

Individual and Consolidated Financial Statements

**Livotech da Bahia Indústria e
Comércio S.A.**

December 31, 2022
with Independent Auditor's Report

Livetech da Bahia Indústria e Comércio S.A.

Individual and consolidated financial statements

December 31, 2022

Index

Independent auditor's report on individual and consolidated financial statements	1
Financial statements	
Statements of financial position.....	7
Statements of income	9
Statements of comprehensive income	10
Statements of changes in equity	11
Statements of cash flows	12
Statements of value added	14
Notes to the individual and consolidated financial statements	15

Independent auditor's report on individual and consolidated financial statements

To the Management and Shareholders
Livotech da Bahia Indústria e Comércio S.A.
São Paulo - SP

Opinion

We have audited the individual and consolidated financial statements of Livotech da Bahia Indústria e Comércio S.A. ("Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2022, and the statements of income, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of the significant accounting policies.

In our opinion, the individual and consolidated financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2022, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

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

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

Revenue recognition

During the year ended December 31, 2022, the Company recognized operating revenues in the amount of R\$1,229,623 and R\$1,258,719, in the individual and consolidated financial statements, respectively, as disclosed in Note 23. The Company's operating revenues derive mainly from: (i) sales of goods, which must be recognized when the Company satisfies a performance obligation by transferring a promised good or service to a customer. The Company recognizes revenue at the time items are delivered to customers and the performance obligation is fulfilled (transfer of risk); and (ii) equipment rental, recognized on a straight-line basis over the term of the lease agreement.

Revenue is an important indicator of the Company's and its management's performance, which may create an incentive for recognition of revenue before the fulfillment of performance obligations, whether through the actual delivery of goods or the recognition of lease income, particularly in the period preceding the closing of the fiscal year ("sales cutoff").

The monitoring of this matter was considered significant for our audit, given the risks that revenue might be recognized before the transfer of risks and benefits to the customer, and consequently, before the fulfillment of the performance obligation.

How our audit addressed this matter

Our audit procedures involved, among others:

- we analyzed the appropriateness of the accounting policies adopted by the Company for revenue recognition from goods;
- we considered the revenue from the sale of goods in the related tests with a greater level of detail than we would have if the risk did not exist;
- we carried out revenue "cutoff" testing extensively, allocating materiality proportionally to the test population;
- we analyzed the amounts invoiced and the respective outflows of goods in the Company's inventory
- we recalculated on a sampling basis revenue for the period from lease agreements, considering contractual specifics;
- we analyzed a sample of contracts to verify the data used in the measurement of revenue;
- we evaluated the adequacy of the disclosures of the Company regarding revenue included in Note 23 to the financial statements.

Based on the result of the audit procedures carried out on the revenue recognition, which is consistent with the assessment of management, we consider that the criteria used by management are acceptable in the context of the financial statements taken as a whole.

Other matters

Statements of value added

The individual and consolidated statements of value added (SVA) for the year ended December 31, 2022, prepared under the responsibility of Company's executive board and presented as supplementary information for IFRS purposes, were subject to audit procedures performed in conjunction with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined by Accounting Pronouncement NBC TG 09 - Statements of Value Added. In our opinion, these individual and consolidated statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned Accounting Pronouncement, and are consistent in relation to the individual and consolidated financial statements taken as a whole.

Other information accompanying the individual and consolidated financial statements and the auditor's report

The executive board is responsible for such other information, which comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon. In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

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

The executive board is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and for such internal control as determined by the board as necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

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

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

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the executive board.
- Concluded on the appropriateness of executive board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the individual and consolidated 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 work and significant audit findings, including any significant deficiencies in internal control that may have been identified during our audit.

We also provided those charged with governance with a statement that we have complied with relevant ethical requirements, including those regarding independence, and communicated 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 determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

We are required to describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, March 1, 2023.

ERNST & YOUNG
Auditores Independentes S.S Ltda.
CRC-SP034519/O

Bruno Mattar Galvão
Accountant CRC-SP267770/O

Livotech da Bahia Indústria e Comércio S.A.

Statements of financial position
December 31, 2022 and 2021
(In thousands of reais)

	Note	Parent company		Consolidated	
		2022	2021	2022	2021
Assets					
Current					
Cash and cash equivalents	5.1	147,413	32,603	152,470	38,465
Short-term investments	5.2	152,170	298,522	152,170	298,522
Trade receivables, net	6	189,035	161,316	195,944	163,719
Taxes recoverable	7.1	63,519	48,464	64,470	49,010
Derivative financial instruments	27	-	6,480	-	6,480
Inventories	8	298,564	244,395	310,034	259,361
Advances to suppliers	12	49,537	73,509	53,104	73,721
Related parties	22	12,382	10,366	-	-
Prepaid expenses		927	1,113	927	1,113
Total current assets		913,547	876,768	929,119	890,391
Non-current					
Trade receivables, net	6	155,312	95,691	155,312	95,691
Judicial deposits		109	109	109	109
Derivative financial instruments	27	581	9,091	581	9,091
Deferred taxes	7.2	26,330	17,440	26,635	17,496
Right-of-use assets	17	1,832	3,001	1,832	3,001
Investment	9	9,945	6,399	-	-
Property, plant and equipment, net	10	444,740	419,059	444,839	419,205
Intangible assets, net	11	80,194	56,849	80,196	56,852
Total non-current assets		719,043	607,639	709,504	601,445
Total assets		1,632,590	1,484,407	1,638,623	1,491,836

	Note	Parent company		Consolidated	
		2022	2021	2022	2021
Liabilities					
Current					
Trade payables	13	137,000	192,643	142,112	199,444
Personnel, social charges and benefits	14	4,617	8,220	4,825	8,318
Taxes payable	15	6,317	1,499	6,435	2,050
Loans, borrowings and debentures	16	218,820	326,680	218,820	326,680
Dividends payable	20	862	11,252	862	11,252
Derivative financial instruments	27	7,674	7,175	7,674	7,175
Lease liabilities	17	969	2,228	969	2,228
Related parties	22	125	232	125	232
Other obligations	18	39,554	33,509	40,149	33,488
Deferred revenue		-	437	-	437
		415,938	583,875	421,971	591,304
Non-current					
Loans, borrowings and debentures	16	567,067	269,856	567,067	269,856
Derivative financial instruments	27	507	-	507	-
Provisions for lawsuits	19	378	362	378	362
Lease liabilities	17	906	844	906	844
		568,858	271,062	568,858	271,062
Equity					
Share capital	20	301,397	297,591	301,397	297,591
Treasury stock	20	(7,044)	-	(7,044)	-
Capital reserves	20	236,632	236,632	236,632	236,632
Retained earnings	20	116,734	94,427	116,734	94,427
Other comprehensive results	20	75	820	75	820
		647,794	629,470	647,794	629,470
Total liabilities and equity		1,632,590	1,484,407	1,638,623	1,491,836

The accompanying notes are an integral part of the individual and consolidated financial statements.

Livotech da Bahia Indústria e Comércio S.A.

Statements of income

Fiscal years ended December 31, 2022 and 2021

(In thousands of reais)

	Note	Parent company		Consolidated	
		2022	2021	2022	2021
Revenue from goods and services, net	23	1,042,018	1,043,742	1,070,905	1,066,582
Cost of sales and services	24	(800,437)	(754,085)	(823,248)	(771,722)
Gross income		241,581	289,657	247,657	294,860
Operating revenue (expenses)					
Personnel expenses	25	(50,695)	(57,723)	(52,933)	(58,808)
Selling expenses	25	(79,205)	(71,589)	(81,271)	(72,340)
General and administrative expenses	25	(16,454)	(27,094)	(17,459)	(27,817)
Other operating income (expenses), net	25	(6,904)	194	(7,206)	(1,396)
Equity accounting result	9	(609)	49	-	-
		(153,867)	(156,163)	(158,869)	(160,361)
Profit before financial income, income taxes and social contribution		87,714	133,494	88,788	134,499
Financial income		164,078	94,768	164,590	94,846
Financial expenses		(243,615)	(134,359)	(245,484)	(135,039)
Financial result	26	(79,537)	(39,591)	(80,894)	(40,193)
Profit (loss) before income tax and social contribution		8,177	93,903	7,894	94,306
Current income tax and social contribution	21	6,102	(23,658)	6,187	(24,061)
Deferred income tax and social contribution	21	8,890	2,209	9,088	2,209
Profit for the year		23,169	72,454	23,169	72,454
Attributable to:					
Owners of the parent				23,169	72,454
Non-controlling interests				-	-
Earnings (loss) per share attributable to owners of the parent (expressed in R\$ per share)					
Basic and diluted earnings per share	20.7			0.3602	1.3555

The accompanying notes are an integral part of the individual and consolidated financial statements.

Livetech da Bahia Indústria e Comércio S.A.

Statements of comprehensive income
Fiscal years ended December 31, 2022 and 2021
(In thousands of reais)

	2022	2021	2022	2021
Net income (loss) for the year	23,169	72,454	23,169	72,454
Other comprehensive income (loss) to be reclassified to income				
Cumulative translation adjustment	(745)	752	(745)	752
Comprehensive income (loss) for the year	22,424	73,206	22,424	73,206
Attributable to:				
Owners of the parent			22,424	73,206
Non-controlling interests			-	-

The accompanying notes are an integral part of the individual and consolidated financial statements.

Livotech da Bahia Indústria e Comércio S.A.

Statements of changes in equity

Fiscal years ended December 31, 2022 and 2021

(In thousands of reais)

		Share capital			Capital reserve	Retained earnings			Other comprehensive results	Retained earnings (accumulated losses)	Total equity
	Note	Share capital	Share issue costs	Treasury stock	Share premium	Legal reserve	Investment subsidy	Profit retention reserve			
At December 31, 2020		86,666	-	-	10,000	6,363	11,961	14,901	68	-	129,959
Net income for the year		-	-	-	-	-	-	-	-	72,454	72,454
Capital increase	20.1	226,632	-	-	-	-	-	-	-	-	226,632
Share issue costs	20.1	-	(15,707)	-	-	-	-	-	-	-	(15,707)
Share subscription premium	20.1	-	-	-	226,632	-	-	-	-	-	226,632
Appropriation of net income:											
Legal reserve	20.3	-	-	-	-	3,623	-	-	-	(3,623)	-
Investment subsidy	20.5	-	-	-	-	-	23,825	-	-	(23,825)	-
Minimum mandatory dividend	20.4	-	-	-	-	-	-	-	-	(11,252)	(11,252)
Allocation to profit retention reserve	20.4	-	-	-	-	-	-	33,754	-	(33,754)	-
Cumulative translation adjustment		-	-	-	-	-	-	-	752	-	752
At December 31, 2021		313,298	(15,707)	-	236,632	9,986	35,786	48,655	820	-	629,470
Net income for the year		-	-	-	-	-	-	-	-	23,169	23,169
Capital increase	20.1	4,593	-	-	-	-	-	-	-	-	4,593
Share issue costs	20.1	-	(787)	-	-	-	-	-	-	-	(787)
Treasury stock	20.2	-	-	(7,044)	-	-	-	-	-	-	(7,044)
Appropriation of net income:											
Legal reserve	20.3	-	-	-	-	1,158	-	-	-	(1,158)	-
Investment subsidy	20.5	-	-	-	-	-	54,826	(36,262)	-	(18,564)	-
Minimum mandatory dividend	20.4	-	-	-	-	-	-	-	-	(862)	(862)
Allocation to profit retention reserve	20.4	-	-	-	-	-	-	2,585	-	(2,585)	-
Cumulative translation adjustment	-	-	-	-	-	-	-	-	(745)	-	(745)
At December 31, 2022		317,891	(16,494)	(7,044)	236,632	11,144	90,612	14,978	75	-	647,794

The accompanying notes are an integral part of the individual and consolidated financial statements.

Livotech da Bahia Indústria e Comércio S.A.

Statement of cash flows

Fiscal years ended December 31, 2022 and 2021

(In thousands of reais)

	Parent company		Consolidated	
	2022	2021	2022	2021
Net income for the year	23,169	72,454	23,169	72,454
Depreciation and amortization	168,463	137,349	168,507	137,382
Expected loss on allowance for doubtful accounts	27,599	25,945	27,642	25,949
Provision for inventory obsolescence	1,868	(877)	1,846	(701)
Provision for lawsuits and others, net	16	(7)	16	(7)
Mark-to-market of derivatives	28,397	(13,047)	28,397	(13,047)
Equity accounting result	609	(49)	-	-
Financial income from short-term investments	(23,618)	(8,102)	(23,618)	(8,102)
Interest and foreign exchange variation expenses	99,502	57,416	100,324	56,459
Expenses for present value adjustment	15,069	8,345	15,069	8,345
Write-off of property, plant and equipment and intangible assets	1,543	361	1,554	361
Share-based compensation expenses	-	7,253	-	7,253
Current income tax and social contribution	(6,102)	23,658	(6,187)	24,061
Deferred income tax and social contribution	(8,890)	(2,209)	(9,088)	(2,265)
Assets decrease (increase)				
Trade receivables	(130,419)	(86,233)	(134,968)	(87,637)
Taxes recoverable	(15,055)	(27,579)	(15,460)	(26,248)
Inventories	(53,121)	(110,223)	(49,603)	(120,765)
Advances to suppliers and legal deposits	20,742	(38,029)	17,387	(37,067)
Prepaid expenses	186	(931)	186	(930)
Derivatives settlement	(12,401)	4,651	(12,401)	4,651
Liabilities increase (decrease)				
Trade payables	(69,268)	54,200	(71,465)	56,295
Taxes payable	15,433	(11,564)	15,034	(13,227)
Personnel, social charges and benefits	(3,603)	(23,231)	(3,493)	(23,204)
Deferred revenue	(437)	(7,545)	(437)	(7,545)
Related parties	(107)	(77)	(107)	(77)
Other liabilities	6,045	(11,378)	6,661	(11,679)
Payment of interest	(84,972)	(52,454)	(84,972)	(52,454)
Payment of income tax and social contribution	(4,513)	(17,691)	(4,513)	(17,691)
Payment of lawsuits and others	-	(110)	-	(110)
Net cash generated by (used in) operating activities	(3,865)	(19,704)	(10,520)	(29,546)

Livotech da Bahia Indústria e Comércio S.A.

