,905	2,988	8,320
	5,261	4,440	11,804

(a) The Company was a guarantor in Bank Credit Note No. 1.250, issued by Officer SA Distribuidora de Produtos de Tecnologia, then under judicial reorganization (“Officer”), in favor of BCV - Banco de Crédito e Varejo SA, a member of the BMG Financial Group. On November 6, 2015, the Company, as guarantor, signed a Private Instrument of Debt Assumption and Acknowledgment, whereby it **(i)** fully assumed the debt for which it was already co-obliged and **(ii)** renegotiated the payment terms. Due to the debt assumption, the Company was subrogated to the pre-petition credit previously owed by Officer;

(b) Amounts receivable from Mecominas Group, incurring 100% of the CDI rate and maturing in October 2022.

(c) Denotes the financial asset Batanga Media Incc, the value of which was recognized in 2018 by the discounted cash flow valuation methodology to determine the company's fair value. The investment's fair value is determined annually by Management, as required by CPC 01 - Asset impairment, by reviewing the impairment studies on these investments. In December 2019 Management decided to recognize the loss in its entirety, as it believed the chance of the Company recovering the investment was minimal.

10 Related-party transactions

The Company has the following companies as controlling shareholders (interest above 5% (five percent) of its share capital:

a) Fundação CPqD – Centro de Pesquisa e Desenvolvimento em Telecomunicações; and

b) BNDES Participações S.A – BNDESPAR.

Direct and indirect interests in operating subsidiaries are described in Note 1.

Controlling shareholders, as defined above, subsidiaries and associates, entities with joint control and entities under common control that in some way exert significant influence over the Company and its subsidiaries were considered to be related parties.

The main transactions and respective natures are listed below:

a) **Loan:** Financial transactions between the Company and its subsidiaries. The loans taken out and awarded do not incur interest, as these are transactions entered into with wholly owned subsidiaries, with a maturity of less than one year;

b) **Technology development services:** An agreement was made with CPqD Foundation to perform research & development activities. The amounts relating to technological services with CPqD Foundation result from the Company and its subsidiaries' investments in a center of excellence in optical communication for the development of pioneering technologies for use in all the solutions Padtec S.A offers to the market, conducted on an arm's-length basis;

c) **Sale of products:** Refers to the sale of finished goods between the subsidiary Padtec S.A. and its overseas subsidiaries, carried out on terms considered by the Company to be an arm's-length at the time of each transaction, in line with the internal policies pre-established by Management;

d) **Other assets and liabilities:** Transactions between CPqD Foundation and Padtec S.A., consisting of expenses on infrastructure and administrative expenses, apportioned in accordance with the contract between the parties.

In addition to the balances described above, the subsidiary Padtec S.A. had a borrowings and financing contract with BNDES, which was settled in November 2020 and is described in Note 14.

	12/31/20				12/31/19				12/31/18			
	Fundação CPqD	Padtec Argentina	Padtec Colômbia	Total	Fundação CPqD	Padtec Argentina	Padtec Colômbia	Total	Fundação CPqD	Padtec Argentina	Padtec Colômbia	Total
Liability												
Services of technology development (a)	948	-	-	948	3,860	-	-	3,860	8,261	-	-	8,261
Other Services	-	-	-	-	-	-	-	-	3	-	-	3
	948	-	-	948	3,860	-	-	3,860	8,264	-	-	8,264
Current liabilities	948	-	-	948	3,250	-	-	3,250	3	-	-	3
Non-current liabilities	-	-	-	-	610	-	-	610	8,261	-	-	8,261
	948	-	-	948	3,860	-	-	3,860	8,264	-	-	8,264
Revenue												
Sales of goods (b)	-	2,786	2,710	5,496	-	2,498	1,048	3,546	-	1,801	442	2,243
	-	2,786	2,710	5,496	-	2,498	1,048	3,546	-	1,801	442	2,243
Expenses / Costs												
Services of technology development (a)	883	-	-	883	907	-	-	907	522	-	-	522
Lease (c)	2,387	-	-	2,387	3,966	-	-	3,966	3,563	-	-	3,563
Other Services (d)	8	-	-	8	679	-	-	679	608	-	-	608
	3,278	-	-	3,278	5,552	-	-	5,552	4,693	-	-	4,693

10.1 Lease with related parties

The Company and its subsidiaries have a commitment under an operating lease for a property where their administrative office is located. The lease lasts three years (expiring in 2022), which can be renewed and does not trigger purchase option clauses upon termination. The lease payment is adjusted annually by the IGP-M price index. It was marked to market by a real rate of 7.47%. The effect of recording this was R$ 3,357 in property and equipment, with a rent obligation being charged to current liabilities of R$ 2,733 and noncurrent liabilities of R$ 624, before tax (R$ 2,700 in the current liabilities and R$ 3,300 in the noncurrent liabilities as of December 31, 2019).

Key management personnel compensation

The compensation paid to Executive Officers and Board of Directors and Oversight Board members is set by the General Shareholders Meeting and is consistent with market standards. The maximum overall amount approved for 2020 was R$ 8,000. The balance payable as of December 31, 2020 is approximately R$ 1,000. Key management personnel compensation includes the following expenses:

	12/31/20	12/31/19	12/31/18
Short-term benefits			
Salaries including bonuses	2,295	3,466	2,957
National Institute of Social Security - INSS	460	677	589
Private pension	180	175	117
Total Remuneration	2,935	4,318	3,663

The Company does not have any other post-employment obligations towards its executives, nor does it grant any other long-term benefits, such as length-of-service leave or other seniority benefits. The Company does not grant other severance benefits to Management members either, other than those established in the employment contract between them and the Company.

11 Assets classified as held-for-sale

	12/31/20	12/31/19	12/31/18
Properties (a)	-	255	25,917
	-	255	25,917

(a) Properties

The Company had 15 properties as collateral for sureties granted in a statutory lien agreement on the sale of the investee Latin e Ventures. On September 30, 2015 the Company classified these properties as “available-for-sale assets” as a result of the court decision delivered in May that year, guaranteeing the right to sell the properties.

In December 2019, the Company entered into a purchase and sale agreement for 11 units and a purchase and sale commitment for the other 4 units, for the total amount of R$ 1,000, having received R$ 744 that month. In January 2020, R$ 203 was received for three other properties and R$ 52 was received in June 2020 for the last property.

