

# TOTVS S.A.

Financial Statements for the fiscal years ended  
December 31, 2020, 2019 and 2018

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## Management Report and Comments on the Company's Performance

Dear shareholders,

In compliance with the legal provisions, TOTVS S.A., the Brazilian leader in the development and sales of management software, productivity and collaboration platforms, consulting, and provision of related services, hereby submits the Annual Report and the corresponding Financial Statements, together with the audit report issued by the independent auditors, for the years ended December 31, 2020, 2019 and 2018, prepared in accordance with accounting practices adopted in Brazil.

### MESSAGE FROM THE BOARD

Year 2020 will certainly be marked in our history, and in what was considered the “new normal”, the challenges we all had to face were immense and unprecedented, but technology has always been there as a great ally in this moment of global crisis, ensuring business continuity, the adaptation of financial, health, education, and logistics services, shortening distances in work and family life, and making science feasible through connection and collaboration between people.

Despite so many uncertainties, evolution has been our constant. It was a period of hard work, commitment and overcoming. We were closer and more present than ever in the daily lives of Brazilian people: walking alongside our clients and customers, turning challenges into reality, promoting the reinvention of strategies, the diversification of businesses, and the acceleration of digitalization. We are proud to be part of so many stories, to help so many clients and customers innovate, grow, and perpetuate their businesses.

With a great sense of responsibility, we kept our TOTVERS, clients and customers at the center of our actions, making every effort to preserve the health of associates and maintain the operation of clients, customers, and partners, working together with the Brazilian Association of Information Technology and Communication Companies (BRASSCOM) to develop a minimum protocol to return to activities.

We continued to perform our M&A strategy, completing the acquisitions and continuing the integration processes of Supplier, Consinco, and Wealth Systems, companies that were added to the TOTVS Group and which accelerated the expansion of our operations in new markets and strengthened our core business, as part of our goal to evolve and build an ecosystem of solutions with three business dimensions: (i) Management, with a portfolio of open, connected and customizable ERP, HR and Vertical solutions and platforms; (ii) Techfin - simplifying, expanding and making access to credit and other financial services cheaper; and (iii) Business Performance - creating a portfolio that helps our clients to sell more and better.

In the scope of Governance, we have advanced in the development of the ESG Agenda (Environmental, Social, and Governance) by launching our Sustainability Policy, and in consolidating the Compliance Program with the implementation of new initiatives and revision of the Code of Ethics and Conduct, which reinforce our commitment to the highest level of ethics and transparency in our business relationships. The Board of Directors followed it up and provided continuous support to the Board of Executive Officers during all discussions connected to the pandemic, committing itself to plan and adopt risk mitigation and occupational health and safety measures. As regards M&A projects, our performance was guided, as always, by the highest standards of excellence in governance, preserving the equal and unbiased treatment of all shareholders, while we also evolved in strengthening the assessment process of all levels of responsibilities that make up the Company's Management.

We believe that 2021 will be a renewed year, which begins with countless opportunities to expand the generation of value for our stakeholders, by improving the performance of our strategy and the maturing reflections on the strengthening of the ESG pillars as part of the sustainability culture in TOTVS, expanding our ability to incorporate the demands of our strategic audiences and to generate shared value across our relationship ecosystem.

We will enhance the performance of TOTVS as an agent of positive change through the connection and integration of these elements to our strategy and business model, investment decisions, and the Company's innovation processes, elements that once combined generate a powerful lever so we can continue to develop Brazil more and more through the democratization of technology, with impacting solutions that generate results and make our clients and customers more productive and competitive in their segments. This is the energy that drives us in this cycle that begins.

TOTVS believes more than ever in a Brazil that gets things done.

**Laércio Cosentino, Chairman of the Board**

### **MESSAGE FROM THE PRESIDENT**

2020 is finally over! I heard this sentence from many; a year that will be marked in the history of each one and the world, where everyone had to reinvent themselves, discover strengths that they thought they did not have, find solutions to problems never thought of before and, unfortunately, a lot of suffering and uncertainty. But it was also a year of restart and union. In this message, first of all, I want to thank from the bottom of my heart all TOTVERS, their families, our partners, and all those who helped the Company to face and overcome this challenge of epic proportions. And wish you all that the year of 2021 brings us more serenity, health, and, why not, more achievements too!

TOTVS had a successful year. Its financial and operational performance was way above what we imagined when the COVID pandemic started. In March we prepared for an uncertainty scenario with the possibility of clients bankruptcies, the increase in defaults and churn, and also great difficulty to sell, implement and support. The recent entry into the Techfin dimension, with the acquisition of Supplier, brought us new and unknown challenges at a difficult time. That is, we were prepared for the worst.

However, the strengths that brought TOTVS to its position of undisputed leadership in technology and software for companies, reflected on its campaign "TOTVS believes in a Brazil that makes it happen!", proved more real and stronger than ever:

1) The perception that our 40 thousand clients are more resilient than the average of Brazilian companies, precisely because they invest in high-end management software and have a superior degree of control, planning, and management sophistication, was proven to be true. Our churn did not rise above the historical average at any time. Effective defaults were also very close to the historical average. Our clients and customers continued to use our solutions and to operate in an organized manner and with the full support of TOTVS;

2) The recurrence model, which already represents almost 80% of Technology Revenue, increasingly in the SaaS model, which grew 21% in 2020 and was already responsible for 65% of new sales in 4Q20, combined with a renewal rate of almost 99% per quarter, guaranteed solidity and predictability even in an environment of almost total insecurity;

3) The diversification of segments was also essential, allowing for a rapid re-assignment of priorities and, thereby, taking advantage of numerous business opportunities that emerged from May on;

4) The permanent investment in innovation and digitalization gave us: product quality, which enabled us to increase the NPS (Net Promoter Score), even during the pandemic; the greater portfolio range, which maintained our relevance to clients and customers; and the possibility of home office for the TOTVERS with safety and productivity. We managed to achieve up to 90% of the solutions implementations remotely. TOTVS services have become smarter and more accessible, reflecting the accelerated "cloudification" of our software, which makes life much easier and faster. This change in the service profile is critical and reflects the effort to exponentialize;

5) Our “Sales Machine” proved to be stronger than ever, even when working remotely. As a result, our ARR grew by R\$300 million in 2020 and 35% in 4Q20 over 4Q19. Such ARR growth in 2020 alone would place TOTVS among the largest software companies in Brazil; and

6) Finally, the boldness that marks TOTVS's corporate history, reflected in the motto “equal, while being always different”, showed that advancing in the client value chain is a wise bet, by constructing an ecosystem that in 2020, in addition to the Management business dimension, consolidated the Techfin offer and started the journey in Business Performance. Supplier's performance, as of the end of 2Q20, showed a “V” recovery with a strong slope, proving the solidity of its model. These are new markets that open up an invaluable opportunity for the Company.

The result of all the above was a 20% growth in total net revenues and recurring revenue (including Supplier) in Q4/20 versus Q4/19, with an EBITDA margin of 24%. In the concepts developed by analysts and investors, this balanced combination of growth and profitability (resulting in a sum of more than 40 percentage points) is rarely found, especially in a company that is almost 40 years old. Those that find it become references and command a differentiated recognition of the markets in their multiples. It is proof that TOTVS is a fantastic company, with a unique capacity for transformation and adaptation to market opportunities.

Our greatest challenge in 2021 will be to keep up with the pace of change and transformation. We held our kick-off event and our sales convention at the end of January, and the keyword that permeated all discussions was SPEEDNESS. Exponentializing, digitizing, cloudifying were also fundamental words that show the right path we are following. We are working to maintain and expand the relevance of TOTVS to its clients and customers, helping Brazilian companies of all sizes and segments to achieve the efficiency and productivity desired by everyone.

Of course, year 2020 was not just about financial and operating results. During this period we remained supportive in the fight against Covid-19 and, as always, we remain determined and united, tirelessly supporting our ecosystem, companies, and people for the development of Brazil. We created a Crisis Committee and our Board of Directors remained on standby, with recurring meetings, discussing situations connected to our operation and deciding on the required measures at all levels. We adopt preventive and mitigating measures in line with the guidelines of the health authorities, ensuring the safety of our TOTVERS with the practice of remote work home office in all our units. We also offered a health plan exclusive telephone support for health plan, available 24 hours a day and we do not carry out layoffs or salary reduction initiatives.

Human Capital is one of the Company's key assets, and 2020 was a year of significant improvements in strengthening the initiatives of our employer brand, with very positive achievements. Based on our Engagement Survey, 93% of TOTVERS are proud to work here and 96% of them believe in the potential and future of TOTVS, which translated into a significant reduction in turnover and an increase of more than 30 points in eNPS (Employee Net Promoter Score). These data show that our dedication and investment in people have been the right initiative to reinforce the attraction and retention of the best talents, a fundamental pillar for the performance and sustainability of our long-term strategy.

With a collaborative spirit, we developed our TOTVS University network with the dissemination of more than 5 thousand contents and made available more than 30 thousand free online training, contributing to prepare the market and our clients/customers, which reinforces the strong engagement and connection of our ecosystem with our employer brand.

In the social sphere, we launched the “TOTVERS that get things done” campaign, uniting the efforts of TOTVS, TOTVERS, and the franchises, which raised funds to support families living in extreme social vulnerability thus guaranteeing the continuity of the professional training of more than 2 thousand students from the Social Opportunity Institute (IOS - *Instituto da Oportunidade Social*). We have also created our Diversity and Inclusion Program and adhered to the UN Women's Empowerment Principles. All of these

initiatives materialize the commitment to develop a business agenda based on the integration and best practices of ESG, as stated in our Sustainability Policy.

In addition, being admitted to the Ibovespa index in early 2020 and to the MSCI indices in December 2020, and B3's IBrX 50 starting in 2021, the achievement of the awards "Institutional Investor'Investor", 'Best "Best of the Stock Exchange 2020' 2020" from Infomoney, and 'Best "Best technology companies to work' work" at Great Place to Work (GPTW) are important acknowledgments of our work and one more indication that we are on the right path.

Our business is increasingly present in the daily lives of companies. More than simplifying the business world, we are evolving and transforming Brazil into a more productive, efficient, and innovative country through technology. TOTVS believes more than ever in a Brazil that makes it happen, in the entrepreneurs and clients/customers that, just like us, dared, overcame obstacles, and went public on the stock exchange over the last year.

The greatest certainty we had in 2020 is that technology is the key answer and bet for any company to survive. As the largest Brazilian technology company, we believe that TOTVS has a present and, above all, a bright future ahead!

**Dennis Herszkowicz, CEO**

## **ECONOMIC SCENARIO**

In 2020, the world was impacted by the new Coronavirus pandemic that resulted in profound changes in public health, economic performance, and global policy. Guidelines of the ESG tripod agenda also gained strength and moved alongside economic issues, driven, for example, by discussions connected to global commitments around climate change, reflections on diversity and inclusion in organizations, and the improvement of practices and structures of governance within organizations.

In Brazil, the political environment was marked by a certain instability, reflected in part by the campaigns and measures to deal with the pandemic by the Executive and Legislative, moving in an uncoordinated way and in opposite directions. There was, however, a motion by the Executive to try to modify such a scenario by using a more moderate speech and the implementation of emergency social aid programs for the population in the face of the worsening of the pandemic crisis.

Regarding the economy, there was an improvement in the figures presented at the end of 2020, with a 7.7% growth in the GDP of the 3rd quarter, which indicates a resumption in the pace of productive activities, despite market analysts had projected a drop of approximately 4.5% for the fiscal year 2020, creating a gap in the positive trend that had been recorded since 2016.

For 2021, market projections are more optimistic and revolve around a 3.5% growth and with prospects for expanding the population's vaccination at a time when Brazil already has at least 2 vaccines approved for the immunization calendar. Among the key economic indicators for 2020, there was a strong devaluation of the Brazilian currency, with the US dollar reaching the highest level in the last 10 years. Regarding inflation, the so-called IGP-M rate had a significant monthly variation during the year and closed with an accrued increase of 21.97%, while the IPCA rate had a variation of 4.52%, which means a 0.21 percentage point above the 4.31% recorded in 2019. In terms of monetary policy, the Selic rate ended the year at 2%.

Despite the challenges faced in the economic environment, the structural changes that have been bringing interest rates to the lowest levels in history have boosted the Brazilian capital market, which is undergoing a strong transformation and capitalized on an opportunity with the crisis: the number of investing individuals exceeded the mark of more than 3.2 million (an increase of more than 2 million in the year), with highlights for the diversification of investments and the participation of the younger segments of the population and women in the period.

At the sectorial level, the pandemic has also boosted the habit of online shopping and remote work has increased the demand for technologies and tools that help in the most varied functions and that collaborate with productivity. It is worth pointing out the debut of the so-called Pix, a technology that revolutionized the Brazilian financial system and benefits particularly the retail segment and fintechs; and the approval of the General Data Protection Law (LGPD), which transformed the personal data protection system in Brazil.

However, Brazil still has a modest degree of investment in technologies, especially by small- and medium-sized companies, which represent more than 98% of the local economy, but it has been showing signs of improvement in digitalization in recent years. This, combined with the strong demand for credit for business expansion, which grew 29% in 2020 according to the Neurotech Demand for Credit Index (INDC), at a time when the Covid-19 pandemic imposes additional challenges on everyone, end up bringing countless opportunities for growth, increased productivity and competitiveness.

For 2021, the priority question will be how to return to “normality”, and in this sense there is an opportunity for companies to lead initiatives for the common good, even in the sense of meeting possible demands for vaccines, whether from employees and their families or of important populations within its stakeholder map - due to the gaps of the public authorities in the various levels, and the employability challenges bring possibilities for investments in qualified labor. The economic perspective, on the other hand, should accommodate among its priorities an agenda of strong fiscal adjustment, tax and administrative reforms, and a ceiling on public spending, as well as the strengthening of social policies for income transfer, which will bring more solid conditions to the economy in the future and greater stimulus to job creation and resumption of economic activity.

## **CONSOLIDATED FINANCIAL AND OPERATING PERFORMANCE**

### **RESULT FROM TECHNOLOGY ACTIVITIES**

**Net Revenue** - In the annual comparison, Net Revenue continued its accelerating trend, growing 8.1% in the comparison between 2020 and 2019.

**Recurring Revenue** - The 13.0% year-over-year growth in Recurring Revenue in 2020 was driven by (i) the increased sales levels, net of churn, especially in the SaaS model, which represented 65% of new sales in Q4'20; (ii) the high Renewal Rate of clients during the year (above 98.5%); (iii) the readjustments of contracts with inflation levels higher than those applied in the same period of 2019; and (iv) the consolidation of Consinco and Wealth Systems' results. A highlight in 2020 was the acceleration of cloud sales, the revenue of which grew 27% in the year. This movement is critical to TOTVS' growth plans, since cloud clients/customers are prepared for all the innovations we have developed and allow the use of big data at another level.

In addition, the number of clients/customers using the *Digital Commerce* platform of our *joint operation* with VTEX has multiplied more than 11 times in 2020. Of this universe of clients, 27.6% are productive, that is, they have already reached levels of GMV (*Gross Merchandise Volume*) that enabled them to start contributing with the recurring revenue of this modality.

In addition, the strong growth in the number of active customers who started using our new Techfin solutions (Payroll, EduConnectPAY, *Mais Prazo*, *TOTVS Antecipa*, and Financial Panel) was another highlight of the period.

**Non-Recurring Revenue** - Year-over-year, Non-Recurring Revenues decreased by 7.1% in 2020, substantially connected to the drop in Revenues from Non-Recurring Services, reflecting the quick “cloudification” process of our portfolio. The rejuvenation and expansion of TOTVS's portfolio have led clients and customers to SaaS and cloud models. This model is lighter, exponential, accessible and standardized. This

means less need for deployment implementation and customization services. From 2018 to 2020, revenue from Non-Recurring Services fell by 24.4%. It is a clear sign of the change chosen by TOTVS.

On the other hand, in the same period from 2018 to 2020, revenues from Licenses, which are much more profitable, grew 24.9%. It reflects the continued commercial vigor of the maintenance model and also the corporate model, which is essentially bound to the transactional volume of clients, which has grown in absolute terms, but also to the SaaS evolution itself since a starting *fee* is charged even in this modality.

**Costs** - In 2020, TOTVS continued to improve its operational efficiency and took advantage of remote work home office to gain more productivity. As a result, Technology Costs decreased 1.2% in 2020. The drop in Revenue from Non-Recurring Services, which is much less profitable than the others, the dramatic increase in remote deployment, which reached a level close to 90%, in addition to the greater share of recurring revenues resulting from the sale of cloud based solutions, are some of the factors that ensured this improvement.

**Research & Development Expenses** - Accumulated results in 2020 show that Research and Development (R&D) expenses represented 21.9% of Recurring Revenue, compared to 23.0% in 2019, confirming the gain in scale and efficiency, as a result of the increasingly intense use of insights generated by the telemetry analysis of our solutions, which enables a quick reallocation of resources to take advantage of opportunities and continuous investment in innovation, breadth/broadness, quality, and digitalization of our portfolio. In this context, some projects developed during 2020, with clear mid/long term return expectations, met the capitalization criteria's and summed R\$18.9 million.

**Sales and Marketing Expenses** - In the annual comparison, Sales and Marketing Expenses grew by 20 basis points when comparing 2020 versus 2019, going from 18.6% to 18.8% of Net Technology Revenue. This growth is the result of the: (i) increase in the share of franchises in the total sales mix; and (ii) consolidation of Consinco's and Wealth Systems' results over the year.

**Provision for Expected Credit Losses** - In the result for of the year, the Provision for Expected Credit Losses (former PCLD) represented 1.6% of Net Technology Revenue from Technology, versus the 1.2% earned in 2019, reflecting the increase in the average term of the receivables portfolio, whether due to commercial practices adopted that extended the average maturity of bonds due, either due to the volume of past-due bonds, especially in sectors most impacted by the Covid-19 pandemic over 2020.

**General and Administrative Expenses and Provision for Contingencies** - In 2020, the lower representation of this group of expenses, which dropped from 10.2% in 2019 to 10.0% of Net Technology Revenue from Technology, is due to the combination of the: (i) reduction of contingencies, due to the lower number of new labor claims, as well as the progress of ongoing claims; (ii) increase in the provision for bonuses and for the Share-Based Long-Term Incentive Plan/long-term incentive plan (ILP); and the (iii) consolidation of Consinco's and Wealth Systems' results.

**Adjusted EBITDA** - The Adjusted EBITDA Margin ended the year at 22.7%, with an increase of 210 basis points compared to 2019, with Adjusted EBITDA showing a growth of 19.2%, which further reinforces even more the Company's ability to leverage its operational performance in an exceptionally challenging year. In the period from 2018 to 2020, the growth of the Technology EBITDA Margin reached 630 basis points.

## **RESULT FROM CREDIT PRODUCTS - SUPPLIER**

**Credit Products Revenue** - The resumption of economic activity in the chains served by Supplier, associated with the gain in penetration in the sales volumes of its affiliates, resulted in maintaining revenue levels in this period. Such resumption also resulted in an increase in the Credit Portfolio, which reached levels similar to those found in the period prior to the Covid-19 pandemic, with R\$1.1 billion in the portfolio, of which 85% were assigned to FIDC.

**Credit Products Costs** - Year-over-year, the 13.9% growth in these costs is the result of a change in Supplier's capital stock structure, which led to a reduction in equity and an increase in third-party capital, carried out to respond to one of the conditions precedent for completing the acquisition of Supplier by TOTVS, as it had already been explained in previous quarters.

**Provision for Expected Credit Losses** - We can see that the portfolio loss rate is still below the historic low average of this indicator in the period, which reinforces the flexibility and resilience of Supplier's business model, besides its efficient management in granting credit.

**Supplier's EBITDA** - Supplier presented an ROE (Return on Equity) of 37.4% in the 2020 result (May to December) compared with 20.3% in 2019. Such increase reflects the successful change in the business model, which went from the traditional one to Fintech, in which the need for equity is significantly less. The next change, for the Techfin model, is already underway, with the use of big data and integration with TOTVS's software being one of its key highlights. In parallel with this result, we continued making progress in commercial integration, which has already resulted in 50% of new affiliates being implemented and 35% of new affiliates in the final negotiation phase from leads generated by TOTVS.

## **CONSOLIDATED RESULTS AFTER EBITDA**

**Depreciation and Amortization** - Depreciation expenses grew 8.9% when compared with the fiscal year 2019. This increase is explained by: (i) consolidation of Consinco's, Wealth Systems', and Supplier's results; (ii) greater depreciation with electronic processing equipment, due to the increase in installed capacity. Compared with 3Q20, this line remained stable. Amortization expenses also increased year-over-year, both in 4Q20 and in 2020, due to the beginning of the accounting amortization of intangibles assets arising from the acquisitions of Consinco, Wealth Systems, and Supplier, as already mentioned in previous quarters, and by the increase in amortization of the right of to use the properties due to contractual updates.

**Financial Result** - In the year-over-year comparison, the main items that affected the Financial Result were: (i) reduction in the average cash applied, as a result of the acquisitions made over 2020, together with the reduction in the Selic rate; and (ii) reduction, in Q4/20, of the adjustment to present value arising from the earn-out of acquisitions.

**Income Tax and Social Contribution** - Regarding R&D projects, the tax benefit on expenses incurred in the subsequent issue of shares (follow-on) in 2019 increased the Total Effective Rate by 90 basis points.

**Net Profit and Cash Profit** - In the year-over-year comparison of 04/4Q20, Cash Profit grew 25.7% compared with 2019, mainly due to the growth in Adjusted EBITDA, having been also impacted by the reduction in the financial result, reflecting the lower average volume of cash invested and the lower average Selic rate in 2020.

**Adjusted EBITDA** - Adjusted EBITDA(\*) for the year totaled R\$590,011 thousand, which is 25.6% higher than the Adjusted EBITDA of 2019, as shown in the table below:

	<b>2020</b>	<b>2019</b>	<b>Variation</b>
<b>Net Profit</b>	<b>294,959</b>	<b>210,648</b>	<b>40.00%</b>
<i>Income tax and Social contribution</i>	<i>86,068</i>	<i>70,111</i>	<i>22.8%</i>
<i>Financial Result</i>	<i>11,434</i>	<i>1,177</i>	<i>871.5%</i>
<i>Depreciation and Amortization</i>	<i>204,587</i>	<i>147,033</i>	<i>39.1%</i>
<i>Net profit (loss) from Discontinued Operation</i>	<i>1,077</i>	<i>43,268</i>	<i>(97.5%)</i>
<i>Result of Equity Method</i>	<i>294</i>	<i>248</i>	<i>18.5%</i>
<b>EBITDA</b>	<b>598,419</b>	<b>472,485</b>	<b>26.70%</b>
<i>Expenses with M&amp;A Transactions</i>	<i>15,338</i>	<i>2,201</i>	<i>596.9%</i>
<i>Extraordinary Costs with Personnel Dismissal</i>	<i>1,779</i>	<i>10,547</i>	<i>(83.1%)</i>
<i>Allowances - Non-cash</i>	<i>-</i>	<i>(3,732)</i>	<i>(100.0%)</i>
<i>Gain on the write-off of assets</i>	<i>-</i>	<i>(11,759)</i>	<i>(100.0%)</i>
<i>Adjustment of Earn-out at Fair Value</i>	<i>(25,526)</i>	<i>-</i>	<i>-</i>
<b>ADJUSTED EBITDA</b>	<b>590,011</b>	<b>469,742</b>	<b>25.60%</b>

This growth in Adjusted EBITDA is mainly driven by the 13.7% increase in Recurring Revenue from Technology activities, by the consolidation of the results of Consinco, Wealth System, and Supplier, and by the discipline in managing the Company's costs and expenses.