Statement of cash flows--Continued
Fiscal years ended December 31, 2022 and 2021
(In thousands of reais)

	Parent company		Consolidated	
	2022	2021	2022	2021
Investing activities				
Related-party loans - Assets	(2,016)	(7,092)	-	-
Acquisition of property, plant and equipment and intangible assets	(216,506)	(227,013)	(216,513)	(227,049)
Capital increase in investee	(4,586)	(3,330)	-	-
Short-term investment	(863,250)	(564,209)	(863,250)	(564,209)
Redemptions of short-term investment	1,033,220	325,835	1,033,220	325,835
Net cash provided by (used in) investing activities:	(53,138)	(475,809)	(46,543)	(465,423)
Financing activities				
New borrowings and debentures	488,008	275,461	488,008	275,461
Payment of loans and borrowings (principal)	(299,126)	(200,040)	(299,126)	(200,040)
Payment of lease liabilities	(2,579)	(3,075)	(2,579)	(3,075)
Dividends and interest on equity paid	(11,252)	(15,006)	(11,252)	(15,006)
Initial public offering - IPO		437,557		437,557
Capital increase and reserves - Follow-on 400 - Note (22.1)	3,806	-	3,806	-
Share buyback - Note (22.2)	(7,044)	-	(7,044)	-
Net cash provided by financing activities:	171,813	494,897	171,813	494,897
	114,810	(616)	114,750	(72)
Effect of foreign exchange variation on cash and cash equivalents	-	-	(745)	752
Change in the Company's net cash	114,810	(616)	114,005	680
Cash and cash equivalents at the beginning of the year	32,603	33,219	38,465	37,785
Cash and cash equivalents at the end of the year	147,413	32,603	152,470	38,465

The accompanying notes are an integral part of the individual and consolidated financial statements.

Livotech da Bahia Indústria e Comércio S.A.

Statements of value added

Fiscal years ended December 31, 2022 and 2021

(In thousands of reais)

	Parent company		Consolidated	
	2022	2021	2022	2021
Revenues				
Sale of goods, products and services	1,192,889	1,215,402	1,222,016	1,240,554
Other revenues	-	8,778	199	8,778
Allowance (reversal) for doubtful accounts	(27,599)	(25,945)	(27,642)	(25,945)
Inputs acquired from third parties	1,165,290	1,198,235	1,194,573	1,223,387
Cost of products, goods and services sold	(604,202)	(595,728)	(627,012)	(615,420)
Materials, energy, outsourced services and other	(86,241)	(82,154)	(91,007)	(84,970)
Impairment/ recovery of assets	(1,868)	877	(1,846)	877
Other	(2,445)	(2,237)	(2,852)	(2,670)
	(694,756)	(679,242)	(722,717)	(702,183)
Gross value added	470,534	518,993	471,856	521,204
Retentions				
Depreciation and amortization	(168,463)	(137,349)	(168,507)	(137,382)
Net value added generated	302,071	381,644	303,349	383,822
Value added received in transfer				
Equity accounting result	(609)	49	-	-
Financial income	164,078	63,697	164,590	63,697
Other	2,489	33,515	2,489	33,515
Total value added to distribute	468,029	478,905	470,428	481,034
Distribution of value added				
Personnel				
Direct compensation	35,262	39,519	36,302	40,054
Employees' profit sharing	91	3,705	91	3,705
Benefits	6,377	6,443	7,482	6,958
Severance Pay Fund (FGTS)	2,548	2,218	2,548	2,218
Other	1,18	606	1,297	643
	45,476	52,491	47,720	53,578
Taxes, fees and contributions				
Federal	126,049	175,685	126,082	176,379
State	8,358	22,307	8,358	22,307
Municipal	25,181	25,755	25,195	25,755
	159,588	223,747	159,635	224,441
Third-party capital remuneration				
Interest and foreign exchange variation	239,700	130,060	239,736	130,073
Rentals	96	153	168	488
Other	-	-	-	-
	239,796	130,213	239,904	130,561
Equity remuneration				
Dividends and interest on equity	862	11,252	862	11,252
Retained earnings (losses) for the period	22,307	61,202	22,307	61,202
	23,169	72,454	23,169	72,454
Distribution of value added	468,029	478,905	470,428	481,034

The accompanying notes are an integral part of the individual and consolidated financial statements.

Livetech da Bahia Indústria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

1. Operational context

Livetech da Bahia Indústria e Comércio S.A. ("Company") or WDC Networks, listed on the Novo Mercado segment of B3 S.A under the ticker symbol LVTC3, headquartered in the city of Ilhéus, State of Bahia, at Rodovia BA-262, Ilhéus x Uruçuca, s/nº, Km 2.8, Quadra A, Bairro Iguape, Polo de Informática de Ilhéus, CEP 45658-335, inscribed in the roll of corporate taxpayers (CNPJ/MF) under no. 05.917.486/0001-40, is a technology company that imports, manufactures and markets products of Telecommunications (fiber optic, FTTH), Data Center, Professional Audio and Video, Electronic Security, Unified Communications, Information Security, Solar Power Photovoltaic Systems, among others.

The Company has been operating in Brazil since 2004, specializing in the sale of products within high-growth market niches, having pioneered the innovative Technology as a Service (TaaS) business model, which involves offering any of its technologies through an OPEX-based leasing structure.

In addition to its headquarters in the city of Ilhéus, Bahia, the Company maintains a distribution center in Salvador (BA), a manufacturing unit in Extrema (MG), a commercial office in São Paulo and international operations in Bogotá (Colombia), Panama City (Panama) and Miami (USA).

2. Basis for preparation and presentation of financial statements

The individual and consolidated financial statements of the Company have been and are being presented in accordance with accounting practices adopted in Brazil, including the pronouncements, interpretations and guidelines issued by the Brazilian Accounting Pronouncements Committee (CPC), and approved by the Federal Accounting Council (CFC) and the Securities and Exchange Commission of Brazil (CVM), and are in conformity with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The Company took into consideration the guidelines included in Technical Guidance OCPC 07 in the preparation of its financial statements. Therefore, all relevant information from the financial statements is being evidenced in the explanatory notes and corresponds to that used by the Company's management in the performance of its duties.

The financial statements are presented in thousands of reais (except when otherwise mentioned), functional and presentation currency.

The financial statements were prepared under the historical cost basis (except when a different criterion is required) and adjusted to reflect the measurement of assets and liabilities at fair value.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

2. Basis for preparation and presentation of financial statements--Continued

The financial statements were prepared based on various valuation bases underlying the accounting estimates. The accounting estimates involved in the preparation of the financial statements were supported by objective and subjective factors, based on Management's judgment to determine the appropriate amount to be recorded in the financial statements.

Management evaluated the Company's and its subsidiaries' ability to continue as a going concern and concluded that they have the resources to proceed with their business in the future. Additionally, Management is not aware of any material uncertainty that could cast significant doubts as to its ability to continue as a going concern. Accordingly, these individual and consolidated financial statements were prepared on a going concern basis.

The presentation of the individual and consolidated Statement of Value Added (DVA) is required by Brazilian corporate law and the accounting practices adopted in Brazil. The IFRS do not require the presentation of such a statement. As a consequence, according to IFRS, this statement is presented as supplementary information.

The Company's Management authorized the issuance of these individual and consolidated financial statements on February 28, 2023.

The accounting practices were applied uniformly in the current year, are consistent with the previous years presented and are common to the parent company and subsidiaries. When necessary, the financial statements of the subsidiaries are adjusted to meet this criterion.

2.1. Consolidation basis

Subsidiaries are all entities over which the Company has the power to determine the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of possible voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The individual and consolidated financial statements comprise the financial information of the Company and its subsidiaries at December 31, 2022. In the parent company individual financial statements, the financial information of the subsidiaries is recognized under the equity accounting method.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

2. Basis for preparation and presentation of financial statements--Continued

2.1. Consolidation basis--Continued

The fiscal year of the subsidiaries coincides with that of the Parent company, and the accounting practices were applied uniformly by all consolidated entities.

The consolidated financial statements include the operations of the Company and its subsidiaries, as follows:

Subsidiaries	Percentage of interest	
	2022	2021
Livetech Colombia, S.A.S ("WDC Colombia")	100%	100%
Wdcnet Usa, Corp ("WDC US")	100%	100%
Livetech Panamá, S.A ("WDC Panama")	100%	100%
Livetech Franchising Administração Ltda. ("Franchising")	100%	100%

The main consolidation procedures are:

- Elimination of intercompany assets and liabilities;
- Elimination of the interest in capital, reserves and retained earnings of consolidated companies; and
- Elimination of intercompany revenues and expenses, as well as of unrealized profits from intercompany transactions.

3. Summary of significant accounting policies

3.1 Current vs. non-current classification

The Company presents assets and liabilities in the statement of financial position based on their classification as current or non-current. Assets are classified as current when:

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies --Continued

3.1. Current vs. non-current classification--Continued

- They are expected to be realized, or intended to be sold or consumed, in the normal course of the entity's operating cycle;
- They are held essentially for the purpose of being sold;
- They are expected to be realized within 12 months after the reporting date; and
- They constitute cash or cash equivalents (as defined in Technical Pronouncement CPC 03 - Statement of Cash Flows), unless their exchange or use for the settlement of liabilities is restricted for at least 12 months after the reporting date.

All other assets are classified as non-current. Liabilities are classified as current when:

- They are expected to be settled in the ordinary course of the entity's operating cycle;
- They are held essentially for the purpose of being sold;
- They must be settled within 12 months after the reporting date; and
- The entity does not have an unconditional right to defer settlement of the liabilities for at least 12 months after the reporting date.

The terms of a liability that may, at the counterparty's discretion, result in its settlement through the issuance of equity instruments do not affect their classification. The Group classifies all other liabilities as non-current.

Deferred assets and liabilities are recorded in non-current assets and liabilities.

3.2 Segment information

Operating segments are defined as business activities which can earn revenues and incur expenses; whose operating results are regularly reviewed by the Company's chief operating decision maker on funds to be allocated to the segment and for the evaluation of its performance; and for which individual financial information is available.

The Company's management has structured its strategic business model around the Telecom, Solar Power and Enterprise segments. Operating segment reporting is aligned with the internal reports provided to key operational decision makers.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments

Financial assets - initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, at fair value through other comprehensive results, and at fair value through profit or loss. All financial assets are initially recognized at fair value, plus, in the case of financial assets not carried at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset. The Company's financial assets comprise "Cash and cash equivalents," "Trade receivables" and "Other receivables."

For a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive results, it must generate cash flows that are "solely payments of principal and interest" (also known as the "SPPI" test) on the outstanding principal amount. This assessment is performed at the instrument level. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, regardless of the business model adopted.

The Company's business model for managing financial assets pertains to how it oversees its assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets, or a combination of both.

Any purchases or sales of financial assets that require the delivery of assets within a time frame established by a market regulation or convention are recognized on the trade date, that is, the date on which the Company commits to purchase or sell the asset.

Subsequent measurement

For the purposes of subsequent measurement, financial assets may be classified as follows:

- Financial assets at amortized cost (debt instruments);
- Financial assets measured at fair value through other comprehensive results, with reclassification of accumulated gains and losses (debt instruments);
- Financial assets designated at fair value through other comprehensive results, without reclassification of accumulated gains and losses upon derecognition (equity instruments);
- Financial assets at fair value through profit or loss.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments--Continued

Financial assets at amortized cost

The Company records most of its financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows;
- The contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal amount.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's financial assets measured at amortized cost include trade receivables, short-term investments, and cash and cash equivalents (see Note 27).

Financial assets at fair value

Financial assets measured at fair value through profit or loss are presented on the statement of financial position at fair value, with corresponding gains or losses recognized in the statement of income.

This category includes derivative instruments and listed equity investments that the Company has not irrevocably designated at fair value through other comprehensive results. Dividends from listed equity investments are also recognized as other income in the statement of income when the right to receive payment has been established.

An embedded derivative in a hybrid contract with a financial liability is separated from the liability and accounted for as a separate derivative if:

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments--Continued

Financial assets - initial recognition and measurement--Continued

Subsequent measurement--Continued

Financial assets at fair value--Continued

- a) If the characteristics and economic risks are not directly associated with those of the main contract;
- b) The separate instrument, with the same terms as the embedded derivative, meets the definition of a derivative; and
- c) The hybrid contract is not measured at fair value, with changes recognized in profit or loss.

Embedded derivatives are measured at fair value, with changes in fair value recognized in profit or loss.

A reassessment is only performed if there is a change in the contract terms that significantly alters the expected cash flows, or if a financial asset is reclassified out of the fair value through profit or loss category.

Derecognition

A financial asset (or, where applicable, a portion of a financial asset or a portion of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to transfer the cash flows received in full, without significant delay, to a third party under a transfer agreement and (a) the Company has substantially transferred all risks and benefits associated with the asset, or (b) the Company has neither substantially transferred nor retained all risks and benefits of the asset, but has transferred control over it.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments--Continued

Derecognition--Continued

When the Company transfers its rights to receive cash flows from an asset or enters into a transfer agreement, it assesses whether, and to what extent, it has retained the ownership risks and benefits. If the Company has neither substantially transferred nor retained all the risks and benefits of the asset, nor transferred control over it, it continues to recognize the transferred asset to the extent of its continuing involvement. In this case, the Company also recognizes a corresponding liability. The transferred asset and its corresponding liability are measured according to the Company's related rights and obligations.

Ongoing involvement in the form of a guarantee over the transferred asset is measured at the lower of: (i) the asset's carrying amount, and (ii) the maximum consideration received that the entity may be required to repay (guarantee amount).

Impairment of financial assets

Additional disclosures regarding the impairment of financial assets are also provided in the following notes:

- Disclosure of significant assumptions – Note 3.24.
- Trade receivables, including contract assets - Note 6.

The Company recognizes a provision for expected credit losses on all debt instruments not measured at fair value through profit or loss. Expected credit losses are determined as the difference between the contractual cash flows due under the agreement and all cash flows the Company expects to receive, discounted at an effective interest rate that closely matches the original rate of the transaction. Expected cash flows include those arising from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Expected credit losses are recognized in two stages. For credit exposures where there has not been a significant increase in credit risk since initial recognition, expected credit losses are provisioned based on possible default events that may occur within the next 12 months (12-month expected credit loss).

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments--Continued

Financial assets - initial recognition and measurement--Continued

Derecognition--Continued

Impairment of financial assets--Continued

For credit exposures, for which there has been a significant increase in credit risk since initial recognition, a provision is required for expected credit losses over the remaining life of the exposure, regardless of the time of default (a lifetime expected credit loss).

For trade receivables and contract assets, the Company adopts a simplified approach in calculating expected credit losses. Consequently, the Company does not monitor changes in credit risk, but instead recognizes a provision based on lifetime expected credit losses at each reporting date.

The Company has established a provision matrix grounded in its historical experience of credit losses, adjusted for forward-looking factors related to debtors and the prevailing economic environment.

The Company considers a financial asset to be in default when contractual payments are more than 180 days past due. However, in certain circumstances, the Company may also deem a financial asset to be in default if internal or external information indicates that it is unlikely the Company will recover the outstanding contractual amounts in full, prior to considering any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities - recognition and measurement

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

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments--Continued

Financial liabilities - recognition and measurement--Continued

All financial liabilities are initially measured at their fair value. For financial liabilities not measured at fair value through profit or loss, transaction costs directly attributable to the issuance of the financial liability are added or deducted as appropriate. The Company's financial liabilities include loans and borrowings, trade payables, and other payables.

