



**Financial &  
Economic  
Performance  
1Q23**



## Message from the Administration

During the 1st quarter of 2023, we had some significant events for the Company.

The first of these was the end of the Judicial Reorganization decreed on March 14, 2023. The reorganization request was filed on May 25, 2015, so that the effort to restructure the company's liabilities and operations lasted almost 8 years. It is expected, naturally, that the end of the process will have a positive impact on the company's relationship with its customers, suppliers, investors and financiers, in view of the limitations that the company's situation imposed on these partners.

In addition to opening horizons in commercial relations, the end of the judicial reorganization will also provide the necessary environment for the company to advance on other fronts relevant to its recovery, in particular access to the capital market.

On this front, we had a second important event. An investment agreement was announced and implemented with BPS Capital Gestão de Ativos S.A ("BPS"), pursuant to material facts dated February 7 and March 24, 2023. Under the agreement, BPS committed to an investment of R\$ 10 million reais in cash through a private offering of mandatorily convertible debentures combined with the issuance of Subscription Warrants that allow the capitalization of credits.

Within the scope of the offer, BPS and other investors subscribed R\$ 10.1 million in debentures, which will be entitled to 17,735,600 Subscription Warrants. Each bonus gives the right to subscribe for one share with credits at 333.33% of the prevailing market price (average of 10 trading sessions) subject to a floor of R\$4.03 per share. This implies that at the floor price, up to BRL 238 million in debt can be converted into capital, which would provide the converted credits with a maximum participation of 36.4% of the capital (considering the share capital at the end of 1Q23 of 31,040,244 shares). If the stock price is higher than the floor, a larger amount of debt can be reached for conversion, but in this scenario, the same amount of debt would have a smaller share of equity.

The transaction brings two benefits to the Company: the immediate injection of new resources to reinforce the capital structure and the possibility of a significant reduction in medium-term debt, through the exercise of the Subscription Warrants.

During 2022, we lived with operational restrictions imposed by the Pandemic. In particular, the imposition of draconian lockdowns in important parts of China has produced significant disruptions and delays in our production process. The effects of these delays have been persistent, and affected our revenues in the 1st quarter of 2023. In the same period of the previous year, we had a better performance, due to deliveries of a supply contract for an FPSO under construction.

Although the Net Revenue for the period has reduced in relation to the previous quarter and the same quarter of last year, we had an improvement in the Gross Margin compared, as the profitability recomposition occurs, which was reduced due to the recent inflationary surge. This improvement in sales profitability allowed the Adjusted EBITDA of Products to remain positive, despite the reduction in volumes.

Our firm order backlog ended 1Q23 at R\$71 million, and the balance of contracts with no purchase obligation was R\$85 million. On May 4, 2023, subsequent to the end of the year, the Company entered into contractual amendments with Petrobras extending for one year contracts (without purchase obligation) that would expire that same month, in the amount of R\$ 45.4 million.

Rafael Gorenstein

CEO and IRO

## Economic-Financial Performance

Lupatech mainly manufactures (Products segment) industrial valves; valves for oil and gas; ropes for deepwater mooring of oil platforms, naval use and cargo lifting; artifacts of composite materials, mainly electricity poles and tubes for lining oil pipelines.

The Company used to operate in the oilfield services business (Services segment), of which remain various assets in the process of liquidation and several legacy matters associated with it.

### Net Revenue

Net Revenue (R\$ thd)	1Q22	1Q23	4Q22	1Q23
<b>Products</b>	<b>29,718</b>	<b>21,324</b>	<b>25,258</b>	<b>21,324</b>
Valves	29,456	20,623	22,489	20,623
Ropes and Composites	262	701	2,769	701
<b>Services</b>	<b>396</b>	<b>68</b>	<b>267</b>	<b>68</b>
Oilfield Services	396	68	267	68
<b>Total</b>	<b>30,114</b>	<b>21,392</b>	<b>25,525</b>	<b>21,392</b>

Consolidated net revenue reached R\$ 21.4 million in 1Q23.