12 Property and equipment

	Machinery and equipments	Computer equipment	Furniture and appliances	Telephony Devices	Others	Right of use (a)	Total
Balances on December 31, 2018							
Cost	20,739	4,624	2,389	22	-	-	27,774
Accumulated depreciation	(12,722)	(2,339)	(912)	(16)	-	-	(15,989)
Balances on December 31, 2018	8,017	2,285	1,477	6	-	-	11,785
Acquisitions	2,641	2,463	69			6,043	11,216
Disposals (acquisition)	(4,952)	(198)	(81)		(17)	-	(5,248)
Disposals (depreciation)	2,199	64	25		7	-	2,295
Depreciation	(1,669)	(822)	(206)	(1)	-	-	(2,698)
Disposals of assets held for sale (acquisition)	2,987	25	68		17	-	3,097
Disposals of assets held for sale (depreciation)	(1,337)	(23)	(20)		(7)	-	(1,387)
Balances on December 31, 2019	7,886	3,794	1,332	5	-	6,043	19,060
Cost	21,258	6,923	2,451	22	190	6,043	36,887
Accumulated depreciation	(13,586)	(3,093)	(1,121)	(17)	-	-	(17,817)
Balances on December 31, 2019	7,672	3,830	1,330	5	190	6,043	19,070
Acquisitions	436	2,901	298	-	2,753	-	6,388
Disposals (acquisition)	(78)	(32)	(223)	(1)	-	-	(334)
Disposals (depreciation)	10	(2)	130	1	-	(278)	(139)
Depreciation	(1,996)	(1,541)	(271)	(3)	(226)	(2,408)	(6,445)
Balances on December 31, 2020	6,044	5,156	1,264	2	2,717	3,357	18,540
Cost	21,616	9,792	2,526	21	2,943	6,043	42,941
Accumulated depreciation	(15,572)	(4,636)	(1,262)	(19)	(226)	(2,686)	(24,401)
Balances on December 31, 2020	6,044	5,156	1,264	2	2,717	3,357	18,540

a) This denotes the lease agreement of the Company's administrative head office (see Note 10.1).

The following table presents the average rates of depreciation of property and equipment in 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
Telephones	04 to 10 years	10% per year to 25% per year
Others	05 years	20% per year

13 Intangible assets

	Software	Software Development	Brands and patents	Technical information license	Projects under development	Total
Balances on December 31, 2018	829	1,146	27	-	46,071	48,073
Cost	5,301	1,146	27	3,762	50,325	60,561
Accumulated depreciation	(4,472)	-	-	(3,762)	(4,254)	(12,488)
Balances on December 31, 2018	829	1,146	27	-	46,071	48,073
Acquisitions	1,343	1,638	-	88	14,180	17,249
Disposals (acquisition)	(152)	-	-	-	(68,875)	(69,027)
Disposals (amortization)	152	-	-	-	6,394	6,546
Amortization	(425)	-	-	(45)	(2,017)	(2,487)
Disposal asset held for sale Submarino (acquisition)	394	-	-	-	27,733	28,127
Disposal asset held for sale Submarino (amortization)	(238)	-	-	-	(6,394)	(6,632)
Balances on December 31, 2019	1,903	2,784	27	43	17,092	21,849
Cost	6,886	2,784	27	3,850	23,363	36,910
Accumulated depreciation	(4,983)	-	-	(3,807)	(6,271)	(15,061)
Balances on December 31, 2019	1,903	2,784	27	43	17,092	21,849
Acquisitions	3,325	51	-	1,294	10,874	15,544
Disposals (acquisition)	-	(2,835)	-	-	-	(2,835)
Disposals (amortization)	(27)	-	-	-	-	(27)
Amortization	(1,087)	-	-	(449)	(3,778)	(5,314)
Balances on December 31, 2020	4,114	-	27	888	24,188	29,217
Cost	10,211	-	27	5,144	34,237	49,619
Accumulated depreciation	(6,097)	-	-	(4,256)	(10,049)	(20,402)
Balances on December 31, 2020	4,114	-	27	888	24,188	29,217

Development projects: new technologies that are being developed and meet the recognition criteria related to the completion and use of assets and generation of future economic benefits.

The following table presents the average rates of amortization for intangible assets in the year:

Description	In years	% per year
Software	05 years	20% per year
Development of new products	05 to 10 years	10% per year to 20% per year

14 Borrowings and financing

Type	Agreed rate	Effective rate	Due date	Guarantee	12/31/20	12/31/19	12/31/18
Domestic currency							
Working Capital - Safra	CDI + 5.53% per year		from 04/26/21 to 09/24/24	-	10,020	-	-
Working Capital - Safra	CDI + 5.53% per year		from 09/03/18 to 11/04/19	Receivables	-	-	5,554
Working Capital - Daycoval	5,9% a 10.08% per year		from 07/29/20 to 09/30/24	Receivables	15,036	-	-
Working Capital - ABC Brasil	CDI + 4.38% per year		from 12/23/20 to 05/23/24	Receivables	8,011	-	-
Working Capital - Banco do Brasil	CDI + 3.50% a 6.50% per year		from 08/10/17 to 04/10/22	-	-	14,061	7,504
Working Capital - Itaú	CDI + 2.50% per year		from 02/29/16 to 07/30/21	-	-	22,619	52,385
FINEM - BNDES	TJLP + 1.70% per year		from 04/15/17 to 01/15/23	Bank guarantee	-	9,135	10,468
Finep	TR + 2.80% per year		from 02/01/23 to 02/01/40	Bank guarantee	10,365	-	-
Finep	5.00% per year + IOF		from 11/15/14 to 12/15/19	Bank guarantee	-	-	833
					43,432	45,815	76,744
International currency							
Working Capital - Banco do Brasil	3,80% per year	Stand by	from 04/01/19 to 04/01/19	Stand by	-	-	11,859
					-	-	11,859
					43,432	45,815	88,603
Current liabilites					11,151	23,927	31,445
Non-current liabilities					32,281	21,888	57,158
					43,432	45,815	88,603

Repayment schedule by year of maturity:

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031-2040	TOTAL
Borrowings and financing	11,151	11,380	7,692	5,065	739	739	739	739	739	739	3,710	43,432

Borrowings and financing are not subject to the performance of covenants.

The main changes in the year are described below.

14.1 Payments

In year 2020 a consolidated R$ 74,749 was paid in interest and principal on the Company's loans. (R$ 48,503 in year 2019 and R$ 24,740 in year 2018).