The measurement of financial liabilities depends on their classification, as outlined below:

- Financial liabilities at fair value through profit or loss; and
- Liabilities at amortized cost.

The measurement of financial liabilities depends on their classification, as outlined below:

Liabilities at amortized cost

This is the most relevant category for the Company. After initial recognition, interest-bearing loans and borrowings contracted and granted are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization of the effective interest rate.

Amortized cost is determined by taking into account any discount or premium on acquisition, along with fees or costs that are integral to the effective interest rate method. Amortization under the effective interest rate method is presented as a financial expense in the statement of income.

This category applies to trade payables, as well as loans and borrowings contracted and granted. For further details, refer to Note 27.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.3. Financial instruments--Continued

Derecognition

A financial liability is derecognized when the underlying obligation is discharged, that is, when the contractual obligation is settled, canceled or expires. When an existing financial liability is replaced by another liability from the same lender with substantially different terms, or when the terms of an existing liability are substantially modified, such an exchange or modification is accounted for as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of income.

Offsetting of financial instruments

Financial assets and liabilities are offset, and the net amount presented in the individual and consolidated statement of financial position, when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, realize the asset and settle the liability simultaneously.

Derivative financial instruments

Recognition and measurement

The Company employs derivative financial instruments, such as forward exchange contracts and interest rate swaps, to hedge against its exposure to foreign exchange and interest rate risks, respectively. These derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are, subsequently, remeasured at fair value. Derivatives are presented as financial assets when the fair value of the instrument is positive and as financial liabilities when the fair value is negative.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.4. Cash and cash equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments, and not for investment or other purposes. The Company considers cash equivalents to be a financial investment of immediate convertibility into a known amount of cash and subject to an insignificant risk of a change in value. Therefore, an investment typically qualifies as a cash equivalent when it has a short-term maturity, for example, three months or less, from the date of contracting.

Cash equivalents are measured, after initial recognition, at amortized cost, plus income earned up to the reporting dates.

3.5. Inventories

Inventories are stated at the average cost of acquisition, net of recoverable taxes, which does not exceed their realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

3.6. Other current and non-current assets and liabilities

An asset is recognized in the statement of financial position when it is probable that its future economic benefits will flow to the Company and its cost or value can be reliably measured. A liability is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of funds will be required to settle it. They are recorded including, when applicable, related charges and foreign exchange and monetary variations are incurred. The provisions are recorded based on the best estimates of the risk involved.

Assets and liabilities are classified as current when their realization or settlement is likely to occur in the next 12 months. Otherwise, they are presented as non-current.

3.7. Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and/or accumulated impairment losses, if any. Cost includes the replacement amount of equipment and the costs of borrowing for long-term construction projects, if the recognition criteria are met. When significant components of property, plant and equipment are replaced, such components are recognized as individual assets, with specific useful lives

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.6. Property, plant and equipment--Continued

and depreciation. Likewise, when the Company replaces a significant part, its cost is recognized in the carrying amount of equipment as replacement, provided that the recognition criteria are met. All other repair and maintenance costs are recognized in profit or loss for the year as incurred.

Depreciation is calculated based on the straight-line method over the estimated useful lives of the assets. A fixed asset is derecognized when it is sold or when no future economic benefit is expected from its use or sale. Any gain or loss resulting from the disposal of the asset (calculated as the difference between the net sales value and the carrying amount of the asset) is included in the statement of income in the fiscal year in which the asset is disposed.

Net book value and useful lives of assets as well as the depreciation methods are reviewed at each year end, and adjusted prospectively, when applicable.

3.8. Intangible assets

Intangible assets acquired separately are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost, less any accumulated amortization and accumulated impairment losses.

The useful life of an intangible asset is assessed as finite or indefinite. Intangible assets with finite lives are amortized over their economic useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization periods and methods for intangible assets with finite useful lives are reviewed at least at the end of each fiscal year. Changes in the estimated useful lives or the estimated pattern of consumption of future economic benefits embodied in the assets are accounted for by changing the amortization period or method, as appropriate, and these are treated as changes in accounting estimates. The amortization of intangible assets with finite lives is recognized in the statement of income in the expense category consistent with the use of the intangible asset.

Intangible assets with an indefinite useful life are not amortized, but are tested annually for impairment losses, either individually or at the cash-generating unit level. The evaluation of the indefinite useful life is reviewed annually in order to determine if it is still justifiable. If not, the change from indefinite to definite useful life is made prospectively.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

An intangible asset is derecognized upon its sale (i.e., the date on which the beneficiary obtains control of the related asset) or when no future economic benefits are expected from its use or sale. Any gain or loss resulting from the derecognition of the asset (the difference between the net sales value and the carrying amount of the asset) is recognized in the statement of income for the fiscal year.

3.9. Investments in subsidiaries (in the Parent Company)

Investments in subsidiaries are accounted for using the equity method for the purposes of the parent company's financial statements.

After applying the equity method of accounting for the purposes of the parent company's financial statements, the Company determines whether it is necessary to recognize an additional impairment loss on the Company's investment in each of its subsidiaries. The Company determines, at each reporting date, whether there is objective evidence that investments in subsidiaries have suffered impairment losses.

3.10. Distribution of profits

The mandatory minimum dividends required by law are shown in the statements of financial position as dividends payable. According to the current corporate legislation, a distribution is authorized when approved by the shareholders and the corresponding amount is directly recognized in equity. Dividends exceeding this minimum, which have not yet been approved for payment by the shareholders' meeting, are presented as proposed additional dividends within equity. After approval by the shareholders' meeting, dividends exceeding the minimum are transferred to current liabilities.

3.11. Employees' profit sharing

The Company has obligations arising from the employment contracts with its employees, recognizing these provisions during the fiscal year. Provisions are recorded to recognize the expense related to the employees' profit sharing. These provisions are calculated based on qualitative and quantitative targets defined by Management and accounted for in specific accounts according to the function in the groups of Cost of Services Rendered, Selling Expenses, and General and Administrative Expenses.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.12. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

The Company and its subsidiaries are parties to various legal and administrative proceedings. Provisions are recognized for all contingencies related to legal proceedings for which it is probable that an outflow of resources will be made to settle the contingency/obligation and a reasonable estimate can be made. The assessment of the likelihood of a loss includes the evaluation of existing evidence, the hierarchy of laws, the available case law, the most recent court decisions and their relevance in the legal system, as well as the evaluation of outside legal advisors. Provisions are reviewed and adjusted to take into account changes in circumstances, such as applicable statute of limitations, conclusions of tax audits, or additional exposures identified based on new matters or court decisions.

3.13. Taxes and contributions

Income tax and social contribution - current

Current income tax and social contribution assets and liabilities for the current and previous years are measured at the expected amount to be recovered or paid to the tax authorities, using the tax rates enacted at the end of the reporting period in the countries where the Company operates and generates taxable profit.

Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) are calculated based on the current rates (15% for IRPJ, 10% for the additional IRPJ on taxable profit exceeding R\$240 per year, and 9% for CSLL) and take into account the offsetting of income tax and social contribution losses to determine the amounts payable, when applicable. Therefore, the inclusions in the book profit of expenses, which are temporarily non-deductible, or exclusions of revenues, which are temporarily non-taxable, considered for the determination of the current taxable profit generate deferred tax assets or liabilities.

Deferred taxes

Deferred tax is generated from temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts. Deferred tax liabilities are recognized for all temporary tax differences, except:

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.13. Taxes and contributions - Continued

Deferred Taxes--Continued

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction other than a business combination and, at the transaction date, it does not affect the book profit or the taxable profit or loss; and
- On temporary tax differences related to investments in subsidiaries, where the period of the reversal of the temporary differences can be controlled and it is likely that the temporary differences will not be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that it is likely that taxable income will be available against which the deductible temporary differences may be realized, and any unused tax credits and losses may be used, except:

- When the deferred tax asset related to the deductible temporary difference is generated at the initial recognition of the asset or liability in a transaction other than a business combination and, on the transaction date, it does not affect either the book profit or the tax profit (or tax loss); and
- Regarding deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is likely that the temporary differences will be reversed in the near future and taxable profit will be available for the temporary differences to be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and written down to the extent that it is no longer probable that taxable profits will be available to permit the use of all or part of the deferred tax assets. Deferred tax assets derecognized are reviewed at each reporting date and recognized to the extent that future taxable profits will likely allow the deferred tax assets to be recovered.

Sales tax

Revenues from the provision of services are subject to the following taxes and contributions, at the following basic rates:

- Social Integration Program (PIS) - 1.65%
- Tax for Social Security Financing (COFINS) - 7.6%.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.14. Government grants and assistance

Government grants are recognized when there is reasonable assurance that the entity will fulfill all the conditions established in relation to the grant and that the grant will be received. When the benefit refers to an expense item, it is recognized as revenue throughout the benefit period in a systematic way in relation to the respective expenses whose benefit it intends to offset.

ICMS Presumed Credit

The Company has a tax incentive of Presumed Credit of 100% of the State Goods and Services Tax (ICMS) due on sales of manufactured products at its headquarters, located in the Ilhéus/BA Information Technology Center, which may be extended until 2032.

On imported products for resale (without manufacturing), the tax burden will be 3.5% of ICMS for sales within the State of Bahia, and 1% for interstate operations, which may be extended until 2032.

Conditions:

- Annual renewal of the incentive qualification;
- Approval of industrial projects by the Council of the Program for the Promotion of the Development of Bahia - PROBAHIA
- Proof of production revenue in the unit equivalent to at least 5% of the company's total, starting from the 6th year of effective production;
- Have made an investment of at least 70% of their industrial project;
- Ensure tax compliance with the Sefaz/BA;
- Hold "ISO 9000" Certificate or later;
- Contribute annually, until March 31 of the following year, with 0.5% (at least) of the sales value of manufactured products achieved by the benefit, to the INOVATEC Program;
- Carry out, as of January 2009, in Bahian territory, the customs clearance of at least fifteen percent (15%) of the imports it conducts;

Sudene

The Company also benefits from a tax incentive for the reduction of the principal IRPJ (15%) and an additional 75% (10% of the portion exceeding R\$240,000 annually) calculated based on the Operating Profit.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.14. Government grants and assistance--Continued

Sudene--Continued

Conditions:

- Compliance with labor, social, and environmental legislation;
- Annual presentation of statements of income showing the reductions;
- Prohibition of distribution to partners or shareholders of the amount of the tax related to the reduction;
- Provide annual information in the annual survey of SUDENE Incentives;
- Annual presentation to SUDENE (until December 31 of each fiscal year) of Certificate of Good Standing of Federal Taxes and Social Security;
- Documentary proof of the accounting of the amount resulting from the reduction granted, in accordance with current legislation.
- Annual approval by the Brazilian Federal Revenue Service (RFB) of the SUDENE Incentive Report.

The hourly reserve constituted may be used for: i) absorption of losses, provided that all other retained earnings have already been fully absorbed, except for the legal reserve; ii) increase of share capital.

3.15. Present value adjustment

Monetary assets and liabilities are evaluated and, when necessary and relevant, are adjusted to their present value, which considers cash flows and explicit or implicit interest rates. For purposes of recording and determining relevance, the present value adjustment is calculated taking into account the contractual cash flows and the explicit, and in certain cases implicit, interest rate of the respective assets and liabilities. Based on the analyses made and the Management's best estimate, the Company concluded that the present value adjustment of current monetary assets and liabilities is relevant in relation to the financial statements taken as a whole and, therefore, recorded present value adjustments on the Trade receivables and Suppliers.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.16 Foreign currency transactions

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the presentation date are translated into the functional currency using the exchange rate on that date. Foreign exchange gains or losses on monetary items represent the difference between the amortized cost in the functional currency at the beginning of the period, adjusted for interest and effective payments during the period, and the amortized cost in foreign currency at the foreign exchange rate prevailing at the end of the reporting period.

Subsidiaries

The assets and liabilities of foreign subsidiaries are converted to Brazilian Real at the closing exchange rate on the respective statement of financial position, and the corresponding statements of income are converted at average rates. Exchange differences resulting from the said conversion are accounted for in other comprehensive results.

3.17. Revenue from contracts with customers

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the normal course of the activities of the Company and its subsidiaries. Revenue is shown net of taxes, returns, rebates and discounts, when applicable, as well as the eliminations of sales between the Company's subsidiaries.

The Company applies CPC 47/IFRS 15 model to measure and account for revenue from contracts with customers, which establishes that revenue is recognized at an amount that reflects the consideration that the Company expects to receive in exchange for the transfer of goods or services to a customer. The model is based on five steps: i) identification of contracts with customers; ii) identification of the performance obligations in the contracts; iii) determination of the transaction price; iv) allocation of the transaction price to the performance obligations in the contracts; and v) recognition of revenue when the performance obligation is satisfied.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.17. Revenue from contracts with customers--Continued

a) Sale of products

Revenue from the sale of goods is recognized when the control of the asset is transferred to the customer, usually upon delivery of the equipment to the physical location specified by the customer, according to the agreed terms of sale.

b) Rental

The Company and its subsidiaries earn sales revenue from the rental of equipment and software (TaaS) over the duration of each contract, with the performance obligation being met throughout the contract term.

3.18. Lease

The Company and its subsidiaries evaluate, on the date of commencement of the agreement, whether the agreement is or contains a lease. In other words, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Company as lessee

The Company applies a single approach to recognition and measurement for all leases, except for short-term and low-value asset leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets that represent the right to use the underlying assets.

Right-of-use assets

The Company recognizes the right-of-use assets on the lease start date (i.e., the date on which the underlying asset is available for use). The right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liabilities. The right-of-use assets cost includes the value of the recognized lease liabilities, initial direct costs incurred, and lease payments made up to the start date, less any lease incentives received. The right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful life of the assets.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.18. Lease--Continued

Lease liabilities

On the lease start date, the Company recognizes the lease liabilities measured at present value of the lease payments to be made over the lease term. Lease payments consist of fixed payments (including, to a large extent, fixed payments) minus any lease incentives receivable, variable lease payments that depend on an index or rate, and expected amounts to be paid under residual value guarantees.

When calculating the present value of lease payments, the Company uses its incremental borrowing rate at the start date because the implied interest rate on the lease is not easily determinable. After the commencement date, the lease liability is increased to reflect the accrual of interest and is reduced for the lease payments made. Furthermore, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, an alteration in lease payments (for example, changes in future payments resulting from a change in the index or rate used to determine such lease payments) or an alteration in the assessment of a purchase option of the underlying asset.

Short-term leases and low-value assets

The Company applies the short-term lease recognition exemption (i.e., leases whose lease term is equal to or less than 12 months from the commencement date and which do not contain a purchase option). It also applies to the exemption from recognizing low-value assets. Payments for short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the lease term.