### Valves

The retraction observed in net revenue in 1Q23 compared to the comparative periods is mainly due to the Valves business due to the logistical difficulties faced, which jeopardized the production plan.

### Services

Transactions carried out in this segment result from the liquidation of inventory balances and other activities related to plants that were demobilized, i.e., they do not arise from ongoing operations.

### Order Backlog

As of March 31, 2023, the Company's order backlog in Brazil totaled R\$ 71.1 million. On the same date, the Company had a balance of R\$ 85 million in supply contracts, with no purchase obligation. (Note: the figures do not include bids for which the respective orders or contracts have not yet been issued).

### Gross Profit and Gross Margin

Gross Profit (R\$ thd)	1Q22	1Q23	4Q22	1Q23
<b>Products</b>	<b>6,729</b>	<b>5,205</b>	<b>5,197</b>	<b>5,205</b>
<i>Gross Margin - Products</i>	22.6%	24.4%	20.6%	24.4%
<b>Services</b>	<b>25</b>	<b>15</b>	<b>(10)</b>	<b>15</b>
<i>Gross Margin - Services</i>	n/a	n/a	n/a	n/a
<b>Total</b>	<b>6,754</b>	<b>5,220</b>	<b>5,187</b>	<b>5,220</b>
<i>Gross Margin - Total</i>	22.4%	24.4%	20.3%	24.4%
<b>Depreciation</b>	<b>1,307</b>	<b>1,301</b>	<b>5,392</b>	<b>1,301</b>
Depreciation Products	988	884	930	884
Depreciation Services	319	417	4,462	417
<b>Gross Profit without depreciation</b>	<b>8,061</b>	<b>6,521</b>	<b>10,578</b>	<b>6,521</b>
<b>Gross Profit without depreciation Products</b>	<b>7,717</b>	<b>6,089</b>	<b>6,128</b>	<b>6,089</b>

\*n/a - not applied

## Products

Comparing 1Q23 with 4Q22 and 1Q22, an important improvement in margins can be seen, as a result of the recomposition of margins made possible by the inflationary slowdown.

## Services

The results of the services segment do not come from production activities, only from the sale of remaining inventories.

## **Expenses**

<b>Expenses (R\$ thd)</b>	<b>1Q22</b>	<b>1Q23</b>	<b>4Q22</b>	<b>1Q23</b>
<b>Total Sales Expenses</b>	<b>2,486</b>	<b>2,470</b>	<b>2,579</b>	<b>2,470</b>
Sales Expenses - Products	2,486	2,470	2,579	2,470
Sales Expenses - Services	-	-	-	-
<b>Total Administrative Expenses</b>	<b>5,523</b>	<b>5,554</b>	<b>5,789</b>	<b>5,554</b>
Administrative Expenses - Products	2,741	3,071	3,091	3,071
Administrative Expenses - Services	2,782	2,483	2,698	2,483
<b>Management Fees</b>	<b>872</b>	<b>898</b>	<b>1,335</b>	<b>898</b>
<b>Total Expenses</b>	<b>8,881</b>	<b>8,922</b>	<b>9,703</b>	<b>8,922</b>

## Sales Expenses

The Company's commercial expenses in 1Q23 remained at levels similar to the comparative periods.

## Administrative Expense

In 1Q23, the Company recognized R\$5.6 million in administrative expenses, levels similar to 1Q22 and 4% lower than 4Q22.

## Management Compensation

The amount presented is composed of fixed and variable remuneration.