(\*) *Adjusted EBITDA is a non-accounting (unaudited) measurement prepared by the Company and consists of the net income for the year, plus taxes on profit, financial expenses net of financial income, and depreciation and amortization.*

## SECURITIES EXCHANGE MARKET

TOTVS ended the year with a capital stock of R\$1,382 billion. The Company's capital stock at the end of 2020 was composed of 577,913,181 common shares, 83.1% of its capital stock being free-float, represented by 31.4% composed of Brazilian investors and 68.6% by foreign investors. The calculation of the outstanding shares is based on all the Company's shares, excluding the interests held by Management members and related persons, as well as treasury shares.

In 2020, TOTVS's shares (B3: TOTS3) appreciated 34.2%, while the IBOVESPA index appreciated 2.92%. The average financial volume in 2020 was of R\$156 million/day, versus R\$67.1 million/day recorded in 2019.

**Interest on net equity for the fiscal year 2020:** On August 3, 2020, the payment of interest on shareholders' equity for the first half of the fiscal year 2020 was approved, in the total amount of R\$39,743 thousand. All shareholders holding shares issued by the Company on the base date of August 10, 2020 were entitled to interest on equity. Such interest on equity was paid on October 22, 2020.

On December 15, 2020, the payment of interest on shareholders' equity for the second half of 2020 was approved, in the total amount of R\$56,776 thousand. All shareholders holding shares issued by the Company on the base date of December 21, 2020 were entitled to interest on equity. Such interest on equity will be paid on May 20, 2021. The amounts of interest on own capital for the fiscal year 2020 was allocated to the mandatory minimum dividend under the terms of article 39 of TOTVS's Bylaws.

**Interest on net equity for the fiscal year 2019:** on August 5, 2019, the payment of interest on shareholders' equity for the first half of the fiscal year 2019 was approved, in the total amount of R\$36,224 thousand. All shareholders holding shares issued by the Company on the base date of August 12, 2019 were entitled to interest on equity. Such interest on equity was paid on October 10, 2019.

On December 18, 2019, the payment of interest on shareholders' equity for the second half of 2019 was approved, in the total amount of R\$43,857 thousand. All shareholders holding shares issued by the Company on the base date of December 23, 2019 were entitled to interest on equity. Such interests on equity were paid on May 20, 2020. The amounts of interest on own capital for the fiscal year 2019 was allocated to the mandatory minimum dividend under the terms of article 39 of TOTVS's Bylaws.

**Dividends for the 2019 fiscal year:** proposed by the Board of Directors on April 27, 2020, the dividends related to the first half of the 2019 financial year totaled R\$24,817 thousand, and the shareholders holding TOTVS's shares on April 28, 2020 were entitled to the earnings thereof. Such dividends were paid on May 20, 2020.

## **CORPORATE GOVERNANCE**

**Novo Mercado:** TOTVS was the first Brazilian software company to join the modality that meets the best corporate governance practices of B3 S.A. - *Brasil, Bolsa, Balcão*.

**Management:** TOTVS's Board of Directors is composed of seven members, six of whom are independent, pursuant to the standards of the Novo Mercado stock exchange. The Company's board of executive officers is composed of seven officers. The list with the name, position description, and brief curriculum vitae of the directors and officers can be found on the Company's Reference Form and on the website [ri.TOTVS.com.br](http://ri.TOTVS.com.br).

**Audit Committee:** it is an advisory body that provides the Board of Directors with support, and its mission is to follow up, assess, and ensure the best operationalization of processes, the management of internal and external auditors, the mechanisms and controls connected to risk management and the consistency of financial policies with strategic guidelines and the business risk profile. Currently, the Audit Committee is composed of three independent members, elected by the Board of Directors, and chaired by an independent member of the Board of Directors.

**People and Compensation Committee:** it provides the Board of Directors with advice in determining the compensation and benefits policies for directors and officers. The People and Compensation Committee is composed of 3 independent members, elected by the Board of Directors, and chaired by an independent member of the Board of Directors.

**Governance and Nomination Committee:** it is composed of three members of the Board of Directors, two of whom are independent, and its key duties are to promote improvements in the Company's corporate governance, assess the adoption of good practices, and select and nominate members to the Board of Directors.

**Strategy Committee:** it is composed of up to four members of the Board of Directors, three of whom are independent. The Company's Chief Executive Officer attends meetings as a permanent guest and has no voting right. The main duties of this Committee are to analyze and discuss issues that make feasible the construction of the Vision of the Future and the Strategic Planning, and to assess the Company's actual ability to deliver them.

**Arbitration:** under the "Novo Mercado" Regulation, and under the Company's Bylaws, the controlling shareholder, the administrators, the Company itself, and the members of the Supervisory Board (aka Fiscal Council in Brazil) must undertake to resolve any and all disputes or controversies connected to or arising from the "Novo Mercado" Regulation, the provisions of the Novo Mercado Participation Agreement, the Arbitration

Clauses, in particular as to their application, validity, effectiveness, interpretation, violation and their effects, through arbitration. Any disputes regarding the sale of the Company's Control will also be settled by arbitration.

**Statement by the Board of Executive Officers:** pursuant to section VI of Article 25 of CVM Instruction No. 480/09, TOTVS's officers hereby represent that they have discussed, reviewed, and agreed to the opinions expressed in the opinion of the independent auditors and to the financial statements for the fiscal year ended on December 31, 2020.

#### **RELATIONSHIP WITH INDEPENDENT AUDITORS**

The Company's policy for retaining services not related to external audit with independent auditors is based on the principles that preserve their independence. Such principles consist of internationally-accepted standards, in which: (a) an auditor must not audit his own work; (b) an auditor must not hold a management role in his/her client; and (c) an auditor must not generate conflicts of interest with his/her clients.

Procedures adopted by the Company pursuant to section III, art. 2 of CVM Instruction No. 381/03: the Company and its subsidiaries adopt as a formal procedure, prior to retaining other professional services other than those related to the external accounting audit, to consult with the independent auditors in order to ensure that the provision of such other services will not affect their independence and objectivity that are required to provide independent audit services, as well as obtain approval from its Audit Committee. In addition, formal statements from such same auditors are required regarding their independence in providing non-audit services.

Services other than those related to the audit of the 2020 financial statements were provided. Fees for such services totaled R\$1,937.5 thousand, representing 40.18% of total external audit fees, particularly connected to a Business Combination Project (R\$1,686.8 thousand) and Due Diligence (R\$250.7 thousand).

#### **ACKNOWLEDGEMENTS**

We thank all those who contributed to the success of TOTVS in 2020, especially our clients, customers, stakeholders, partners, and shareholders.

A free translation from Portuguese into English of individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board – IASB and consistently with the standards issued by the Brazilian Securities and Exchange Commission (CVM).

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## **INDEPENDENT AUDITOR’S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS**

To the Shareholders, Board of Directors and Officers

**TOTVS S.A.**

São Paulo, SP

### **Opinion**

We have audited the individual and consolidated financial statements of TOTVS S.A. (“Company”), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2020, and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2020, and its individual and consolidated financial performance and cash flows for the year then ended, in accordance with 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 the 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 opinion.

### **Emphasis of a matter – restatement of the individual and consolidated financial statements**

We draw attention to Note 2.4.a to the individual and consolidated financial statements, which have been changed and restated to reflect improvements in the notes and reclassification of amounts, as described in the referred to note. On February 8, 2021, February 10, 2020 and February 11, 2019, we issued an unmodified auditor’s report on the Company’s individual and consolidated financial statements for the years ended December 31, 2020, 2019 and 2018, respectively, which are now restated. Our opinion remains unmodified, since the individual and consolidated financial statements and the corresponding prior-period figures have been changed retrospectively.

### **Key audit matters**

Key audit matters are those matters 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 a separate 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***

Revenue recognition involves reliance on the proper operation of information technology systems and their respective internal controls to ensure that all services rendered have been correctly measured and properly recorded within the appropriate accounting period, including unbilled revenues from services rendered. Service and software revenues have different performance obligations and are recognized based on the schedule for the execution of services contracted and when there is a valid expectation of receipt from the customer. The revenues earned by the Company and its subsidiaries and their respective recognition criteria in P&L are disclosed in Note 2.4.i.

The monitoring of this matter was deemed significant for our audit in view of the involvement of the information technology infrastructure and the assurance of the integrity of information extracted from the billing systems and used as essential elements for the purpose of calculating the revenues and their correct recognition by the Company, therefore, we consider our procedures in this area one of the key audit matters.

#### How our audit addressed this matter

As part of our audit procedures performed, we highlight the following, among others:

- Internal control test of the general information technology control environment established by the Company, which includes controls over access management and changes to the systems and data. We found deficiencies in the design and operation of the internal controls associated with granting of user access to third parties, validation of active profiles by means of access review, and revocation of system access regarding implementation and customization service revenues;
- Inspection of unbilled earned revenue milestones, in addition to inquiries of management on possible month-to-month variations in the amount of unbilled revenues recognized at the end of the year;
- Documental tests for a sample of transactions in the revenue account, taking into consideration aspects of significance and unpredictability in our sampling, as well as testing of the integrity of information extracted from the billing systems.

The deficiencies in the design of the Company's internal controls, as mentioned above, changed our assessment as to the nature, timing and extent of our substantive procedures designed to obtain sufficient and appropriate audit evidence regarding revenues, since we concluded on the operational ineffectiveness of such general information technology controls throughout the year.

Based on the results of the audit procedures performed, including the additional procedures designed and applied in view of the deficiency in the above-mentioned controls, which are consistent with management's assessment, we consider that the criteria for revenue recognition and

measurement, as well as the respective disclosures in the explanatory notes, are acceptable in the context of the overall financial statements.

### ***Business combination***

In 2020, the Company acquired Consinco S.A., Wealth Systems Informática Ltda., Supplier Participações S.A. and Tail Target Tecnologia de Informação Ltda. The acquisitions were accounted for by the Company considering the acquisition method, and represented significant amounts in the financial statements, included in Note 4.

This matter was considered significant for our audit due to the judgments involved in measuring the fair value of the assets acquired and the consequent allocation of the acquisition price and determination of goodwill, in addition to the significance of the amounts involved.

#### How our audit addressed this matter

Our business combination procedures included, among others, analysis of documents related to transactions, such as contracts and minutes of meetings; understanding of the key internal controls implemented by the Company related to the company acquisition process; involvement of our corporate finance specialists to assist us in evaluating the assumptions and methodologies used to determine and recognize the fair value of assets acquired and liabilities assumed, allocation of the acquisition price and goodwill for expected future profitability, and assessment of the adequacy of the respective disclosures by the Company regarding the business combinations.

Based on the audit procedures carried out, which are consistent with management's assessment, we consider that the Company's business combination accounting policies adopted to support judgments and information included in the context of the overall financial statements are acceptable.

### **Other matters**

#### *Statements of value added*

The individual and consolidated statements of value added for the year ended December 31, 2020, prepared under the responsibility of the Company management and presented as supplementary information for purpose of IFRS, were submitted to audit procedures conducted together 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 NBC TG 09 – Statement of Value Added. In our opinion, these 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 overall individual and consolidated financial statements.

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

Management is responsible for such other information, which comprise 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 management and those charged with governance for the individual and consolidated financial statements**

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with 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 management determines is 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, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken 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 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 management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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 represented the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We 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, February 07, 2022.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC- 2SP034519/O-6

Luiz Carlos Marques  
Accountant CRC-1SP147693/O-5

## Audit Committee's Report

As provided for by the Company's Bylaws and the Audit Committee's Internal Regulation in its currently effective version, the Audit Committee is responsible for ensuring a suitable operation of the internal and external audit processes and management, mechanisms and controls connected to risk management, and the consistency of financial policies with strategic guidelines and the business risk profile, as well as making recommendations aimed at improving internal controls and risk reduction. The Committee is also responsible for ensuring the quality, compliance, and integrity of the Company's financial statements.

The Committee met ordinarily eleven times and extraordinarily eight times over the year 2020, and at all meetings of the Board of Directors it reported on its activities during the period.

Its members (Gilberto Mifano, Mauro Rodrigues da Cunha, and Ricardo Baldin) were elected on April 30, 2020 by the Board of Directors, with a term of office to remain effective until the first meeting of the Board subsequent to the Company's Annual General Meeting in 2022. On December 29, 2020 Mr. Ricardo Baldin submitted his resignation for personal reasons, and, on the same date, Ms. Lavinia Junqueira was elected by the Board to compose the Audit Committee as an independent member, with a term of office to remain effective until the AGM of 2022, as recommended by the Governance and Nomination Committee.

Among the various topics and subjects followed up and discussed for recommendations to the Board and the Board of Executive Officers, the following ones stand out: (i) **Independent Auditors**: renewal of the external auditors' service agreement; planning, scope, and conclusions reached in the quarterly audits, and opinion for the issue of the annual financial statements; weaknesses, deficiencies, and recommendations for improvement pointed out in the Internal Controls Report and the appropriate action plans; preview and final results of the ISAE 3402/2020 report; additional services provided by the independent auditors; and annual assessment of the independent auditors' performance; (ii) **Internal Auditors**: scheduling and monitoring the works of the Internal Auditors for the 2020/2021 cycle; follow-up of reports of the works issued for own operations and franchises, corrective actions of audit points, and results of investigations in special jobs; integration of the Internal Auditors of acquired companies; Internal Auditors' Activities Report for 2020; and Annual assessment cycle of the area and of the performance of the person responsible for the department; (iii) **Internal controls, corporate risk management, compliance, and client/customer ombudsman**: mapping of processes, key controls and indicators; map of the Company's priority risks, and a new cycle for monitoring risk management; review of access profiles and segregation of duties; monitoring of action plans connected to the external auditors' internal control report; customer experience project; impacts of the agile methodology in the Company and evaluation of the risks involved; indicators and the operation of franchises; service management project; compliance program and adoption of compliance policies and practices; results of NPS measurements; status of the Directors' Civil Liability Insurance (D&O); (iv) **Financial management, provisions and indicators**: quarterly and annual financial statements; proposals for statement and distribution of earnings and stock split; impairment tests and recoverability of deferred tax assets; enforcement of the allowance for doubtful accounts policy; capitalization of investments in research and development; notices, communications, relevant facts and presentation of results to the market; topics discussed by the Tax Affairs Committee; Due Diligence reports, initiatives and operations of acquisitions and mergers, and of acquisition of wholly-owned subsidiaries; Pandemic-related actions; provisions for labor and civil contingencies; and evolution of the FIDC of the subsidiary Supplier; (v) **Corporate Governance**: the annual update process of the Reference Form; questions submitted and Management's responses to letters from regulatory bodies and self-regulatory entities; review of the rules of the crisis management plan; review of corporate policies and Code of Ethics and Conduct; activities of the Ethics and Conduct Committee; reflections of the Brazilian General Data Protection Law and project of compliance with the requirements of

such Law; governance aspects of TOTVS's franchise network; and conducting the Audit Committee's annual self-assessment cycle.

**2020 Annual Financial Statements:**

The members of the Audit Committee of TOTVS S.A., in a meeting held on this February 1st, 2021, in the performance of their legal duties and responsibilities, as provided for in the Audit Committee's Internal Regulation, proceeded to examine and review the financial statements, accompanied of the independent auditors' preliminary opinion and of the Management's annual report for the fiscal year ended December 31, 2020 (hereinafter, the "2020 Annual Financial Statements") and, considering the information provided by the Company's Management and by Ernst & Young Auditores Independentes S.S., as well as the proposal for the allocation of income for the 2020 fiscal year, have unanimously reached the conclusion that such annual financial statements reflect fairly, in all relevant aspects, the equity and financial positions of the Company and its subsidiaries, and recommended that the Company's Board of Directors should approve such documents, which shall be submitted to the Annual Shareholders' Meeting pursuant to the Brazilian Corporations Act.

Sao Paulo (SP - Brazil), February 3, 2022

**Gilberto Mifano**

**Audit Committee Coordinator and Member of the Board of Directors**

**Mauro Rodrigues da Cunha**

**Member of the Audit Committee and the Board of Directors**

**TOTVS S.A.****Individual and consolidated statements of financial position as at December 31, 2020, 2019 and 2018**

(In thousands of reais)

Assets	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Current assets</b>	<b>883,338</b>	<b>1,440,458</b>	<b>576,321</b>	<b>2,831,973</b>	<b>2,004,275</b>	<b>1,020,134</b>
Cash and cash equivalents (Note 7)	527,955	1,106,888	228,571	1,027,733	1,538,156	452,799
Financial Investments (Note 8)	-	-	-	179,308	-	-
Escrow account (Note 23)	8,301	23,217	23,477	10,012	25,278	44,909
Trade and other receivables (Note 9)	267,801	252,842	248,671	1,497,229	350,995	385,538
Inventories	-	-	-	-	-	41,531
Recoverable taxes (Note 11)	23,592	20,893	23,314	38,092	29,662	38,817
Other assets (Note 14)	55,689	36,618	52,288	79,599	60,184	56,540
<b>Non-current assets</b>	<b>2,433,974</b>	<b>1,962,475</b>	<b>1,621,436</b>	<b>2,314,433</b>	<b>1,531,652</b>	<b>1,371,143</b>
Escrow account (Note 23)	-	-	-	1,116	1,987	5,334
Trade and other receivables (Note 9)	57,327	29,695	18,723	64,012	31,627	19,890
Receivables from related parties (Note 13)	-	12	3,956	-	-	-
Taxes recoverable	-	-	-	-	-	236
Investments at fair value (Note 6,3)	-	-	-	92,770	71,955	69,171
Deferred tax assets (Note 12,2)	44,244	50,330	45,845	100,535	100,380	125,124
Judicial deposits (Note 24)	38,721	48,642	51,171	43,972	65,059	65,965
Other assets (Note 14)	47,948	56,919	20,931	57,928	57,395	26,340
Equity-accounted investees (Note 15)	1,533,262	1,039,918	920,317	3,476	3,120	3,129
Property, plant and equipment (Note 16)	303,002	370,339	177,858	364,447	389,432	198,826
Intangible assets and goodwill (Note 17)	379,470	366,620	382,635	1,586,177	810,697	857,128
<b>Total assets</b>	<b>3,317,312</b>	<b>3,402,933</b>	<b>2,197,757</b>	<b>5,146,406</b>	<b>3,535,927</b>	<b>2,391,277</b>

See the accompanying notes to the individual and consolidated financial statements.

**TOTVS S.A.****Individual and consolidated statements of financial position as at December 31, 2020 2019 and 2018**

(In thousands of reais)

Liabilities and equity	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Current liabilities</b>	<b>410,979</b>	<b>608,254</b>	<b>549,151</b>	<b>2,040,031</b>	<b>705,552</b>	<b>709,612</b>
Labor liabilities (Note 18)	136,350	144,399	125,943	211,603	193,472	174,874
Trade and other payables	79,205	50,772	71,343	99,305	63,821	113,907
Taxes and contributions liabilities (Note 19)	40,023	40,192	32,577	74,558	55,203	47,466
Commissions payable	44,467	40,405	35,721	53,795	46,035	43,166
Dividends payable (Note 27)	57,687	44,579	13,737	57,687	44,579	13,902
Business partners payable (Note 22)	-	-	-	328,817	-	-
Loans, financing and lease liabilities (Note 20)	37,651	44,322	155,278	146,806	55,623	166,154
Debentures (Note 21)	-	202,973	77,319	-	202,973	77,319
Accounts payable from acquisition of subsidiaries (Note 23)	8,389	30,493	30,752	44,781	32,554	59,597
Senior shares and mezzanine obligations	-	-	-	1,011,087	-	-
Other liabilities	7,207	10,119	6,481	11,592	11,292	13,227
<b>Non-current liabilities</b>	<b>302,167</b>	<b>317,465</b>	<b>361,564</b>	<b>502,209</b>	<b>351,966</b>	<b>393,445</b>
Loans, financing and lease liabilities (Note 20)	166,897	185,786	28,914	178,244	192,080	35,317
Debentures (Note 21)	-	-	199,869	-	-	199,869
Payables to related parties	-	-	24	-	-	-
Provision for contingencies (Note 24)	108,106	116,061	117,780	125,818	131,521	127,792
Accounts payable from acquisition of subsidiaries (Note 23)	-	-	-	163,419	10,758	15,464
Other liabilities	27,164	15,618	14,977	34,728	17,607	15,003
<b>Shareholders' equity (Note 26)</b>	<b>2,604,166</b>	<b>2,477,214</b>	<b>1,287,042</b>	<b>2,604,166</b>	<b>2,478,409</b>	<b>1,288,220</b>
Share capital	1,382,509	1,382,509	1,041,229	1,382,509	1,382,509	1,041,229
Treasury shares	(148,537)	(62,531)	(70,026)	(148,537)	(62,531)	(70,026)
Capital reserves	894,824	875,979	169,907	894,824	875,979	169,907
Other comprehensive income	42,541	22,051	20,704	42,541	22,051	20,704
Reserves	381,869	234,389	125,228	381,869	234,389	125,228
Proposed dividends	50,960	24,817	-	50,960	24,817	-
<b>Noncontrolling interests</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,195</b>	<b>1,178</b>
<b>Shareholders' equity and liabilities</b>	<b>3,317,312</b>	<b>3,402,933</b>	<b>2,197,757</b>	<b>5,146,406</b>	<b>3,535,927</b>	<b>2,391,277</b>

See the accompanying notes to the individual and consolidated financial statements.

## TOTVS S.A.

### Individual and consolidated statements of profit or loss

#### For the years ended December 31, 2020, 2019 and 2018

(In thousands of reais, except by the earnings per share)

	Individual			Consolidated		
	2020 Restated	2019 Restated	2018 Restated	2020 Restated	2019 Restated	2018 Restated
Software revenue	1,748,979	1,630,722	1,558,113	2,467,959	2,282,124	2,111,160
Credit products	-	-	-	128,118	-	-
<b>Net revenue from services and sales (Note 31)</b>	<b>1,748,979</b>	<b>1,630,722</b>	<b>1,558,113</b>	<b>2,596,077</b>	<b>2,282,124</b>	<b>2,111,160</b>
Cost of software	(610,033)	(609,856)	(597,866)	(804,192)	(809,494)	(785,784)
Cost of credit products	-	-	-	(41,934)	-	-
<b>Gross profit</b>	<b>1,138,946</b>	<b>1,020,866</b>	<b>960,247</b>	<b>1,749,951</b>	<b>1,472,630</b>	<b>1,325,376</b>
<b>Operating income (expenses)</b>						
Research and development expenses	(305,355)	(301,979)	(290,919)	(462,176)	(432,035)	(401,927)
Selling and marketing expenses	(399,651)	(365,091)	(331,274)	(538,667)	(469,901)	(430,136)
General and administrative expenses	(238,942)	(212,726)	(228,367)	(383,889)	(269,504)	(277,039)
Other operating income	3,733	18,709	9,040	28,613	24,262	9,381
<b>Operating profit</b>	<b>198,731</b>	<b>159,779</b>	<b>118,727</b>	<b>393,832</b>	<b>325,452</b>	<b>225,655</b>
Finance income (Note 33)	28,721	55,881	25,218	47,344	69,312	37,895
Finance expenses (Note 33)	(35,686)	(58,423)	(67,930)	(58,778)	(70,489)	(78,357)
Share of losses of equity accounted investees (Note 15)	125,873	104,718	65,501	(294)	(248)	(517)
<b>Profit before income and social contribution taxes from continuing operations</b>	<b>317,639</b>	<b>261,955</b>	<b>141,516</b>	<b>382,104</b>	<b>324,027</b>	<b>184,676</b>
Income tax and social contribution - current	(15,017)	(15,357)	(3,180)	(80,919)	(54,628)	(41,978)
Income tax and social contribution - deferred	(6,586)	6,466	(1,696)	(5,149)	(15,483)	(4,963)
<b>Total of Income and social contribution taxes (Note 12)</b>	<b>(21,603)</b>	<b>(8,891)</b>	<b>(4,876)</b>	<b>(86,068)</b>	<b>(70,111)</b>	<b>(46,941)</b>
<b>Profit for the year from continuing operations</b>	<b>296,036</b>	<b>253,064</b>	<b>136,640</b>	<b>296,036</b>	<b>253,916</b>	<b>137,735</b>
Loss after tax for the year from discontinued operations	(1,077)	(43,268)	(77,092)	(1,077)	(43,268)	(77,092)
<b>Profit for the year</b>	<b>294,959</b>	<b>209,796</b>	<b>59,548</b>	<b>294,959</b>	<b>210,648</b>	<b>60,643</b>
Profit attributable to:						
<b>Owners of the Company</b>	<b>294,959</b>	<b>209,796</b>	<b>59,548</b>	<b>294,959</b>	<b>209,796</b>	<b>59,548</b>
Non-controlling interests	-	-	-	-	852	1,095
<b>Earnings per share</b>						
Basic earnings per share (in Brazilian Reais)	0.51915	0.38682	0.12147	0.51915	0.38682	0.12147
Diluted earnings per share (in Brazilian Reais)	0.51304	0.38345	0.12047	0.51304	0.38345	0.12047

See the accompanying notes to the individual and consolidated financial statements.