Company as lessor

Leases for which the Company does not substantially transfer all the risks and rewards of ownership of the asset are classified as operating leases. Rental income is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of income due to its operational nature. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.18. Lease--Continued

Company as lessor--Continued

For lease agreements in which the payment term is shorter than the contract duration, the Company recognizes deferred income within liabilities that represents the amount of advance receipts, which are recognized in the statement of income over the lease term.

3.19. Earnings per share

The calculation of basic earnings per share is made by dividing the net income for the period attributable to holders of the common shares of the parent company, by the weighted average number of common shares outstanding during the period.

3.20. Fair value measurement

The Company measures financial instruments accounted for at fair value on each reporting period closing date. In addition, the fair values of financial instruments measured at amortized cost are disclosed in Note 29.

Fair value is the price that would be received for the sale of an assets or that would be paid for the transfer of a liability in an arm's length transaction on the measurement date. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability will occur:

- In the main market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or the liability.

The main or most advantageous market must be accessible by the Company. The fair value of an asset or liability is measured based on the assumptions that market participants would use when pricing an asset or liability, assuming that market participants act in their best economic interest.

The fair value measurement of a non-financial asset takes into account the ability of a market participant to generate economic benefits through the optimal use of the asset or by selling it to another market participant who would also use the asset optimally.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.20. Fair value measurement--Continued

The Company uses valuation techniques appropriate in the circumstances and for which there is sufficient data to measure fair value, maximizing the use of relevant available information and minimizing the use of unavailable information.

All assets and liabilities for which fair value is measured in the financial statements are categorized within the fair value hierarchy described below, based on the lowest level inputs that are significant for the fair value measurement as a whole:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques for which the lowest level and most significant input for measuring fair value is directly or indirectly observable;
- Level 3 - valuation techniques for which the lowest level and most significant input for measuring fair value is not available.

3.21. Impairment of non-financial assets

Management annually tests the recoverable amount of assets with a view to determining whether there are any events or changes in economic, operating or technological circumstances that may indicate an impairment loss. If such evidence is identified and the net book value exceeds the recoverable amount, a provision for impairment is set up, adjusting the net book value to the recoverable amount. The recoverable value of an asset or a cash-generating unit is defined as the higher of the asset's value in use or net selling price.

In estimating an asset's value in use, estimated future cash flows are discounted to present value, using a pre-tax discount rate reflecting the weighted average cost of capital for the industry in which the cash-generating unit operates. The fair value net of selling expenses is determined, whenever possible, based on recent market transactions between knowledgeable and interested parties with similar assets. In the absence of observable transactions in this regard, an appropriate valuation methodology is used. The calculations set out in this model are corroborated by available fair value indicators, such as quoted prices for listed entities, among other available indicators.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.21. Impairment of non-financial assets--Continued

The Company's impairment assessment is based on the most recent financial forecasts and budgets, which are prepared separately by the Management for each cash-generating unit to which the assets are allocated. Projections based on these forecasts and budgets generally cover the five-year period. An average long-term growth rate is calculated and applied to future cash flows after the fifth year.

The impairment loss of the asset is recognized in the statement of income in a manner consistent with the function of the impaired asset.

For assets that are not goodwill, an assessment is made at each reporting date to determine whether there is an indication that the impairment losses recognized previously no longer exist or have decreased. If such an indication exists, the Company estimates the recoverable amount of the asset or the cash-generating unit. An impairment loss of an asset previously recognized is reversed only if there has been a change in the estimates used to determine the recoverable amount of the asset since the last impairment loss that was recognized. The reversal is limited so that the carrying amount of the asset does not exceed the carrying amount that would have been determined (net of depreciation, amortization, or depletion) had no impairment loss been recognized for the asset in previous years.

This reversal is recognized in the result. The impairment test of goodwill is carried out annually at December 31 or whenever circumstances indicate a possible impairment loss.

The impairment loss is recognized for a cash-generating unit to which the goodwill is related. When the recoverable amount of the unit is less than the carrying amount of the unit, the loss is recognized and allocated to reduce the carrying amount of the assets of the unit in the following order: (a) reducing the carrying amount of the goodwill allocated to the cash-generating unit; and (b) to the other assets of the unit on a pro rata basis to the carrying amount of each asset.

3.22. Treasury stock

The Company's own equity instruments that are repurchased (treasury stock) are recorded at cost, as a reduction of equity. No gain or loss recognized in the statement of income on the purchase, sale, issuance or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration is received on sale is recognized in other capital reserves.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements

The Company applied certain standards and amendments for the first time, which are valid for annual periods beginning on or after January 1, 2022 (unless otherwise indicated). The Company has decided not to adopt in advance any other standards, interpretations, or amendments that have been issued but are not yet in effect.

Amendments to CPC 37 (R1), CPC 48, CPC 29, CPC 27, CPC 25 and CPC 15 (R1)

The amendments to the above pronouncements result from the annual improvements cycle between 2018 and 2020, such as:

- Onerous Contract – cost of fulfilling a contract;
- Property, plant and equipment – sales before intended use; and
- References to the Conceptual Framework.

The validity of these amendments must be established by the regulatory bodies that approve them, and in order to fully comply with international accounting standards, the entity must apply these amendments in the annual periods beginning on or after January 1, 2022.

Onerous Contract – cost of fulfilling a contract

An onerous contract is a contract under which the unavoidable costs of fulfilling the obligations arising from the contract (i.e., the costs that the Group cannot avoid because it owns the contract) exceed the expected economic benefits to be received.

The amendments specify that, when assessing whether a contract is onerous or loss-making, the entity needs to costs that relate directly to a contract for the supply of goods or services, including incremental costs (for example, the costs of direct labor and materials) and an allocation of costs directly related to the contract's activities (for example, depreciation of equipment used to fulfill the contract and costs of contract management and supervision). General and administrative costs are not directly related to a contract and are excluded unless they are explicitly charged to the counterparty under the terms of the contract.

The amendments had no impact on the Company's individual and consolidated financial statements.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements--Continued

Property, Plant and Equipment – sales before intended use

The amendment prohibits entities from deducting from the cost of an item of property, plant, and equipment any proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in the statement of income.

According to the transition rules, the Company applies the amendments retrospectively only to items of property, plant and equipment that are available for use or after the beginning of the earliest period presented when the entity first applies the amendment (the date of the initial application).

These amendments had no impact on the individual and consolidated financial statements of the Company since there were no sales of such items produced by the property, plant and equipment assets available for use or after the beginning of the earliest period presented.

References to the Conceptual Framework

The amendments replace a reference to an earlier version of the Conceptual Framework of the IASB by a reference to the current version issued in March 2018 without significantly changing its requirements.

The changes add an exception to the recognition principle of IFRS 3 Business Combinations (equivalent to CPC 15 (R1) – Business Combinations) to avoid the issuance of potential ‘day 2’ gains or losses arising from liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (equivalent to CPC 25 - Provisions, Contingent Liabilities and Contingent Assets) or IFRIC 21 Levies, if incurred separately. The exception requires that entities apply the criteria of IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

In accordance with the transitional provisions, the Group applies the changes prospectively, i.e., for business combinations that occur after the beginning of the annual reporting period in which the amendments are applied for the first time (the date of initial application).

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements--Continued

These amendments had no impact on the Company's consolidated financial statements since there were no assets, liabilities or contingent liabilities within the scope of these amendments that arose during the period.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as first-time adopter

The amendment allows a subsidiary that chooses to apply paragraph D16(a) of IFRS 1 (equivalent to CPC 37 (R1) - First-time Adoption of International Accounting Standards) to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustment was made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment also applies to an affiliate or joint venture that chooses to apply paragraph D16(a) of IFRS 1. These changes had no impact on the Company's consolidated financial statements because it is not a first-time adopter.

IFRS 9 Financial Instruments - Fees in the '10 percent' test for derecognition of financial liabilities (equivalent to CPC 48 - Financial Instruments)

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by the borrower or the lender on behalf of the other.

In accordance with the transitional provisions, the Company applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application).

These amendments had no impact on the Company's consolidated financial statements, as there were no modifications to the Company's financial instruments during the period.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements--Continued

IAS 41 Agriculture – Taxation in fair value measurements (equivalent to CPC 29 - Biological Asset and Agricultural Produce)

The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of the assets within the scope of IAS 41. These amendments had no impact on the Company's consolidated financial statements since it did not have assets within the scope of IAS 41 at the reporting date.

Accounting pronouncements issued but not yet in force

The new and amended rules and interpretations issued, but not yet in force as of the date of issuance of the Group's financial statements, are described below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they come into effect.

IFRS 17 - Insurance Contracts

In May 2017, the IASB issued IFRS 17 – Insurance Contracts (CPC 50 – Insurance Contracts which replaced CPC 11 – Insurance Contracts), a new comprehensive accounting standard for insurance contracts that includes recognition and measurement, presentation and disclosure. Upon entering into force, IFRS 17 (CPC 50) replaced IFRS 4 - Insurance Contracts (CPC 11) issued in 2005. IFRS 17 applies to all types of insurance contracts (such as life, property and casualty, direct insurance and reinsurance), regardless of the type of entities issuing them, as well as to certain guarantees and financial instruments with discretionary participation features. Some scope exceptions apply.

The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements of IFRS 4, which are largely based on local accounting policies in force in previous periods, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The focus of IFRS 17 is the general model, complemented by:

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements--Continued

- A specific adaptation for contracts with direct participation features (the variable fee approach).
- A simplified approach (the premium allocation approach) primarily for short-term contracts.

IFRS 17 and CPC 50 are in force for periods beginning on January 1, 2023, and it is necessary to present comparative figures. Early adoption is permitted if the entity also adopts IFRS 9 and IFRS 15 on the same date or before the initial adoption of IFRS 17. This standard does not apply to the Company.

Amendments to IAS 1: Classification of liabilities as current or non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 (equivalent to CPC 26) to specify the requirements for classification of liabilities as current or non-current. The amendments clarify:

- what does a right to postpone settlement mean;
- that the right to defer settlement must exist at the reporting date;
- that the classification is unaffected by the likelihood that an entity will exercise its right to defer
- that only if an embedded derivative in a convertible liability is itself an equity instrument will the terms of the liability not affect its classification.

Changes are valid for periods beginning on January 1, 2023 and must be applied retrospectively. Currently, the Company evaluates the impact the changes will have on current practice and whether existing loan agreements may require renegotiation.

Amendments to IAS 8- Definition of accounting estimates

In February 2021, the IASB issued amendments to IAS 8 (a standard related to CPC 23), in which it introduces the definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and correction of errors. Furthermore, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The changes will be effective for periods beginning on or after January 1, 2023 and will apply to changes in accounting policies and estimates that occur on or after the beginning of this period. Earlier adoption is permitted if disclosed. It is not expected that the changes will have a significant impact on the Company's financial statements.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements--Continued

Amendments to IAS 12: Deferred Taxes related to Assets and Liabilities arising from a Single Transaction (equivalent to revision 20 of the Accounting Pronouncements Committee (CPC))

In May 2021, the Board issued amendments to IAS 12, which narrowed the scope of the initial recognition exception under IAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The changes must be applied to transactions that occur in the annual reporting periods beginning in or after the earliest comparative period presented. Furthermore, at the beginning of the earliest comparative period presented, a deferred tax asset (provided there is sufficient taxable profit available) and a deferred tax liability should also be recognized for all deductible and taxable temporary differences associated with leases and decommissioning obligations.

The Company is currently assessing the impacts of these changes on its disclosed accounting policies.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of accounting policies

In February 2021, the IASB issued amendments to IAS 1 (a standard related to CPC 26 (R1)) and IFRS *Practice Statement 2 Making Materiality Judgments*, in which it provides guidance and examples to help entities apply materiality judgment to the disclosure of accounting policies.

The amendments aim to help entities provide more useful accounting policy disclosures by replacing the requirement for entities to disclose their "significant" accounting policies with a requirement to disclose their "material" accounting policies and adding guidance on how entities must apply the concept of materiality when making decisions about accounting policy disclosures.

Amendments to IAS 1 are applicable for periods beginning on or after January 1, 2023 with early adoption permitted. Because the changes to *Practice Statement 2* provide non-mandatory guidance in applying the material definition to accounting policy information, a date for adoption of this change is not required.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.23. New accounting pronouncements--Continued

The Company is currently assessing the impacts of these changes on its disclosed accounting policies.

3.24. Material judgments, estimates and accounting assumptions

Judgments

The preparation of individual and consolidated financial statements requires that the Management makes judgments, estimates, and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the respective disclosures, as well as the disclosures of contingent liabilities. In the process of applying the accounting policies, Management made the following judgments that have a more significant effect on the amounts recognized in the individual and consolidated financial statements:

Determination of the lease term of contracts that have renewal or termination option clauses (Company as lessee)

The Company determines the term of the lease as the non-cancellable contractual term, including the periods included in any renewal option to the extent that such renewal is assessed as reasonably certain, and with the periods covered by a termination option to the extent that it is also assessed as reasonably certain. The Company has several lease agreements that include renewal and termination options. The Company exercises judgment in determining whether it is reasonably certain to exercise or not the option to renew or terminate the lease. In this assessment, all relevant factors that create an economic incentive for renewal or termination are considered. After the initial measurement, the Company reassesses the lease term if there is a significant event or change in circumstances that is under its control and will affect its ability to exercise or not the option to renew or terminate (for example, carrying out improvements or significant customizations to the leased assets).

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.24. Material accounting judgments, estimates and assumptions

Estimates and assumptions

The individual and consolidated financial statements were prepared based on various valuation bases underlying the accounting estimates. The accounting estimates involved in the preparation of the financial statements were supported by objective and subjective factors, based on Management's judgment to determine the appropriate amount to be recorded in the financial statements.

The settlement of transactions involving these estimates could result in amounts significantly different from those recorded in the financial statements due to the uncertainties inherent in the process of their determination. The Company review its estimates at least annually.

The main assumptions, related to sources of uncertainty in future estimates and other important factors of uncertainty in estimates at the reporting date involving a significant risk of causing an adjustment to the carrying amounts of assets and liabilities within the next financial year, are addressed below:

a) Impairment of non-financial assets

An impairment loss is recognized when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value net of selling expenses and its value in use. The calculation of fair value net of selling expenses is based on information available on transactions involving the sale of similar assets or market prices less the selling expenses. The calculation of the value in use is based on the discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Company is not yet committed or significant future investments that will enhance the performance of the cash generating unit being tested. The recoverable amount is influenced by the discount rate used under the discounted cash flow method, as well as the expected future cash receipts and growth rate used for extrapolation purposes.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.24. Material accounting judgments, estimates and assumptions --Continued

Estimates and assumptions--Continued

b) *Provision for expected losses on trade receivables and contract assets*

The Company utilizes a provision matrix to calculate the expected credit losses to trade receivables and contract assets. The provision rates applied are determined based on days past due for groupings of several customer segments that exhibit similar loss patterns (such as product type, customer type, and credit risk, among others). The provision matrix is initially based on the historical loss rates observed by the Company over the preceding 24 months. The Company reviews the matrix prospectively to adjust it according to the historical experience of credit loss.