## **Other Revenues and Operational (Expenses)**

<b>Other Operating (Expenses) (R\$ thd)</b>	<b>1Q22</b>	<b>1Q23</b>	<b>4Q22</b>	<b>1Q23</b>
Products	95	(75)	(4,722)	(75)
Expenses with Idleness - Products	(2,953)	(5,547)	(5,870)	(5,547)
Services	406	3,899	(20,888)	3,899
Expenses with Idleness - Services	(19)	-	-	-
<b>Total</b>	<b>(2,471)</b>	<b>(1,723)</b>	<b>(31,480)</b>	<b>(1,723)</b>

In 1Q23, R\$ 6.2 million was booked in "Other Operating Income" against R\$ 7.9 million in "Other Operating Expenses", totaling a net effect of R\$ 1.7 million. Highlighting the following factors:

- I. R\$ 5,5 millions of expenses with idle production;
- II. R\$ 0.6 thousand corresponding to the negative net effect arising from the recognition of taxes and adjustments to credit balances with suppliers;
- III. R\$ 0.5 thousand for recognizing the depreciation of real estate as investment property to comply with accounting standards for business combinations;
- IV. R\$ 0.3 thousand with inventory obsolescence;
- V. R\$ 5.2 million corresponds to the positive net effect from updates of contingent liabilities according to the analysis of the legal advisors;

## Financial Result

Financial Results (R\$ thd)	1Q22	1Q23	4Q22	1Q23
<b>Financial Revenue*</b>	2,498	2,393	3,139	2,393
<b>Financial Expense*</b>	(19,620)	(12,225)	(14,448)	(12,225)
<b>Net Financial Results*</b>	(17,122)	(9,832)	(11,309)	(9,832)
<b>Net Exchange Variance</b>	33,171	5,103	7,298	5,103
<b>Net Financial Results - Total</b>	16,049	(4,729)	(4,011)	(4,729)

\* Excluding Exchange Variance

The Company's total net financial result in 1Q23 was negative by R\$ 4.7 million, mainly due to the updates of charges on taxes, suppliers, loans and adjustment to present value referring to the debt under Judicial Reorganization. In addition, the 1Q23 result, compared to 1Q22, was impacted by the devaluation of the Real against the US Dollar.

It is important to remember that exchange rate variations are predominantly the result of their incidence on balances between companies of the group abroad. The exchange rate oscillation affects in the opposite direction the translation into Brazilian Reais (BRL) of the equity of these entities, so that there are exchange rate variations recorded directly in the company's equity, without going through profit and loss accounts.

## Adjusted EBITDA from Operations

EBITDA Adjusted (R\$ thd)	1Q22	1Q23	4Q22	1Q23
<b>Products</b>	2,113	649	(150)	649
Margin	7.1%	3.0%	-0.6%	3.0%
<b>Services</b>	(2,413)	(1,945)	(2,085)	(1,945)
Margin	n/a	n/a	n/a	n/a
<b>Total</b>	(300)	(1,296)	(2,235)	(1,296)
<b>Margin</b>	-1.0%	-6.1%	-8.8%	-6.1%

Adjusted EBITDA from Products in the comparison of 1Q23 with 1Q22 decreased, mainly due to the decrease in Net Revenue. Already, compared to 4Q22, Adjusted EBITDA from Products was positive and reflecting an improvement in the growth of the margins earned.

Adjusted EBITDA from Services comprises legacy management costs.

Adjusted Ebitda Reconciliation (R\$ thd)	1Q22	1Q23	4Q22	1Q23
Gross Profit	6,754	5,220	5,187	5,220
SG&A	(8,009)	(8,024)	(8,368)	(8,024)
Management Compensation	(872)	(898)	(1,335)	(898)
Depreciation and Amortization	1,307	1,301	5,392	1,301
Other Operating Expenses	(2,470)	(1,723)	(31,480)	(1,723)
<b>Ebitda</b>	<b>(3,290)</b>	<b>(4,124)</b>	<b>(30,604)</b>	<b>(4,124)</b>
Result of disposal or write-off of assets	325	(93)	16,079	(93)
Provisions for Legal Proceedings	(600)	(5,195)	(337)	(5,195)
Idle expenses	2,637	5,547	5,870	5,547
Expenses with Restructuring and Extraordinary Expenses	628	2,569	6,757	2,569
<b>Adjusted EBITDA</b>	<b>(300)</b>	<b>(1,296)</b>	<b>(2,235)</b>	<b>(1,296)</b>