14.2 Obtainment of borrowings and financings

In March and October 2020, the subsidiary Padtec S.A. secured a financing facility from FINEP for technological investments: R$ 10,260 indexed to the rate of TR + 2.8% per year. The interest will be paid in 242 monthly consecutive installments, with a 3-year grace period for the principal.

Over the course of 2020 Padtec S.A. also secured funding to bolster its working capital, as shown below:

Banco do Brasil

R$ 10,000 was secured in May indexed to CDI + 5% per year. The principal will be paid in 2 installments, the first in October 2020 and the second in April 2021, and incurs monthly interest.

R$ 5,000 was secured in June indexed to CDI + 4.8% per year. The principal will be paid in 2 installments, the first in December 2020 and the second in June 2021, and incurs monthly interest.

R$ 5,000 was secured in October indexed to CDI + 4.5% per year. The principal will be paid in 2 installments (April and November 2021), and incurs monthly interest.

All of these loans from Banco do Brasil were settled using funds obtained in the Debentures issued (see Note 15)

Banco Daycoval

R$ 5,000 was secured in May indexed to 14.02% per year. The principal will be paid in a lump sum in November 2021 and incurs monthly interest.

R$ 10,000 was secured in June indexed to 10.08% per year. The interest is being paid in 24 monthly consecutive installments, since July 2020, and the principal over 18 monthly consecutive installments, over the same time period.

R$ 5,000 was secured in October indexed to the CDI rate + 5.9% per year. The interest and the principal shall be paid over 48 monthly installments, with a six-month grace period for the principal payment.

Banco Safra

R$ 10,000 was secured in September indexed to the CDI rate + 5.53% per year. The interest is being paid in 48 monthly consecutive installments, since October 2020, and the principal will be paid over 42 monthly consecutive installments, commencing April 2021.

Banco ABC Brasil

R$ 8,000 was secured in November indexed to the CDI rate + 4.38% per year. The interest shall be paid over 42 monthly installments, with a six-month grace period for the principal payment.

14.3 Reconciliation of liabilities resulting from operating and financing activities

Balances at December 31, 2017	87,894
Interest expense	7,421
Loans obtained	18,028
Amortization	(16,478)
Debt charges	(8,262)
Cash flows from operating and financing activities	709
Balances at December 31, 2018	88,603
Interest expense	5,336
Loans obtained	379
Amortization	(41,521)
Debt charges	(6,982)
Cash flows from operating and financing activities	(42,788)
Balances at December 31, 2019	45,815
Interest expense	4,106
Debt charges	(3,807)
Loans obtained	68,260
Amortization	(70,942)
Debenture issue	40,000
Debenture borrowing expenses	(922)
Cash flows from operating and financing activities	36,695
Balances at December 31, 2020	82,510

15 Debentures

In December 2020, the subsidiary Padtec S.A. issued R$ 40,000 non-convertible, ordinary debentures in a single series for public distribution placed with restricted efforts pursuant to CVM Directive 476 (“Debentures”).

Changes in the Debentures issuance are as follows:

Type	Borrowing	Balance at 12/31/2020
Measured at cost - Post-fixed		
Post-fixed		-
Interbank Deposit Certificate (CDI)	40,000	40,000
Total at cost	40,000	40,000
Funding expenses (*)	(922)	(922)
Total	39,078	39,078
Current liabilities		7,765
Non-current liabilities		31,313
		39,078

Repayment schedule by year of maturity:

	2021	2022	2023	2024	TOTAL
Debentures	8,000	10,666	10,667	10,667	40,000

(*) Under CPC 48/IFRS 9, this denotes the borrowing costs directly attributable to the issuance of the respective debts, measured at cost.

The Debentures have a maturity term of 4 (four) years as from issuance, and therefore mature on December 21, 2024. The net funds raised under this issuance were used to re-profile and lengthen Padtec Group’s debts, including full payment of the debts originally taken out from Banco do Brasil and Banco Itaú.

Covenants

The debentures require performance of certain covenants, in addition to additional obligations which are determined annually. The financial covenants require the following:

- maintaining the ratio between Net Financial Debt and EBITDA at 2.5 (two point five) until complete payment of the Secured Obligations, to be determined annually commencing in year 2020 (“Financial Covenant”), based on the annual statements of the issuer (Padtec S.A.) for the immediately previous year, audited by independent auditors, which will state whether or not the financial covenants for the debentures issuance have been performed.

The Company monitors these rates systematically and constantly, in order to ensure the conditions are met. In management’s opinion, all the financial and non-financial covenants and restrictive conditions have been duly performed as of December 31, 2020.

16 Financing operations

As of December 31, 2020 the Company has Vendor and FIDC financing operations of R$ 37,139 in current liabilities and R$ 11,460 in non-current liabilities (R$ 41,060 in the current liabilities and R$ 18,973 in the noncurrent liabilities as of December 31, 2019 and R$ 16,734 in the current liabilities and R$ 12,263 in the noncurrent liabilities as of December 31, 2018). The counter entry is recorded in current assets and non-current assets. The operations are described below:

16.1 Vendor Operations

The Company signed vendor contracts with Banco do Brasil, Banco Safra, Banco Industrial, Banco Paulista, Banco Alfa and Banco Daycoval, consisting of sales financing based on the principle of credit assignment. By the close of year 2020 these financial institutions had awarded credit to 19 Company clients, via financing commitment contracts with the overall limit of R$ 118,523 expiring by December 2022. This sum is used to acquire products and implement services by the Company. There was no default by these customers as of December 31, 2020. As of December 31, 2020, R$ 32,387 is recorded in current liabilities and R$ 10,729 in noncurrent liabilities. (R$ 40,021 in the current liabilities and R$ 18,107 in the noncurrent liabilities as of December 31, 2019 and R$ 16,734 in the current liabilities and R$ 12,263 in the noncurrent liabilities).

16.2 Credit Receivables Investment Fund operations (FIDC)

The Credit Rights Investment Fund was created in October 2019 by Padtec S.A. in conjunction with other shareholders, where the funds will be used to acquire goods and services to set up the Company. Padtec S.A. has a 25% interest and the other shareholders 75%. The FIDC is administrated by Sifra Group and is used to finance clients and factor receivables. The credit limit is R$ 20 million. The assignment rate for Padtec’s receivables is 1.50% p.m, with a term limited to the investment described below. Padtec will invest R$ 5 million in senior shares of FIC FIDC OSHER, yielding 125% of the CDI rate. This investment will be subject to a statutory lien in favor of Sifra Group, solely to guarantee Padtec’s operations as assignor.