**TOTVS S.A.**  
**Individual and consolidate statements of comprehensive income**  
**For the years ended December 31, 2020, 2019 and 2018**  
(In thousands of Reais )

	<b>Controladora</b>			<b>Consolidado</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Profit for the year</b>	<b>294,959</b>	<b>209,796</b>	<b>59,548</b>	<b>294,959</b>	<b>210,648</b>	<b>60,643</b>
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent periods:</b>						
Foreign operations – foreign currency translation adjustments	20,515	2,291	18,976	20,515	2,291	18,976
<b>Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:</b>						
Post-employment benefit	(25)	(944)	-	(25)	(944)	-
<b>Total comprehensive income for the year, net of tax</b>	<b>315,449</b>	<b>211,143</b>	<b>78,524</b>	<b>315,449</b>	<b>211,995</b>	<b>79,619</b>
<b>Attributable to:</b>						
Owners of the Company	315,449	211,143	78,524	315,449	211,143	78,524
Non-controlling interests	-	-	-	-	852	1,095

See the accompanying notes to the individual and consolidated financial statements.

**TOTVS S.A.**

(A free translation of the original in Portuguese)

**Statements of changes in shareholder's equity**
**For the years ended December 31, 2020, 2019 and 2018**

(In thousands of reais)

	Attributable to the equity holders of the parent										Non-controlling interests	Total shareholders' equity
	Share Capital	Treasury shares	Transaction between shareholders	Capital Reserve	Legal Reserve	Profit Reserve	Other comprehensive income	Retained earnings	Additional proposed dividend	Total Equity		
<b>As at December 31, 2017</b>	<b>989,841</b>	<b>(71,495)</b>	<b>(25,518)</b>	<b>190,597</b>	<b>84,019</b>	<b>86,780</b>	<b>1,728</b>	-	<b>5,442</b>	<b>1,261,394</b>	<b>183</b>	<b>1,261,577</b>
<b>Capital transactions with shareholders</b>												
Capital increase	51,388	-	-	-	-	(51,388)	-	-	-	-	373	373
Stock option plan	-	-	-	6,297	-	-	-	-	-	6,297	-	6,297
Dividends of previous year	-	-	-	-	-	-	-	-	(5,442)	(5,442)	(294)	(5,736)
Dividends	-	-	-	-	-	-	-	(17,978)	-	(17,978)	(164)	(18,142)
Interest on equity	-	-	-	-	-	-	-	(27,785)	-	(27,785)	-	(27,785)
Treasury shares	-	1,469	-	(1,469)	-	-	-	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	<b>18,976</b>	<b>51,580</b>	-	<b>70,556</b>	<b>1,080</b>	<b>71,636</b>
Profit for the year	-	-	-	-	-	-	-	59,548	-	59,548	1,095	60,643
Cumulative adjustment for currency exchange	-	-	-	-	-	-	18,976	-	-	18,976	-	18,976
Opening balance CPC 47 / CPC 48	-	-	-	-	-	-	-	(7,968)	-	(7,968)	(15)	(7,983)
<b>Appropriation of retained earnings</b>	-	-	-	-	<b>2,977</b>	<b>2,840</b>	-	<b>(5,817)</b>	-	-	-	-
<b>As at December 31, 2018</b>	<b>1,041,229</b>	<b>(70,026)</b>	<b>(25,518)</b>	<b>195,425</b>	<b>86,996</b>	<b>38,232</b>	<b>20,704</b>	-	-	<b>1,287,042</b>	<b>1,178</b>	<b>1,288,220</b>
Effect of adoption of IFRS 16 Leases	-	-	-	-	-	-	-	4,263	-	4,263	13	4,276
<b>Capital transactions with shareholders</b>												
Issuance of share capital, net of issuance costs	341,280	-	-	696,278	-	-	-	-	-	1,037,558	-	1,037,558
Share-based compensation plan	-	-	-	13,504	-	-	-	-	-	13,504	-	13,504
Sale of consolidated subsidiary	-	-	-	-	-	-	-	-	-	-	(354)	(354)
Dividends	-	-	-	-	-	-	-	(24,817)	24,817	-	(494)	(494)
Interest on shareholders' equity	-	-	-	-	-	-	-	(80,081)	-	(80,081)	-	(80,081)
Treasury shares	-	7,495	-	(3,710)	-	-	-	-	-	3,785	-	3,785
<b>Total comprehensive income for the year</b>	-	-	-	-	-	-	<b>1,347</b>	<b>209,796</b>	-	<b>211,143</b>	<b>852</b>	<b>211,995</b>
Profit for the year	-	-	-	-	-	-	-	209,796	-	209,796	852	210,648
Cumulative adjustment for currency exchange	-	-	-	-	-	-	2,291	-	-	2,291	-	2,291
Post-employment benefit	-	-	-	-	-	-	(944)	-	-	(944)	-	(944)
<b>Appropriation of retained earnings</b>	-	-	-	-	<b>10,490</b>	<b>98,671</b>	-	<b>(109,161)</b>	-	-	-	-
<b>As at December 31, 2019</b>	<b>1,382,509</b>	<b>(62,531)</b>	<b>(25,518)</b>	<b>901,497</b>	<b>97,486</b>	<b>136,903</b>	<b>22,051</b>	-	<b>24,817</b>	<b>2,477,214</b>	<b>1,195</b>	<b>2,478,409</b>

See the accompanying notes to the individual and consolidated financial statements.

**TOTVS S.A.**  
**Statements of changes in shareholder's equity**  
**For the years ended December 31, 2020, 2019 and 2018**  
(In thousands of reais)

	Attributable to the equity holders of the parent										Non-controlling interests	Total shareholders' equity
	Share Capital	Treasury shares	Transaction between shareholders	Capital Reserve	Legal Reserve	Profit Reserve	Other comprehensive income	Retained earnings	Additional proposed dividend	Total Equity		
<b>As at December 31, 2019</b>	<b>1,382,509</b>	<b>(62,531)</b>	<b>(25,518)</b>	<b>901,497</b>	<b>97,486</b>	<b>136,903</b>	<b>22,051</b>	<b>-</b>	<b>24,817</b>	<b>2,477,214</b>	<b>1,195</b>	<b>2,478,409</b>
<b>Capital transactions with shareholders</b>												
Share-based compensation plan	-	-	-	24,650	-	-	-	-	-	24,650	-	24,650
Prior-year dividends	-	-	-	-	-	-	-	-	(24,817)	(24,817)	-	(24,817)
Acquisitions of non-controlling interests	-	-	1,195	-	-	-	-	-	-	1,195	(1,195)	-
Disposal of shares on a share-based payment	-	8,728	-	(7,000)	-	-	-	-	-	1,728	-	1,728
Purchases of treasury shares	-	(94,734)	-	-	-	-	-	-	-	(94,734)	-	(94,734)
Interest on shareholders' equity (Note 27)	-	-	-	-	-	-	-	(96,519)	-	(96,519)	-	(96,519)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,490</b>	<b>294,959</b>	<b>-</b>	<b>315,449</b>	<b>-</b>	<b>315,449</b>
Profit for the year	-	-	-	-	-	-	-	294,959	-	294,959	-	294,959
Cumulative adjustment for currency exchange	-	-	-	-	-	-	20,515	-	-	20,515	-	20,515
Post-employment benefit	-	-	-	-	-	-	(25)	-	-	(25)	-	(25)
<b>Appropriation of retained earnings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,748</b>	<b>132,732</b>	<b>-</b>	<b>(198,440)</b>	<b>50,960</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>As at December 31, 2020</b>	<b>1,382,509</b>	<b>(148,537)</b>	<b>(24,323)</b>	<b>919,147</b>	<b>112,234</b>	<b>269,635</b>	<b>42,541</b>	<b>-</b>	<b>50,960</b>	<b>2,604,166</b>	<b>-</b>	<b>2,604,166</b>

See the accompanying notes to the individual and consolidated financial statements.

**TOTVS S.A.****Individual and consolidated statements of cash flows****For the years ended December 31, 2020, 2019 and 2018**

(In thousands of Reais)

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Cash flow from operating activities</b>						
<b>Profit before income and social contribution taxes from continuing operations</b>	<b>317,639</b>	<b>261,955</b>	<b>141,516</b>	<b>382,104</b>	<b>324,027</b>	<b>184,676</b>
Adjustments for :						
Depreciation and amortization ( Notes 16 and 17)	124,758	118,346	93,774	204,587	147,033	122,291
Share-based payments transactions (Note 28)	24,650	13,504	6,297	24,650	13,504	6,297
Losses on disposal of fixed assets and investments	(2,480)	(12,403)	(1,245)	(2,245)	(14,917)	(843)
Impairment loss on trade and other receivables (Note 9)	26,115	19,066	24,226	43,856	28,434	36,992
Share of losses of equity accounted investees (Note 15)	(125,873)	(104,718)	(65,501)	294	248	517
Provision for contingencies, net of reversals (Note 24)	34,892	47,752	47,591	44,125	56,679	50,294
Reversals of provision net of additional provisions on other obligations and others	(2,072)	(365)	(8,527)	(27,532)	(3,732)	(8,238)
Senior shares and mezzanine remuneration (FIDC)	-	-	-	25,852	-	-
Interest and monetary variations and exchange variations differences, net and other interests	25,607	52,654	59,117	39,288	54,939	58,656
<b>Changes in operating assets and liabilities:</b>						
Trade and other receivables	(68,706)	(34,209)	20,183	(397,408)	(62,052)	(24,544)
Recoverable taxes	(2,699)	2,616	28,867	4,011	2,859	26,312
Judicial deposits	10,933	2,095	(1,113)	22,294	879	(3,624)
Other assets	2,410	(5,304)	(7,816)	(35,866)	(3,944)	3,632
Labor liabilities	(7,287)	17,512	11,531	(497)	24,480	37,715
Trade and other payables	28,433	(8,415)	10,592	29,326	(6,415)	12,532
Commissions payable	4,062	4,684	(857)	6,786	5,469	1,883
Taxes and contributions liabilities	(3,194)	2,490	11,208	3,221	(1,168)	6,255
Business partners payable	-	-	-	151,616	-	-
Other liabilities	(40,884)	(59,626)	(49,437)	(55,185)	(60,306)	(24,518)
<b>Cash generated from operating activities</b>	<b>346,304</b>	<b>317,634</b>	<b>320,406</b>	<b>463,277</b>	<b>506,017</b>	<b>486,285</b>
Interest paid	(19,128)	(115,564)	(38,261)	(21,638)	(116,841)	(39,688)
Income tax and social contributions paid	(11,992)	(8,440)	(2,629)	(69,897)	(43,877)	(28,759)
<b>Net cash from operating activities</b>	<b>315,184</b>	<b>193,630</b>	<b>279,516</b>	<b>371,742</b>	<b>345,299</b>	<b>417,838</b>
<b>Cash flow used in investing activities</b>						
Share Capital increase in subsidiaries	(426,347)	(127,523)	(39,129)	-	-	(2,467)
Dividends received	62,000	66,033	15,481	-	-	-
Purchases of property, plant and equipment (Note 16)	(29,174)	(30,983)	(56,447)	(32,067)	(32,993)	(59,630)
Purchases of intangible assets (Note 17)	(50,405)	(27,334)	(22,661)	(52,973)	(27,390)	(22,838)
Acquisitions of subsidiaries, net of cash	-	-	-	(329,016)	-	-
Payments from acquisitions of subsidiaries	(7,121)	-	-	(7,121)	(5,433)	(12,550)
Proceeds from sale of subsidiaries, net of cash	5,000	4,928	-	19,695	25,677	-
Proceeds from sale of property, plant and equipment	2,922	2,186	3,035	3,490	3,258	3,441
Financial investments	-	-	-	42,231	-	-
<b>Net cash used in investing activities</b>	<b>(443,125)</b>	<b>(112,693)</b>	<b>(99,721)</b>	<b>(355,761)</b>	<b>(36,881)</b>	<b>(94,044)</b>
<b>Cash flow generated by/ (used in) financing activities</b>						
Payment of principal borrowings	-	(142,037)	(169,505)	(174,858)	(152,889)	(180,705)
Payment of principal debentures	(400,000)	-	-	(400,000)	-	-
Payment of principal lease liabilities	(46,694)	(56,607)	(25,908)	(54,624)	(61,617)	(25,973)
Proceeds from debentures, loans and financing	196,924	-	-	296,924	-	-
Application of senior and mezzanine shares	-	-	-	7,388	-	-
Issuance of share capital, net of issuance costs	-	1,037,558	-	-	1,037,558	-
Receivables from related companies	12	3,920	(10,639)	-	-	-
Dividends and interest on equity paid	(108,228)	(49,239)	(51,092)	(108,228)	(49,898)	(51,486)
Treasury shares, net	(93,006)	3,785	-	(93,006)	3,785	-
<b>Net cash flows generated by/ (used in) financing activities</b>	<b>(450,992)</b>	<b>797,380</b>	<b>(257,144)</b>	<b>(526,404)</b>	<b>776,939</b>	<b>(258,164)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(578,933)</b>	<b>878,317</b>	<b>(77,349)</b>	<b>(510,423)</b>	<b>1,085,357</b>	<b>65,630</b>
Cash and cash equivalents at beginning of year	1,106,888	228,571	305,920	1,538,156	452,799	387,169
Cash and cash equivalents at the end of the year	527,955	1,106,888	228,571	1,027,733	1,538,156	452,799

See the accompanying notes to the individual and consolidated financial statements.

**TOTVS S.A.****Individual and consolidated statements of value added****For the years ended December 31, 2020, 2019 and 2018**

(In thousands of Reais)

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>1 – REVENUES</b>	<b>1,949,194</b>	<b>1,838,681</b>	<b>1,741,498</b>	<b>2,892,056</b>	<b>2,562,504</b>	<b>2,345,906</b>
1,1 Sales of goods, products and services	1,971,993	1,840,723	1,756,824	2,907,938	2,566,950	2,375,273
1,2 Other revenue	3,316	17,024	8,900	27,974	23,988	7,625
1,3 Provision for expected credit losses – recording	(26,115)	(19,066)	(24,226)	(43,856)	(28,434)	(36,992)
<b>2 - RAW MATERIALS ACQUIRED FROM THIRD-PARTIES</b> (includes ICMS and IPI taxes)	<b>(619,578)</b>	<b>(654,198)</b>	<b>(650,948)</b>	<b>(813,338)</b>	<b>(799,831)</b>	<b>(790,877)</b>
2,1 Cost of goods and services sold	(108,301)	(92,950)	(79,814)	(158,369)	(102,741)	(92,792)
2,2 Materials, energy, outsourced services and other	(510,200)	(517,980)	(494,042)	(653,892)	(653,822)	(620,993)
2,3 Results from discontinued operations	(1,077)	(43,268)	(77,092)	(1,077)	(43,268)	(77,092)
<b>3 - GROSS VALUE ADDED (1-2)</b>	<b>1,329,616</b>	<b>1,184,483</b>	<b>1,090,550</b>	<b>2,078,718</b>	<b>1,762,673</b>	<b>1,555,029</b>
<b>4 - DEPRECIATION AND AMORTIZATION</b>	<b>(124,758)</b>	<b>(118,346)</b>	<b>(93,774)</b>	<b>(204,587)</b>	<b>(147,033)</b>	<b>(122,291)</b>
<b>5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)</b>	<b>1,204,858</b>	<b>1,066,137</b>	<b>996,776</b>	<b>1,874,131</b>	<b>1,615,640</b>	<b>1,432,738</b>
<b>6 - VALUE ADDED RECEIVED THROUGH TRANSFERS</b>	<b>154,594</b>	<b>160,599</b>	<b>90,719</b>	<b>47,050</b>	<b>69,064</b>	<b>37,378</b>
6,1 Share of losses of equity accounted investees	125,873	104,718	65,501	(294)	(248)	(517)
6,2 Finance income	28,721	55,881	25,218	47,344	69,312	37,895
<b>7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)</b>	<b>1,359,452</b>	<b>1,226,736</b>	<b>1,087,495</b>	<b>1,921,181</b>	<b>1,684,704</b>	<b>1,470,116</b>
<b>8 - VALUE ADDED DISTRIBUTION</b>	<b>1,359,452</b>	<b>1,226,736</b>	<b>1,087,495</b>	<b>1,921,181</b>	<b>1,684,704</b>	<b>1,470,116</b>
<b>8,1 Personnel</b>	<b>749,827</b>	<b>704,374</b>	<b>685,813</b>	<b>1,106,293</b>	<b>992,180</b>	<b>927,346</b>
8,1,1 Direct Compensation	621,166	570,362	552,655	919,351	810,449	758,777
8,1,2 Benefits	82,488	83,432	83,399	120,744	112,446	104,543
8,1,3 FGTS (Unemployment fund)	46,173	50,580	49,759	66,198	69,285	64,026
<b>8,2 Taxes and contributions</b>	<b>277,936</b>	<b>252,897</b>	<b>238,525</b>	<b>458,841</b>	<b>409,421</b>	<b>360,788</b>
8,2,1 Federal	224,940	202,395	191,198	382,350	337,110	295,642
8,2,2 State	44	33	29	1,757	1,372	1,262
8,2,3 Local	52,952	50,469	47,298	74,734	70,939	63,884
<b>8,3 Interest and rent</b>	<b>36,730</b>	<b>59,669</b>	<b>103,609</b>	<b>61,088</b>	<b>72,455</b>	<b>121,339</b>
8,3,1 Interest	35,686	58,423	67,930	58,778	70,490	78,357
8,3,2 Rents	1,044	1,246	35,679	2,310	1,965	42,982
<b>8,4 Equity remuneration</b>	<b>294,959</b>	<b>209,796</b>	<b>59,548</b>	<b>294,959</b>	<b>210,648</b>	<b>60,643</b>
8,4,1 Interest on equity	96,519	80,081	27,785	96,519	80,081	27,785
8,4,2 Dividends	50,960	24,817	17,978	50,960	24,817	17,978
8,4,3 Retained profit / loss for the year	147,480	104,898	13,785	147,480	104,898	13,785
8,4,4 Non-controlling interest in retained profits	-	-	-	-	852	1,095

See the accompanying notes to the individual and consolidated financial statements.

## TOTVS S.A.

### Notes to the individual and consolidated financial statements

#### For the years ended December 31, 2020, 2019 and 2018

(In thousands of Reais, unless otherwise stated)

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## 1. Operations

### a) The Company

TOTVS S.A. (“TOTVS”, or “Company”) is a publicly held corporation headquartered at Av, Braz Leme, 1000, in the city and state of São Paulo, whose shares are traded on the Novo Mercado of B3 S.A. – Brasil, Bolsa, Balcão.

### b) Operations

The Company’s is principally engaged to provide business solutions for companies of all sizes, through the development and sale of management software, productivity and collaboration platform, as well as services of implementation, consulting, assistance, maintenance, e-commerce and mobility. The solutions developed by the Company and its subsidiaries are segmented according to the diverse sectors of the economy, resulting in greater importance of the solutions in our clients’ business.

On April 30, 2020, the Company completed the acquisition of Supplier Participações S.A. (“Supplier”), Supplier is a business to business company focused on development of solutions for the relationship between customers and suppliers, In addition, with the acquisition of Supplier, the Company began operating in the financial services, issuance and credit card management business, including credit analysis and intermediation of financing requests in its businesses. Supplier holds subordinated quotas of a securitization fund known as Fundo de Investimentos em Direitos Creditórios (“Supplier FIDC”), which purchases, sales and securitizes own or third-party credit rights. The investment in FIDC has been included in Company consolidated financial statements. See Note 4.1 (c).

Until 2019, the Company, through certain subsidiaries, performed hardware manufacturing and sale activities, combining specialized solutions for system management, points of sale (“POS”), commercial automation and tax solutions. Strategically aiming to focus on the software business, the Company decided to sell these subsidiaries in the first quarter of 2019, a process that was concluded during the year.

### c) Impacts of the Covid-19 pandemic

The Company is monitoring the impacts of the COVID-19 pandemic and has been taking preventive and mitigating measures in line with the guidelines set forth by health authorities regarding the safety of its employees (TOTVERS) and the continuity of its operations.

The main actions adopted by the Company were: (i) the establishment of a Crisis Committee which developed several actions for its ecosystem in the period, promoting social responsibility with the industry, society and employees; (ii) adoption of remote work (home office) practice for all its units, and an evaluation of the possibility of gradual and voluntary return of the TOTVERS who did not declare themselves as part of high risk groups to the offices in safety, based on official health guidelines of the cities in which we have operations; (iii) suspension of international travelling and restrictions on domestic travelling; and (iv) implementation, together with our health plan operator, of a 24-hour telephone assistance service for TOTVERS.

It is important to mention that the Company did not reduced wages and the working hours of its employees during the pandemic period, or promoted headcount reductions outside the normal course of its operations.

## Impact analyses on Financial Statements

In view of the current uncertain economic scenario, caused by the Covid-19 pandemic and in compliance with Official Letters CVM/SNC/SEP/No,02/2020 and No.03/2020, the Company reviewed the main accounting estimates used in the explanatory notes, as follows:

- (i) **Assessment of the impairment loss on trade and other receivables:** The Company assesses the variables that make up the methodology for measuring estimated losses, through the projections rolling of each portfolio range, capturing the estimated reflexes in default and credit recovery for the following months, which resulted an increase in coverage of estimated losses in the portfolios in general, as can be seen in note 9. On the other hand, in the third quarter of 2020, the Company observed a significant improvement compared with the second quarter of 2020, both in e timely payment of customers and in decrease in estimated losses. It's important to mention that Management continues monitoring the economic scenario and assessing any possible impacts on the measurement of estimated losses.
- (ii) **Impairment testing of intangible assets with an indefinite useful live:** The Company assessed the recoverability of its assets through a sensitivity analysis of cash-generating units and did not detect the need for a provision for loss in its financial information for the year ended December 31, 2020.
- (iii) **Volume of credit originating from subsidiary Supplier:** The Company observed a temporary decrease in the volume of credit rights of the subsidiary Supplier Administradora in the second quarter, due to the economic scenario impacted by the Covid-19 pandemic, with recovery during the second semester of 2020.
- (iv) **Non recurring service revenue:** Revenues from software implementation and customization services had little impact, since the vast majority of our customers accepted the performance of services remotely.
- (v) **Recoverability of deferred taxes:** Recoverability of deferred tax assets is reviewed annually or when the availability of future taxable profits for the recovery of the asset, in total or in part, is not probable. In the management view, the current scenario impacted by Covid-19 pandemic did not affect projections of future taxable income and allows recoverability of credits for next years.
- (vi) **Debentures:** On April 22, 2020, the Company approved the issuance of debentures in the total amount of R\$200,000, to cover eventual cash needs during the Covid-19 pandemic. On August 10, 2020, the Company opted for early redemption, with the debt settled in this quarter (note 21).