Reconciliation of Adjusted Ebitda (R\$ thd)	1Q23		
	Products	Services	Total
Gross Profit	5,205	15	5,220
SG&A	(5,541)	(2,483)	(8,024)
Management Compensation	(629)	(269)	(898)
Depreciation and Amortization	884	417	1,301
Other Operating Expenses	(5,622)	3,899	(1,723)
<b>Ebitda</b>	<b>(5,703)</b>	<b>1,579</b>	<b>(4,124)</b>
Result of disposal or write-off of assets	(98)	5	(93)
Provisions for Legal Proceedings	(162)	(5,033)	(5,195)
Idle expenses	5,547	-	5,547
Restructuring Process and Extraordinary Expenses	1,065	1,504	2,569
<b>Adjusted EBITDA</b>	<b>649</b>	<b>(1,945)</b>	<b>(1,296)</b>

Non-recurring expenses in 1Q23 refer mainly to the updating of contingent processes, production idleness and extraordinary expenses related to judicial recovery.

### Net Result

Net Result (R\$ thd)	1Q22	1Q23	4Q22	1Q23
Result Before Income Tax and Social Contribution	11,452	(10,154)	(40,007)	(10,154)
Income Tax and Social Contribution - Current	(6)	(1)	6	(1)
Income Tax and Social Contribution - Deferred	3,470	75	121,690	75
<b>Net Profit for the Period</b>	<b>14,916</b>	<b>(10,080)</b>	<b>81,689</b>	<b>(10,080)</b>
Profit (Loss) per 1,000 Shares	1.15	(0.32)	4.610	(0.32)

Contributing to the negative result in 1Q23, in addition to current revenues and expenses, was the adjustment to present value referring to the debt under Judicial Reorganization and the net effect of other operating revenues and expenses.

### Working Capital

Working Capital (R\$ thd)	4Q22	1Q23
Accounts Receivable	27,128	19,202
Inventories	39,247	36,933
Advances of suppliers	6,703	4,106
Recoverable taxes	51,160	44,603
Other Accounts Receivable	4,549	4,574
<b>Total Asset</b>	<b>128,787</b>	<b>109,418</b>
Suppliers	15,479	15,736
Advances from Customers	8,037	8,272
Taxes payable	25,977	24,101
Other Accounts Payable/Other Obligations	7,156	8,028
Payroll and charges	5,603	5,530
<b>Total Liabilities</b>	<b>62,252</b>	<b>61,667</b>
<b>Working Capital Employed</b>	<b>66,535</b>	<b>47,751</b>
Working Capital Variation	(53,675)	(18,784)

When comparing 1Q23 with 4Q22, there is a reduction in working capital employed. This reduction is mainly due to: (i) variation in accounts receivable due to the drop in sales, (ii) reduction in inventories and advances from suppliers, and (iii) reduction in recoverable taxes resulting from the offset of tax credits.

## Cash and Financial Investments

Cash and cash equivalents (R\$ thd)	4Q22	1Q23
Cash and Cash Equivalents	13,171	3,881
<b>Total</b>	<b>13,171</b>	<b>3,881</b>

The Company's consolidated cash position and financial investments in 1Q23 reached R\$ 3.9 million, representing a reduction that was accompanied by an equivalent reduction in short-term debt.

## Indebtedness

Debts (R\$ thd)	4Q22	1Q23
<b>Short Term</b>	<b>54,308</b>	<b>39,897</b>
Credits subject to Judicial Recovery	4,331	4,326
Credits not subject to Judicial Recovery	49,977	35,571
<b>Long Term</b>	<b>101,346</b>	<b>103,871</b>
Credits subject to Judicial Recovery	95,526	97,197
Credits not subject to Judicial Recovery	5,820	6,674
<b>Total Debts</b>	<b>155,654</b>	<b>143,768</b>
Cash and Cash Equivalents	13,171	3,881
<b>Net Debt</b>	<b>142,483</b>	<b>139,887</b>

The reduction in financial debt in the comparison between 1Q23 and 4Q22 is mainly associated with the payment of loans and financing with financial institutions.