Until December 31, 2020, 5 Group customers had been awarded credit in the total amount of R$ 7,970 million, maturing by November 2022. Until December 31, 2020, there was no default and the amount recorded is R$ 4,752 in the short term and R$ 731 recorded in the long term. (R$ 1,040 in the current liabilities and R$ 866 in the noncurrent liabilities as of December 31, 2019, there being no such operation as of December 31, 2018).

17 Trade payables

	12/31/20	12/31/19	12/31/18
Domestic suppliers	12,801	11,076	9,316
International suppliers	43,031	23,598	15,901
	55,832	34,674	25,217

18 Factoring

The Company has a contract with Banco do Brasil to permit its domestic suppliers to receive funds in advance. Through this operation, suppliers transfer the right to receive payment of bills for goods sales to the financial institutions. The consolidated balance as of December 31, 2020 is R$ 1,971, with a maximum term of 180 days. (R$ 1,655 as of December 31, 2019 and R$ 2,036 as of December 31, 2018)

19 Taxes and contributions payable

	12/31/20	12/31/19	12/31/18
ICMS - Tax on Circulation of Goods and Services - ICMS	3,320	3,288	1,246
Brazilian Social Security Institute - INSS	-	17	14
Corporate Income Tax - IRPJ	558	630	1,088
Income Tax Withheld at Source - IRRF	-	1,515	1,013
Tax on industrialized products remittance in transit - IPI	2,728	189	-
Social contribution over net profit - CSLL	203	241	386
Social Integration Program - PIS	314	288	313
Contribution to Social Security Financing - COFINS	1,341	1,332	1,442
Services tax - ISS	189	223	2,357
Others	551	89	1,599
	9,204	7,812	9,458
Current liabilities	9,204	7,812	9,035
Non-current liabilities	-	-	423
	9,204	7,812	9,458

20 Taxes and contributions payable – financing

	12/31/20	12/31/19	12/31/18
Installment of ICMS - Tax on Circulation of Goods and Services - ICMS (a)	5,043	6,193	9,676
Special Tax Regularization Program - PERT (b)	-	9,539	10,247
Installment of service tax - ISS (c)	3,257	3,316	-
Others	234	234	-
	8,534	19,282	19,923
Current liabilities	6,331	7,212	5,483
Non-current liabilities	2,203	12,070	14,440
	8,534	19,282	19,923

a) Padtec S.A. entered the tax financing program to refinance its ICMS debts in accordance with Joint Resolution SP/PGE 02/12 and SF 72/12, in the amount of R$ 15,717, with an outstanding balance as of December 31, 2020 of R$ 5,043, with final maturity by January 2023;

b) The consolidated amount mainly consists of the federal tax debits of the subsidiary Automatos Participações Ltda. included in the Special Tax Regularization Program (“PERT”), introduced by the Federal Government through Law 13.496 on October 24, 2017. After payment of the amounts corresponding to the entry of 5% of the consolidated debt into PERT, the Company and the subsidiary Automatos Participações Ltda. completed the consolidation stages of the financing.

c) The consolidated amount is represented by the municipal tax debits of the subsidiary Automatos Participações Ltda.

21 Provisions

21.1 Other provisions

a) Consists of the provision for payment of commission on sales made to customers at the percentage of 0.4% to 4% or fixed amounts of monthly salaries for sales staff, pursuant to the contract; and

b) Recognized to expenses incurred on products, including warranty and contractual obligations.

	12/31/17	12/31/18		
	Initial Balance	Addition to the provision	Use	Final balance
Provision for commission (a)	765	1,529	(1,532)	762
Repairs during warranty (b)	246	685	(126)	805
Others	5,036	1,174	(6,009)	201
Total	6,047	3,388	(7,667)	1,768

	12/31/18	12/31/19		
	Initial Balance	Addition to the provision	Use	Final balance
Provision for commission (a)	762	1,236	(964)	1,034
Repairs during warranty (b)	805	751	(13)	1,543
Others	201	188	(201)	188
Total	1,768	2,175	(1,178)	2,765

	12/31/19	12/31/20		
	Initial Balance	Addition to the provision	Use	Final balance
Provision for commission (a)	1,034	859	(1,169)	724
Repairs during warranty (b)	1,543	799	(450)	1,892
Others	188	4	(63)	129
Total	2,765	1,662	(1,682)	2,745

21.2 Provisions for labor, tax and civil risks

The Company and its subsidiaries are party to judicial and administrative proceedings in various courts and government agencies, arising from the normal course of operations, involving tax, civil, labor and other issues. As a rule, provisions are made for amounts classified as probable risk of loss.

	12/31/17	12/31/18		
	Initial Balance	Addition to the provision	Use	Final balance
Labor (a)	18,911	7,453	(3,376)	22,988
Civil (b)	13,337	2,596	(494)	15,439
Tax (c)	41,482	1,581	(31,199)	11,864
Total provisions	73,730	11,630	(35,069)	50,291
Judicial Deposits (d)	(40,782)	(1,341)	30,444	(11,679)
Total	32,948	10,289	(4,625)	38,612

	12/31/18	12/31/19		
	Initial Balance	Addition to the provision	Use	Final balance
Labor (a)	22,988	4,449	(4,964)	22,473
Civil (b)	15,439	878	(3,331)	12,986
Tax (c)	11,864	102	(5,718)	6,248
Total provisions	50,291	5,429	(14,013)	41,707
Judicial Deposits (d)	(11,679)	(4,882)	4,389	(12,172)
Total	38,612	547	(9,624)	29,535

	12/31/19	12/31/20		
	Initial Balance	Addition to the provision	Use	Final balance
Labor (a)	22,473	2,542	(2,281)	22,734
Civil (b)	12,986	2,846	(9,895)	5,937
Tax (c)	6,248	1,716	(950)	7,014
Administrative	-	285	-	285
Total provisions	41,707	7,389	(13,126)	35,970
Judicial Deposits (d)	(12,172)	(1,045)	10,852	(2,364)
Total	29,535	6,344	(2,274)	33,606

(a) Labor

Labor claims filed by former employee of former subsidiaries (Officer, Pini, Softcorp/Latin eVentures and ETML – Empresa de Telefonia Multiusuário S.A), now divested, claiming labor entitlements.