In addition to the items highlighted above, the Company has been closely monitoring liquidity and credit risks as mentioned in note 6.6.

## 2. Basis of preparation and presentation of the financial statements

### 2.1. Compliance statement

The individual and consolidated financial statements were prepared and are presented in accordance with the accounting practices adopted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee ("CPC") and the rules issued by the Brazilian Securities and Exchange Commission ("CVM"), as well as the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and show all material information strictly relating to the financial statements, and only this, which is consistent with that used by the management.

## 2.2. Basis of preparation and presentation

The Financial Statements presented in this document were approved at the Board of Directors' Meeting held on February 8, 2021, after a recommendation by the Audit Committee at a meeting held on February 1, 2021. The restatement of these financial statements previously issued were approved by the Board of Directors on February 07, 2022, after recommendation by the Audit Committee at a meeting held on February 03, 2022 as described in the Note 2.4 a.

The financial statements were prepared on the historical cost basis, except for the valuation of certain assets and liabilities, such as financial instruments from business combinations, which are measured at their fair value. The individual and consolidated financial statements present comparative information in relation to the previous year.

All the amounts in these Financial Statements are in thousands of Brazilian Reais, unless otherwise stated.

Moreover, the Company considered the guidelines issued under Accounting Guidance OCPC07 when preparing its financial statements. Therefore, the relevant information pertaining specifically to the financial statements is highlighted and corresponds to that used by the Management in managing the company.

## 2.3. Consolidation basis

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2020, 2019 and 2018. Control is achieved when the Company and its subsidiaries are exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if, and only if, the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses such control. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Company gains control until the date it ceases to control the subsidiary.

Investments in associates are accounted for under the equity method and are initially recognized at cost.

Joint operations are accounted for in the financial statements to represent the Company's contractual rights and obligations. Accordingly, assets, liabilities, revenues and expenses related to their interests in joint operation are accounted for individually in the financial statements, Investments in associates are accounted for using the equity method and are initially recognized at cost.

Profit or loss and each component of Other Comprehensive Income - OCI are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intercompany assets and liabilities, shareholders' equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

The consolidated financial statements include the operations of the Company and the following subsidiaries and associates. The percentages of the interests held by the Company at the statement of financial position date are summarized below:

**Direct interest:**

Corporate Name	Head office	Name used	Note	% Interest		
				2020	2019	2018
TOTVS Serviços Ltda.	BRA	TOTVS Serviços	(i)	-	-	100.00
Soluções em Software e Serviços TTS Ltda.	BRA	TTS		100.00	100.00	100.00
TOTVS Tecnologia em Software de Gestão Ltda	BRA	TOTVS Tecnologia em Software		100.00	100.00	100.00
TOTVS Hospitality Ltda.	BRA	TOTVS Hospitality		74.20	74.20	74.20
VT Comércio Digital S.A.	BRA	VT Digital	(ii)	50.00	50.00	100.00
TOTVS Argentina S.A.	ARG	TOTVS Argentina		100.00	100.00	100.00
Datasul Argentina S.A.	ARG	Datasul Argentina	(x)	100.00	100.00	100.00
TOTVS México S.A.	MEX	TOTVS México		100.00	100.00	100.00
Datasul S.A. de CV.	MEX	Datasul México	(x)	100.00	100.00	100.00
TOTVS Corporation	BVI	TOTVS Corporation	(x)	100.00	100.00	100.00
TOTVS Incorporation	EUA	TOTVS Inc.		100.00	100.00	100.00
Neolog Consultoria e Sistemas S.A.	BRA	Neolog	(vii)	100.00	60.00	60.00
Ciashop - Soluções para Comércio Eletrônico S.A.	BRA	Ciashop	(iii)	-	-	70.00
TOTVS Large Enterprise Tecnologia S.A.	BRA	TOTVS Large		100.00	100.00	100.00
TFS Soluções em software Ltda.	BRA	TFS		100.00	100.00	100.00
CM Soluciones – Argentina	ARG	CMNet Argentina		100.00	100.00	-
TOTVS Serviços de Desenvolvimento e Consultoria em Tecnologia da Informação Ltda.	BRA	Eleve	(iv)	100.00	100.00	-
Katrina Participações S.A.	BRA	Katrina	(viii)	100.00	-	-

**Indirect Interest:**

Corporate Name	Head office	Name used	Investor	Note	% Interest		
					2020	2019	2018
DTS Consulting Partner. SA de CV	MEX	Partner	TOTVS México	(x)	100.00	100.00	100.00
Webstrategie Software Ltda.	BRA	Webstrategie	TTS	(vi)	-	-	100.00
TOTVS Reservas Ltda.	BRA	TOTVS Reservas	TOTVS Hospitality		100.00	100.00	100.00
Bematech Hardware Ltda.	BRA	Bematech Hardware	TOTVS Large	(v)	-	-	100.00
Bematech Ásia Co.Ltd.	TWN	Bematech Ásia	TOTVS Large	(x)	100.00	100.00	100.00
Bematech Argentina S.A.	ARG	Bematech Argentina	TOTVS Large	(x)	100.00	100.00	100.00
Bematech Internacional Corp.	EUA	BIC	TOTVS Large	(v)	-	-	100.00
Logic Controls, Inc	EUA	Logic Controls	BIC	(v)	-	-	100.00

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FICE - Bematech Foshan Shunde Ltd.				(v)	-	-	100.00
CMNet Participações S.A.	BRA	CMNet Participações	TOTVS Large		100.00	100.00	100.00
CM Soluciones – Argentina	ARG	CMNet Argentina	CMNet Participações		-	-	100.00
TOTVS Hospitality Technology Portugal Lda – (antiga CMDIR – Soluções Informática. Lda)	PRT	CMNet Portugal	CMNet Participações		100.00	100.00	100.00
CM Soluciones – Chile	CHL	CMNet Chile	CMNet Participações		100.00	100.00	100.00
CMNet Espanha	ESP	CMNet Espanha	CMDIR - Soluções	(x)	100.00	100.00	100.00
RJ Participações S.A.	BRA	RJ Participações	TOTVS Large		100.00	100.00	100.00
R.J. Consultores en Sistemas de Información S.C.	MEX	RJ México	RJ Participações		100.00	100.00	100.00
R.J. Consultores e Informática Ltda.	BRA	RJ Consultores	RJ Participações		100.00	100.00	100.00
Consinco S.A.	BRA	Consinco	TTS	(ix)	100.00	-	-
Weath Systems Informática Ltda.	BRA	WS	TOTVS Large	(ix)	100.00	-	-
Supplier Investimentos Ltda.	BRA	Supplier Investimentos	TOTVS Tecnologia em Software	(ix)	100.00	-	-
Supplier Participações S.A.	BRA	Supplier	TOTVS Tecnologia em Software	(ix)	51.27	-	-
Supplier Participações S.A.	BRA	Supplier	Investimentos Ltda,	(ix)	37.48	-	-
Supplier Administradora de Cartão de Cartão de Crédito S.A.	BRA	Supplier Administradora	Supplier Participações	(ix)	88.75	-	-
Tail Target Tecnologia de Informação Ltda	BRA	Tail	TOTVS Large	(ix)	100.00	-	-
TOTVS Hospitality Ltda.	BRA	TOTVS Hospitality	TOTVS Large		25.80	25.80	25.80
National Computer Corporation (coligada)	RUS	NCC	TOTVS México	(xi)	19.00	19.00	19.00
Cartão de compra Supplier Fundo de Investimento em Direitos Creditórios	BRA	Supplier FIDC	Supplier Participações	(xii)	-	-	-

- (i) On July 31, 2019, subsidiary TOTVS Serviços was merged into subsidiary TOTVS Large Enterprise Company with net assets of R\$46,906. The net assets were valued by experts who issued a valuation report on June 30, 2019. Any changes in the net assets after the reporting date until the effective merger date were absorbed by TOTVS Large.
- (ii) On July 31, 2019, The Company announced a conclusion of the contractual conditions between TOTVS and Companhia Brasileira de Tecnologia para E-commerce (VTEX) for the creation of VT Comércio Digital SA., a company in which TOTVS and VTEX hold each 50% interest in its capital for the purposes of joint operation.
- (iii) Company sold as of July 31, 2019 as mentioned in Note 5.
- (iv) Company created to segregate some groups' operations.
- (v) Companies related the hardware operation that were sold during 2019 as mentioned in Note 5.
- (vi) Company shutdown on July 18, 2019.
- (vii) On January 28, 2020, the Company acquired the remaining 40% interest in the share capital of subsidiary Neolog for R\$7,121, The share purchase option was recorded under the "Liabilities due to investment acquisitions".
- (viii) Company created on July 20, 2020 for the purpose of assisting in the business combination, which remains non-operating until December 31, 2020.
- (ix) Companies acquired in 2020, as mentioned in Note 4.
- (x) Dormant companies that will be closed.
- (xi) TOTVS directly owns 0.5% and indirectly 18.5% of the share capital of NCC.
- (xii) The consolidated Financial Statement includes the Supplier FIDC, since the Company acquired subordinated quotas, which maintain most of the Fund's risk and rewards.

Comparing the consolidated profit or loss between 2020, 2019 and 2018, the acquisition dates of each subsidiary must be considered. Thus, the financial information as at December 31, 2019 does not include the profit or loss of subsidiaries Consinco, Wealth Systems, Supplier and Tail, which were included in the consolidated financial statements as from the date of their acquisition.

The main activities of the group companies refer to the software business as mentioned in note 1 (b), with the exception of RJ Participações S.A. and CMNet Participações S.A., which are primarily engaged in holding interests and investing in other software companies as a holding. The Supplier companies, including Supplier FIDC, refer to financial services and credit products.

## **2.4. Summary of significant accounting practices**

Below is a summary of key accounting practices adopted by the Company, highlighting only information considered relevant by Management.

### **a) Changes in the comparative and restated amounts**

During the year of 2021, the company identified the necessity to change the presentation criteria of depreciation and amortization criteria, as well as, the Provision for expected credit losses in according to CPC 26/IAS 41. The purpose of this change is adjust the headings described above by function in the Statement of Profit or Loss, which in the Management understanding, better informs to the users of these financial statements.

The rubric “Depreciation and amortization” were reclassified by line from the Statement of Profit or Loss considering the follow criteria:

- (i) Facilities, furnitures and fixtures, rights of use and improvements according to use by the areas;
- (ii) Computers and electronic equipments were allocated according to use by the professional, except cloud equipments which were allocated in the rubric “Cost of services”, because are directly related to rendered services for the customer;
- (iii) The intangibles amortization originated by price purchase allocation of business combination were reclassified for rubric “Administrative expenses”.

Lastly, the rubric Impairment loss on trade and other receivables were reclassified for the rubric “Selling and marketing expenses”.

In accordance to CPC 23/ IAS 8, the Company is presenting the impacts and restating the Statements of Profit or Loss from individual and consolidated regarding the years ended December 31, 2020, 2019 and 2018 and respectively note affected by the reclassification proceeded (note 29 – operating segments). The reclassifications were realized as follows:

- (i) Statement of Profit or Loss from the year ended on December 31, 2020

(A free translation of the original in Portuguese)

	Individual			Consolidated		
	Published	Reclassification	Restated	Published	Reclassification	Restated
Software revenue	1,748,979	-	1,748,979	2,467,959	-	2,467,959
Credit products	-	-	-	128,118	-	128,118
<b>Net revenue from services and sales</b>	<b>1,748,979</b>	<b>-</b>	<b>1,748,979</b>	<b>2,596,077</b>	<b>-</b>	<b>2,596,077</b>
Cost of software	(546,380)	(63,653)	(610,033)	(734,770)	(69,422)	(804,192)
Cost of credit products	-	-	-	(41,934)	-	(41,934)
<b>Gross profit</b>	<b>1,202,599</b>	<b>(63,653)</b>	<b>1,138,946</b>	<b>1,819,373</b>	<b>(69,422)</b>	<b>1,749,951</b>
<b>Operating income (expenses)</b>						
Research and development expenses	(279,397)	(25,958)	(305,355)	(431,348)	(30,828)	(462,176)
Selling and marketing expenses	(355,275)	(44,376)	(399,651)	(474,373)	(64,294)	(538,667)
General and administrative expenses	(222,056)	(16,886)	(238,942)	(299,990)	(83,899)	(383,889)
Depreciation and amortization	(124,758)	124,758	-	(204,587)	204,587	-
Impairment loss on trade and other receivables	(26,115)	26,115	-	(43,856)	43,856	-
Other operating income (expenses)	3,733	-	3,733	28,613	-	28,613
<b>Operating profit</b>	<b>198,731</b>	<b>-</b>	<b>198,731</b>	<b>393,832</b>	<b>-</b>	<b>393,832</b>

The financial statements were published originally on February 10, 2021.

(ii) Statement of Profit or Loss from the year ended on December 31, 2019

	Individual			Consolidated		
	Published	Reclassification	Restated	Published	Reclassification	Restated
Software revenue	1,630,722	-	1,630,722	2,282,124	-	2,282,124
Cost of software	(549,991)	(59,865)	(609,856)	(743,855)	(65,639)	(809,494)
<b>Gross profit</b>	<b>1,080,731</b>	<b>(59,865)</b>	<b>1,020,866</b>	<b>1,538,269</b>	<b>(65,639)</b>	<b>1,472,630</b>
<b>Operating income (expenses)</b>						
Research and development expenses	(273,155)	(28,824)	(301,979)	(397,824)	(34,211)	(432,035)
Selling and marketing expenses	(330,128)	(34,963)	(365,091)	(423,997)	(45,904)	(469,901)
General and administrative expenses	(198,966)	(13,760)	(212,726)	(239,791)	(29,713)	(269,504)
Depreciation and amortization	(118,346)	118,346	-	(147,033)	147,033	-
Impairment loss on trade and other receivables	(19,066)	19,066	-	(28,434)	28,434	-
Other operating income (expenses)	18,709	-	18,709	24,262	-	24,262
<b>Operating profit</b>	<b>159,779</b>	<b>-</b>	<b>159,779</b>	<b>325,452</b>	<b>-</b>	<b>325,452</b>

The financial statements were published originally on February 12, 2020 comparative with the year of 2018 indicated in (iii) below:

(iii) Statement of Profit or Loss from the year ended on December 31, 2018

(A free translation of the original in Portuguese)

	Individual			Consolidated		
	Published	Reclassification	Restated	Published	Reclassification	Restated
Software revenue	1,558,113	-	1,558,113	2,111,160	-	2,111,160
Cost of software	(555,505)	(42,361)	(597,866)	(739,210)	(46,574)	(785,784)
<b>Gross profit</b>	<b>1,002,608</b>	<b>(42,361)</b>	<b>960,247</b>	<b>1,371,950</b>	<b>(46,574)</b>	<b>1,325,376</b>
<b>Operating income (expenses)</b>						
Research and development expenses	(276,150)	(14,769)	(290,919)	(382,078)	(19,849)	(401,927)
Selling and marketing expenses	(301,406)	(29,868)	(331,274)	(386,150)	(43,986)	(430,136)
General and administrative expenses	(197,365)	(31,002)	(228,367)	(228,165)	(48,874)	(277,039)
Depreciation and amortization	(93,774)	93,774	-	(122,291)	122,291	-
Impairment loss on trade and other receivables	(24,226)	24,226	-	(36,992)	36,992	-
Other operating income (expenses)	9,040	-	9,040	9,381	-	9,381
<b>Operating profit</b>	<b>118,727</b>	<b>-</b>	<b>118,727</b>	<b>225,655</b>	<b>-</b>	<b>225,655</b>

These reclassifications do not impact the Statement of Financial Position, Statements of Comprehensive Income, Statements of Cash Flows, Statements of Value Added.

## b) Translation of balances denominated in foreign currency

The functional currency of the Company and its subsidiaries domiciled in Brazil is the Brazilian Real, the same currency used to prepare and present the parent company and consolidated financial statements.

Regarding subsidiaries located abroad considered independent by the Management as they have administrative, financial and operating autonomy, their assets and liabilities are translated into Brazilian real at the foreign exchange rate on statement of financial position closing dates and their profit or loss are translated into Brazilian real at the average monthly rates of the periods. Adjustments to investments arising from foreign exchange are recognized as cumulative translation adjustments under equity.

## c) Fair value measurement

The Company and its subsidiaries measure financial instruments at fair value on each reporting date, Fair value is the price that would be received for the sale of an asset or paid for the transfer of a liability through an unforced transaction between market players on the measurement date.

Fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liabilities will take place: (i) in the main market for the asset or liability; or (ii) In the absence of a main 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 measurement of the fair value of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset to its best possible use or by selling it to another market participant who would use the asset to its best use.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the following fair value hierarchy, based on the lowest-level information that is significant for the measurement of the fair value as a whole:

- Level 1 – Market prices quoted (without adjustments) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest-level information that is significant for measuring the fair value is directly or indirectly observable;

- Level 3 – Valuation techniques for which the lowest-level information that is significant for measuring the fair value is not available.

For assets and liabilities recognized at fair value in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels of the hierarchy, reassessing the categorization (based on the lowest and most significant information for measuring the fair value as a whole) in the end of each reporting period.

## **d) Financial Instruments**

### **i) Financial assets**

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade and other receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs. Trade and other receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price as disclosed in Note 9.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest' (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortized cost are held within a business model with the objective holding financial assets in order to collect contractual cash flows while financial assets classified and measured at fair value through OCI are held within a business model with the objective of both holding to collect contractual cash flows and selling.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

### **Subsequent measurement**

For purposes of subsequent measurement, financial assets are classified in three categories:

- Financial assets at amortized cost (debt instruments);
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at fair value through profit or loss.

### **Financial assets at amortized cost**

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) 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 at amortized cost includes cash and cash equivalents, short-term investments, escrow account, trade and other receivables, franchises loan and receivables from investments disposed of included in other current financial assets (Note 14).

### **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of profit or loss. The Company's holds investments in companies, the share of which is held indirectly through venture capital organization and which are measured at fair value through profit or loss.

### **Derecognition**

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is primarily derecognized (i.e., removed from the Company's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership, When it has neither transferred nor retained substantially all risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognize the transferred asset to the extent of its continuing involvement, In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### **Impairment**

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Disclosures for significant assumptions – Note 3; and
- Trade and other receivables – Note 9.

The Company recognizes an impairment loss on trade and other receivables for all debt instruments not held at fair value through profit or loss. Impairment loss on trade and other receivables are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For trade and other receivables and contract assets, the Company applies a simplified approach in calculating impairment loss on trade and other receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime impairment loss on trade and other receivables at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

## **ii) Financial liabilities**

All financial liabilities are recognized initially at fair value and, more or less, in the case of a financial liability other than at fair value through profit or loss, transaction costs that are directly attributable to the issuance of the financial liability. The Company's financial liabilities include trade and other payables, loans and financing, lease liabilities, debentures and accounts payable from acquisition of subsidiaries.

### **Subsequent measurement**

For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at amortized cost
- Financial liabilities at fair value through profit or loss

#### **Financial liabilities at amortized cost**

This is the category most relevant to the Company, After initial recognition, the financial liabilities are measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss. This category usually applies to loans and financing, debentures and lease liabilities granted and taken out, subject to interest. For more information see notes 20 and 21.

#### **Financial liabilities at fair value through profit or loss**

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in CPC 48 / IFRS 9 are satisfied. The Company has designated some accounts payable from acquisition of subsidiaries (see note 23) as at fair value through profit or loss.

### **Derecognition**

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated 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 profit or loss.

### **iii) Offsetting of financial instruments**

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

### **e) Provision for impairment of assets**

Management annually reviews the net book values of assets with a view to evaluating the impact of events or economic, operational and technological changes that may indicate deterioration or impairment. When such evidence is identified and the net book value exceeds the recoverable amount, a provision is established for the impairment, adjusting the net book value to the recoverable amount.

Goodwill paid for expected future profitability is tested annually for impairment or when circumstances indicate a loss due to the depreciation of its book value (see note 17.1).

### **f) Leases**

The Company and its subsidiaries apply a single approach for recognition and measurement of all leases, except for short-term leases and low-value assets. On the initial date of the lease, the lessee recognizes the lease liabilities measured at present value of the payments to be made over the term of the lease and the right-of-use assets representing the right to use the underlying asset. While calculating the present value of lease payments, the Company applies its incremental borrowing rate on the initial date since the implicit interest rate of the lease cannot be easily determined.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

At the commencement date of the lease, the Company and its subsidiaries recognize lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company and its subsidiaries's lease liabilities are included in Loans, financing and lease liabilities (see Note 20).

### **g) Adjustment to present value of assets and liabilities**

Long-term monetary assets and liabilities are monetarily restated and therefore adjusted to their present value. The adjustment to present value of short-term monetary assets and liabilities is calculated, and only recorded, if it is considered relevant in relation to the financial statements taken as a whole. Based on the analysis

made and management's best estimates, the Company concluded that the adjustment to present value of current monetary assets and liabilities is immaterial in relation to the financial statements taken as a whole and, therefore, did not record any adjustments.

## **h) Intangible assets and Goodwill**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognized upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

### **Business combination and goodwill**

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquire. For each business combination, the Company and its subsidiaries elects whether to measure the non-controlling interests in the acquire at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Company and its subsidiaries acquire a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes in the fair value of the contingent consideration considered an asset or liability are recognized pursuant to CPC 48/IFRS 9 in the statement of profit or loss.

Goodwill is initially measured as the excess of the consideration transferred in relation to net assets acquired (net identifiable assets acquired and liabilities assumed). If the consideration is lower than the fair value of net assets acquired, the difference is recognized as a gain in Statement of Profit or Loss.

After initial recognition, goodwill is measured at cost, less any accumulated impairment losses. For the purpose of testing the recoverable amount, the goodwill acquired in a business combination is, as of the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination's synergies, regardless of other assets or liabilities of the acquiree to be attributed to these units.

When goodwill is part of a cash-generating unit and a portion of that unit is disposed of, the goodwill associated with the disposed portion must be included in the cost of the operation when determining the gain or loss on the disposal. The goodwill sold in these circumstances is calculated based on the proportional values of the portion sold in relation to the cash-generating unit maintained.

### **Research and development**

Research and development costs are expensed as incurred. Development expenditures related to technological innovation of existing products are capitalized when all of the following criteria are met:

- technical feasibility to complete the intangible asset in order for it to be available for use or sale;
- intention and ability to complete the intangible asset and use or sell the asset;
- how the asset will generate future economic benefit;
- the availability of technical, financial and other proper resources to complete and use or sell the asset; and
- the ability to measure reliably the expenditure during development.

The expenditures capitalized, when the criteria described above are met, include the cost of labor that are directly attributable to prepar of the asset. Development activities involve a desired plan or project for the production of new products for sale or the intention to complete the asset to figure it out.

The Company's activity presupposes continuous development, and in this context, projects are being developed, mostly focused on the Company's two new business dimensions: Techfin and Business Performance.

After the initial recognition, the asset is stated at cost, less accumulated amortization and impairment losses. Amortization of the asset begins when the development is complete and the asset is available for use. It is amortized over the period of future economic benefit. The useful life of R&D assets reflects the financial return period for each project. During the development period, the asset is tested for impairment on an annual basis.

## **i) Revenues and expenses**

Revenues are recognized when there is a contract with the customer, the performance obligations are identified, the transaction price is reliably measurable and allocated, and when the control of the goods or services are transferred to the customer. Revenues are presented net of taxes, returns, allowances and discounts, when applicable. The Company and its subsidiaries segregate revenues in recurring revenues and non-recurring revenues as following:

### **Recurring software revenue**

Recurring software revenue comprises revenue from: (i) software subscription, in which customers have access to the software on multiple devices simultaneously in its latest version; (ii) maintenance, including technical support and software upgrade; and (iii) services, including cloud computing and customer service. All these services are sold separately.