On all reporting dates, observed historical loss rates are updated and changes in forward-looking estimates are analyzed. The assessment of the correlation between observed historical loss rates, projected economic conditions, and expected credit losses constitutes a significant estimate. The amount of expected credit losses is sensitive to changes in circumstances and projected economic conditions. The Company's historical credit loss experience and projections of economic conditions may not accurately reflect the actual future customer performance.

c) *Leases - Incremental Borrowing Rate Estimate*

The Company cannot readily determine the interest rate implicit in the lease, therefore, considers its incremental borrowing rate to measure the lease liabilities. The incremental rate is the interest rate that the Company would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. As such, this assessment requires Management to consider estimates when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the incremental rate using observable inputs (such as market interest rates).

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.24. Material accounting judgments, estimates and assumptions --Continued

Estimates and assumptions--Continued

d) *Provisions for civil, tax, and labor risks*

The Company recognizes a provision for civil, tax, and labor claims. The assessment of the likelihood of a loss includes the evaluation of existing evidence, the hierarchy of laws, the available case law, the most recent court decisions and their relevance in the legal system, as well as the evaluation of outside legal advisors. Provisions are reviewed and adjusted. To take into account changes in circumstances, such as applicable statutes of limitation, the conclusions of tax audits, or any additional exposures identified based on new matters or court decisions.

e) *Recoverability of deferred taxes*

Deferred tax assets are recognized for all temporary differences to the extent that it is probable that there will be taxable profit available to realize the deferred tax assets. Significant judgment by Management is required to determine the amount of the deferred tax assets that can be recognized based on the probable timing and level of future taxable profits, along with future tax planning strategies. For more details on deferred taxes, see Note 21.

3.25. Current vs. non-current classification

The Company presents assets and liabilities in the statement of financial position based on their classification as current or non-current. Assets are classified as current when:

- They are expected to be realized, or intended to be sold or consumed, in the normal course of the entity's operating cycle;
- They are held essentially for the purpose of being sold;
- They are expected to be realized within 12 months after the reporting date; and
- They constitute cash or cash equivalents (as defined in Technical Pronouncement CPC 03 - Statement of Cash Flows), unless their exchange or use for the settlement of liabilities is restricted for at least 12 months after the reporting date.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

3. Summary of significant accounting policies--Continued

3.25. Current vs. non-current classification -- Continued

All other assets are classified as non-current. Liabilities are classified as current when:

- They are expected to be settled in the ordinary course of the entity's operating cycle;
- They are held essentially for the purpose of being sold;
- They must be settled within 12 months after the reporting date; and
- The entity does not have an unconditional right to defer settlement of the liabilities for at least 12 months after the reporting date.

The terms of a liability that may, at the counterparty's discretion, result in its settlement through the issuance of equity instruments do not affect their classification.

The Company classifies all other liabilities as non-current. Deferred assets and liabilities are recorded in non-current assets and liabilities.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

4. Special events that occurred during the fiscal year

4.1. Effect of New Coronavirus on the individual and consolidated financial statements

The Company has been constantly monitoring the strategy and maintenance of the quality of its services, as well as the profitability of its business. This monitoring provided information that could aid management in strategic decision-making and also demonstrated that, despite the crisis caused by the Covid-19 pandemic, none of the ongoing businesses showed signs of discontinuity or a loss in their recoverable value.

To preempt or mitigate any negative effects that may potentially be identified across its business lines, Management will continue to monitor its activities, demands, and operating results, thereby enabling taking action on a timely basis to prevent or alleviate such impacts.

The Company has consistently monitored developments arising from the pandemic and their implications for the Allowance for Expected Credit Losses, the effects of rising interest rates, the recoverability of long-term assets, realization of deferred assets, inventory acquisitions, among others, and has concluded that potential impacts are not expected to affect medium- and long-term projections or compromise the realization of balances or affect the operations.

5. Cash and cash equivalents

5.1. Cash and cash equivalents

	Parent Company		Consolidated	
	2022	2021	2022	2021
Cash and cash equivalents	16,962	32,603	22,019	38,465
Financial investments (a)	130,451	-	130,451	-
Total	147,413	32,603	152,470	38,465

(a) At December 31, 2022, financial investments in Bank Deposit Certificates (CDBs) yielded at an average of 103% of the Interbank Deposit Certificate (CDI) rate (105% of the CDI at December 31, 2021) with daily liquidity redeemable directly from the issuer, without significant loss in value.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

5. Cash and cash equivalents--Continued

5.2. Short-term investments

	Parent Company		Consolidated	
	2022	2021	2022	2021
Bank Deposit Certificates (b)	152,170	298,522	152,170	298,522
Total	152,170	298,522	152,170	298,522

(b) At December 31, 2022, financial investments in Bank Deposit Certificates (CDBs) yielded at an average rate of 103% of the CDI (105% of the CDI at December 31, 2021) with an average redemption term of 6 months.

6. Trade receivables

	Parent company		Consolidated	
	2022	2021	2022	2021
Trade receivables - sale of goods	302,125	229,536	309,077	231,939
Trade receivables - rental	122,325	79,975	122,325	79,975
Trade receivables - gross	424,450	309,511	431,402	311,914
Provision for expected credit losses	(80,103)	(52,504)	(80,146)	(52,504)
Total	344,347	257,007	351,256	259,410
Current	189,035	161,316	195,944	163,719
Non-current	155,312	95,691	155,312	95,691

Change in provisions for expected credit losses:

	Parent company	Consolidated
At December 31, 2020	(26,558)	(26,558)
Additions	(25,946)	(25,946)
Reductions	-	-
At December 31, 2021	(52,504)	(52,504)
Additions	(27,599)	(27,642)
Reductions	-	-
At December 31, 2022	(80,103)	(80,146)

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

6. Trade receivables--Continued

The following are the amounts receivable by aging list at December 31, 2022:

	Parent company		Consolidated	
	2022	2021	2022	2021
Securities to mature	306,386	227,366	313,338	229,769
Securities overdue from - 0 to 30 days	26,366	12,313	26,366	12,313
Securities overdue from - 31 to 90 days	9,838	9,352	9,838	9,352
Securities overdue from - 91 to 180 days	7,877	9,497	7,877	9,497
Securities overdue from - 181 to 270 days	6,135	10,072	6,135	10,072
Securities overdue from - 271 to 365 days	6,737	8,147	6,737	8,147
Securities overdue over 365 days	61,111	32,764	61,111	32,764
Total	424,450	309,511	431,402	311,914

The Company's line of business is equipment rental. Such rents have an average term of 60 months and the minimum rents are fixed, subject to annual adjustment according to the inflation index.

The minimum future receipts from such rents are shown below:

Minimum lease receipts	Parent company and Consolidated	
	2022	2021
2022	-	233,885
2023	279,786	160,394
2024	218,925	106,948
2025	166,692	71,143
2026	102,122	19,050
2027	40,066	-
2028	755	-
Total	808,346	591,420

Such lease agreements generated revenues in the year ended December 31, 2022 in the amount of R\$293,447 (R\$288,930 at December 31, 2021), and are disclosed in Note 23.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements

December 31, 2022

(In thousands of reais)

7. Recoverable and deferred taxes

7.1. Recoverable taxes

	Parent company		Consolidated	
	2022	2021	2022	2021
Withholding Income Tax (IRRF) to be recovered	5.228	439	5.228	439
IRPJ and CSLL to be offset (b)	21.549	8.663	21.549	8.663
Social Integration Program (PIS) and COFINS to be offset	10.254	12.651	10.254	12.651
ICMS to be offset (b)	22.900	23.122	22.900	23.122
Tax on Industrialized Products (IPI) to be offset	2.933	3.479	2.933	3.479
Deferred PIS and COFINS	-	17	-	17
Other (a)	655	93	1.606	639
Total	63.519	48.464	64.470	49.010

(a) Balances in 2022 arise from: Import Duty (R\$74), INSS (R\$21), Brazilian Federal Revenue Service (RFB) Process (R\$560), Colombian VAT of R\$951. The 2021 balances arise from: Import Duty (R\$22), INSS (R\$21), PIS, Cofins and CSLL (R\$50) and Colombian VAT of R\$546.

(b) The Company recognized credits related to investment subsidies during the year, which, as provided for by law, are excluded from the IRPJ and CSLL calculation basis. For further details, refer to Note 20.5.

7.2. Deferred taxes

	Parent company and Consolidated			
	2022	2021	2022	2021
Deferred income tax and social contribution refer to:				
Allowance for doubtful accounts	12,294	10,160	12,599	10,216
Present value adjustment - trade receivables	8,678	3,416	8,678	3,416
Provision for losses on impairment of inventories	4,812	3,397	4,812	3,397
Derivatives - Swap	766	233	766	233
Provision for discount on the sale of accumulated ICMS credit	753	436	753	436
Provision for tax contingencies	129	123	129	123
Other	-	100	-	100
Tax credits	27,432	17,865	27,737	17,921
Present value adjustment - trade payables	(522)	-	(522)	-
Tax amortization of goodwill generated on the acquisition of Munddo	(580)	(425)	(580)	(425)
Tax liabilities	(1,102)	(425)	(1,102)	(425)
Deferred tax assets, net	26,330	17,440	26,635	17,496

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

7. Recoverable and deferred taxes--Continued

7.2. Deferred taxes--Continued

7.2.1. Estimated realization of deferred taxes assets

	Deferred taxes and social contributions	
	Parent company	Consolidated
2023	5,152	5,457
2024	6,122	6,122
2025	4,244	4,244
2026	3,650	3,650
2027	8,264	8,264
Total	27,432	27,737

8. Inventories

	Parent company		Consolidated	
	2022	2021	2022	2021
Raw materials	20,370	13,465	20,370	13,465
Products	183,694	113,678	195,553	118,472
Inventory in transit	40,679	72,710	45,443	83,057
Finished products	24,468	38,900	24,468	38,900
Software for resale	43,507	17,928	43,507	17,928
Estimated impairment losses	(14,154)	(12,286)	(14,307)	(12,461)
Total	298,564	244,395	310,034	259,361

Provision for Obsolete Inventory	Parent company	Consolidated
At December 31, 2020	(13,162)	(13,162)
Additions	(9,436)	(9,611)
Reductions	10,312	10,312
At December 31, 2021	(12,286)	(12,461)
Additions	(11,926)	(11,926)
Reductions	10,058	10,080
At December 31, 2022	(14,154)	(14,307)

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

9. Investment

	Parent company	
	2022	2021
Wdc Us	3,060	1,648
Wdc Colombia	2,593	4,679
Panama	4,481	23
Franchising	(189)	49
	<u>9,945</u>	<u>6,399</u>

Following is the main financial information of the subsidiaries:

Subsidiaries	2022			
	Percentage of interest	Equity	Net revenue	Net income (loss) for the year
Wdc Us	100%	3,060	18,480	1,480
Colombia	100%	2,593	21,104	(1,258)
Panama	100%	4,481	3,661	(594)
Franchising	100%	(189)	135	(237)
Total		<u>9,945</u>	<u>43,380</u>	<u>(609)</u>

Subsidiaries	2021			
	Percentage of interest	Equity	Net revenue	Net income (loss) for the year
Wdc Us	100%	1,648	4,012	128
Colombia	100%	4,679	18,372	418
Panama	100%	23	2,500	(496)
Franchising	100%	49	-	(1)
Total		<u>6,399</u>	<u>24,884</u>	<u>49</u>

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

9. Investment--Continued

Changes in investments	Wdc Usa	Wdc Colombia	Wdc Panama	Wdc Franchising	Total
At December 31, 2020	1,414	598	497	-	2,509
Capital increase	-	3,280	-	50	3,330
Equity pick-up	128	418	(496)	(1)	49
Exchange rate variation on investment (a)	(238)	(465)	(49)	-	(752)
Other variations	344	848	71	-	1,263
At December 31, 2021	1,648	4,679	23	49	6,399
Capital increase	-	-	4,586	-	4,586
Income (loss) for the fiscal year	1,480	(1,258)	(594)	(237)	(609)
Exchange rate variation on investment (a)	(15)	(1,093)	364	(1)	(745)
Other variations	(53)	265	102	-	314
At December 31, 2022	3,060	2,593	4,481	(189)	9,945

- (a) For the year ended December 31, 2022, an amount of R\$(745) (R\$752 at December 31, 2021) was recorded related to the effects of the exchange rate variation resulting from the conversion into Brazilian reais of the financial statements of the subsidiaries headquartered abroad, which were originally prepared in U.S. dollars (USD) and Colombian pesos (COP). These effects are recorded as "Other Comprehensive Results" in Equity.

10. Property, plant and equipment

At December 31, 2022, the Company does not have any assets pledged or judicially restricted, nor assets provided as collateral for loans or borrowings, except for assets subject to finance lease.