(b) Civil

Fontes Participações e Administração Ltda.: Padtec Group is the defendant in three civil claims filed by the company Fontes Participações e Administração Ltda. ("Fontes"), namely: 0014757-87.2014.8.16.0001 (writ of prevention); 0021446-50.2014.8.16.0001 (main case); and 0009306-47.2015.8.16.0001 (account rendering action). These cases address the validity of the guarantees submitted by Fontes (property statutory liens) to Padtec Group under the sale of the former investee Softcorp and the amounts owed to Padtec Group versus the amount enforced by it through the guarantees. The cases are being tried jointly separately from the main case, which is still at the discovery phase where we are waiting to hear the last witness of the plaintiff, expected for March 2021.

(c) Tax claims

The main cases are as follows:

IPI

The subsidiary Padtec S.A. was assessed by the federal tax authorities for selling accessories of incentivized products separately from the end products, allegedly contravening the conditions to use the tax incentive established by the IT Law then in force (reduction in the IPI rate). The subsidiary was assessed for years 2011 and 2012, totaling a risk of R$ 2,316, and also made a provision for R$ 1,605 for years 2015 to 2018. (R$ 5,466 as of December 31, 2019 and R$ 8,553 as of December 31, 2018).

ISSQN

Assessment Notice issued the Municipality of Belo Horizonte/MG demanding ISSQN at 5% on alleged services provided and a fine for issuing a document other than that established in the municipal tax legislation, by the company PSG – Padtec Serviços Globais de Telecomunicações Ltda (merged into the subsidiary Padtec S.A.), by its branch established in the city of Belo Horizonte/MG in the period April 2015 to July 2016; and another consisting of a fine for issuing a document other than that established in the municipal tax legislation, with a tax loss, amounting to R$ 2,310.

(d) Judicial Deposits

The amounts consist of judicial deposits held in the name of the Parent company and the investees Padtec S.A. and Automatos Participações Ltda., primarily in civil and labor claims.

There are other cases posing a total risk of R$ 74,225, with R$ 57,710 in tax risks, R$ 11,778 labor risks, R$ 4,600 civil risks and R$ 137 administrative risks rated by the legal advisers as having a possible risk of defeat as of December 31, 2020 (R$ 60,615 tax, R$ 5,550 labor, R$ 4,678 civil and R$ 1,633 administrative as of December 31, 2019 and R$ 50,797 tax, R$ 8,595 labor and R$ 6,039 civil as of December 31, 2018), for which no provision has been recorded as it is not required by Brazilian accounting practices. See the details of the main cases included in the description above:

- ICMS – The subsidiary Padtec S.A has a tax enforcement proceeding for ICMS, which is at the appeal stage, in the amount of R$ 6,215. The lower court decision was partly upheld to cancel the tax charged, whilst maintaining the finds. (R$ 6,161 as of December 31, 2019 and R$ 6,068 as of December 31, 2018);
- The subsidiary Padtec S.A. has a tax assessment issued by the federal tax authorities for payment discrepancies in the Import Tax (II), Excise Tax (IPI) and PIS and Cofins determined as a result of the discrepancy in the tax classification of the imported products. We are currently defending this case at the administrative courts. The case amount is R$ 1,612. (R$ 1,589 as of December 31, 2019 and R$ 1,538 as of December 31, 2018). This claim is for the regulatory fine of 1% over the customs value, which is why the party not subject to the appeal was excluded from the contingency;

- The subsidiary Padtec S.A. has an assessment notice issued by the federal tax authorities for the payment of non-cumulative PIS and Cofins, for the period January 2009 to December 2010. The case is worth R$ 5,770 and is before the tax monitoring and control service at the Federal Tax Department in Sorocaba/SP and is pending judgment of the contestation (R$ 5,679 as of December 31, 2019 and R$ 5,474 as of December 31, 2018);
- The subsidiary Padtec S.A. has assessment notices and a fine contestation due to the alleged violation of the Basic Productive Process (PPB), for selling products while improperly using the tax incentive to reduce Excise Tax (IPI) in the period 2011 and 2012. The audit found that Padtec S.A. had reduced the IPI due by improperly using the tax incentive introduced by Law 8.248/1991, in the total amount of R$ 38,175. On 1/3/2018 Padtec S.A. was notified of appeal decision 09-65.347, which found the Contestation submitted to be groundless, upholding the assessment. Voluntary appeal to Carf filed on 1/31/2018. On 9/26/2019 the judgment of the Voluntary Appeal was converted into a diligence (R$ 37,438 as of December 31, 2019 and R$ 35,770 as of December 31, 2018); and
- PerDComp Federal Taxes - Reimbursement Claims related to Offsetting Declarations of the subsidiary Padtec S.A., with credits resulting from the overpayment of non-cumulative tax (IPI, Cofins, Cide and others), referring to several periods not deferred and not ratified in their entirety. The case records are at the National Case Management Center at the Federal Tax Department in Ribeirão Preto/SP.

22 Payroll obligations

	12/31/20	12/31/19	12/31/18
Salaries	2,542	2,580	2,532
Participation in profits and results	3,211	670	3,431
Social contributions	5,792	4,033	3,889
Provision for Paid holidays / Christmas bonus	6,499	5,735	5,755
Private pension	844	796	722
Others	88	45	158
	18,976	13,859	16,487

23 Private pension plan

The subsidiary Padtec S.A. sponsors two private pension plans for its employees, administrated by Fundação Sistel de Seguridade Social. The supplementary pension plans are defined-contribution “InovaPrev” or defined-benefit “CPqDPrev”.

In the defined-benefit plan, the contribution and benefit amounts are defined when contracting the plan, and the cost is determined actuarially in order to guarantee the granting and maintenance thereof. In the defined-contribution plan, the benefit is permanently adjusted, depending on the applicable balance of accounts held in the participant’s favor, which in turn results from the amounts paid as contributions, the length of contribution, yields made on investments and other variables.

Under the regulations of these plans, the cost is shared and varies according to a contribution range based on salary ranges, from 1% to 8% of the employees’ compensation.

As of December 31, 2020, 2019 and 2018, there were no actuarial liabilities registered to Padtec S.A., arising out of the supplementary pension plan because the plan enjoys financial equilibrium.

The contributions made amounted to R$ 1,886 as of December 31, 2020 (R$ 2,395 as of December 31, 2019 and R$ 2,216 as of December 31, 2018), which were expensed in profit or loss for the period. Contributions made by the sponsor in the second quarter of 2020 were deducted from the excess funds in the Risk Coverage Fund, as agreed by the parties. This Fund aims to accrue the funds invested by self-sponsored participants and sponsors through Risk Contributions.