## Investment

Investments (R\$ thd)	4Q22	1Q23
Others Investments	21,942	21,942
Fixed Assets	138,386	136,989
Intangible Assets	83,749	83,510
<b>Total</b>	<b>244,077</b>	<b>242,441</b>

The variation presented in investment balances mainly refers to the recognition of depreciation, amortization, and balance sheet conversion effect on fixed assets of subsidiaries abroad.

## Annexes

### Annex I - Income Statements (R\$ Thousand)

	1Q22	1Q23
Net Revenue From Sales	30,114	21,392
Cost of Goods and Services Sold	(23,360)	(16,172)
Gross Profit	6,754	5,220
Operating Income/Expenses	(11,351)	(10,645)
Selling	(2,486)	(2,470)
General and Administrative	(5,523)	(5,554)
Management Fees	(872)	(898)
Other Operation Income (Expenses)	(2,470)	(1,723)
Net Financial Result	16,049	(4,729)
Financial Income	2,498	2,393
Financial Expenses	(19,620)	(12,225)
Net Exchange Variance	33,171	5,103
<b>Loss Before Income Tax and Social Contribution</b>	<b>11,452</b>	<b>(10,154)</b>
Provision Income Tax and Social Contribution - Current	(6)	(1)
Provision Income Tax and Social Contribution - Deferred	3,470	75
<b>Gain (Loss) for the Period</b>	<b>14,916</b>	<b>(10,080)</b>



**Annex II – Reconciliation of EBITDA Adjusted (R\$ Thousand)**

	1Q22	1Q23
<u>Adjusted EBITDA from Operations</u>	(300)	(1,296)
Expenses with Restructuring and Extraordinary Expenses	(821)	(2,569)
Provisions for Losses, Impairment and Net Result on Disposal of Assets	275	5,288
<u>EBITDA from Operations</u>	(846)	1,423
Depreciation and amortization	(1,114)	(1,301)
Net Financial Result	16,049	(4,729)
Income Tax and Social Contribution - Current and Deferred	3,464	74
<u>Idleness Expenses</u>	(2,637)	(5,547)
<u>Net Income (Loss)</u>	14,916	(10,080)

**Annex III – Consolidated Balance Sheets (R\$ Thousand)**

	<u>2022</u>	<u>1Q23</u>
<b>Total Asset</b>	<b>573,102</b>	<b>546,421</b>
<b>Current Assets</b>	<b>181,288</b>	<b>152,031</b>
Cash and Cash Equivalents	13,171	3,881
Accounts Receivable	27,128	19,202
Inventories	39,247	36,933
Recoverable Taxes	51,160	44,603
Other Accounts Receivable	4,549	4,574
Prepaid Expenses	716	985
Advances to Suppliers	6,703	4,106
Assets Classified as Held for Sale	38,614	37,747
<b>Non-Current Assets</b>	<b>391,814</b>	<b>394,390</b>
Other Credits	1	1
Securities-restricted	44	44
Judicial Deposits	7,639	7,612
Impostos a Recuperar	1,831	5,241
Deferred Income Tax and Social Contribution	103,000	103,000
Other Accounts Receivable	35,222	36,051
Investments	21,942	21,942
Property, Plant and Equipment	138,386	136,989
Intangible Assets	83,749	83,510
<b>Total Liabilities and Shareholders Equity</b>	<b>573,102</b>	<b>546,421</b>
<b>Current Liabilities</b>	<b>118,650</b>	<b>103,684</b>
Suppliers - Not Subject to Judicial Recovery	10,748	10,931
Suppliers -Subject to Judicial Recovery	4,731	4,805
Loans and Financing - Not Subject to Judicial Recovery	49,977	35,571
Loans and Financing - Subject to Judicial Recovery	4,331	4,326
Provisions Payroll and Payroll Payable	5,603	5,530
Commissions Payable	326	213
Taxes Payable	25,977	24,101
Obligations and Provisions for Labor Risks - Subject to Judicial Recovery	1,144	1,286
Advances from Customers	8,037	8,272
Other Accounts Payable	5,698	6,473
Other obligations - subject to judicial recovery	1,457	1,555
Provision for Contractual Fines	621	621
<b>Non-Current Liabilities</b>	<b>266,746</b>	<b>268,215</b>
Suppliers - Subject to Judicial Recovery	26,162	26,555
Loans and Financing - Subject to Judicial Recovery	5,820	6,674
Loans and Financing - Not Subject to Judicial Recovery	95,526	97,197
Taxes Payable	20,522	23,898
Deferred Income Tax and Social Contribution	46,208	46,133
Provision for Contingencies	32,915	27,980
Obligations and Provisions Labor Risks - Subject to Judicial Reorganization	2,836	2,287
Other Accounts Payable	3,131	3,105
Other obligations - subject to judicial recovery	33,626	34,386
<b>Shareholders' Equity</b>	<b>187,706</b>	<b>174,522</b>
Capital Stock	1,898,871	1,899,892
Capital reserve	2,967	2,967
Capital Transaction Reserve	136,183	136,183
Equity Valuation Adjustment	191,562	187,437
Accumulated Losses	(2,041,877)	(2,051,957)