Recurring software revenue is recognized in the statement of profit or loss over time, on a monthly basis, as the services are provided, starting on the date on which services and software are made available to the client and all other revenue recognition criteria are met.

The Company and its subsidiaries capitalize the cost of variable compensation paid for the sale of software subscription and amortize such cost based on the average period customers remain with the company.

### **Non-recurring software revenue**

Non-recurring software revenue comprises revenue from: (i) software licensing fees, in which case clients are entitled to use the software; and (ii) implementation and customization services, consulting services and business education.

- (i) Revenue from software licensing fee is recognized at the point in time when all risks and rewards inherent in the license are transferred to the customer, upon software delivery, and the amount can be reliably measured and its likely that economic benefits will be generated for the Company.
- (ii) Revenues from implementation and customization services represent a performance obligation distinct from other services, billed separately and recognized over time as costs are incurred in relation to the total expected costs, realized according to the performance schedule and when there is a valid expectation of receipt from the customer. Billed revenues that do not meet the recognition criteria are not included in the respective revenue accounts and accounts receivable. Revenue from advisory and training services is recognized as the services are provided.

### **Credit products revenue**

Credit products revenue is comprised mainly: (i) discount fees charged regarding the prepayment to customers of their installment receivables. The discount is measured by the difference between the original amount payable to the customer, net of commissions and fees charged, and the prepaid amount. Revenue is recognized, once risks and rewards are transferred to the Supplier Administradora; and (ii) management fees, which are recognized at the time the services are provided and for the amount of consideration received or receivable. The transaction price is defined individually for each partner according to the contract signed between the parties.

### **Costs and expenses**

Software costs consist mainly of the salaries of consulting, support personnel, and includes costs of acquisition of databases and the price of licenses paid to third parties for resold software.

Expenses with research and development incurred by the software development area, related to new software versions and upgrades of existing software, that do not meet the capitalization criteria, are recognized as expenses, for the year in which they are incurred and stated separately from selling costs, in operating expenses. In addition, the Company capitalizes development expenses, provided that the criteria of CPC04(R1)/IAS 38 are met.

## **j) Taxation**

### ***Sales taxes***

Revenues from sales and services are subject to the following taxes and contributions at the following basic rates:

- Contribution tax on Gross Revenue for Social Integration Program (PIS) 0.65% and 1.65%;

- Contribution tax on Gross Revenue for Social Security Financing (COFINS) 3.0% and 7.6%;
- Service Tax (ISS) between 2% and 5%;
- Pension Contribution on Gross Income (CPRB) of 4.5%; and
- State value-added tax (ICMS) between 4% and 12%.

These charges are accounted for as sales deductions in the statement of profit or loss.

#### ***Income and social contribution taxes – current and deferred***

The taxation on income includes Income and Social Contribution Taxes, which stand at the nominal rate of 34% on taxable profit, recognized using the accrual basis of accounting, Income taxes are recognized in the statement of profit or loss, except if related to items directly recognized in equity or comprehensive income. In this case, the tax is also recognized in equity or comprehensive income.

Deferred tax assets are recognized only in proportion to the expectation that future taxable income is available and against which temporary differences can be used.

#### **k) Hyperinflationary economy in Argentina**

The Company has subsidiaries in Argentina, a country with hyperinflationary economy and pursuant to IAS 29/CPC 42, non-monetary assets and liabilities, equity items and the financial statements for subsidiaries in Argentina, whose functional currency is the Argentine Peso, are being restated for the change in the general purchasing power of the functional currency, applying the Consumer Price Index (IPC) of the local market.

For the purposes of converting the foreign currency to a non-hyperinflationary economy such as the Real, the comparative amounts are presented as current year amounts in the financial statements for the prior year.

The effects of hyperinflation resulting from changes in the general purchasing power from January 1, 2020, 2019 and 2018, were reported in the financial statements in a specific account for hyperinflation adjustment, in financial income (expenses), The effect in net income for the year ended December 31, 2020 was R\$930 (R\$1,688 as of December 31, 2019 and R\$1,220 as of December 31, 2018).

#### **l) Share-based compensation plan**

Executives, the chairman of the Board of Directors and some employees of the Company and its subsidiaries receive compensation in the form of share-based payments, whereby employees render services in exchange for equity instruments (equity-settled transactions). The compensation expense of share-based payments to employees is based on the fair value of the award at the grant date using an appropriate valuation model, further details of which are given in Note 28.

Compensation expense is recognized as expenses with employee benefits together with the corresponding increase in equity (other capital reserves), over the period in which the service is rendered and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for the period represents the changes in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions

are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified (due to changes in the plan, for instance), the minimum expense recognized is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

### **m) New standards, amendments and interpretations to standards issued but not yet in force**

The standards, amendments and interpretations of standards issued, but not yet in force until the date of publication of these financial statements are shown below:

**IFRS 17 Insurance Contracts** - In May 2017, the IASB issued IFRS 17 Insurance Contracts (standards not yet issued by CPC in Brazil, but which will be codified as CPC 50 - Insurance Contracts and will replace CPC 11 - Insurance Contracts), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. This standard is not applicable to the Company and its subsidiaries.

**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/CPC 26, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on future agreements.

There are no other standards, amendments and interpretations of standards issued and not yet adopted that could, in Management's opinion, have a significant impact on Statement of Profit or Loss or shareholders' equity disclosed by the Company.

### **n) New standards or amendments of standards in effect in 2020, 2019 and 2018**

The Company and its subsidiaries applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after January 1, 2020. The Company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

**Amendments in CPC 15 (R1): Definition of business.** The amendments to CPC 15 (R1) clarify that, to be considered a business, an integrated set of activities and assets must include, at a minimum, an input - input of resources and a substantive process that together contribute significantly to the capacity to generate output - output of resources. These amendments had no impact on the Company's individual and consolidated financial statements.

**Amendments to CPC 38, CPC 40 (R1) and CPC 48: Interest Rate Benchmark Reform.** The amendments to pronouncements CPC 38 and CPC 48 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. These amendments have no impact on the Company's individual and consolidated financial statements, as they does not have any interest rate hedge relationships.

**Amendments to CPC 26 (R1) and CPC 23: Material definition.** The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the Company's individual and consolidated financial statements.

**Review in CPC 00 (R2): Conceptual Framework for Financial Reporting.** The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies certain important concepts. These amendments had no impact on the Company's individual and consolidated financial statements.

**Amendments to CPC 06 (R2): Covid-19 Related Rent Concessions.** The amendments provide relief to lessees from applying CPC 06(R2) guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic.

As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under CPC 06 (R2), if the change were not a lease modification. The Company and its subsidiaries negotiated postponement of payments that did not impact lease liabilities and one-off discounts that did not constitute modification of the contract with immaterial impact on Statement of Profit or Loss.

The new standards and amendments issued by IASB and CPC in effect as from January 1, 2019, that affected the Group are:

**IFRS16/CPC 06(R2) – Leases - IFRS 16**, supersedes the previous version (R1) of the lease standard, in addition to ICPC 03 – Complementary aspects of leases. The standard introduces the principles for recognizing, measuring, reporting and disclosing lease operations and requires lessees to record all leases in accordance with a single balance sheet template, except for short-term leases and low-value assets.

The Company chose to adopt IFRS16/CPC 06(R2) using the simplified, modified retrospective approach, with cumulative effects of initially applying. Payment flows were projected without inflation and discounted at a real rate, based on the cost of the debt, since the Company understands that this is the method that best reflects the financial and equity position of these contracts. This accounting policy adopted was based on the instructions of CPC 06 (R2), which prohibits the application of indices or rates in determining lease payments.

The Company understands that there would be no material impact on the results for the period ended December 31, 2019, if its accounting policy for discounting future lease payments inflation-adjusted for the use of a nominal discount rate.

The effects on the consolidated statement of financial position accounts for the year ended December 31, 2018 and the opening balance, as of January 1, 2019 are shown below:

(A free translation of the original in Portuguese)

<b>STATEMENT OF FINANCIAL POSITION</b>	<b>Financial Statements disclosed at 12/31/2018</b>	<b>Effects of first adoption of IFRS 16/CPC 06 (R2)</b>	<b>Financial Statements at 01/01/2019</b>
Current assets	1,020,134	-	1,020,134
Other non-current assets	1,047,193	-	1,047,193
Deferred income and social contribution taxes	125,124	(2,203)	122,921
Property, plant and equipment	198,826	236,820	435,646
<b>Total assets</b>	<b>2,391,277</b>	<b>234,617</b>	<b>2,625,894</b>
Current lease	13,227	40,013	53,240
Other current liabilities	696,385	(6,480)	689,905
Non-current lease	28,962	196,458	225,420
Other non-current liabilities	364,483	350	364,833
Shareholders' Equity (i)	1,288,220	4,276	1,292,496
<b>Total liabilities and shareholders' equity</b>	<b>2,391,277</b>	<b>234,617</b>	<b>2,625,894</b>

- (i) The amount of R\$ 4,276, net of deferred taxes of R\$2,203, refers to the write-off of the deferral of the rental grace period granted at the beginning of the rental period of the real estate contracts.

For purposes of comparability, we present below the reconciliation of impacts on the consolidated statement of profit or loss for the year ended December 31, 2019 disregarding the effects of the new standards:

<b>STATEMENTS OF PROFIT OR LOSS</b>	<b>Financial Statements disclosed at 12/31/2019</b>	<b>Effects of adoption of IFRS of IFRS 16/CPC 06 (R2)</b>	<b>Financial Statements at 12/31/2019 without effects of IFRS 16/CPC 06(R2)</b>
<b>Software revenue</b>	<b>2,282,124</b>	-	<b>2,282,124</b>
Cost of software (i)	(743,855)	(16,060)	(759,915)
<b>Gross profit</b>	<b>1,538,269</b>	<b>(16,060)</b>	<b>1,522,209</b>
Research and development (i)	(397,824)	(16,197)	(414,021)
Selling and marketing expenses (i)	(423,997)	(5,363)	(429,360)
General and administrative expenses (i)	(239,791)	(6,431)	(246,222)
Depreciation and amortization	(147,033)	37,633	(109,400)
Impairment loss on trade and other receivables	(28,434)	-	(28,434)
Other net operating income (expenses)	24,262	-	24,262
<b>Income before financial effects and Share of losses of equity accounted investees</b>	<b>325,462</b>	<b>(6,418)</b>	<b>319,034</b>
Finance income (expenses) and Share of losses of equity accounted investees	(1,425)	11,683	10,258
Income and social contribution taxes	(70,111)	(1,790)	(71,901)
<b>Net income from continuing operations</b>	<b>253,916</b>	<b>3,475</b>	<b>257,391</b>
Net loss from discontinued operations	(43,268)	352	(42,916)
<b>Net income for the year</b>	<b>210,648</b>	<b>3,827</b>	<b>214,475</b>

- (i) Represents the amounts referring to the payment of the monthly rent of real estate by line of the statement of profit or loss.

Below we present the increase (decrease) in the consolidated statement of cash flow at December 31, 2019 was:

<b>Consolidated</b>	<b>2019</b>
Cash flow from operations	32,786
Cash flow from financing activities	(32,786)

**IFRIC 23 / ICPC 22 – Uncertainty over income tax treatment;** this interpretation clarifies how to apply the recognition and measurement requirements of CPC 32 whenever there is uncertainty over the treatment of income

tax. In these circumstances, the entity must recognize and measure its current or deferred tax assets or liabilities, applying the requirements of CPC 32 / IAS 12 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, determined based on this interpretation. This interpretation came into effect on January 1, 2019 and, even considering that the Company operates in a complex tax environment, management concluded that tax authorities are likely to accept it and, therefore, did not foresee any impact of its adoption on the financial statements.

The new standards and amendments issued by IASB and CPC in effect as from January 1, 2018, that affected the Group are:

**IFRS 9/CPC48 – Financial Instruments**, addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was published in July 2014, to come into force on January 1, 2018, and replaces IAS 39. The main changes introduced by IFRS 9 were: (i) new criteria for classifying financial assets; (ii) new impairment model for financial assets, a combination of expected and incurred losses, replacing the current model of losses incurred; and (iii) flexibility of requirements to adopt hedge accounting.

The Company and its subsidiaries use a provision matrix to calculate the credit loss expected for receivables and contractual assets based on the historical loss rates observed by the group and reviews this matrix in a prospective manner in order to adjust it according to the historical credit loss experience.

**IFRS 15/CPC47 - Revenue from Contracts with Customers.** The standard sets a new model containing five steps that must be applied to revenues from contracts with customers. According to IFRS 15/CPC47, revenues are recognized in an amount that reflects the consideration to which an entity expects to be entitled to in exchange for the transfer of goods or services to a customer. The new standard replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and the corresponding interpretations. The Company adopted the new standard on January 1, 2018, using the modified retrospective method, applying the practical expedient as from the date of adoption.

The table below shows the reconciliation of the new consolidated equity balances for the fiscal year ended December 31, 2017 and the opening balance on January 1, 2018, affected by the new standards below:

<b>ASSETS</b>	<b>Note</b>	<b>Financial Statements disclosed at 12/31/2017</b>	<b>Effects about first adoption of IFRS15/CPC47 and IFRS9/CPC48</b>	<b>Financial Statements at 1/1/2018</b>
<b>CURRENT ASSETS</b>		<b>1,038,346</b>	<b>(8,288)</b>	<b>1,030,058</b>
Cash and cash equivalents		387,169	-	387,169
Marketable securities		44,615	-	44,615
Trade accounts receivable	(i)	515,545	(542)	515,003
Allow ance for doubtful accounts	(iii)	(89,032)	(10,967)	(99,999)
Stocks		44,828	-	44,828
Taxes recoverable		93,097	-	93,097
Other assets	(ii)	42,124	3,221	45,345
<b>NON-CURRENT ASSETS</b>		<b>1,455,279</b>	<b>3,467</b>	<b>1,458,746</b>
Deferred income and social contribution taxes	(iv)	104,715	3,467	108,182
Other non-current assets		1,350,564	-	1,350,564
<b>Total assets</b>		<b>2,493,625</b>	<b>(4,821)</b>	<b>2,488,804</b>
<b>LIABILITIES AND EQUITY</b>				
<b>CURRENT LIABILITIES</b>		<b>619,286</b>	<b>3,162</b>	<b>622,448</b>
Taxes payable	(i)	28,725	377	29,102
Commissions payable	(i)	39,769	2,785	42,554
Other liabilities		550,792	-	550,792
<b>NON-CURRENT LIABILITIES</b>		<b>612,762</b>	<b>-</b>	<b>612,762</b>
<b>EQUITY</b>		<b>1,261,577</b>	<b>(7,983)</b>	<b>1,253,594</b>
<b>Total liabilities and equity</b>		<b>2,493,625</b>	<b>(4,821)</b>	<b>2,488,804</b>

For comparison purposes, the table below shows the reconciliation of impacts on the consolidated results for the year ended December 31, 2018, without the effects of the new standards:

	<b>Note</b>	<b>Statements of profit or loss at 12/31/2018</b>	<b>Effects about first adoption of IFRS15/CPC47 and IFRS9/CPC48</b>	<b>Statements of Profit or loss at 12/31/2018 without IFRS/CPC effects</b>
Software	(i)	2,111,160	9,153	2,102,007
Hardware		209,109	-	209,109
<b>Net revenue from services and sales</b>		<b>2,320,269</b>	<b>9,153</b>	<b>2,311,116</b>
(-) Total costs		(884,569)	-	(884,569)
<b>Gross profit</b>		<b>1,435,700</b>	<b>9,153</b>	<b>1,426,547</b>
<b>Operating income (expenses)</b>				
Other net operating income (expenses)		(840,810)	-	(840,810)
Selling and marketing expenses	(ii)	(424,784)	1,851	(426,635)
Allow ances for doubtful accounts	(iii)	(43,364)	(6,172)	(37,192)
<b>Income before financial effects and equity pickup</b>		<b>126,742</b>	<b>4,832</b>	<b>121,910</b>
Financial effects and equity pickup		(40,019)	-	(40,019)
Total of Income tax and social contribution	(iv)	(26,080)	(1,643)	(24,437)
<b>Net income for the fiscal year</b>		<b>60,643</b>	<b>3,189</b>	<b>57,454</b>

(i) The standard was applied for all agreements in effect and created the following impacts:

- Some contracts with customers offer joint hardware and software solutions, notably Bemacash. However, the Company concluded, according to IFRS 15/CPC 47, that sales of these products reflects two distinct performance obligations, since both products are offered separately, and that the control of both is transferred to the customer in distinct moments and proportions. Therefore, the Company calculated a positive impact on the opening balance of trade and other receivables of R\$5,781 on January 1, 2018, and R\$165 on software revenue for the fiscal year ended December 31, 2018.
- Contracts with customers with recurring revenues may include discounts subject to a certain grace period. Considering the probability that a significant reversal of the revenues will not happen, the Company calculated a positive impact of R\$832 in trade and other receivables on January 1, 2018, and an impact of R\$1,419 on software revenue for the fiscal year ended December 31, 2018.
- Software implementation and customization services are sold separately in contracts with customer and may be obtained from other suppliers. At present, revenue on these contracts is recognized as services are provided, thus the Company concluded that these differ from other services offered. According to IFRS 15/CPC 47, the Company concluded that revenue from implementation and customization contracts is recognized over time and adopted the input method for measurement in accordance with the requirements set forth by the standard and calculated a negative impact on accounts receivable of R\$7,155 on January 1, 2018, and of R\$7,569 on software service revenue for the fiscal year ended December 31, 2018.
- The effects applied in the aforementioned contracts with customers caused an increase of R\$2,785 in commissions in the opening balance on January 1, 2018, and a reduction of R\$44 in sales and marketing expenses for the fiscal year ended December 31, 2018.

(ii) Assets for incremental costs relating to variable compensation paid on the sale of software subscription with impact of R\$3,221 on the asset on January 1, 2018 and in profit or loss under sales and marketing expenses of R\$1,895 for the fiscal year ended December 31, 2018.

(iii) The Company and its subsidiaries, pursuant to the requirements for impairment of financial assets as per IFRS 9/CPC 48, applied the simplified approach of the prospective model for expected losses. These changes caused an impact of R\$10,967 on equity on January 1, 2018, and R\$6,172 on profit or loss under impairment loss on trade and other receivables for the fiscal year ended December 31, 2018.

(iv) The aforementioned impacts related to the application of IFRS15/CPC47 and IFRS9/CPC48 consequently caused an increase of R\$3,467 in Deferred Income and Social Contribution taxes and of R\$377 in Tax obligation on January 1, 2018. In the fiscal year ended December 31, 2018, the impact on profit or loss under Deferred Income Tax and Social Contribution was R\$1,643.

There are no other standards, amendments and interpretations for standards issued and effective from January 01, 2020, 2019 and 2018, which, in Management's opinion, may have a significant impact on the Statement of Profit or Loss or equity disclosed by the Company.

### **3. Significant accounting judgments, estimates and assumptions**

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by Company management in applying the accounting policies of TOTVS S.A. and its subsidiaries.

### 3.1 Judgments

In the process of applying consolidated accounting policies, Management made the following judgements that could have a significant effect on the amounts recognized in the individual and consolidated financial statements:

- (i) Judgements in identifying the performance obligations for sales of software, which include licensing fees, monthly software services and implementation/customization services, that can have significant effects while recognizing revenue from contacts with customers. The Company concluded that such performance obligations are distinct as they are sold separately. The implementation and customization services are offered by other suppliers.
- (ii) The Company determines the lease term as the non-cancelable contractual term, together with the periods included in a possible option for renewal as this renewal is assessed as reasonably likely to occur and with periods covered by a contract rescission option as it can also be determined as reasonably likely to occur.

### 3.2 Estimates and assumptions

The estimates and assumptions that represent a significant risk and which need a greater level of judgment and complexity for the Company's financial statements are:

- (i) **Impairment loss on trade and other receivables** the Company and its subsidiaries use a provision matrix based on the historical loss rates observed by the Company and its subsidiaries to calculate the impairment loss on trade and other receivables. The evaluation of the correlation between the observed historical loss rates, the projected economic conditions and the impairment loss on trade and other receivables represents a significant estimate. The volume of impairment loss on trade and other receivables is sensitive to changes in the predicted economic conditions and circumstances. The Company and its subsidiaries' historical experience of credit loss and the projection of economic conditions may also not represent the customer's real situation in the future. Information on impairment loss on trade and other receivables is described in Note 9.
- (ii) **Recoverable amount of tangible and intangible assets, including goodwill** – an impairment loss exists when the book value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher between the net fair value of selling expenses and the value in use. The main assumptions used to determine the recoverable amount of cash-generating units, including sensitivity analysis, are detailed in Note 17.2.
- (iii) **Fair value measurement of financial instruments** – when the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. Contingent consideration, resulting from business combinations, is measured at fair value on the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently revalued at fair value at each reporting date. The fair value is based on the discounted cash flow. The main assumptions consider the probability of reaching each objective and the discount factor (see Note 23 for more disclosures).
- (iv) **Deferred taxes** – Deferred tax assets are recognized for all tax losses not used to the extent that it is probable that there is taxable income available to allow the use of said losses, Significant judgment from Management is required to determine the value of the deferred tax asset that may be recognized, based on the probable period and level of future taxable income, coupled with future tax planning strategies. For more details, see Note 12.3.

- (v) **Provision for contingencies tied to legal proceedings** – the evaluation of probability of loss includes assessing the available evidence, hierarchy of laws, available case law, the most recent court rulings and their relevance in the legal system, as well as the opinion of external counsel. Provisions are reviewed and adjusted to account for changes in circumstances, such as applicable limitation periods, conclusion of tax audits or additional exposures identified based on new matters or court rulings. Further details in Note 24.
- (vi) **Non-recurrent revenue** – the recognition of revenue from software implementation and customization services requires the use of estimates to project the total costs required to comply with the contractual performance obligation with the client. The Company periodically reassesses these estimates and re-plans the contractual margins whenever necessary.

Settlement of the transactions involving these estimates could result in amounts that differ significantly from those recorded in the financial statements due to uncertainties inherent in the estimate process. The Company reviews its estimates at least annually.

More information on the estimates and assumptions used in the items mentioned above is provided in the respective notes.

## 4. Business combination

The Company's acquisitions reinforce the software strategy to develop an ecosystem represented by three dimensions: (i) Management - ERP, HR and vertical solutions; (ii) Techfin - B2B credit, services and payments; and (iii) Business Performance - sales lead and marketing.

### 4.1 Acquisitions of subsidiaries

#### (a) Consinco

On January 30, 2020, the Company through its subsidiary Soluções em Software e Serviços TTS Ltda, completed the acquisition of 100% of the share capital of Consinco S.A., under the terms of the contract signed on December 27, 2019, for a total amount of approximately R\$240,636, of which R\$197,000 were paid in cash upon closing of the transaction. The contract included a price adjustment after acquisition that resulted in an amount subsequently received of R\$5,624, totalizing R\$191,376. In addition, the contract provides for payment of a contingent consideration of up to R\$55,000, whose estimated fair value amounted to R\$49,260 as of the acquisition date, subject to the achievement of goals established for the acquire for 2020 and 2021 and compliance with other conditions, that will be paid in 2021 and 2022, respectively.

#### (b) Wealth Systems

On April 8, 2020, the Company acquired 100% of the share capital of Wealth Systems Ltda., through its subsidiary TOTVS Large for R\$27,000, of which R\$11,750 million were paid immediately to the sellers and the remainder will be paid based on achievement of goals established for Wealth Systems in 2023. The residual value after the price adjustment provided for in the contract on the acquisition date was R\$2,994 .