24 Equity

24.1 Capital

The merger of Padtec S.A. shares into the Company described in note 1 with the consequent conversion of Padtec S.A. into a wholly owned subsidiary, was approved at the Extraordinary General Meeting held April 27, 2020, pursuant to article 252 of Law 6.404/1976 ("Brazilian Corporation Law"). This operation was also approved on the same date by the General Shareholders Meeting of Padtec S.A. The Company's shareholders with an uninterrupted share position from March 27, 2020 to April 27, 2020 were entitled to exercise the right to withdraw under article 252 **(1)** of Brazilian Corporation Law, and should explicitly state their intention to exercise this right within thirty **(30)** days, ending May 29, 2020. However, no company shareholders have exercised this right to withdraw. On June 01, 2020 the Company therefore concluded the merger of Padtec S.A. shares, when new common shares were issued and delivered to the then shareholders of that investee, who received 7.113682675 new shares issued by Padtec Group In replacement of each share issued by Padtec S.A. This substitution ratio was determined and agreed by the parties to the Merger Agreement entered as part of the operation, including Company Management, and was based on the equity value of the shares in each Company at market price as of September 30, 2019 ("Date Base"). This operation triggered a capital increase of R$ 67,365 deriving from the merger of Padtec S.A. shares.

At December 31, 2020, the Company's subscribed and paid-up capital is R$ 199,211, divided into 78,450 registered common shares with no par value.

	12/31/20		12/31/19		12/31/18	
Shareholder	Number of shares	% interest	Number of shares	% interest	Number of shares	% interest
Fundação CPqD – Centro de Pesquisa e Desenvolvimento em Telecomunicações	43,075,127	54.91%	-	0.00%	-	0.00%
BNDES Participações S.A. – BNDESPAR	18,084,240	23.05%	-	0.00%	-	0.00%
LMC Brazil, LLC	3,927,649	5.01%	3,927,649	24.03%	3,927,649	24.03%
Total Return Investment LLC	-	0.00%	2,407,579	14.73%	2,407,579	14.73%
Itaú Unibanco S.A.	-	0.00%	1,943,360	11.89%	1,950,560	11.93%
Truetech Participações Ltda	-	0.00%	1,069,238	6.54%	1,069,238	6.54%
Spritzer Consultoria Empresarial - ME	-	0.00%	-	0.00%	2,691,900	16.47%
Lorentzen Empreendimentos S.A.	-	0.00%	-	0.00%	1,617,255	9.90%
Time Participações e investimentos S.A.	-	0.00%	-	0.00%	925,200	5.66%
Outros	13,362,763	17.03%	6,995,740	42.80%	1,754,185	10.73%
Total	78,449,779	100.00%	16,343,566	100.00%	16,343,566	100.00%

24.2 Capital reserve

Capital

Denotes the gains or losses on the change in subsidiary interest without loss of control.

24.3 Goodwill in capital transaction

Denotes the difference between the acquisition price and the equity value, in changing the subsidiaries' interest without relinquishing control, resulting in the goodwill in the capital transaction.

24.4 Other comprehensive income

Asset and liability valuation adjustments

Consists of the accumulated translation adjustments of all foreign-currency differences deriving from the translation of financial statements for foreign operations.

24.5 Dividends

The Company's Bylaws stipulate the allocation of 25%, adjusted pursuant to 202 of Law 6.404/76, to minimum mandatory dividends to be distributed when the profit is determined for the year. No dividends were paid out for the years ended December 31, 2020, 2019 and 2018 because of the accumulated losses.

25 Earnings per share

Basic earnings per share are calculated by dividing profit (loss) attributable to company shareholders by the weighted average number of common shares issued during the year.

Diluted earnings per share are calculated by adjusting the weighted average outstanding common shares, to presume the conversion of all potential, shares diluted by the share call options, determining the number of shares that could have been acquired at fair value, based on the monetary value of the subscription rights underlying the share call options in circulation.

The number of shares thus calculated is compared with the number of shares issued assuming the exercise period of the stock options. See below basic and diluted earnings per share as of December 31, 2020, 2019 and 2018:

	12/31/20	12/31/19	12/31/18
Basic numerator			
Profit for the year	16,293	11,703	33,315
Number of shares	78,450	16,344	16,344
Basic and diluted earnings per share - Reais	0.2077	0.7161	2.0383

26 Net operating revenue

	12/31/20	12/31/19	12/31/18
Gross operating revenue	328,449	273,585	289,908
Goods	263,198	201,459	188,599
Service	65,251	72,126	101,309
Taxes levied on sales	(70,163)	(40,413)	(42,350)
Returns and cancellations	(10,574)	(12,368)	(18,174)
Net operating revenue	247,712	220,804	229,384

27 Cost of goods sold, and services provided

	12/31/20	12/31/19	12/31/18
Material	(96,092)	(77,358)	(77,122)
Manpower	(35,188)	(39,344)	(39,457)
General manufacturing expenses	(31,210)	(37,066)	(40,373)
	(162,490)	(153,768)	(156,952)

28 Operating income (expense)

28.1 Administrative, commercial and research and development expenses

	12/31/20	12/31/19	12/31/18
Labor expenses and social contributions	(48,632)	(47,860)	(34,563)
Third party Services	(6,566)	(8,643)	(8,195)
Sale and marketing expenses	(494)	(770)	(553)
General and administrative expenses	(14,752)	(11,870)	(12,148)
Consumables	(1,541)	(3,507)	(3,497)
Lease of property and equipment	(598)	(1,960)	(1,943)
Others	(2,289)	(3,410)	(7,640)
	(74,872)	(78,020)	(68,539)

Presented as:

	12/31/20	12/31/19	12/31/18
Administrative expenses	(24,228)	(28,302)	(29,013)
Commercial expenses	(21,987)	(22,917)	(20,092)
Research and development expenses	(28,657)	(26,801)	(19,434)
	(74,872)	(78,020)	(68,539)