The Company assessed the economic useful life of its property, plant, and equipment and found no significant adjustments or changes to be required at each year-end, since there were no relevant changes in estimates and assumptions adopted in the previous year.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements
December 31, 2022
(In thousands of reais)

10. Property, plant and equipment--Continued

Following is the change in the Company's property, plant and equipment:

	Parent company						
	Furniture and fixtures	IT equipment	Vehicles	Products for rental	Machinery and equipment	Buildings	Other
Annual depreciation rate (%)	10%	20%	20%	20%	10%	4%	20%
At December 31, 2020	694	829	395	341,609	247	562	1,451
Additions	111	503	-	191,802	128	80	79
Net disposals	-	-	(139)	(222)	-	-	-
Depreciation	(112)	(352)	(95)	(118,187)	(43)	(250)	(31)
At December 31, 2021	693	980	161	415,002	332	392	1,499
Additions	589	605	-	171,881	433	-	24
Net disposals	(1)	-	(115)	(1,175)	-	(252)	-
Depreciation	(130)	(595)	(39)	(144,602)	(67)	(140)	(735)
At December 31, 2022	1,151	990	7	441,106	698	-	788
At December 31, 2021							
Cost	1,492	2,492	483	699,064	548	641	1,703
Accumulated depreciation	(799)	(1,512)	(322)	(284,062)	(216)	(249)	(204)
Net residual value	693	980	161	415,002	332	392	1,499
At December 31, 2022							
Cost	2,080	3,098	369	846,623	982	389	1,727
Accumulated depreciation	(929)	(2,108)	(362)	(405,517)	(284)	(389)	(939)
Net residual value	1,151	990	7	441,106	698	-	788
	Consolidated						
	Furniture and fixtures	IT equipment	Vehicles	Products for rental	Machinery and equipment	Buildings	Other
Annual depreciation rate (%)	10%	20%	20%	20%	10%	4%	10%
At December 31, 2020	721	945	395	341,609	247	562	1,451
Additions	100	550	-	191,802	128	80	79
Net disposals	-	-	(139)	(222)	-	-	-
Depreciation	(117)	(380)	(95)	(118,187)	(43)	(250)	(31)
At December 31, 2021	704	1,115	161	415,002	332	392	1,499
Additions	594	607	-	171,881	433	-	24
Net disposals	(1)	(10)	(115)	(1,175)	-	(252)	-
Depreciation	(134)	(635)	(39)	(144,602)	(67)	(140)	(735)
At December 31, 2022	1,163	1,077	7	441,106	698	-	788
At December 31, 2021							
Cost	1,503	2,661	483	699,064	548	641	1,703
Accumulated depreciation	(804)	(1,541)	(322)	(284,062)	(216)	(249)	(204)
Net residual value	699	1,120	161	415,002	332	392	1,499
At December 31, 2021							
Cost	2,101	3,253	369	846,623	982	389	1,727
Accumulated depreciation	(938)	(2,176)	(362)	(405,517)	(284)	(389)	(939)
Net residual value	1,163	1,077	7	441,106	698	-	788

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

11. Intangible assets

Parent company	Software licenses	Software for rent	Customer portfolio	Goodwill Merger(a)	Trademarks and patents	Total
Annual amortization rate (%)	20%	20%	27%	Indefinite	20%	
At December 31, 2020	1,777	26,582	7,320	2,275	15	37,969
Additions	959	33,348	-	-	3	34,310
Amortization	(1,446)	(9,334)	(4,650)	-	-	(15,430)
At December 31, 2021	1,290	50,596	2,670	2,275	18	56,849
Additions	115	42,849	-	-	10	42,974
Write-offs	-	-	-	-	-	-
Amortization	(710)	(16,239)	(2,670)	-	(10)	(19,629)
At December 31, 2022	695	77,206	-	2,275	18	80,194

Consolidated	Software licenses	Software for rent	Customer portfolio	Goodwill Merger(a)	Trademarks and patents	Total
Annual amortization rate (%)	20%	20%	27%	Indefinite	20%	
At December 31, 2020	1,780	26,582	7,320	2,275	15	37,972
Additions	959	33,348	-	-	3	34,310
Amortization	(1,446)	(9,334)	(4,650)	-	-	(15,430)
At December 31, 2021	1,293	50,596	2,670	2,275	18	56,852
Additions	115	42,849	-	-	10	42,974
Write-offs	(1)	-	-	-	-	(1)
Amortization	(710)	(16,239)	(2,670)	-	(10)	(19,629)
At December 31, 2022	697	77,206	-	2,275	18	80,196

(a) Goodwill arising from the expectation of future profitability in the acquisition of Munddo.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

12. Advances to suppliers

	Parent company		Consolidated	
	2022	2021	2022	2021
Advances to domestic suppliers (a)	8,941	3,747	12,508	3,959
Advances to international suppliers (b)	40,596	69,762	40,596	69,762
Total	49,537	73,509	53,104	73,721

(a) Refer to advance payments in the acquisition of goods for resale within the domestic market.

(b) Refer to advance payments in the acquisition of goods for resale in foreign markets.

13. Trade payables

	Parent company		Consolidated	
	2022	2021	2022	2021
Domestic suppliers	50,594	60,518	55,706	66,446
International suppliers	86,406	132,125	86,406	132,998
Total	137,000	192,643	142,112	199,444

14. Personnel, social charges and benefits

	Parent company		Consolidated	
	2022	2021	2022	2021
Profit sharing and bonuses	275	3,910	275	3,910
Vacation pay and 13 th salary	2,487	2,632	2,487	2,632
Brazilian Social-Security Institute (INSS) contribution payable	829	710	829	710
Severance Pay Fund (FGTS) payable	281	237	281	237
IRRF	711	685	711	685
Other	34	46	242	144
Total	4,617	8,220	4,825	8,318

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

15. Taxes payable

	Parent company		Consolidated	
	2022	2021	2022	2021
IRPJ and CSLL payable	4,147	708	4,147	1,259
IPI payable	517	2	517	2
ICMS payable	104	13	104	13
IRRF	100	65	100	65
Federal taxes (installments)	592	243	592	243
Other (a)	857	468	975	468
Total	6,317	1,499	6,435	2,050

(a) The 2022 balances arise from: ISS (R\$440), PIS/Cofins/CSLL (R\$76), Colombian VAT (R\$110) and other distributed amounts (R\$349) and the 2021 balances arise from ISS (R\$251), PIS/Cofins/CSLL (R\$159), and other distributed amounts (R\$58).

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

16. Loans, borrowings and debentures

16.1. General loans

The Company's loans, borrowings and debentures outstanding as of the reporting date of these financial statements are broken down as follows:

a) Loans in local currency

Financial Institution	Maturity	Type	Index	Guarantee	Covenants	Parent company and Consolidated			
						2022	2021	Current	Non-current
Banco ABC Brasil	Sep/22	Working Capital	CDI + 3.20%	Accommodation + Negotiable invoices		-	-	3,904	-
Banco do Brasil	Oct/24	Working Capital	CDI + 2.98% a 3.59%	Property (*) + Negotiable invoices	16.2 (b)	9,286	7,738	15,692	17,024
Banco BBM Bocom	Mar/24	Working Capital	CDI + 3.90% a 4.50%	Accommodation + Negotiable invoices		8,724	1,250	9,078	9,917
Banco BTG	Dec/23	Working Capital	CDI + 2.45% a 2.85%	Negotiable invoices		119,797	-	110,459	50,000
Banco CCB	Apr/24	Working Capital	CDI + 2.05% a 4.30%	Negotiable invoices		10,448	2,600	12,154	12,800
Banco CEF S.A	Jun/24	Working Capital	CDI + 2.18% a 2.43%	Accommodation + Negotiable invoices		11,168	4,800	18,778	15,915
Banco Citi	Feb/25	Working Capital	CDI + 3.00% a 3.50%	Accommodation + Negotiable invoices	16.2 (a)	12,525	13,121	12,646	25,646
Banco Santander	Mar/23	Working Capital	CDI + 2.50% e 10.56%	Accommodation + Negotiable invoices		1,614	-	11,696	2,419
Banco Votorantim	Mar/24	Working Capital	CDI + 2.70% a 5.60%	Negotiable invoices		10,374	1,667	14,734	11,970
						183,936	31,176	209,141	145,691

(*) The property given as a guarantee is owned by the Company's officer, as mentioned in Note 22.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

16. Loans, borrowings and debentures--Continued

16.1. General loans - Continued

b) Loans in foreign currency

Financial Institution	Maturity	Type	Currency	Index	Guarantee	Covenants	Parent company and Consolidated			
							2022		2021	
							Current	Non-current	Current	Non-current
Banco ABC Brasil	Jul/24	Finimp	Euro	3.00% to 3.65%	Negotiable invoices	16.2 (a)	13,406	3,998	24,932	19,648
Banco BBM Bocom	Nov/24	Working capital	US dollar	LIBOR + 2.98%	Negotiable invoices		4,478	3,461	4,285	8,214
Banco Bradesco S.A	May/24	Working capital	US dollar	3.50%	Negotiable invoices		8,068	15,790	18,507	24,000
Banco Citi	Oct/22	Working capital	US dollar	LIBOR	Negotiable invoices		-	-	13,486	-
Banco Votorantim	Jul/25	Working capital	US dollar	3.65% to 3.82%	Negotiable invoices		7,848	21,744	14,021	30,000
							33,800	44,993	75,231	81,862

c) Debentures

						Parent company and Consolidated			
						2022		2021	
Financial Institution	Maturity	Type	Index	Guarantee	Covenants	Current	Non-current	Current	Non-current
Banco Itaú	Nov/22	Debentures	CDI + 1.50%	Accommodation + Negotiable invoices		-	-	17,208	-
Banco Itaú (a)	Jun/27	Debentures	CDI + 2.30%	Negotiable invoices	16.2 (c)	501	242,562	-	-
Banco Itaú (a)	Jun/29	Debentures	CDI + 2.70%	Negotiable invoices	16.2 (c)	583	248,336	-	-
Banco Itaú Asset (b)	Nov/24	Debentures	CDI + 3.00%	Accommodation + Negotiable invoices		-	-	13,496	24,618
Banco Bradesco S.A	Nov/24	Debentures	CDI + 3.00%	Accommodation + Negotiable invoices		-	-	11,604	17,685
						1,084	490,898	42,308	42,303

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

	2022	2021
Current	218,820	326,680
Non-current	567,067	269,856

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

16. Loans, borrowings and debentures--Continued

16.1. General loans--Continued

c) Debentures--Continued

- (a) On June 21, 2022, the Company completed the issuance of simple, non-convertible debentures, secured by real guarantees in two (2) series, amounting to R\$500,000,000.00 (five hundred million reais), each with a par value of R\$1,000. The issuance in 2 series consisted of: (i) 247,113 (two hundred forty-seven thousand, one hundred thirteen) debentures of the first series, accruing interest at 100% of the DI rate plus 2.30% per annum, with interest paid semiannually; and (ii) 252,887 (two hundred fifty-two thousand, eight hundred eighty-seven) debentures of the second series, accruing interest at 100% of the DI rate plus 2.70% per annum, with semiannual interest payments.

The debentures of the first series will have a maturity of 5 (five) years, counted from the issue date, maturing on June 15, 2027. The debentures of the second series will have a maturity of 7 (seven) years, counted from the issue date, maturing on June 15, 2029.

- (b) The debentures of the second series were originally due on November 19, 2024, but were paid off early in December 2022.

The changes in loans, borrowings and debentures are as follows:

	Parent company and Consolidated
At December 31, 2020	524,669
New Debts	275,461
Financial charges	48,900
Payment of interest	(52,454)
Payment of principal	(200,040)
At December 31, 2021	596,536
At December 31, 2021	596,536
New Debts	488,008
Financial charges	99,872
Exchange rate variation	(14,431)
Payment of interest	(84,972)
Payment of principal	(299,126)
At December 31, 2022	785,887

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

16. Loans, borrowings and debentures--Continued

16.2. Covenants

The Company includes covenants in its loans, borrowings and debentures agreements that limit its ability to undertake certain actions and may require the acceleration or refinancing of debts if the Company fails to comply with these covenants.

The indices and the minimum and maximum amounts required by those covenants at December 31, 2022 are set out below:

- a) Citibank, N.A. (i) The Company's net debt to EBITDA ratio (*covenants*) must be less than or equal to 2.75 times at December 31, 2022.
- b) Banco do Brasil (contract 333.602.663) (i) The Company's net debt to EBITDA (*covenants*) ratio must be less than 3.00 times at December 31, 2022 (ii) The Company's EBITDA to financial result (*covenants*) ratio must be greater than or equal to 1.50 times at December 31, 2022.
- c) 2nd Issue Debentures
 - (i) The Company's net debt to EBITDA (*covenants*) ratio must be less than or equal to 3.00 times at December 31, 2022.
 - (ii) The Company's EBITDA to Net Financial Expenses (*covenants*) ratio must be greater than or equal to 3.00 times at December 31, 2022.

At December 31, 2022, all the abovementioned financial ratios were met.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

17. Leases

	Parent company and Consolidated	
	2022	2021
Assets		
Right of use asset	1,832	3,001
Total	1,832	3,001
Liabilities		
Lease liabilities	1,875	3,072
Total	1,875	3,072
Current liabilities	969	2,228
Non-current liabilities	906	844

The changes in right-of-use assets in the fiscal year are as follows:

	Parent company and Consolidated
At December 31, 2020	5,313
Additions	813
Remeasurement	1,438
Write-off	(1,760)
Depreciation	(2,803)
At December 31, 2021	3,001
Write-off	(237)
Remeasurement	1,525
Depreciation	(2,457)
At December 31, 2022	1,832

The changes in lease liabilities in the fiscal year are as follows:

	Parent company and Consolidated
At December 31, 2020	5,431
Payments	(3,075)
Write-off	(1,760)
Additions	2,251
Remeasurement	1,438
Charges	225
At December 31, 2021	3,072
Payments	(2,579)
Write-off	(237)
Remeasurement	1,525
Charges	94
At December 31, 2022	1,875

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

17. Leases--Continued

The future maturities of lease liabilities are as follows:

Aging Realization			
	Lease payable	Financial charges	Total
2023	1,040	(71)	969
2024	765	(30)	735
2025	172	(2)	170
	1,978	(103)	1,875

At the initial recognition, the nominal discount rate was applied to the minimum expected payments to determine the fair value of the lease, considering the duration of the lease agreement. At December 31, 2022, the average lease term was 30 months.

18. Other liabilities

	Parent company		Consolidated	
	2022	2021	2022	2021
Contracts with third-parties (a)	-	1,068	-	1,068
Advance from customers	16,080	14,933	16,080	14,933
Sale for future delivery (b)	21,667	13,088	21,667	13,088
Deferred income (d)	451	2,578	451	2,578
Liabilities with third parties (c)	1,356	1,842	1,951	1,821
Total	39,554	33,509	40,149	33,488
Current	39,554	33,509	40,149	33,488
Non-current	-	-	-	-

(a) Refers to the purchase of assets from Axyon Distribuidora Ltda. with the sole purpose of acquiring the exclusive right to 100% of the current and future contracts of the clients, and the exclusive right to acquire information technology and telecommunications products from certain suppliers.

(b) The balance of this account is composed entirely of billing-only invoices, which await the customer's decision regarding the destination of the goods (solar power products). When allocated, the invoice for future delivery is generated and the revenue is recognized.

(c) The balance refers to obligations with third parties existing as of the reporting date when the processes of import/customs clearance of the software are in progress.

(d) Turnkey Project (Contract for the Supply of Materials and Construction of Fiber Optic Backbone Infrastructure)

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

19. Provisions for lawsuits

Contingencies classified as probable losses

	Labor	Tax	Parent company and Consolidated	
			Civil	Total
At December 31, 2020	-	479	-	479
Additions	-	-	-	-
Write-offs	-	(117)	-	(117)
Inflation adjustment	-	-	-	-
At December 31, 2021	-	362	-	362
Additions	-	-	-	-
Write-offs	-	-	-	-
Inflation adjustment	-	16	-	16
At December 31, 2022	-	378	-	378

The Company is involved in certain legal matters arising from the normal course of its business, which include tax and civil lawsuits.

The Company classifies the risks of loss in legal proceedings as "probable", "possible" or "remote". The provision recorded for these lawsuits is determined by the Company's Management, based on the analysis of its legal advisors, and reasonably reflects the estimated probable losses.

The Company Management believes that the provision for labor, tax and civil risks, established in accordance with CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, is sufficient to cover potential losses from administrative and legal proceedings, as detailed below

Tax

The Company has legal disputes with the Brazilian Telecommunications Agency (Anatel) for products that may be non-compliant with the requirements set by the regulatory agency. The balance recorded at December 31, 2022 is R\$378 (R\$362 at December 31, 2021).