#### (c) Supplier

On April 30, 2020, after all conditions precedent were complied with, the Company completed the acquisition of 88.75% of the share capital of Supplier Participações in the amount of R\$458,405, through its subsidiary TOTVS Tecnologia em Software de Gestão Ltda. Supplier focuses on the provision of B2B credit facilities between customers and suppliers. The transaction began on October 28, 2019 and was approved by the Brazilian Antitrust Enforcement Agency (CADE) in December 2019.

Additionally, the transaction also provides for put and call options of the remaining shares of the capital of Supplier Participações that can be exercised from 2022 to 2026. The exercise price of the options will be measured based on multiples applied by Supplier's performance for each year. Considering that the put and call options of additional interests issued in favor of non-controlling interest was agreed upon in conjunction with the business combination, the fair value of the put and call option was recognized and recorded under "Accounts payable from acquisition of subsidiaries".

Supplier, according CPC 36(R3)/IFRS 10, includes Supplier FIDC in its consolidated financial statements, which is legally an investment fund authorized by the Brazilian Monetary Council, and specifically designed as investment vehicle for Brazilian credit receivables. As a consequence of the consolidation of the FIDC, the senior and mezzanine shares are accounted for as a financial liability under "Senior shares and mezzanine obligations" and the remuneration payable to the holders of senior and mezzanine shares is recorded as operating costs.

#### **(d) Tail**

On December 19, 2020, the Company through its subsidiary TOTVS Large, acquired 100% of the share capital of Tail Target Tecnologia de Informação Ltda ("Tail") for the amount of R\$42,000, of which payments being distributed as follows: (i) R\$ 7,800 was paid in cash; (ii) R\$ 4,073 referring to installments retained to comply with conditions established in the contract; and (iii) R\$ 20,000 to be paid upon reaching the targets established for Tail related to the years 2021 and 2022, whose fair value on the acquisition date was R\$ 11,600.

Tail is a provider of a data intelligence platform that provides insights to customers through real time monitoring of the behavior of a wide audience on the internet in order to optimize its customers'sales.

#### **4.2 Identifiable intangible assets acquired and Goodwill and liabilities assumed**

The following is the information related to identified assets acquired and preliminary liabilities assumed at fair value, goodwill and cost of the interest held that affected the consolidated financial statements as at December 31, 2020:

(A free translation of the original in Portuguese)

<b>Preliminary fair value</b>	<b>Consinco</b>	<b>WS</b>	<b>Supplier</b>	<b>Tail</b>	<b>Total</b>
<i>At acquisitions date</i>	<i>1/31/2020</i>	<i>4/8/2020</i>	<i>4/30/2020</i>	<i>12/19/2020</i>	
<b>Current assets</b>	<b>13,093</b>	<b>2,300</b>	<b>1,372,888</b>	<b>2,735</b>	<b>1,391,016</b>
Cash and cash equivalents	9,570	160	329,906	679	340,315
Financial investments (Note 8)	-	-	219,460	-	219,460
Trade and other receivables	1,146	1,296	820,789	1,836	825,067
Recoverable taxes	1,994	724	1,367	35	4,120
Other current assets	383	120	1,366	185	2,054
<b>Non-current assets</b>	<b>75,968</b>	<b>16,057</b>	<b>270,457</b>	<b>11,580</b>	<b>374,062</b>
Deferred tax (Note 12.2)	1,108	21	4,629	259	6,017
Property, plant and equipment (Note 16)	3,479	2,877	4,267	1,384	12,007
Other non-current assets	130	2	8,244	-	8,376
Brands	4,837	2,870	36,821	-	44,528
Software	26,427	8,843	113,266	5,917	154,453
Client portfolio	31,672	-	83,080	1,492	116,244
Non-compete	8,315	1,444	20,150	2,528	32,437
<b>Current liabilities</b>	<b>8,441</b>	<b>13,468</b>	<b>1,338,886</b>	<b>2,970</b>	<b>1,363,765</b>
Labor liabilities	6,449	6,162	6,062	586	19,259
Business partners payable (Note 22)	-	-	177,201	-	177,201
Other liabilities	1,992	7,306	179,855	2,384	191,537
Senior shares and mezzanine obligations (note 25)	-	-	975,768	-	975,768
<b>Non-current liabilities</b>	<b>420</b>	<b>7,479</b>	<b>386</b>	<b>1,433</b>	<b>9,718</b>
<b>Net assets and liabilities</b>	<b>80,200</b>	<b>(2,590)</b>	<b>304,073</b>	<b>9,912</b>	<b>391,595</b>
Cash consideration	191,376	11,750	458,405	7,800	669,331
Long-term portion (i)	49,260	2,994	134,226	15,673	202,153
<b>Goodwill in the operation</b>	<b>160,436</b>	<b>17,334</b>	<b>288,558</b>	<b>13,561</b>	<b>479,889</b>

(i) Long-term portions were recorded at present value at acquisition date.

The goodwill of R\$479,889 comprises the value of future economic benefits of synergies arising from the acquisition. Goodwill from Supplier acquisition is allocated at product credit – Supplier segment and the others are allocated entirely to the technology segment.

Contingent considerations were recorded at fair value on the acquisition date and are presented in note 23.

The acquired companies were included in the TOTVS management model and channels and contributed with a net consolidated revenue of R\$216,758 and net profit of R\$35,854 in the year ended December 31, 2020, after each acquisition date mentioned above. If the combination had taken place at the beginning of the year, consolidated net revenue would have been R\$283,304 and profit would have been R\$32,658.

The amount of R\$329,016 presented in the group of investment activities in the cash flow statement, in the item “Acquisition of subsidiary, net of cash” corresponds to the amount paid, net of cash from acquired operations.

The transaction cost involving the acquisitions of these companies in 2020 was R\$2,501, recognized in Statement of Profit or Loss as administrative expenses.

## 5. Discontinued operation

During 2019, the Company sold some of its operations, as follows:

**Ciashop** - On May 9, 2019, the Company entered into an agreement to sell 70,47% interest in the share capital of Ciashop to VTEX S.A. for R\$21,175. The transaction was concluded on July 31, 2019, after approval from Brazil's antitrust authority. The net gain from the sale of Ciashop was recorded under "Other operating income and expenses" in the statement of profit or loss.

**Hardware Operation (comprised of Bematech Hardware Ltda., Bematech International Corporation (BIC) and Bematech Ásia Co.Ltd )** – In order to increase the Company's strategic focus on our software operations, TOTVS decided to dispose of its hardware operations in the first quarter of 2019 and classified the hardware operation as a discontinued operation and according to CPC 31/IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations disclosed in a separate line item in the Company's statement of profit or loss for the year ended December 31, 2019 and comparatively in 2020.

The dispose of hardware were completed as follows:

- On October 24, 2019, the Company announced the conclusion of the sale of the hardware operation in Brazil to ELGIN S.A. through equity interest in the subsidiary Bematech Hardware Ltda, for R\$25,000.
- On November 6, 2019 was concluded the sale of the Bematech International Corporation (BIC) to Reason Capital Group LLC, according to contract signed on July 2, 2019 for US\$4,4 million, equivalent to R\$17,528, after certain adjustments under the agreement, of which US\$1,5 million, equivalent to R\$5,988, were retained as guarantee and will be released by November 5, 2022.
- As part of the discontinuation of the hardware operation, the closure of the activities of the subsidiary Bematech Asia was initiated during the year 2020.

The sale of the hardware operations resulted in a total net loss of R\$44,956 recorded under "Net loss from discontinued operations" for the year ended December 31, 2019.

In this scenario, the result of the hardware operation was classified as discontinued operations, in accordance with IFRS 05 / CPC 31, disclosed in a separate line in the Company's statement of profit or loss on December 31, 2019 and 2018 for comparison purposes.

Following are the losses for year ended December 31, 2019 and 2018:

	Consolidated	
	2019	2018 (i)
<b>Net revenue</b>	<b>146,361</b>	<b>209,112</b>
(-) Costs	(101,201)	(145,359)
<b>Gross profit</b>	<b>45,160</b>	<b>63,753</b>
Research and development	(9,863)	(14,517)
Selling and marketing expenses	(27,800)	(38,633)
General and administrative expenses	(8,722)	(15,539)
Depreciation and amortization	(2,754)	(7,099)
Impairment loss on trade and other receivables	(392)	(6,372)
Government subsidy	2,650	7,801
Other operating income (expenses)	287	(88,306)
<b>Loss before financial effects and tax</b>	<b>(1,434)</b>	<b>(98,912)</b>
Finance income (expenses)	(108)	960
Income and social contribution taxes	3,220	20,860
<b>Net income (loss) for the year</b>	<b>1,678</b>	<b>(77,092)</b>
Net loss on sale of hardware operation	(44,946)	-
<b>Net Loss from discontinued operations</b>	<b>(43,268)</b>	<b>(77,092)</b>

(i) The result information for the year ended December 31, 2018 was restated under “Loss from discontinued operation” for better comparability.

	Consolidated	
	2019	2018
<b>Comprehensive loss from discontinued operations</b>		
Net loss for the year	(43,268)	(77,092)
Cumulative translation adjustments	1,006	10,795
<b>Comprehensive income from the year</b>	<b>(42,262)</b>	<b>66,297</b>

Net cash flows incurred by Bematech Hardware are as follows:

	Consolidated	
	2019	2018
Operating activities	1,561	27,747
Investing activities	(1,615)	(8,168)
Financing activities	(16,923)	-
<b>Net cash generated from (used in) discontinued operations</b>	<b>(16,977)</b>	<b>19,579</b>

The discontinued hardware segment presented a net loss of R\$1,077 for the year ended December 31, 2020 and R\$43,268 as at December 31, 2019 and R\$77,092 as at December 31, 2018.

## 6. Financial instruments and sensitivity analysis of financial assets and liabilities

### 6.1. Analysis of financial instruments

The table below compares the Company’s financial instruments by class, as presented in its financial statements:

	Fair Value through profit or loss			Amortized cost		
	2020	2019	2018	2020	2019	2018
Cash and cash equivalents (Note 7)	-	-	-	1,027,733	1,538,156	452,799
Financial investments (Note 8)	-	-	-	179,308	-	-
Escrow account (Note 23)	-	-	-	11,128	27,265	50,243
Trade and other receivables, net (Note 9)	-	-	-	1,561,241	382,622	405,428
Franchises loan (Note 14)	-	-	-	17,721	24,703	21,689
Receivables for investments sold (Note 14)	-	-	-	19,348	37,619	3,234
Investments at fair value (Note 6.3)	92,770	71,955	69,171	-	-	-
<b>Financial Instruments receivable</b>	<b>92,770</b>	<b>71,955</b>	<b>69,171</b>	<b>2,816,479</b>	<b>2,010,365</b>	<b>933,393</b>
Loans, financing and lease liabilities (Note 20)	-	-	-	325,050	247,703	201,471
Debentures (Note 21)	-	-	-	-	202,973	277,188
Trade and other payables	-	-	-	285,345	209,638	218,441
Business partners payable (Note 22)	-	-	-	328,817	-	-
Accounts payable from acquisition of subsidiaries (Note 23)	182,740	15,959	24,729	25,460	27,353	50,332
Senior shares and mezzanine obligations (Nota 25)	-	-	-	1,011,087	-	-
Other liabilities	-	-	-	44,026	28,899	28,230
<b>Financial liabilities</b>	<b>182,740</b>	<b>15,959</b>	<b>24,729</b>	<b>2,019,785</b>	<b>716,566</b>	<b>775,662</b>

The fair value of financial assets and liabilities is included in the amount for which the instrument could be exchanged in a transaction where the parties are willing to negotiate, and not in an enforced sale or settlement. The methods and assumptions below were used to estimate the fair value:

- Escrow accounts, trade and other receivables, other accounts receivable, trade accounts payable and other short-term liabilities approximate their respective carrying amounts mainly due to the short-term maturities of these instruments.
- Financial assets at fair value not traded in an active market are estimated using a valuation technique, such as discounted cash flow or multiple revenues, considering the reasonableness of the range of values indicated thereby.
- Loans and financing and debentures are initially recognized at fair value, net of costs incurred in the transaction and are subsequently stated at amortized cost.
- Accounts payable from acquisition of subsidiaries, includes contingent payments relating to business combinations and their fair value are estimated based on the performance of operations applied to the multiples defined in the contract.

## 6.2. Measurement of fair value

It is assumed that the balances of accounts receivable and accounts payable to suppliers at book value, less loss (impairment) in the case of accounts receivable, approximate their fair values.

The table below presents the book value of the consolidated assets and liabilities measured at fair value as at December 31, 2020, 2019 and 2018:

	2020			2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial Assets</b>									
Financial investments (Note 8)	-	1,009,169	-	-	1,526,057	-	-	407,874	-
Financial investments - not redeemable in 90 days (Note 8)	-	179,308	-	-	-	-	-	-	-
Financial assets (Note 6.3)	-	-	92,770	-	-	71,955	-	-	69,171
<b>Financial Liabilities</b>									
Loans and debt (Note 20)	-	325,050	-	-	247,703	-	-	201,471	-
Debentures (Note 21)	-	-	-	-	202,973	-	-	203,431	73,757
Accounts payable from acquisition of subsidiaries (Note 23)	-	25,460	182,740	-	27,353	15,959	-	50,332	24,729
Senior shares and mezzanine obligations	-	1,011,087	-	-	-	-	-	-	-

The amounts recognized in the sheet statement of financial position regarding trade and other receivables, escrow account, labor liabilities, trade and other payables, and dividends payable at amortized cost, do not significantly differ from their fair values, thus, they are not presented in the table above. There were no transfers between measurement levels in the fair value hierarchy during the year.

## 6.3. Financial assets

Investments in startups made by the Company have a medium-term strategy with output planned for the moment when the expected financial returns are achieved. Therefore, these investments recognized as financial instruments recorded.

These investments are private companies which do not have a quoted market price in an active market. The

fair value of these investments is measured by commonly used market valuation techniques, such as discounted cash flows or multiples, considering the reasonableness of the estimated range of values. The fair value measurement is the point within the range that is the most representative of fair value in the circumstances. Additionally, these investments include an investment in GoodData preferred shares, which have a settlement preference.

The fair value of these investments as at December 31, 2020 was R\$92,770 (R\$71,955 as at December 31, 2019 and R\$69.171 as at December 31, 2018).

#### **6.4. Sensitivity analysis of financial assets and liabilities**

The financial instruments of the Company and its subsidiaries are represented by cash and cash equivalents, accounts receivable, accounts payables, debentures, loans and financing, and are recorded at cost plus income or charges incurred or at fair value when applicable, at December 31, 2020, 2019 and 2018.

The main risks related to the Company's operations are linked to the variation in Brazilian Interbank Deposit Rate (CDI) for financial investments and debentures issued in 2017.

##### **a) Financial assets**

To check the sensitivity of indexes for the financial investments that the Company was exposed to at December 31, 2020, three different scenarios were created. Based on the forecast by financial institutions, the average CDI is 1.90% p.y. and was defined as the probable scenario (scenario I). From this rate, we calculated variations of 25% (scenario II) and 50% (scenario III).

For each of these scenarios the "gross finance income" was estimated without the related tax impacts. The reference date for the portfolio was December 31, 2020, with a one-year projection to check the sensitivity of CDI to each scenario.

<u>Operation</u>	<u>Balances in 2020</u>	<u>Risk</u>	<u>Probable Scenario (I)</u>	<u>Scenario (II)</u>	<u>Scenario (III)</u>
Financial investments	R\$ 1,188,477	Reduction CDI (a)	1.90%	1.43%	0.95%
<b>Finance income</b>			<b>R\$ 22,581</b>	<b>R\$ 16,995</b>	<b>R\$ 11,291</b>

(a) *Interbank Deposit Certificate*

##### **b) Financial liabilities**

To check the sensitivity of the indexes to which the Company is exposed when estimating the debts as at December 31, 2020, three different scenarios were created. Based on CDI rates in force at December 31, 2020, the most probable scenario (scenario I) was determined for 2020 and, from this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each scenario, the gross financial expense was calculated, without the related tax impacts. The reference date used for the debts and debentures was December 31, 2020, projecting the rates for one year and checking their sensitivity in each scenario.

<u>Operation</u>	<u>Balances in 2020</u>	<u>Risk</u>	<u>Probable Scenario (I)</u>	<u>Scenario (II)</u>	<u>Scenario (III)</u>
Loans and financing	R\$100,740	Increase CDI	1.90%	2.38%	2.85%
<b>Estimated Financial expense</b>			<b>R\$1,914</b>	<b>R\$2,398</b>	<b>R\$2,871</b>

The financial liabilities linked to the CDI and TJPL related to loans and financing with BNDES and debentures

as of December 31, 2019, were settled over the year ended December 31, 2020 as presented in notes 20 and 21.

## 6.5. Changes in the liabilities of financing activities

Liabilities arising from financing activities are liabilities for which cash flows were or will be future cash flows classified in the statement of cash flows as cash flows from financing activities.

The following is a breakdown of liabilities arising from financing activities for the year end December 31, 2020, 2019 and 2018:

	2019	Cash flow from financing activities			Non-cash items				2020
		Principal	Interest paid	Additions	Leases	Interest incurred	Acquisition of subsidiaries	Others (i)	
Loans and financing (Note 20)	6,363	(174,858)	(1,665)	100,000	-	1,180	170,505	-	101,525
Lease liabilities	241,340	(54,624)	(12,198)	-	29,267	14,660	5,080	-	223,525
Debentures (Note 21)	202,973	(400,000)	(7,775)	196,924	-	7,878	-	-	-
Dividends payable and others	44,579	(108,228)	-	-	-	-	-	121,336	57,687
Senior shares and mezzanine obligations	-	7,388	-	-	-	25,852	975,768	2,079	1,011,087
<b>Total</b>	<b>495,255</b>	<b>(730,322)</b>	<b>(21,638)</b>	<b>296,924</b>	<b>29,267</b>	<b>49,570</b>	<b>1,151,353</b>	<b>123,415</b>	<b>1,393,824</b>

	2018	Cash flow from financing activities		Non-cash items			2019
		Principal	Interest paid	New Leases	Interest incurred	Others (i)	
Loans and financing (Note 20)	159,282	(152,889)	(5,233)	-	5,203	-	6,363
Lease liabilities	42,189	(61,617)	(15,406)	260,057	16,115	2	241,340
Debentures (Note 21)	277,188	-	(96,202)	-	21,987	-	202,973
Dividends payable and others	13,902	(49,898)	-	-	-	80,575	44,579
<b>Total</b>	<b>492,561</b>	<b>(264,404)</b>	<b>(116,841)</b>	<b>260,057</b>	<b>43,305</b>	<b>80,577</b>	<b>495,255</b>

	2017	Cash flow from financing activities		Non-cash items			2018
		Principal	Interest paid	New Leases	Interest incurred	Others (i)	
Loans and financing (Note 20)	339,103	(180,705)	(17,818)	-	18,702	-	159,282
Lease liabilities (Note 20)	63,453	(25,973)	(8,186)	4,712	8,183	-	42,189
Debentures (Note 21)	269,138	-	(13,684)	-	21,734	-	277,188
Dividends payable and others	18,487	(51,486)	-	-	-	46,901	13,902
<b>Total</b>	<b>690,181</b>	<b>(258,164)</b>	<b>(39,688)</b>	<b>4,712</b>	<b>48,619</b>	<b>46,901</b>	<b>492,561</b>

(i) The changes in the "Other" column included dividends payable and JSCP at the end of the year and of offset taxes on the distribution of JSCP. The Company classifies interest paid as operating cash flows.

## 6.6. Financial risk management

The main financial risks to which the Company and its subsidiaries are exposed when conducting their activities are:

### a. Liquidity Risk

The Company's and its subsidiaries' liquidity and cash flow are monitored daily by Company management

areas to ensure the generation of cash from operating activities and early fundraising, whenever necessary. The Company does not expect to have a significant impact on liquidity and cash flow resulting from the Covid-19 pandemic and reinforces its commitment to resource management in order to maintain its schedule of commitments, not giving rise to liquidity risks for the Company and its subsidiaries.

The table below analyzes non-derivative financial liabilities of the Company, by maturity corresponding to the remaining period between the statement of financial position date and the contractual maturity date. The amounts disclosed in the table represent the contractual undiscounted cash flows.

	<b>Consolidated</b>		
	<b>Less than one year (i)</b>	<b>Between one and two years (i)</b>	<b>Between two and five years (i)</b>
<b>As at December 31, 2020</b>			
Trade and other payables	99,305	-	-
Loans, financing and lease liabilities	156,539	93,312	106,099
Liabilities from investment acquisition	44,781	114,622	68,226
Business partners payable	328,817	-	-
Senior shares and mezzanine obligations (ii)	1,011,087	-	-
Other liabilities	11,592	30,462	-
<b>Total</b>	<b>1,652,121</b>	<b>238,396</b>	<b>174,325</b>
<b>As at December 31, 2019</b>			
Trade and other payables	63,821	-	-
Loans, financing and lease liabilities	66,667	86,089	134,382
Debentures	202,973	-	-
Liabilities from investment acquisition	32,554	8,772	1,986
Other liabilities	11,292	17,607	-
<b>Total</b>	<b>377,307</b>	<b>112,468</b>	<b>136,368</b>
<b>As at December 31, 2018</b>			
Trade and other payables	113,907	-	-
Loans, financing and lease liabilities	171,559	42,690	-
Debentures	78,704	213,310	-
Liabilities from investment acquisition	59,597	10,130	5,334
Other liabilities	13,227	15,003	-
<b>Total</b>	<b>436,994</b>	<b>281,133</b>	<b>5,334</b>

- (i) As the amounts included in the table represent undiscounted cash flows, these amounts will not be reconciled to the amounts reported in the statement of financial position for loans, debentures and other obligations.
- (ii) The senior shares and mezzanine shares are within the flow of one year, but the shares have no maturity.

Typically, the Company ensures that it has sufficient cash at sight to cover expected operating expenses, including the compliance with financial obligations; which excludes the potential impact of extreme situations that cannot be reasonably foreseen, such as natural disasters. The Company has access to a sufficient variety of funding sources, if necessary.

#### **b. Credit risk**

Credit risk is the risk that the counterparty in a deal will not fulfill an obligation set forth in a finance instrument or contract with a customer, which would cause a financial loss.

Regarding the credit risk associated with financial institutions, the Company and its subsidiaries distribute this exposure among financial institutions. Financial investments must be made in institutions whose risk rating is equal to or lower than the Sovereign Risk (Brazil Risk) assigned by the rating agencies Standard & Poor's, Moody's

or Fitch. The amount allocated to each institution cannot exceed 30% of the total balances in current accounts plus financial investments, and also not correspond more than 5% of the equity of the financial institution.

The exposure of the Company to credit risk is also influenced also by the individual characteristics of each customer. The Company established a credit policy whereby every new customer has its credit capacity individually analyzed prior to the standard payment terms and conditions.

For the trade and other receivables from the technology segment, the Company has a very diversified customer portfolio with low concentration level. The Company establishes an estimated allowance for doubtful accounts that represents its estimate of losses incurred in relation to trade and other receivables (additional disclosures are provided in Note 9). The main component of this allowance is specific and related to significant individual risks.

The risk assessment structure of the Supplier's credit product portfolio is based on statistical methodologies of Application and Behavior Scoring, in addition to the use of risk mitigating instruments, such as credit insurance and intervention. In addition, the Supplier subsidiary seeks to prevent possible risks from the credit portfolio through the provision of monitoring reports, risk committee, actions to readjust credit limits, portfolio monitoring and improvements in the registration system. Potential credit losses are mitigated, when necessary, through the following guarantees: insurance, issuer's guarantees, as long as approved by the credit card committee. The assessment of the efficiency of these instruments is considered sufficient to cover any significant losses. It should be noted that portfolio turnover is fast with an average term of 80 days, or when they are sold in the short term.