28.2 Other net operating income (expenses)

	12/31/20	12/31/19	12/31/18
Discount PERT	-	339	3,741
Contingency provision reversal	-	-	25,542
Gain in supplier disposal	663	-	-
Administrative indemnity	(129)	-	-
Civil indemnity	202	-	-
Labor indemnity	(1,009)	(3,190)	(1,477)
(Loss) / gain held for sale	(345)	(900)	88
Losses of amounts receivable from customers	(2,887)	-	-
Allowance for doubtful accounts	8,681	(1,080)	5,991
Labor contingency provision	(534)	1,209	(1,589)
Provision for tax contingencies	(1,583)	1,827	-
Civil contingency provision	3,392	2,050	-
Administrative contingency provision	(1,397)	(139)	-
Others	(408)	2,040	(1,446)
	4,646	2,156	30,850

29 Finance income (costs)

29.1 Finance income

	12/31/20	12/31/19	12/31/18
Administrative expenses	(24,228)	(28,302)	(29,013)
Commercial expenses	(21,987)	(22,917)	(20,092)
Research and development expenses	(28,657)	(26,801)	(19,434)
	(74,872)	(78,020)	(68,539)

29.2 Finance costs

	12/31/20	12/31/19	12/31/18
Interest on loans and financing	(5,088)	(8,975)	(9,019)
Financial operations expenses	(284)	(6,809)	(2,983)
Other expenses	(14,909)	(11,936)	(15,305)
	(20,281)	(27,720)	(27,307)

30 Current income and social contribution tax

30.1 Current

The reconciliation between the tax expense as calculated by the combined statutory rates and the income and social contribution tax expense charged to profit or loss is presented below:

	12/31/20	12/31/19	12/31/18
Profit before Taxes	17,205	10,004	32,088
11.196/05 Law	(9,265)	(11,257)	(5,253)
(+/-) other additions and exclusions	(9,932)	2,608	(23,292)
Provision / Reversal for obsolescence of inventory	763	(872)	(9,674)
Provision / Reversal of contingencies	1,941	(8,643)	2,197
Provisão/reversão de receitas	(5,730)	784	(6,575)
Provision / Reversal of bad debt	(8,681)	256	(7,770)
Losses on receivables	2,887	824	1,779
Provision / reversal other	3,095	685	(868)
Financial credits	(9,418)	-	-
Other additions and exclusions	5,211	9,574	(2,381)
Tax Profit / (loss)	(1,992)	1,355	3,543
Income Tax	(777)	(734)	(494)
Social contribution	(135)	(178)	(185)
Income tax and current CSLL	(912)	(912)	(679)

31 Insurance

The Company has insurance contracts in force as of December 31, 2020 in amounts Management deems sufficient to cover its operational risks. Given their nature, the risk assumptions adopted are not part of an audit of consolidated and combined financial statements and were consequently not examined by our independent auditors.

See below the insured amounts by risk coverage:

		Current period		Covered amount
	Insured risk	From	Up to	12/31/20
Equity insurance	Basic coverage: fire, lightning and explosion Additional coverage: loss of profits, flooding, property, electrical damage, landslides, equipment, machinery breakdown, restoration of records and documents, RC Commercial and Industrial establishments, theft and windstorm	04/28/20	04/28/21	210,592
Group life insurance - Employees	Death, accident, disability	07/01/20	06/30/22	932
Group life insurance - Employees - Complement	Death, accident, disability	07/01/20	06/30/22	419
Group life insurance - Interns	Death, accident, disability	07/01/20	06/30/22	32
National transport	Road hazards	11/01/20	11/01/21	4,000
Comprehensive general liability insurance - Management	Board of Directors	07/09/20	07/09/21	50,000
Comprehensive general liability insurance	General, operations, products	07/13/20	07/13/21	15,000

32 Risk Management

The Company and its subsidiaries manage their financial instruments through operating strategies and internal controls aimed at liquidity, profitability and security. The Company and its subsidiaries do not make speculative investments. The results obtained from these operations are consistent with the policies and strategies defined by management.

These financial instruments and risks are managed via policies, strategies and control systems defined and implemented by Management and approved by the Board of Directors. The classification of financial assets under IFRS 9 is generally based on the business model used to manage a financial asset and its contractual cash flow characteristics.

33 Financial instruments

All operations with financial instruments are recognized in the Company and its subsidiaries' financial statements, as per the table below:

	Fair Value Hierarchy	Carrying Amount			Fair Value		
		12/31/20	12/31/19	12/31/18	12/31/20	12/31/19	12/31/18
Assets							
Fair value through profit or loss							
Cash and Cash Equivalents	Level 2	64,680	49,606	45,497	64,680	49,606	45,497
Restricted investments	Level 2	19,395	14,787	11,456	19,395	14,787	11,456
Total		84,075	64,393	56,953	84,075	64,393	56,953
Liabilities							
Amortized cost							
Borrowings and financing (current)		(11,151)	(23,927)	(31,445)	(11,151)	(23,927)	(31,445)
Borrowings and financing (noncurrent)		(32,281)	(21,888)	(57,158)	(32,281)	(21,888)	(57,158)
Debentures (current)		(7,765)	-	-	(7,765)	-	-
Debentures (noncurrent)		(31,313)	-	-	(31,313)	-	-
Total		(82,510)	(45,815)	(88,603)	(82,510)	(45,815)	(88,603)

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

Fair value versus carrying amount

The fair values of financial assets and liabilities along with the carrying amounts in the balance sheets are as follows:

- Cash and cash equivalents and restricted short-term investments - the interest paid on the company's cash equivalents and restricted short-term investments at the close of the year approximates the market rates for operations of a similar nature, term and risk;
- Trade receivables are recognized initially at fair value and subsequently adjusted by the effective interest rate, considering the effects and recognition of the present value measurement;
- Borrowings, financing and debentures - in general these follow market standards and the carrying amount therefore approximate market values for operations with similar term, origin and risk;
- Leases - recognized at the carrying amount reflecting fair value;
- Trade payables - recognized at carrying amount reflecting fair value, as these are short-term balances; and
- Supplier Financing - recognized at the carrying amount reflecting fair value.

Valuation of financial instruments

The fair value of a security denotes its maturity value (redemption value) adjusted to present value by the discount factor (for the security's maturity date) obtained from the market interest curve in Reais.

CPC 4 (R1) and IFRS 7 require the classification into a three-level hierarchy for fair value measurements of financial instruments, based on observable and unobservable information regarding the valuation of a financial instrument at the measurement date. CPC 40 (R1) and IFRS 7 also define observable information as market data obtained from independent sources and unobservable information reflecting market assumptions.