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

18. Provisions for lawsuits--Continued

Contingencies classified as possible losses --Continued

	Labor	Tax	Parent company and Consolidated	
			Civil	Total
At December 31, 2020	51	1,409	216	1,676
At December 31, 2021	-	564	110	674
Additions	-	1,284	86	1,370
Write-offs	-	(132)	-	(132)
Inflation adjustment	-	202	169	371
At December 31, 2022	-	1,918	365	2,283

Tax

At December 31, 2022, the amounts involved in lawsuits whose loss is classified as possible totaled R\$1,918 (R\$564 at December 31, 2021).

The nature of the main tax lawsuits was as follows: R\$219 related to inquiries about credits used through the Electronic Request for Refund (PER) / Offset Declaration (DCOMP) system; R\$369 referring to a pending issue related to the proper recording of invoices in the tax ledger; R\$127 related a state audit questioning the composition of a finished solar power generation product; R\$502 related to a tax-deficiency notice based on the interpretation that a specific sale should include the Tax on Industrialized Products (IPI) as it was intended for the final consumer. The administrative defense has been submitted and is awaiting a decision in the lower court; R\$701 related to a procedure for investigating non-compliance with obligations to the regulatory agency.

Civil

At December 31, 2022, the amounts involved in lawsuits whose loss is classified as possible totaled R\$365 (R\$110 at December 31, 2021).

The nature of the main civil lawsuits was as follows: R\$365 related to contract termination due to breach of service agreement.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

20. Equity

20.1. Share capital

The share capital at December 31, 2022 amounts to R\$317,891 (R\$313,298 at December 31, 2021) is fully subscribed and paid in, and is represented by shares with no par value.

The shareholding structure at December 31, 2022 and 2021 is as follows:

Shareholder	2022		2021	
	Common shares (a)		Common shares	
	Number	%	Number	%
Vanderlei Rigatieri Junior	22,933	35.47%	22,908	35.61%
2B Capital - Brasil Capital de Crescimento	19,339	29.91%	19,339	30.06%
Francisco Sérgio Day de Toledo (a)	-	0.00%	2,545	3.96%
2B Capital - FIP Multiestratégia Multisetorial Plus IE	6,465	10.00%	6,465	10.05%
- Free Float	15,926	24.63%	13,072	20.32%
Other - Free Float				
Total shares	64,663	100.00%	64,329	100.00%

(a) The shares of shareholder Francisco Sérgio Day de Toledo were not presented in their specific line in 2022 due to the amendment to the shareholders' agreement in which Mr. Toledo ceased to be part of the company's controlling group, and his shares were consolidated in "Other - Free Float".

20.1.1 Initial public offering - IPO

On February 10, 2022, a Board of Directors Meeting was held, which authorized the increase of the share capital of the Company through the issuance of 334,002 (three hundred thirty-four thousand and two) shares related to the follow-on offering under CVM Instruction 400 in the amount of R\$4,593. The expenses with the issuance of shares totaled R\$787.

On August 24, 2021, a Board of Directors Meeting was held, which authorized the increase in the Company's share capital through the issuance of 137,200 (one hundred thirty-seven thousand and two hundred) shares related to the supplemental lot as part of the initial public offering (IPO), totaling R\$3,184. The amount of R\$1,592 was allocated as an increase in the Company's share capital account, and the amount of R\$1,592 was allocated to the creation of a capital reserve, in the share premium account.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

20. Equity--Continued

20.1.1 Initial public offering – IPO--Continued

On July 22, 2021, a Board of Directors Meeting was held, which authorized the increase in the Company's share capital through the issuance of 19,400,000 (nineteen million and four hundred thousand) shares as part of the initial public offering (IPO), totaling R\$450,080. The amount of R\$225,040 was allocated as an increase in the Company's share capital account, and the amount of R\$225,040 was allocated to the creation of a capital reserve, in the share premium account.

20.1.2 Reverse stock split

On February 15, 2021, an Extraordinary General Meeting (EGM) was held, which resolved on the reverse stock split of all 89,583,722 (eighty-nine million, five hundred eighty-three thousand, seven hundred twenty-two) common shares of the Company at 2-for-1 reverse stock split ratio, resulting in a new total of 44,791,861 (forty-four million, seven hundred ninety-one thousand, eight hundred sixty-one) common shares.

20.2. Share buyback program

On July 1, 2022, the Board of Directors approved the implementation of the share buyback program under the following conditions:

- (a) The objectives of the Company's share buyback program are: (i) to promote and create value for shareholders through an efficient capital structure; and (ii) to serve as an alternative for distributing the Company's cash generation, in addition to any proceeds that may be paid as dividends and interest on equity. The repurchased shares may, at management's discretion, be subsequently canceled, sold, held in treasury or allocated to beneficiaries of share-based compensation plans.
- (b) Program duration: from July 2, 2022 to April 1, 2024;
- (c) Number of shares to be acquired: up to the limit of 1,978,492 common shares;
- (d) Authorized Financial Institution: BTG Pactual Corretora de Títulos e Valores Mobiliários S.A.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

20. Equity -- Continued

20.2. Share buyback program--Continued

	Number of shares	Average value per share (in R\$)	Total
At December 31, 2021	-	-	-
Sold	-	-	-
Acquired	935,400	7,58	7,044
At December 31, 2022	935,400	7,58	7,044

20.3. Legal reserve

It is established through the allocation of 5% of the net income for the fiscal year, in accordance with article 193 of Federal Law 6,404/76, up to the limit of 20% of the capital. At December 31, 2022, the Company set up a reserve of R\$1,158 (R\$3,623 at December 31, 2021).

20.4. Dividends

The Company's bylaws establish a mandatory minimum dividend of 25%, calculated based on the adjusted annual net income as provided for in article 202 of Federal Law 6,404/1976. We demonstrate below the calculation of approved dividends for the fiscal year 2022:

	2022	2021
Net income for the year	23,169	72,454
Appropriation of the legal reserve	(1,158)	(3,623)
Subsidy Reserve	(18,564)	(23,825)
Total	3,447	45,006
Allocation		
Minimum mandatory dividends (25%)	(862)	(11,252)
Profit retention reserve	(2,585)	(33,754)

20.5. Investment subsidy reserve

As discussed in Note 21, the tax incentives granted by the State of Bahia are now considered investment subsidies, which are deductible when calculating income tax and social security contribution. During the fiscal year ended December 31, 2022, the Company allocated R\$54,826 to the investment subsidy reserve.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

20. Equity -- Continued

The changes in subsidies in the fiscal year are as follows:

	Investment subsidy		
	Sudene	Presumed credit	Total
At December 31, 2020	11,961	-	11,961
Addition	4,356	19,469	23,825
Write-off	-	-	-
At December 31, 2021	16,317	19,469	35,786
Addition previous years (2017 to 2020)	-	36,262	36,262
Addition current year	-	18,564	18,564
At December 31, 2022	16,317	74,295	90,612

20.6. Profit retention reserve

The Company established a Profit retention reserve based on the undistributed net income for the fiscal year, in accordance with paragraph 4, Article 202 of Federal Law No. 6,404. If this reserve is not absorbed by losses in subsequent fiscal years, it will be distributed as dividends as soon as the Company's financial situation allows. Profits not allocated as per the articles 193 to 197 will be distributed as dividends.

20.7. Earnings per share

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders by the weighted average number of common shares outstanding during the fiscal year, as shown below:

	Parent company and Consolidated	
	2022	2021
Net income for the year	23,169	72,454
Weighted average number of shares in the year	64,328	53,451
Basic earnings per share - (in R\$)	0,3602	1,3555

- (a) In connection with the Extraordinary General Meeting held on August 24, 2021, the reverse stock split was approved, as disclosed in Note 22.1. Thus, the weighted average of outstanding shares was adjusted and reflects the effects of the reverse stock split for all periods presented.

The company does not have any instruments with a dilutive effect.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

21. Income tax and social contribution

	Parent company		Consolidated	
	2022	2021	2022	2021
Profit (loss) before taxes	8,177	93,903	7,894	94,306
Expense related to income tax and social contribution - Nominal rate of 34%	(2,780)	(31,927)	(2,684)	(32,064)
Additions / (exclusions):				
Non-deductible expenses	(1,180)	(2,088)	(1,180)	(2,088)
Appropriation of deferred revenues (MAXBr)	68	700	68	700
Equity method	207	(17)	-	-
Tax Benefits ((SUDENE/PAT)	74	5,198	74	5,198
Tax benefit of the presumed ICMS credit – current year	6,311	6,619	6,311	6,619
Tax benefit of the presumed ICMS credit - prior year (a)	10,654	-	10,654	-
Other	1,638	66	2,032	(217)
Total income tax and social contribution	14,992	(21,449)	15,275	(21,852)
Current income tax and current social contribution	6,102	(23,658)	6,187	(24,061)
Deferred income tax and deferred social contribution	8,890	2,209	9,088	2,209
Effective income tax and social contribution rate	183.34%	-22.84%	193.50%	-23.17%

(a) Effect of recognizing extemporaneous income tax and social security contribution credits related to prior calendar years, due to the exclusion of the subsidy from the calculation base, as detailed in Note 20.5. These credits were recognized by the Company taking into account all applicable case law, substantiated by the opinion of its external legal advisors.

22. Related-party transactions and balances

Compensation of the Management and related parties

The compensation paid by the Company to its Board of Directors and Statutory Board of Executive Officers was recorded under general and administrative expenses.

	Parent company and Consolidated	
	2022	2021
Compensation of the executive officers and directors (fixed)	3,049	3,653
Performance bonus (variable amount)	-	2,180
Share-based payment	-	7,253
Total	3,049	13,086

For the fiscal year ended December 31, 2022, our Directors and Executive Officers did not receive any variable compensation, including pension, retirement or similar benefits.

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

22. Related-party transactions and balances--Continued

Compensation of the Management and related parties--Continued

The related-party balances arise from transactions with entities related to the Company. These transactions, as listed below, were carried out at prices and conditions negotiated between the parties:

	Parent Company	
	2022	2021
Assets		
Related-party loan – Colombia (a)	10,816	4,299
Investment - Panama and Colombia (AFAC)	1,566	6,067
Total	12,382	10,366
	2022	2021
Liabilities		
Accommodation party compensation (b)	125	232
Total	125	232
	2022	2021
Result		
Accommodation party compensation (b)	1,797	3,979
Total	1,797	3,979

(a) Related-party loan agreement with the subsidiary Colombia.

(b) Agreement by executive officers Vanderlei Rigatieri and Francisco Sergio Day Toledo, acting as guarantors/accommodation parties of obligations assumed by the Company. The Director Sergio Day Toledo was a statutory executive officer until July 2022.

In addition to the transactions listed above, the Company has:

- (a) Lease agreement with related parties entered into with PDV Industrialização de Equipamentos Eletrônicos Ltda. (company whose director Vanderlei Rigatieri holds 90% of the capital).

Type	2022			2021		
	Assets	Liabilities	Result	Assets	Liabilities	Result
Property lease	1,521	1,521	694	147	150	510
Forklift rental	-	-	132	252	260	206
	1,521	1,521	826	399	410	716

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

22. Related-party transactions and balances--Continued

Compensation of the Management and related parties--Continued

Leases do not have a contractual provision for the application of interest; they are adjusted only during renewals or through amendments. The transactions are carried out under conditions agreed upon by the parties. The agreements are covered by the IFRS 16 standard and, therefore, the amounts are presented under "Leases" and "Right of use" (Note 18). The allowance for doubtful accounts is not consolidated into the Company.

- (b) Product purchase and sale transactions and cash advance between Livotech and its subsidiary Livotech Panama:

Compensation of the Management and related parties--Continued

- (c) Product purchase transactions between Livotech and its subsidiary Livotech Panama:

	2022	2021
Assets		
Advances to suppliers	-	-
Liabilities		
Suppliers	676	6,244

The amounts above are presented net in the financial statements.

23. Revenue from contracts with customers

	Parent company		Consolidated	
	2022	2021	2022	2021
Gross sales	936,176	952,395	965,272	975,509
Gross rental revenue	293,447	288,930	293,447	288,930
Gross revenue	1,229,623	1,241,325	1,258,719	1,264,439
(-) Tax on sales revenue	(155,270)	(175,481)	(155,510)	(175,682)
(-) Returns	(32,335)	(22,102)	(32,304)	(22,175)
Net revenue	1,042,018	1,043,742	1,070,905	1,066,582

24. Costs of sales and services

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

	Parent company		Consolidated	
	2022	2021	2022	2021
Cost of goods sold	(604,202)	(595,728)	(627,012)	(613,365)
Depreciation costs	(162,321)	(128,223)	(162,321)	(128,223)
Import and freight costs	(24,367)	(24,053)	(24,390)	(24,053)
Personnel costs	(3,046)	(3,124)	(3,046)	(3,124)
Provision for inventory obsolescence	(1,868)	877	(1,846)	877
Services provided by legal entities	(2,494)	(1,603)	(2,494)	(1,603)
Other costs	(2,139)	(2,231)	(2,139)	(2,231)
Total costs	(800,437)	(754,085)	(823,248)	(771,722)

25. Expenses by nature

	Parent company		Consolidated	
	2022	2021	2022	2021
Personnel	(50,695)	(57,723)	(52,933)	(58,808)
Freight and warehousing	(29,542)	(23,701)	(30,710)	(24,177)
Allowance for doubtful accounts	(27,599)	(25,945)	(27,642)	(25,949)
Marketing and advertising	(2,286)	(1,476)	(2,687)	(1,476)
Commercial representation	(17,742)	(19,229)	(18,165)	(19,500)
Travel and accommodation	(2,036)	(1,238)	(2,067)	(1,238)
Tax expenses	(8,095)	2,660	(8,151)	2,660
Services provided by legal entities	(16,631)	(20,628)	(17,536)	(21,318)
Depreciation and amortization	(6,142)	(9,126)	(6,186)	(9,159)
Conservation and repair	(1,571)	(2,241)	(1,571)	(2,241)
Consumption expenses	(4,156)	(2,932)	(4,458)	(4,522)
PIS and COFINS credits	14,414	8,547	14,414	8,547
Other operating income/expenses	(1,177)	(3,180)	(1,177)	(3,180)
	(153,258)	(156,212)	(158,869)	(160,361)
Personnel expenses	(50,695)	(57,723)	(52,933)	(58,808)
Selling expenses	(79,205)	(71,589)	(81,271)	(72,340)
Administrative expenses	(16,454)	(27,094)	(17,459)	(27,817)
Other operating expenses	(6,904)	194	(7,206)	(1,396)

26. Financial result

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

	Parent company		Consolidated	
	2022	2021	2022	2021
Financial income	164,078	94,768	164,590	94,846
Exchange rate variation	60,766	36,287	61,134	36,352
Fair value adjustments of derivative instruments	31,751	33,515	31,751	33,515
Interest income	31,485	12,175	31,485	12,188
Returns on short-term investments	35,079	11,192	35,080	11,192
Present value adjustment	2,099	-	2,099	-
Other financial income	2,898	1,599	3,041	1,599
Financial expenses	(243,615)	(134,359)	(245,484)	(135,039)
Exchange rate variation	(60,302)	(41,476)	(61,492)	(41,479)
Fair value adjustments of derivative instruments	(60,148)	(20,468)	(60,148)	(20,468)
Interest on loans, borrowings and debentures	(99,966)	(52,901)	(99,966)	(52,901)
Compensation for accommodation parties	(1,797)	(3,979)	(1,797)	(3,979)
Discounts granted	(247)	(419)	(247)	(420)
IOF and Income Tax on borrowings	(2,015)	(2,253)	(2,015)	(2,253)
Bank expenses	(1,434)	(1,740)	(1,869)	(2,392)
Present value adjustment - trade receivables	(17,168)	(8,344)	(17,168)	(8,344)
Other financial expenses	(538)	(2,779)	(782)	(2,803)
Financial result	(79,537)	(39,591)	(80,894)	(40,193)

26. Risk management and measurement of financial instruments

a) Considerations on risks

Credit risk

Credit risk refers to the possibility that a counterparty in a transaction may not meet an obligation provided for in a financial instrument or customer contract, potentially resulting in financial loss. The Company is exposed to credit risk through its operating activities (mainly concerning accounts receivable and credit notes) and its financing activities, which include deposits in banks and financial institutions.