**Annex IV – Statements of the Consolidated Cash Flow (R\$ Thousand)**

	<b>1Q22</b>	<b>1Q23</b>
<b>Cash Flow from Operating Activities</b>		
Profit (loss) for the periods	14,916	(10,080)
Adjustments:		
Depreciation and Amortization	1,306	1,831
Income from sale of property, plant and equipment	352	324
Financial charges and exchange variation on financing	(30,061)	1,706
Reversal (Provision) for loss due to non-recoverability of assets	(343)	(418)
Deferred Income Tax and Social Contribution	(3,469)	-
Inventory obsolescence	(626)	(321)
(Reversal) Estimated losses for doubtful accounts	(53)	31
Actual losses with doubtful accounts	51	-
Adjust to present value	15,733	3,552
Fair value adjustment	(27,488)	(4,125)
<b>Changes in Assets &amp; Liabilities</b>		
(Increase) Decrease in Accounts Receivable	(9,045)	7,782
(Increase) Decrease in Inventories	(3,407)	2,635
(Increase) Decrease in Recoverable Taxes	442	3,147
(Increase) Decrease in Other Assets	(1,900)	1,472
(Increase) Decrease in Suppliers	4,475	(388)
(Increase) Decrease in Taxes Payable	341	(422)
(Increase) Decrease in Others Accounts Payable	30,411	(644)
<b>Net Cash Flow from Operating Activities</b>	<b>(8,365)</b>	<b>6,082</b>
<b>Cash Flow from Investment Activities</b>		
Securities - restricted account	102	60
Resources from the sale of fixed assets	479	101
Aquisition of Property, Plant and Equipment	(691)	(197)
<b>Net Cash Flow from (Used in) Investment Activities</b>	<b>(110)</b>	<b>(36)</b>
<b>Cash Flow from Financing Activities</b>		
Borrowing and financing	33,291	18,748
Capital increase (decrease)	83	1,021
Payment of loans and financing	(31,667)	(35,105)
<b>Net Cash Flow from Financing Activities</b>	<b>1,707</b>	<b>(15,336)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(6,768)</b>	<b>(9,290)</b>
At the Beginning of the Period	19,176	13,171
At the End of the Period	12,408	3,881

## About Lupatech

Lupatech is a Brazilian company with high added value products focused on the oil and gas sector, operating in manufacturing (Products segment) mainly producing industrial valves; valves for oil and gas; ropes for anchoring oil platforms; well completion equipment; artifacts of composite materials, mainly power poles and tubes for coating oil pipelines.