The three levels of the fair value hierarchy are:

- Level 1: Prices quoted in an active market for identical instruments;
- Level 2: Inputs other than quoted prices in active markets that are observable for the assets and liabilities, directly (as prices) or indirectly (derived from prices);
- Level 3: Instruments whose material factors are not observable market data.

33.1 Financial risk factors

The economic and financial risks mainly reflect the changes in macroeconomic variables, such as, foreign exchange and interest rates, as well as the nature of the financial instruments used by Padtec Group. The Group's activities expose it to a variety of financial risks, capital risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. It is Padtec practice to manage risks conservatively. This aims to preserve the value and liquidity of financial assets and guarantee financial resources for the smooth running of its business being the main objectives.

Padtec's exposure to each of these risks, the objectives, the practices and processes for measuring and managing risks and capital management are described below:

33.1.1 Capital risk

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to all stakeholders or parties involved in its operations by optimizing debt and equity instruments.

The capital structure of the Company and its subsidiaries is formed by net debt (borrowings, financing and debentures) less cash and cash equivalents, restricted cash and short-term investments and equity.

In 2020 Padtec Group did not have any net financial debts and its net ratio (cash) for the next three years is as follows:

	12/31/20	12/31/19	12/31/18
Debt	82,510	45,815	88,603
Cash and cash equivalents, short-term investments	84,075	64,393	56,953
Net debt (net cash)	(1,565)	(18,578)	31,650
Equity	103,012	86,799	76,529
Net debt (cash) ratio	(0.0152)	(0.2140)	0.4136

33.1.2 Credit risk

Credit risk is the risk of the Company incurring a financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the receivables mainly generated from recurring clients and short-term investments. To mitigate this risk the Company and its subsidiaries closely analyze the financial and equity situation of their clients, permanently monitoring the debit balance of their counterparties. Impairment losses are stated in Note 5 (trade receivable), in accordance with the impairment test conducted by Management.

In relation to short-term investments, the Group only invests in institutions with a low credit risk and complies with an investment ceiling determined by Management. Management believes there is no significant credit risk to which Padtec Group is exposed, while considering concentration levels and materiality of the values in relation to turnover.

33.1.3 Liquidity risk

This is the risk that Padtec Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by payments at sight.

The Company's approach to managing liquidity risk is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company and its subsidiaries' reputation.

Padtec Group is also working to align the cash equivalents and generation of funds in order to honor its obligations by the agreed deadlines. Contractual maturity is based on the nearest date on which the Company and its subsidiaries must settle the related obligations:

	Carrying Amount	Up to 1 year	1-2 years	2 - 20 years
Cash and cash equivalents	64,680	64,680	-	-
Restricted investments	19,395	19,395	-	-
Trade accounts receivable	102,673	100,296	2,377	-
Lease with related parties	(3,357)	(2,733)	(624)	-
Borrowings and financing	(43,432)	(11,151)	(11,380)	(20,901)
Debentures	(39,078)	(7,765)	(10,438)	(20,875)
Trade payables	(55,832)	(55,832)	-	-
Factoring	(1,971)	(1,971)	-	-
Total	43,078	104,919	(20,065)	(41,776)

33.1.4 Exchange rate risk

This risk results from the possibility of fluctuations in the exchange rates used by Padtec. Management analyzes and monitors its exposures, in order to make decisions on procuring the respective hedge instruments for foreign currency exposures.

The net exposure in foreign currency can be seen in the table below:

	12/31/20		12/31/19		12/31/18	
	R$	US$	R$	US$	R$	US$
Assets						
Trade accounts receivable	18,232	3,508	15,221	3,579	6,837	1,783
Liabilities						
Trade payables	(43,031)	(8,280)	(23,583)	(5,545)	(15,901)	(4,146)
Total	(24,799)	(4,772)	(8,362)	(1,966)	(9,064)	(2,363)

33.1.5 Interest rate risk

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

The carrying amount of the financial instruments representing the maximum interest rate exposure at the reporting date was as follows:

	12/31/20	12/31/19	12/31/18
Assets			
Cash and cash equivalents	64,680	49,606	45,497
Liabilities			
Borrowings and financing	(43,432)	(45,815)	(88,603)
Debentures	(39,078)	-	-
Net exposure	(17,830)	3,791	(43,106)

33.2 Sensitivity analysis

Padtec Group conducted a sensitivity analysis on the main risks to which the financial instruments are exposed, essentially consisting of changes in foreign exchange and interest rates.

When the risk exposure is considered active, the risk to be considered is a reduction to the related indexes due to a consequent negative impact on earnings. Similarly, when the risk exposure is considered passive, the risk is an increase in related indexes as it also has a negative impact on earnings. The Group is therefore qualifying the risks through the net exposure of the variables (US dollar, CDI, IGP-M, IPCA, TJLP and Selic), as shown.

	12/31/20			12/31/19			12/31/18		
Foreign Exchange Rate	Probable value	25% increase	50% increase	Probable value	25% increase	50% increase	Probable value	25% increase	50% increase
Trade accounts receivable	18,232	4,558	9,116	15,221	3,805	7,611	6,837	1,709	3,419
Trade payables	(43,031)	(10,758)	(21,516)	(23,583)	(5,896)	(11,792)	(15,901)	(3,975)	(7,951)
Impact on profit or loss		(6,200)	(12,400)		(2,091)	(4,181)		(2,266)	(4,532)

	12/31/20			12/31/19			12/31/18		
Interest rate	Probable value	25% increase	50% increase	Probable value	25% increase	50% increase	Probable value	25% increase	50% increase
Cash and cash equivalents	64,680	16,170	32,340	49,606	12,402	24,803	45,497	11,374	22,749
Borrowings and financing	(43,432)	(10,858)	(21,716)	(45,815)	(11,454)	(22,908)	(88,603)	(22,151)	(44,302)
Debentures	(39,078)	(9,770)	(19,539)	-	-	-	-	-	-
Impact on profit or loss		(4,458)	(8,915)		948	1,895		(10,777)	(21,553)

34 Statement of cash flow

Equity changes not affecting the Company's cash flows are as follows:

	12/31/20
Increase in investments with merger	(66,758)
Capital increase using equity interest	67,357
Goodwill on capital transaction	(599)
Financed acquisition of property, plant and equipment	211

35 Segment reporting

The Company and its subsidiaries only have one operating segment defined within general information. The Company and its subsidiaries are organized, and their performance evaluated, as a simple business unit for operational, commercial, managerial and administrative purposes.

36 Explanation added to the translation into English

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.

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