In addition, due to the Covid-19 pandemic, the Company closely monitors the behavior and active management of the default in its customer portfolio through policies related to the sale of services and software licenses. No significant impacts are expected, in addition the provision for losses presented in note 9.

**c. Market risk**

**i) Interest rate and inflation risk:** interest rate risk arises from the portion of the debt related to TJLP and CDI, as well as financial investments in CDI, which can adversely affect the finance income or expenses in the event of unfavorable changes in the interest rate and inflation.

The credit rights generated by the Credit Products - Supplier segment are short-term and, therefore, are not subject to interest rate variations.

**ii) Exchange rate risk:** this risk arises from the possibility of losses due to currency rate fluctuations that could increase the liabilities resulting from loans and foreign currency purchase commitments or that could reduce the assets resulting from trade accounts receivable in foreign currency.

Certain subsidiaries have international operations and are exposed to exchange risk arising from exposures in some currencies, such as the U,S, dollar (USD), Argentinean peso (ARS), Mexican peso (MXN) and Chilean peso (CLP).

The Company ensures that its net exposure is maintained at an acceptable level in accordance with the policies and limits defined by Management and is monitoring the possible impacts of the Covid-19 pandemic in each of these companies. For the years ended December 31, 2020, 2019 and 2018, the balance of assets exceeds the negative balances, as follows:

2020						
Company	Trade and other payables	Cash and cash equivalents	Trade and other receivable	Other assets	Net exposure	Currency
RJ Consultores México	(43)	2,160	284	-	2,401	Peso (MXN)
CMNet Participações S.A.	(304)	1,033	580	-	1,309	Peso (CLP e ARS)
TOTVS S.A.	(6,273)	-	-	-	(6,273)	USD
TOTVS Large	-	-	-	5,988	5,988	USD
TOTVS México	(1,540)	3,235	4,949	-	6,644	Peso (MXN)
TOTVS Argentina	(1,511)	5,197	9,548	-	13,234	Peso (ARS)
TOTVS Incorporation	(1,962)	1,254	-	92,770	92,062	USD
<b>Total</b>	<b>(11,633)</b>	<b>12,879</b>	<b>15,361</b>	<b>98,758</b>	<b>115,365</b>	

  

2019						
Company	Trade and other payables	Cash and cash equivalents	Trade and other receivables	Other assets	Net exposure	Currency
RJ Consultores México	(16)	-	1,903	-	1,887	Peso (MXN)
CMNet Participações S.A.	(317)	1,116	1,026	-	1,825	Peso (CLP and ARS)
TOTVS S.A.	(8,962)	-	-	-	(8,962)	USD
TOTVS México	(1,051)	3,518	1,544	-	4,011	Peso (MXN)
TOTVS Argentina	(1,815)	4,781	3,605	-	6,571	Peso (ARS)
TOTVS Incorporation	-	-	436	71,955	72,391	USD
<b>Total</b>	<b>(12,161)</b>	<b>9,415</b>	<b>8,514</b>	<b>71,955</b>	<b>77,723</b>	

  

2018						
Company	Trade and other payables	Cash and cash equivalents	Trade and other receivables	Other assets	Net exposure	Currency
Bematech Hardware	(2,867)	10,299	579	-	8,011	USD
Logic Controls Inc.	(3,397)	4,937	9,114	-	10,654	USD/ CNY
Bematech Ásia Co. Ltd	(15)	265	2,427	-	2,677	USD / TWD
RJ Consultores México	(11)	1,203	480	-	1,672	Peso (MXN)
CMNet Participações S.A.	(309)	1,056	1,137	-	1,884	Peso (CLP e ARS)
TOTVS S.A.	(19,078)	-	-	-	(19,078)	USD
TOTVS México	(724)	720	3,025	-	3,021	Peso (MXN)
TOTVS Argentina	(1,325)	2,786	5,846	-	7,307	Peso (ARS)
TOTVS Incorporation	(117)	622	562	69,171	70,238	USD
<b>Total</b>	<b>(27,843)</b>	<b>21,888</b>	<b>23,170</b>	<b>69,171</b>	<b>86,386</b>	

#### d. Derivatives

The Company and its subsidiaries do not maintain derivative transactions in the reported periods.

### 6.7. Capital management

The Company's capital management is intended to ensure a strong credit rating with institutions and an optimal capital ratio in order to drive the Company's businesses and maximize value for shareholders.

TOTVS controls its capital structure by adjusting and adapting to current economic conditions. To maintain this structure, the Company may pay dividends, repurchase shares, take out new loans, issue debentures and promissory notes.

The Company's net debt structure includes loans, financing and lease liabilities, debentures, accounts payable from acquisitions of subsidiaries, and senior shares and mezzanine obligations, less financial investments of Supplier FIDC, escrow account and cash and cash equivalents.

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Loans, financing and lease liabilities (Note 20)	204,548	230,108	184,192	325,050	247,703	201,471
Debentures (Note 21)	-	202,973	277,188	-	202,973	277,188
Senior shares and Mezzanine obligations (Note 25)	-	-	-	1,011,087	-	-
Accounts payable from acquisition of subsidiaries (Note 23)	8,389	30,493	30,752	208,200	43,312	75,061
(-) Cash and cash equivalents (Note 7)	(527,955)	(1,106,888)	(228,571)	(1,027,733)	(1,538,156)	(452,799)
(-) Financial investments (i) (Note 8)	-	-	-	(179,308)	-	-
(-) Escrow account (Note 23)	(8,301)	(23,217)	(23,477)	(11,128)	(27,265)	(50,243)
<b>Net (cash) debt</b>	<b>(323,319)</b>	<b>(666,531)</b>	<b>240,084</b>	<b>326,168</b>	<b>(1,071,433)</b>	<b>50,678</b>
Shareholders' equity	2,604,166	2,477,214	1,287,042	2,604,166	2,478,409	1,288,220
<b>Shareholders' equity and net debt</b>	<b>2,280,847</b>	<b>1,810,683</b>	<b>1,527,126</b>	<b>2,930,334</b>	<b>1,406,976</b>	<b>1,338,898</b>

(i) Represent financial investments in investment funds and national treasury bills for restricted use of Supplier FIDC and not available to the Company.

## 7. Cash and cash equivalents

Cash and cash equivalents are maintained for meeting short-term cash requirements to the Company's strategic investments, as well as for other purposes. The Company's cash equivalents include short-term investments in CDB (Bank Deposit Certificates) and repurchase agreements, which are redeemable in a period of up to 90 days from the date of the respective transactions.

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Cash	326	323	10,571	18,564	12,099	44,925
<b>Cash equivalents</b>	<b>527,629</b>	<b>1,106,565</b>	<b>218,000</b>	<b>1,009,169</b>	<b>1,526,057</b>	<b>407,874</b>
Investment funds	302,674	927,178	-	454,145	1,330,500	-
CDB	224,955	148,586	125,058	555,024	162,826	181,980
Repurchase agreements	-	30,801	92,942	-	32,731	225,894
	<b>527,955</b>	<b>1,106,888</b>	<b>228,571</b>	<b>1,027,733</b>	<b>1,538,156</b>	<b>452,799</b>

The Company has financial investment policies, which establish that the investments focus on low risk securities and investments in top-tier financial institutions.

The Company concentrates its investments in an investment fund for TOTVS and its subsidiaries. The fund is composed of investment fund shares whose portfolio is made up of highly-liquid fixed-income assets. The eligible assets in the portfolio structure are mainly government debt securities, which present low credit risk and volatility. The Company's investments are substantially remunerated by reference to the CDI variation, which monthly averaged 94.9% of the CDI for the year ended December 31, 2020 (96.7% as of December 31, 2019 and 99.22% as of December 31, 2018).

## 8. Financial investments

The following amounts refer to investment funds and financial government bonds redeemable by Supplier FIDC that are not available to the Company,

	<u>Consolidated</u>
	<u>2020</u>
Government bonds	9,671
Investment funds (i)	169,637
	<u>179,308</u>

(i) Investment funds shares pegged to DI,

## 9. Trade and other receivables

The following are the amounts receivable in domestic and foreign markets:

	<u>Individual</u>			<u>Consolidated</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Domestic market	381,459	360,858	355,384	526,083	478,035	508,394
Foreign market	766	1,391	525	5,801	6,710	15,552
Credit rights (i)	-	-	-	1,165,602	-	-
<b>Total trade and other receivable</b>	<b>382,225</b>	<b>362,249</b>	<b>355,909</b>	<b>1,697,486</b>	<b>484,745</b>	<b>523,946</b>
(-) Impairment loss on trade and other	(57,097)	(79,712)	(88,515)	(136,245)	(102,123)	(118,518)
<b>Total trade and other receivable</b>	<b>325,128</b>	<b>282,537</b>	<b>267,394</b>	<b>1,561,241</b>	<b>382,622</b>	<b>405,428</b>
Current assets	267,801	252,842	248,671	1,497,229	350,995	385,538
Non-current assets (ii)	57,327	29,695	18,723	64,012	31,627	19,890

- (i) The credit rights are related to Supplier FIDC and refer to securities assigned arising from Supplier Administradora's credit purchases at partner companies.
- (ii) Long-term trade and other receivables refer basically to the sale of software license, software implementation and customization services, and are presented net of adjustment to present value.

Changes in the impairment loss on trade and other receivables are as follows:

	<u>Individual</u>			<u>Consolidated</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Opening Balance</b>	<b>79,712</b>	<b>88,515</b>	<b>73,469</b>	<b>102,123</b>	<b>118,518</b>	<b>89,032</b>
Acquisition of subsidiaries	-	-	-	57,187	-	6,372
Opening balance of IFRS9/CPC48	-	-	5,864	-	-	10,968
Sale of subsidiaries	-	-	-	-	(10,947)	-
Additional allowance in the year	26,115	19,066	24,226	43,856	28,434	36,992
Written off due to use	(48,730)	(27,869)	(15,044)	(66,921)	(33,882)	(24,846)
<b>Ending balance</b>	<b>57,097</b>	<b>79,712</b>	<b>88,515</b>	<b>136,245</b>	<b>102,123</b>	<b>118,518</b>

### 9.1. Aging list of trade and other receivables from the technology segment

Aging list of amounts receivable for the year ended December 31, 2020, 2019 and 2018, is as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Falling due	266,158	226,681	189,294	362,249	297,354	310,953
Unbilled	30,481	32,666	57,464	47,467	49,238	73,627
<b>Overdue</b>						
1 to 30 days	11,081	10,869	9,636	18,662	16,909	15,566
31 to 60 days	5,015	4,946	5,561	8,330	8,548	9,729
61 to 90 days	5,009	5,075	4,549	7,142	7,661	6,852
91 to 180 days	8,556	9,809	9,578	15,868	15,239	14,378
181 to 360 days	12,425	15,594	14,943	16,098	22,288	21,327
more than 360 days	43,500	56,609	64,884	49,502	67,508	71,514
<b>Gross trade and other receivables</b>	<b>382,225</b>	<b>362,249</b>	<b>355,909</b>	<b>525,318</b>	<b>484,745</b>	<b>523,946</b>
(-) Impairment loss on trade and other receivables	(57,097)	(79,712)	(88,515)	(76,228)	(102,123)	(118,518)
<b>Net trade and other receivables</b>	<b>325,128</b>	<b>282,537</b>	<b>267,394</b>	<b>449,090</b>	<b>382,622</b>	<b>405,428</b>

Management believes that the risk related to technology segment trade and other receivables in general is mitigated by the fact that the Company's customer portfolio is diluted and also throughout various operating segments. In general, the Company does not require any guarantee on installment sales.

## 9.2. Credit rights and trade and other receivables from Credit product segment - Supplier

The following are the credit rights and the trade and other receivables balance of the credit product segment - Supplier:

	Consolidated
	2020
Trade and other receivables	6,566
Credit rights receivable	1,165,602
(-) Impairment loss on trade and other receivables	(60,017)
<b>Net credit rights</b>	<b>1,112,151</b>

The aging list from credit rights and trade and other receivables from credit product segment – Supplier as of December 31, 2020:

	Consolidated
Falling due	1,105,721
<b>Overdue</b>	
1 to 30 days	5,432
31 to 60 days	1,482
61 to 90 days	855
91 to 180 days	2,116
181 to 360 days	11,611
More than 360 days	44,951
<b>Gross accounts receivable</b>	<b>1,172,168</b>
(-) Impairment loss on trade and other receivables	(60,017)
<b>Total</b>	<b>1,112,151</b>

As of December 31, 2020, approximately 46% of the portfolio's contracts are insured by policies that cover an average of 90% of the outstanding balance of operations.

The provision amount was calculated based on the analysis of losses due to credit harvests that follow the assumptions of Supplier FIDC Regulation. Delay in collection was used as the main indicator of impairment.

## 10. Inventories

The inventory breakdown of R\$41,531 as at December 31, 2018 is represented exclusively by the subsidiary Bematech Hardware. This operation was disposed for the year ended December 31, 2019, as disclosed in Note 5.

## 11. Recoverable taxes

The recoverable taxes breakdown for the years ended December 31, 2020, 2019 and 2018 is comprised as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
State Goods and Services Tax (ICMS) (ii)	-	-	-	-	-	6,284
Income tax to offset (i)	14,511	11,526	10,805	25,249	17,581	18,172
Social contribution tax to offset (i)	9,081	9,367	12,490	11,555	11,170	13,764
Other	-	-	19	1,288	911	833
<b>Total</b>	<b>23,592</b>	<b>20,893</b>	<b>23,314</b>	<b>38,092</b>	<b>29,662</b>	<b>39,053</b>
Current	23,592	20,893	23,314	38,092	29,662	38,817
Non-current	-	-	-	-	-	236

- (i) Refer to withholding income and social contribution tax credits in the current year and income and social contribution tax credits to offset from previous years, as well as payments of estimated taxes in the current year,  
(ii) Refer to accumulated ICMS tax credits of Bematech, operation disposed in 2019 as mentioned in Note 5.

## 12. Income taxes

### 12.1. Reconciliation of income tax expenses

The reconciliation of expenses calculated by applying the Income and Social Contribution Tax rates is as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Income before taxes – continuing operations</b>	<b>317,639</b>	<b>261,955</b>	<b>141,516</b>	<b>382,104</b>	<b>324,027</b>	<b>184,676</b>
Income taxes at combined nominal rate of 34%	(107,997)	(89,065)	(48,115)	(129,915)	(110,169)	(62,790)
Adjustments for the statement of effective rate						
Equity pick-up	46,035	39,417	26,952	-	(84)	43
Law No, 11,196/05 (Incentive for research and development) (i)	10,133	6,973	9,154	18,109	12,420	12,839
Interest on equity	32,816	26,619	9,447	32,751	27,228	9,889
Effect of subsidiaries subject to special rates	-	-	-	(7,234)	(11,934)	(7,162)
Share issue costs	-	9,840	-	-	9,840	-
Management stake	(1,217)	(1,732)	(1,075)	(1,251)	(1,732)	(1,089)
Workers' Meal Program	270	244	50	1,430	887	676
Other	(1,643)	(1,187)	(1,289)	42	3,433	653
<b>Income tax expense for effective rate</b>	<b>(21,603)</b>	<b>(8,891)</b>	<b>(4,876)</b>	<b>(86,068)</b>	<b>(70,111)</b>	<b>(46,941)</b>
Current income taxes	(15,017)	(15,357)	(3,180)	(80,919)	(54,628)	(41,978)
Deferred income taxes	(6,586)	6,466	(1,696)	(5,149)	(15,483)	(4,963)
<b>Effective tax rate</b>	<b>6.8%</b>	<b>3.4%</b>	<b>3.4%</b>	<b>22.5%</b>	<b>21.6%</b>	<b>25.4%</b>

- (i) The Brazilian tax legislation provides a mechanism to encourage the technological development of the country, which grants tax incentives to companies that carry out technological research and development (R&D).

## 12.2. Breakdown of deferred taxes

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Income tax losses	-	-	-	50,689	63,563	71,620
<b>Deriving from temporary differences:</b>			-			
Difference between tax and accounting basis of goodwill	7,988	12,102	21,308	23,442	30,502	43,531
Amortization of tax benefit	(100,709)	(96,145)	(86,828)	(157,518)	(145,736)	(132,612)
Intangible assets allocation	(4,042)	(5,708)	(13,491)	(11,277)	(12,073)	(20,835)
Intangible assets allocation – after Law nº 12,973	20,385	17,147	13,334	38,139	17,147	13,334
Provision for commissions	17,365	14,789	12,426	19,371	16,566	14,099
Deferred income or revenues	6,748	9,211	5,253	12,686	10,336	9,705
Impairment loss on trade and other receivables	19,413	27,102	30,095	24,167	32,474	36,285
Provision and other liabilities	36,756	39,461	40,045	42,470	44,717	43,447
Provision for trade and other payables	15,202	9,610	7,902	18,139	12,432	10,396
Provision for impairment	-	-	-	-	-	14,760
Provision for share-based payments	15,532	8,530	5,550	16,590	8,898	5,720
Present value adjustment	567	3,055	2,766	4,501	5,142	4,803
Other	9,039	11,176	7,485	18,847	16,412	10,871
<b>Net deferred income and social contribution tax</b>	<b>44,244</b>	<b>50,330</b>	<b>45,845</b>	<b>100,246</b>	<b>100,380</b>	<b>125,124</b>
Deferred tax assets	44,244	50,330	45,845	100,535	100,380	125,124
Deferred tax liabilities	-	-	-	289	-	-

Net deferred income tax and social contribution of the Company and its subsidiaries are presented under non-current assets or non-current liabilities by legal entity,

Below is the description of deferred income:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Opening balance at January 1</b>	<b>50,330</b>	<b>45,845</b>	<b>44,889</b>	<b>100,380</b>	<b>125,124</b>	<b>104,715</b>
Expense in statement of profit or loss	(6,586)	6,466	(1,696)	(5,149)	(15,483)	(4,963)
Opening balance of IFRS16/CPC 06(R2) in 2019 and IFRS15/CPC 47 and IFRS9/CPC 48 in 2018	-	(1,980)	1,765	-	(2,203)	3,466
Acquisitions of subsidiaries	-	-	-	6,017	-	-
Write-off due to company sale	-	-	-	-	(7,060)	20,885
Other	500	(1)	887	(1,002)	2	1,021
<b>Balance at December 31</b>	<b>44,244</b>	<b>50,330</b>	<b>45,845</b>	<b>100,246</b>	<b>100,380</b>	<b>125,124</b>

## 12.3. Estimated realization of deferred taxes

Based on projections of taxable income from future years approved by the Board of Directors on February 8, 2021, the Company expects to recover tax credits recorded in non-current assets in the following years:

	<u>Individual</u>	<u>Consolidated</u>
2021	66,234	104,386
2022	26,398	43,181
2023	13,558	23,477
2024	9,189	21,162
2025	9,189	27,417
2026 on wards	20,385	38,139
<b>Total deferred tax asset</b>	<b>144,953</b>	<b>257,762</b>
Tax benefit of goodwill (a)	(100,709)	(157,516)
<b>Deferred tax assets, net</b>	<b>44,244</b>	<b>100,246</b>

(a) Refers to the amount of the tax benefit amortized without an established term for realization and deferred tax on provision of impairment, since this will take place only through the sale or write-off of Investments that generated said tax benefit.

The deductible temporary differences and income and social contribution tax loss carry forward do not expire in accordance with current tax legislation. Deferred tax assets were recognized in relation to these items, as it is probable that future taxable profits will be available so that the Company and its subsidiaries can use the related benefits. The use of income and social contribution tax loss carry forward is limited to 30% of the taxable profit for the year in which it will be used. According to the Company's estimates, future taxable profits allow the realization of the deferred tax asset existing on December 31, 2020.

### 13. Related-party

Related-party are carried out under market conditions and prices established by the parties, of which balances between the Individual and its subsidiaries are eliminated for the purposes of consolidation.

#### 13.1. Credits and liabilities with subsidiaries and associate companies

As at December 31, 2020, 2019 and 2018, the main balances of assets and liabilities with related parties that affected the statements of profit or loss for the years are shown below:

Company	2020				2019				2018	
	Trade and other receivables	Trade and other payables	Revenues	Costs	Other assets (i)	Liabilities	Revenues	Costs	Other assets (i)	Trade and other payables
TOTVS Large	-	-	-	-	11	-	-	-	-	-
TTS	-	-	-	-	1	-	-	-	-	-
Neolog (ii)	-	1,794	-	1,337	-	626	1,194	1,622	-	-
Weath Systems (iii)	-	195	121	2,879	-	-	-	-	-	-
Supplier	8	-	48	-	-	-	-	-	-	-
Ciashop (iv)	-	-	-	-	-	-	-	-	2,484	-
TOTVS Serviços (v)	-	-	-	-	-	-	-	-	1,472	-
Outros	-	-	-	-	-	-	-	-	-	24
<b>Total</b>	<b>8</b>	<b>1,989</b>	<b>169</b>	<b>4,216</b>	<b>12</b>	<b>626</b>	<b>1,194</b>	<b>1,622</b>	<b>3,956</b>	<b>24</b>

(i) Refer to short-term current account operations, without remuneration.

(ii) Refer to transfer of costs incurred for the sale of Neolog solutions by TOTVS.

(iii) Refer to partnership contract between Wealth Systems and TOTVS for the sale of CRM ("Customer Relationship Management") solutions.

(iv) With the sale of the company Ciashop, the loan assumed by third parties is no longer a related party of the group and was reclassified to the item "Other assets".

- (v) On July 31, 2019, the subsidiary TOTVS Serviços was merged by also subsidiary TOTVS Large as mentioned in Note 2.3.

### 13.2. Transactions or relationships with shareholders and key management personnel compensation

The Company kept property lease agreements with companies, in which some of the shareholders also hold TOTVS shares, directly or indirectly.

The rental and condominium expenses with related parties, including the new headquarters, recognized at the end of the fiscal year ended December 31, 2020 summed up R\$1,238 (R\$25,442 at December 31, 2019 and R\$25,328 at December 31, 2018). All rental agreements with related parties are subject to adjustment at the IGP-M inflation rate, every 12 months. On December 4, 2019, the lease agreement of the Company's headquarters ceased to be recorded as a related party, since VIP VII – Empreendimentos e Participações S.A, changed its ownership structure and is no longer owned by the shareholders and managers of TOTVS.

Some shareholders and officers directly or indirectly hold 15.15% of the Company's shares at December 31, 2020 (15.04% at December 31, 2019 and 17.6% at December 31, 2018), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company still incurred revenues of small value over the year with related parties where the total amount of expenditures was R\$228. On December 31, 2019, the total amount of expenditures of R\$409 and receivables in the value of R\$183.

### 13.3. Management fees

Expenses related to the Company's managing and statutory officers' compensation are summarized below:

	<b>Individual and Consolidated</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Salaries, fees and payroll charges (i)	12,028	12,035	14,106
Direct and Indirect benefits	995	943	1,123
Variable bonus (ii)	3,579	5,334	3,161
Share-based payments (iii)	17,164	8,573	3,725
	<b>33,766</b>	<b>26,885</b>	<b>22,115</b>

(i) Includes payment of non-competition agreement for terminated employees;

(ii) Includes the provision for the 2019 discretionary bonus that was paid upon achievement of individual performance targets;

(iii) Includes the impact of R\$3,721 referring to the withholding tax at market value for the transfer of shares through payroll for the 2016 and 2017 grants.

Some management members also use vehicles on loan that are replaced every 3 years. The depreciation expenses of vehicles granted to management members for the year ended December 31, 2020 was R\$773 (R\$669 as of December 31, 2019 and R\$ 590 as of December 31, 2020).