Liquidity risk

The risk management policy involves maintaining a secure level of cash availability or access to immediate resources. The Company's objective is to maintain the balance between the continuity of resources and the flexibility in current accounts available for immediate use through secured accounts, derivative bank loans, and related-party loans.

26. Risk management and measurement of financial instruments --Continued

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

a) Considerations on risks -- Continued

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument's future cash flows may fluctuate due to variations in market interest rates. The Company's exposure to the risk of fluctuations in market interest rates primarily refers to long-term liabilities that are subject to variable interest rates. The Company has loans and borrowings from major financial institutions to address its cash requirements for investments and growth. As a result of these transactions, the Company is exposed to the risk of debts linked to the CDI rate.

Exchange risk

Exchange rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in exchange rates. The Company's exposure to the risk of fluctuations in exchange rates primarily refers to its operating activities (when revenues or expenses are denominated in a currency other than the Company's functional currency). The Company manages its exchange risk through merchandise purchase transactions with foreign suppliers, which are expected to take place within a 12-month period, from the initial purchase to the settlement of the supplier's invoice.

b) Fair value measurement

Fair value is the price that would be received for the sale of an assets or that would be paid for the transfer of a liability in an arm's length transaction on the measurement date. The fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liability will occur:

- In the principal market for the asset or liability.
- In the absence of a principal market, in the most advantageous market for the asset or the liability. The main or most advantageous market must be accessible by the Company.

The fair value of an asset or liability is measured based on the assumptions that market participants would use when pricing an asset or liability, assuming that market participants act in their best economic interest. The fair value measurement of a non-financial asset takes into account the ability of the market participant to generate economic benefits through the best possible use of the asset or by selling it to another market participant who would use the asset in its highest and best use.

The Company uses valuation techniques appropriate in the circumstances and for which there is sufficient data available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

which fair value is measured or presented in the financial statements are categorized within the fair value hierarchy described below, based on the lowest level inputs that are significant for the fair value measurement as a whole:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 - Valuation techniques for which the lowest level and most significant input for measuring fair value is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level and most significant input for measuring fair value is not available.

For assets and liabilities recognized in the financial statements on a recurring basis, the Company assesses whether there have been transfers between levels of the hierarchy by re-evaluating the categorization (based on the lowest level of significant information for the overall fair value measurement) at the end of each reporting period. When applicable, external evaluators will be involved in the assessment of significant assets and liabilities.

The involvement of external evaluators is decided annually by management, following discussions and subsequent approval from it. The selection criteria encompass market knowledge, reputation, independence and the verification of compliance with professional standards. Normally, evaluators are rotated every three years. Management decides, after discussion with the Company's external evaluators, which assessment techniques and information are used in each case.

On each reporting date, management analyzes the changes in the amounts of assets and liabilities that need to be measured or re-evaluated in accordance with the Company's accounting policies. For the purposes of this analysis, the management verifies the key information used in the most recent evaluation by cross-referencing the details in the evaluation calculations with the contracts and other pertinent documents.

The management, in collaboration with the Company's external evaluators, also compares each change in the fair value of assets and liabilities with the respective external sources to determine if the change is acceptable.

For the purposes of fair value disclosures, the Company has determined types of assets and liabilities based on the nature, characteristics and risks of the asset or liability, as well as the level of the fair value hierarchy, as explained above. The corresponding fair value disclosures of financial instruments and non-financial assets, whether measured at fair value or at the time of fair value disclosure, are summarized in the respective notes.

The main asset and liability financial instruments at December 31, 2022, as well as their respective market values, are disclosed below:

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

26. Risk management and measurement of financial instruments--Continued

b) Fair value measurement--Continued

			Carrying amount		Fair value	
Fair value hierarchy	Classification		2022	2021	2022	2021
Assets (current and non-current)						
Cash and cash equivalents	Level 1	Amortized cost	152,470	38,465	152,470	38,465
Short-term investments	Level 1	Amortized cost	152,170	298,522	152,170	298,522
Trade receivables, net	Level 2	Amortized cost	351,256	259,410	351,256	259,410
Derivative financial instruments	Level 2	Fair value through profit or loss	581	15,571	581	15,571
Total			656,477	611,968	656,477	611,968
Liabilities (current and non-current)						
Suppliers	Level 2	Amortized cost	142,112	199,444	142,112	199,444
Loans and borrowings	Level 2	Amortized cost	785,887	596,536	785,887	596,536
Derivative financial instruments	Level 2	Fair value through profit or loss	8,181	7,175	8,181	7,175
Leases	Level 2	Amortized cost	1,875	3,072	1,875	3,072
Related parties	Level 2	Amortized cost	125	232	125	232
Other liabilities	Level 2	Amortized cost	40,149	33,488	40,149	33,488
Total			978,329	839,947	978,329	839,947

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

27. Risk management and measurement of financial instruments--Continued

b) Fair value measurement--Continued

The objectives of the Company and its subsidiary in managing their capital are to safeguard their ability to continue operations, provide returns to shareholders, ensure protection for other stakeholders and maintain an appropriate capital structure.

There were no changes to objectives, policies or processes during the fiscal years ended December 31, 2022.

b.1) *Foreign currency risk exposure*

To reduce cash flow volatility, derivative (swap) transactions were carried out. They consist of converting the cash flows of certain Brazilian real-denominated debts—related to loan and borrowing agreements—into US dollars, with rates primarily indexed to the CDI. Essentially, a swap entails an agreement between two parties to exchange the risk associated with an asset (creditor) or liability (debtor) position at a future date, according to predetermined criteria. In these Swap transactions, the Company pays fixed rates in US dollars and receives payments in Brazilian reais, which are linked to the interest rates of the hedged debts. The average exchange rate for the US dollar at December 31, 2022, was obtained from Bloomberg and was R\$5.2860.

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Contracts	Reference value	2022		Net position
		Adjustment receivable	Fair value Adjustment payable	
SWAP	184,130	78,948	(86,548)	(7,600)
		Asset		581
		Liability		(8,181)
Contracts	Reference value	2021		Net position
		Adjustment receivable	Fair value Adjustment payable	
SWAP	184,130	162,116	(153,720)	8,396
		Asset		10,971
		Liability		(2,575)

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

26. Risk management and measurement of financial instruments--Continued

c) Changes in liabilities and equity from borrowing activities

	Consolidated							
	At December 31, 2021	Payment of principal	Payment of interest	Exchange variation and/or interest expenses	Charges	New debt contracts	Minimum mandatory dividend	At December 31, 2022
Loans and borrowings	596,536	(299,126)	(84,972)	(14,431)	99,872	488,008	-	785,887
Dividends payable	11,252	(11,252)	-	-	-	-	862	862
Share capital	313,298	-	-	-	-	-	-	317,891

d) Sensitivity analysis

In order to assess the sensitivity of the indexer in foreign currency checking accounts, cash equivalents, loans and borrowings, as well as operations with interest rate risk classified under cash equivalents, debentures and loans, to which the Company was exposed as of the reporting date December 31, 2022, three different scenarios were established.

Based on projections released by financial institutions, including the Central Bank of Brazil, the foreign currency, CDI and LIBOR projections for each analyzed transaction were obtained and defined as the probable scenario (scenario 1). From this scenario, variations of 25% (scenario 2) and 50% (scenario 3) were calculated. For each scenario, the new accounting balance, taking into account the stress rate, is presented below:

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued

December 31, 2022

(In thousands of reais)

26. Risk management and measurement of financial instruments--Continued

Consolidated (Amounts in R\$/thousand)		Projection - financial income				
Financial investments - Consolidated	Interest rate	2022	Scenario I	Scenario II	Scenario III	Scenario IV
			-50%	-25%	25%	50%
Cash and cash equivalents and short-term investments	CDI	412,897	5,677	8,516	14,193	17,032
Loans, borrowings and debentures:						
Banco do Brasil	CDI	(17,024)	(1,839)	(2,758)	(4,596)	(5,516)
Banco BTG	CDI	(119,797)	(5,685)	(8,527)	(14,212)	(17,055)
Banco CCB	CDI	(13,048)	(1,499)	(2,248)	(3,747)	(4,497)
Banco CEF S.A	CDI	(15,968)	(1,824)	(2,735)	(4,559)	(5,471)
Banco Itaú Unibanco	CDI	(491,982)	(570)	(855)	(1,425)	(1,710)
Banco Bradesco	CDI	(23,858)	(236)	(354)	(590)	(709)
Banco Santander	CDI	(1,614)	(449)	(673)	(1,122)	(1,347)
Banco Votorantim	CDI	(41,633)	(5,199)	(7,798)	(12,997)	(15,596)
Banco ABC Brasil	CDI	(17,404)	(2,757)	(4,135)	(6,891)	(8,270)
Banco BBM Bocom	CDI	(17,913)	(2,050)	(3,075)	(5,126)	(6,151)
Banco Citi	CDI	(25,646)	(2,391)	(3,586)	(5,977)	(7,172)
SWAP - Banco ABC	Euro / CDI	(2,728)	(1,402)	(2,102)	(3,504)	(4,205)
SWAP - Bocom	US dollar / CDI	(261)	(134)	(202)	(336)	(403)
SWAP - Votorantim	US dollar / CDI	-3,302	-1,696	-2,544	(4,240)	(5,088)
SWAP - Bradesco	US dollar / CDI	(1,309)	(672)	(1,009)	(1,681)	(2,017)
Subtotal		(793,487)	(28,403)	(42,601)	(71,003)	(85,207)
Scenarios of indexer variations						
(i) US dollar		5.22	2.68	4.02	6.70	8.04
(ii) Euro		5.57	2.86	4.29	7.15	8.58
(iii) CDI		0.12	0.06	0.10	0.16	0.19
(iv) LIBOR		0.05	0.02	0.04	0.06	0.07

(*) Foreign currency loan operations are hedged through currency swaps contracted with the same banks.

Sources: Sources: (i) (ii) US dollar/Euro - PTAX Central Bank of Brazil; (iii) CDI - Central Bank of Brazil; (iv) LIBOR.

e) Capital management

The primary objectives of the Company in managing its capital are to safeguard its ability to continue operations, thereby providing returns to shareholders and benefits to stakeholders. Additionally, the Company aims to enhance cash management to ensure the availability of credit lines, which is crucial for maintaining liquidity and achieving the lowest possible cost of

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

funding, whether through equity or external financing.

The Company monitors the capital structure based on the financial leverage ratio, corresponding to net debt divided by total capital, and adjusts it considering changes in economic conditions, as shown below:

	Consolidated	
	2022	2021
Loans, borrowings and debentures	785,887	596,536
(-) Cash and cash equivalents	(152,470)	(38,465)
(-) Short-term investment	(152,170)	(298,522)
(+/-) Derivative financial instruments	7,600	(8,396)
Net debt	488,847	251,153
Equity	647,794	629,470
Total capital (equity and net debt)	1,136,641	880,623
Financial leverage ratio %	43%	29%

28. Segment information

Given the significant growth of the Solar segment and its substantial contribution to the Company's overall figures, Management found it essential to present its results separately. This approach aims to enhance the monitoring of outcomes and facilitate decision-making related to the segment. To this end, the former Corporate segment was separated into two new segments: Solar and Enterprise.

Thus, Management established the strategic business model, aligning the Company's decisions across the following segments: Telecom, Solar and Enterprise.

The segments have different service dynamics, types of products, and business models.

The Telecom segment includes the fixed broadband internet market, including fiber optic products and FTTH (fiber to the home), data networks, Wi-Fi, data center infrastructure, and more.

The Solar Power segment includes solutions for distributed solar energy generation, including solar panel products, inverters and lithium batteries.

The Enterprise segment includes the B2B consumer market (companies), including electronic security products, cybersecurity, building and residential automation, professional audio and video, LED panels, and more.

27. Segment information--Continued

Livotech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

Consolidated segment results

	Telecom	Solar	Enterprise	Total
	2022	2022	2022	2022
Net revenue	467,224	347,888	255,793	1,070,905
Cost of sales	(339,317)	(304,531)	(179,400)	(823,248)
Gross income	127,907	43,357	76,393	247,657

Consolidated segment equity

	Telecom	Solar	Enterprise	Total
	2022	2022	2022	2022
Total assets	1,039,811	200,645	398,167	1,638,623
Total liabilities + equity	1,144,826	188,109	305,688	1,638,623

a) Information on customer concentration

For the period ended December 31, 2022, the Company does not have any customer that individually accounts for 10% or more of its consolidated sales. Analyzing the segments individually, we have the following: (i) in the Telecom segment, one customer accounted for 19.7% of the segment's total (9.7% of the consolidated result); (ii) in the Solar Power segment, one customer accounted for 1.9% of the segment's total (0.5% of the consolidated result); and (iii) in the Enterprise segment, one customer accounted for 8.5% of the segment's total (2.0% of the consolidated result).

b) Geographic information

	Subsidiaries in the country		Subsidiaries abroad	
	2022	2021	2022	2021
Net revenue	1,042,018	1,043,742	28,887	22,840
Non-current assets	719,043	607,639	406	205

29. Insurance coverage

The Company maintains insurance coverage in amounts deemed sufficient by Management to cover risks associated with its assets and/or liabilities. The insurance coverage includes the manufacturing facility located in the Ilhéus Industrial Complex and the commercial branch situated in São Paulo city.

Livetech da Bahia Industria e Comércio S.A.

Notes to the individual and consolidated financial statements--Continued
December 31, 2022
(In thousands of reais)

Coverage at December 31, 2022 is presented below:

	Parent company and Consolidated	
	2022	2021
Pecuniary loss	141,689	148,792
Civil liability	25,242	25,320
Other	200	577