### 14. Other assets

The breakdown of other assets at December 31, 2020, 2019 and 2018 is follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Prepaid expenses (i)	44,798	40,038	38,515	47,509	41,072	41,863
Franchises loan (ii)	17,621	24,703	17,668	17,721	24,703	21,689
Advances to employees	11,852	8,366	7,444	15,321	8,862	8,431
Advances to suppliers	232	678	1,331	838	1,053	1,535
Negotiation and intermediation - Supplier FIDC	-	-	-	33,694	-	-
Dividends receivable	17,510	-	2,174	-	-	-
Receivables from investments disposed of (iii)	11,553	16,716	2,531	19,348	37,619	3,234
Other assets	71	3,036	3,556	3,096	4,270	6,128
<b>Total</b>	<b>103,637</b>	<b>93,537</b>	<b>73,219</b>	<b>137,527</b>	<b>117,579</b>	<b>82,880</b>
Current assets	55,689	36,618	52,288	79,599	60,184	56,540
Non-current assets	47,948	56,919	20,931	57,928	57,395	26,340

(i) Includes the amounts of taxes paid and renewals of contracts with suppliers referring to expenses that will be incurred during the year;

(ii) Most franchises loans are adjusted monthly by Interbank Deposit Certificate (CDI) or Extended National Consumer Price Index (IPCA);

(iii) Includes amounts long-term receivable about Ciashop and hardware operation sold in 2019.

## 15. Equity-accounted investees

The equity-accounted investees of the Company and its subsidiaries are assessed under the equity method. The breakdown of equity-accounted investees in subsidiaries and affiliate companies is shown below:

	Summarized financial statements of affiliate companies and subsidiaries as at December 31, 2020					Equity pick-up (Individual) for years ended:			Balance of investments as of:		
	Assets	Liabilities	Net Equity	Gross profit	Profit or loss	2020	2019	2018	2020	2019	2018
TOTVS Large (i)	552,428	72,300	480,128	217,534	47,670	39,566	24,816	(2,370)	529,693	490,215	493,626
TOTVS Tecnologia	696,139	152,494	543,645	162,592	63,570	63,570	44,529	26,487	543,645	133,254	143,487
TTS	324,056	54,802	269,254	24,324	13,992	13,992	9,052	7,670	269,254	264,259	75,188
TOTVS Inc.	98,845	6,598	92,247	597	(20,540)	(20,540)	(21,299)	(16,318)	92,246	72,666	72,030
Neolog	5,572	3,227	2,345	10,154	357	13	(523)	(1,070)	17,885	17,677	18,920
TOTVS Hospitality	52,049	13,113	38,936	59,941	6,548	4,858	5,858	2,439	28,888	24,030	17,876
VT Digital	903	198	705	1,236	430	430	54	137	704	274	5,132
TOTVS México	15,313	8,991	6,322	21,225	(8,521)	(8,521)	(9,395)	(7,894)	6,323	3,454	4,571
TOTVS Argentina	19,594	7,589	12,005	49,342	7,104	7,104	(1,322)	3,399	12,006	3,713	5,027
TFS	59,956	28,893	31,063	137,861	25,232	25,232	25,667	24,235	31,064	30,311	30,017
CMNet Argentina	-	-	-	-	-	(204)	-	-	1,116	-	-
Eleve	881	508	373	801	373	373	-	-	373	-	-
TOTVS Serviços	-	-	-	-	-	-	27,310	29,699	-	-	49,055
Ciashop	-	-	-	-	-	-	(29)	(855)	-	-	5,323
NCC	-	-	-	-	-	-	-	(58)	65	65	65
						<b>125,873</b>	<b>104,718</b>	<b>65,501</b>	<b>1,533,262</b>	<b>1,039,918</b>	<b>920,317</b>

(A free translation of the original in Portuguese)

- (i) Goodwill from acquired companies is recorded under Investments in the Individual's profit or loss. The difference between the results from acquired companies and equity pick-up refers to the amortization of intangible assets in the determination of fair value of assets of the respective acquired companies.

The following table shows changes in equity-accounted investees accounts in the fiscal years ended December 31, 2020, 2019 and 2018:

	Equity							Discontinued operation	2020
	2019	Addition	Dividends	Equity Pick-up	Amortization of PPA	Total	Foreign Exchange (i)		
TOTVS Large	490,215	658	-	48,748	(9,182)	39,566	331	(1,077)	529,693
TOTVS Tecnologia	133,254	391,321	(44,500)	63,570	-	63,570	-	-	543,645
TTS	264,259	3	(9,000)	13,992	-	13,992	-	-	269,254
TOTVS Inc.	72,666	19,238	-	(20,540)	-	(20,540)	20,882	-	92,246
Neolog	17,677	1,195	(1,000)	357	(344)	13	-	-	17,885
TOTVS Hospitality	24,030	-	-	4,858	-	4,858	-	-	28,888
VT Digital	274	-	-	430	-	430	-	-	704
TOTVS México	3,454	9,469	-	(8,521)	-	(8,521)	1,921	-	6,323
TOTVS Argentina	3,713	3,634	-	7,104	-	7,104	(2,445)	-	12,006
TFS	30,311	529	(25,008)	25,232	-	25,232	-	-	31,064
CMNet Argentina	-	1,494	-	(204)	-	(204)	(174)	-	1,116
Eleve	-	-	-	373	-	373	-	-	373
NCC	65	-	-	-	-	-	-	-	65
<b>Sum of Investments</b>	<b>1,039,918</b>	<b>427,541</b>	<b>(79,508)</b>	<b>135,399</b>	<b>(9,526)</b>	<b>125,873</b>	<b>20,515</b>	<b>(1,077)</b>	<b>1,533,262</b>

	Equity							Write-off due to sale or incorporation	Foreign Exchange (i)	Opening balance CPC 06(R2) (ii)	2019
	2018	Addition / (Reduction)	Dividends	Equity Pick-up	Amortization of PPA	Total					
TOTVS Large	493,626	(29,363)	-	34,213	(9,397)	24,816	1,105	(72)	103	490,215	
TOTVS Tecnologia	143,487	(46,762)	(8,000)	44,529	-	44,529	-	-	-	133,254	
TTS	75,188	180,019	-	9,052	-	9,052	-	-	-	264,259	
TOTVS Serviços	49,055	-	(30,200)	27,310	-	27,310	(46,165)	-	-	-	
TOTVS Inc.	72,030	19,403	-	(21,299)	-	(21,299)	-	2,532	-	72,666	
Neolog	18,920	-	(741)	1,297	(1,820)	(523)	-	-	21	17,677	
TOTVS Hospitality	17,876	-	-	5,858	-	5,858	-	-	296	24,030	
VT Digital	5,132	(4,446)	(151)	54	-	54	(315)	-	-	274	
Ciashop	5,323	-	-	(29)	-	(29)	(5,294)	-	-	-	
TOTVS México	4,571	8,455	-	(9,395)	-	(9,395)	-	(177)	-	3,454	
TOTVS Argentina	5,027	-	-	(1,322)	-	(1,322)	-	8	-	3,713	
TFS	30,017	217	(25,590)	25,667	-	25,667	-	-	-	30,311	
NCC	65	-	-	-	-	-	-	-	-	65	
<b>Sum of Investments</b>	<b>920,317</b>	<b>127,523</b>	<b>(64,682)</b>	<b>115,935</b>	<b>(11,217)</b>	<b>104,718</b>	<b>(50,669)</b>	<b>2,291</b>	<b>420</b>	<b>1,039,918</b>	

(i) Includes the inflation adjustment of the subsidiaries in Argentina.

(ii) Impact on equity of subsidiaries as of January 1, 2019 related to the initial adoption IFRS 16/CPC 06(R2).

	Equity									2018
	2017	Addition / (Reduction)	Dividends	Equity Pick-up	Amortization of PPA	Total	Foreign Exchange (ii)	Opening balance CPC 47/48 (i)	Discontinued operation	
TOTVS Large	547,330	23,596	(627)	7,469	(9,839)	(2,370)	9,955	(7,165)	(77,093)	493,626
TOTVS Brasília	138,692	(9,134)	(11,361)	26,487	-	26,487	-	(1,197)	-	143,487
TOTVS Nordeste	67,908	(460)	-	7,670	-	7,670	-	70	-	75,188
TOTVS Serviços	20,725	-	(1,395)	29,699	-	29,699	-	26	-	49,055
TOTVS Inc.	59,801	18,159	-	(16,318)	-	(16,318)	10,388	-	-	72,030
Neolog	20,681	-	(689)	987	(2,057)	(1,070)	1	(3)	-	18,920
TOTVS Hospitality	10,461	-	-	2,439	-	2,439	(1)	4,977	-	17,876
TOTVS Ventures	10,756	(5,760)	-	137	-	137	(1)	-	-	5,132
Ciashop	5,334	871	-	1,019	(1,874)	(855)	(1)	(26)	-	5,323
TOTVS México	5,472	6,494	-	(7,894)	-	(7,894)	871	(372)	-	4,571
TOTVS Argentina	4,624	346	-	3,399	-	3,399	(2,497)	(845)	-	5,027
Datasul Argentina	62	-	-	(58)	-	(58)	(4)	-	-	-
TFS	799	4,990	-	24,235	-	24,235	1	(8)	-	30,017
NCC	38	27	-	-	-	-	-	-	-	65
<b>Sum of Investments</b>	<b>892,683</b>	<b>39,129</b>	<b>(14,072)</b>	<b>79,271</b>	<b>(13,770)</b>	<b>65,501</b>	<b>18,712</b>	<b>(4,543)</b>	<b>(77,093)</b>	<b>920,317</b>

(i) Impact on equity of subsidiaries as of January 1, 2018 and January 1, 2019 related to the initial adoption of IFRS 15/CPC 47 and IFRS 9/CPC 48 and IFRS 16/CPC 06(R2), respectively.

(ii) Includes the inflation adjustment of the subsidiaries in Argentina.

## 16. Property, plant and equipment

Property, plant and equipment of the Company are booked at the acquisition cost and depreciation of assets is calculated according to the straight-line method, and takes into consideration the estimated useful economic life of assets. The Company's property, plant and equipment is broken down as follows:

	Individual							Total
	Computers	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improvements	Right of use (i)	Others	
<b>Cost</b>								
<b>Balance in 2017</b>	<b>153,344</b>	<b>9,428</b>	<b>21,572</b>	<b>25,980</b>	<b>73,082</b>	-	<b>7,037</b>	<b>290,443</b>
Additions	34,242	5,289	940	704	17,886	-	2,829	61,890
Transfers	2,131	107	555	(162)	(4,606)	-	1,273	(702)
Write-offs	(5,621)	(4,623)	(190)	(119)	(263)	-	(6)	(10,822)
<b>Balance in 2018</b>	<b>184,096</b>	<b>10,201</b>	<b>22,877</b>	<b>26,403</b>	<b>86,099</b>	-	<b>11,133</b>	<b>340,809</b>
Opening balance CPC 06/IFRS16	-	-	-	-	-	277,111	-	277,111
Additions	26,225	4,597	3,612	443	3,589	19,861	173	58,500
Transfers	(3,191)	199	329	-	4,065	-	(1,402)	-
Write-offs	(13,463)	(4,233)	(965)	(20)	(3,633)	-	(31)	(22,345)
<b>Balance in 2019</b>	<b>193,667</b>	<b>10,764</b>	<b>25,853</b>	<b>26,826</b>	<b>90,120</b>	<b>236,972</b>	<b>9,873</b>	<b>594,075</b>
Additions	21,514	3,680	1,286	352	3,816	21,134	1,005	52,787
Transfers	(6,841)	(682)	-	9	492	7,656	(3,113)	(2,479)
Write-offs	(12,150)	(2,205)	(528)	(356)	(36)	(1,343)	(26)	(16,644)
<b>Balance in 2020</b>	<b>196,190</b>	<b>11,557</b>	<b>26,611</b>	<b>26,831</b>	<b>94,392</b>	<b>264,419</b>	<b>7,739</b>	<b>627,739</b>
<b>Depreciation</b>								
<b>Balance in 2017</b>	<b>(86,177)</b>	<b>(3,885)</b>	<b>(8,875)</b>	<b>(8,667)</b>	<b>(16,162)</b>	-	<b>(2,843)</b>	<b>(126,609)</b>
Depreciation in the year	(25,582)	(3,417)	(2,985)	(3,210)	(8,622)	-	(1,530)	(45,346)
Transfers	29	-	(30)	(24)	-	-	(1)	(26)
Write-offs	5,465	3,336	107	60	56	-	6	9,030
<b>Balance in 2018</b>	<b>(106,265)</b>	<b>(3,966)</b>	<b>(11,783)</b>	<b>(11,841)</b>	<b>(24,728)</b>	-	<b>(4,368)</b>	<b>(162,951)</b>
Depreciation in the year	(27,107)	(3,388)	(3,082)	(3,127)	(10,358)	(32,075)	(2,192)	(81,329)
Transfers	-	-	(60)	-	60	-	-	-
Write-offs	12,918	3,068	912	13	3,619	-	14	20,544
<b>Balance in 2019</b>	<b>(120,454)</b>	<b>(4,286)</b>	<b>(14,013)</b>	<b>(14,955)</b>	<b>(31,407)</b>	<b>(32,075)</b>	<b>(6,546)</b>	<b>(223,736)</b>
Depreciation in the year	(27,418)	(3,664)	(3,138)	(3,061)	(10,790)	(37,951)	(1,183)	(87,205)
Transfers	606	-	-	-	(1,466)	(606)	1,466	-
Write-offs	12,016	2,032	516	325	-	1,289	26	16,204
<b>Balance in 2020</b>	<b>(135,250)</b>	<b>(5,918)</b>	<b>(16,635)</b>	<b>(17,691)</b>	<b>(43,663)</b>	<b>(69,343)</b>	<b>(6,237)</b>	<b>(294,737)</b>
<b>Residual value</b>								
<b>Balance in 2020</b>	<b>60,940</b>	<b>5,639</b>	<b>9,976</b>	<b>9,140</b>	<b>50,729</b>	<b>195,076</b>	<b>1,502</b>	<b>333,002</b>
<b>Balance in 2019</b>	<b>73,213</b>	<b>6,478</b>	<b>11,840</b>	<b>11,871</b>	<b>58,713</b>	<b>204,897</b>	<b>3,327</b>	<b>370,339</b>
<b>Balance in 2018</b>	<b>77,831</b>	<b>6,235</b>	<b>11,094</b>	<b>14,562</b>	<b>61,371</b>	-	<b>6,765</b>	<b>177,858</b>
Average annual depreciation rate	20% to 25%	33%	10% to 25%	6,7% to 25%	10% to 33%	10% to 33%	20%	-

## Consolidated

	Computers and electronic equipment	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improvements	Right of use (i)	Others	Total
<b>Cost</b>								
<b>Balance in 2017</b>	<b>165,289</b>	<b>11,205</b>	<b>25,024</b>	<b>39,548</b>	<b>81,577</b>	-	<b>7,619</b>	<b>330,262</b>
Additions	37,691	5,832	1,777	1,816	22,294	-	3,169	72,579
Transfers	7,615	238	3,096	(6,495)	(2,164)	-	1,128	3,418
Write-offs	(7,192)	(4,660)	(1,393)	(717)	(1,120)	-	14	(15,068)
Foreign Exchange	1,138	141	357	225	413	-	(3)	2,271
<b>Balance in 2018</b>	<b>204,541</b>	<b>12,756</b>	<b>28,861</b>	<b>34,377</b>	<b>101,000</b>	-	<b>11,927</b>	<b>393,462</b>
Opening balance CPC 06/IFRS16	-	-	-	-	-	236,820	-	236,820
Additions	27,353	5,256	3,774	459	3,589	25,453	218	66,102
Transfers	(2,712)	199	376	(504)	4,065	-	(1,382)	42
Write-offs	(16,940)	(5,607)	(1,868)	(611)	(4,405)	(4,172)	(52)	(33,655)
Write-offs due to company sale	(3,162)	(763)	(1,427)	(5,519)	(4,479)	(5,645)	(173)	(21,168)
Foreign Exchange (ii)	80	54	43	4	96	(460)	1	(182)
<b>Balance in 2019</b>	<b>209,160</b>	<b>11,895</b>	<b>29,759</b>	<b>28,206</b>	<b>99,866</b>	<b>251,996</b>	<b>10,539</b>	<b>641,421</b>
Additions	23,255	4,127	1,464	382	4,154	30,274	1,163	64,819
Addition due to business combination	8,564	258	1,886	2,177	939	6,975	460	21,259
Transfers	(6,842)	(702)	110	8	577	7,656	(3,288)	(2,481)
Write-offs	(13,849)	(2,639)	(645)	(577)	(43)	(6,446)	(42)	(24,241)
Foreign Exchange (ii)	234	147	75	74	301	1,310	9	2,150
<b>Balance in 2020</b>	<b>220,522</b>	<b>13,086</b>	<b>32,649</b>	<b>30,270</b>	<b>105,794</b>	<b>291,765</b>	<b>8,841</b>	<b>702,927</b>
<b>Depreciation</b>								
<b>Balance in 2017</b>	<b>(94,352)</b>	<b>(4,923)</b>	<b>(11,265)</b>	<b>(11,789)</b>	<b>(22,876)</b>	-	<b>(3,035)</b>	<b>(148,240)</b>
Depreciation in the year	(28,122)	(3,821)	(3,550)	(5,320)	(11,044)	-	(982)	(52,839)
Transfers	(4,015)	54	(969)	(26)	788	-	20	(4,148)
Write-offs	7,099	3,444	1,089	476	411	-	(46)	12,473
Foreign Exchange (ii)	(1,047)	(96)	(300)	(45)	(396)	-	2	(1,882)
<b>Balance in 2018</b>	<b>(120,437)</b>	<b>(5,342)</b>	<b>(14,995)</b>	<b>(16,704)</b>	<b>(33,117)</b>	-	<b>(4,041)</b>	<b>(194,636)</b>
Depreciation in the year	(28,977)	(4,293)	(3,447)	(3,261)	(11,906)	(37,572)	(1,875)	(91,331)
Transfers	(452)	-	(94)	460	60	-	(16)	(42)
Write-offs	16,077	4,685	1,444	472	4,264	855	33	27,830
Write-offs due to company sale	1,985	107	396	3,147	440	-	52	6,127
Foreign Exchange (ii)	(16)	7	(25)	(4)	(81)	181	1	63
<b>Balance in 2019</b>	<b>(131,820)</b>	<b>(4,836)</b>	<b>(16,721)</b>	<b>(15,890)</b>	<b>(40,340)</b>	<b>(36,536)</b>	<b>(5,846)</b>	<b>(251,989)</b>
Depreciation in the year	(30,251)	(3,984)	(3,599)	(3,407)	(11,857)	(45,026)	(1,354)	(99,478)
Addition due to business combination	(4,820)	(67)	(767)	(801)	(215)	(2,408)	(174)	(9,252)
Transfers	606	-	-	-	(298)	(606)	298	-
Write-offs	13,408	2,324	539	478	2	5,202	40	21,993

Foreign Exchange (ii)	44	10	(7)	(83)	(265)	570	(23)	246
<b>Balance in 2020</b>	<b>(152,833)</b>	<b>(6,553)</b>	<b>(20,555)</b>	<b>(19,703)</b>	<b>(52,973)</b>	<b>(78,804)</b>	<b>(7,059)</b>	<b>(338,480)</b>
<b>Residual value</b>								
<b>Balance in 2020</b>	<b>67,689</b>	<b>6,533</b>	<b>12,094</b>	<b>10,567</b>	<b>52,821</b>	<b>212,961</b>	<b>1,782</b>	<b>364,447</b>
<b>Balance in 2019</b>	<b>77,340</b>	<b>7,059</b>	<b>13,038</b>	<b>12,316</b>	<b>59,526</b>	<b>215,460</b>	<b>4,693</b>	<b>389,432</b>
<b>Balance in 2018</b>	<b>84.104</b>	<b>7.414</b>	<b>13.866</b>	<b>17.673</b>	<b>67.883</b>	<b>-</b>	<b>7.886</b>	<b>198.826</b>
Average annual depreciation rate	20% to 25%	20% to 33%	10% to 25%	6,7% to 25%	10% to 33%	10% to 33%	20%	-

- (i) Line "Additions" includes the annual restatement of rental applied to the right of use according to the index established in the agreement in the amount of R\$18,174. The Company applied exceptions to the standard for short-term and low value contracts, recorded in rental expense in the amount of R\$1,044 and R\$2,310 in the Individual and Consolidated, respectively as of December 31, 2020.
- (ii) Includes the inflation adjustments of Argentine subsidiaries.

The Company annually evaluates indicators that may impact the estimated useful lives of its assets and there were no changes for the years ended December 31, 2020, 2019 and 2018, and there was nothing to indicate any change.

Breakdown of right of use assets and lease liabilities for the year ended December 31, 2020 and 2019 are as follows:

	Consolidated			
	Right of use real estate	Right of use computers and equipments	Total assets	Lease liabilities
<b>As at December 31, 2018</b>	-	-	-	<b>42,189</b>
<b>Opening balance</b>	<b>236,820</b>	-	<b>236,820</b>	<b>236,470</b>
Additions	25,453	7,656	33,109	33,107
Write-offs	(3,317)	-	(3,317)	(4,055)
Write-offs due to company sale	(5,645)	-	(5,645)	(5,463)
Amortization	(37,572)	(606)	(38,178)	-
Interest incurred and exchange variation	(279)	-	(279)	16,115
Interest paid	-	-	-	(15,406)
Principal paid	-	-	-	(61,617)
<b>As at December 31, 2019</b>	<b>215,460</b>	<b>7,050</b>	<b>222,510</b>	<b>241,340</b>
Additions	22,037	8,237	30,274	29,267
Addition due to business combinations	4,567	-	4,567	5,080
Write-offs	(1,232)	(12)	(1,244)	-
Amortization	(41,401)	(3,625)	(45,026)	-
Interest incurred and exchange variation	1,880	-	1,880	14,660
Interest paid	-	-	-	(12,198)
Principal paid	-	-	-	(54,624)
<b>As at December 31, 2020</b>	<b>201,311</b>	<b>11,650</b>	<b>212,961</b>	<b>223,525</b>

## 17. Intangible assets and goodwill

Intangible assets and goodwill changes in balances are as follows:

	Individual						Total Intangible assets
	Software	Trademarks & patents	Customer portfolio	R&D (i)	Other (ii)	Goodwill	
<b>Cost or valuation</b>							
<b>Balance in 2017</b>	324,854	63,149	212,980	-	18,750	280,308	900,041
Additions	14,006	-	-	-	-	-	14,006
Transfers	730	-	-	-	-	-	730
<b>Balance in 2018</b>	<b>339,590</b>	<b>63,149</b>	<b>212,980</b>	<b>-</b>	<b>18,750</b>	<b>280,308</b>	<b>914,777</b>
Additions	17,448	-	3,554	-	-	-	21,002
Transfers	(6,989)	(2,151)	(166)	-	(123)	-	(9,429)
<b>Balance in 2019</b>	<b>350,049</b>	<b>60,998</b>	<b>216,368</b>	<b>-</b>	<b>18,627</b>	<b>280,308</b>	<b>926,350</b>
Additions	27,306	-	3,883	16,735	-	-	47,924
Transfers	9,468	2,151	166	-	123	-	11,908
<b>Balance in 2020</b>	<b>386,823</b>	<b>63,149</b>	<b>220,417</b>	<b>16,735</b>	<b>18,750</b>	<b>280,308</b>	<b>986,182</b>
<b>Amortization</b>							
<b>Balance in 2017</b>	<b>(225,134)</b>	<b>(39,623)</b>	<b>(200,446)</b>	<b>-</b>	<b>(18,511)</b>	<b>-</b>	<b>(483,714)</b>
Amortization in the year	(33,614)	(4,202)	(10,373)	-	(239)	-	(48,428)
<b>Balance in 2018</b>	<b>(258,748)</b>	<b>(43,825)</b>	<b>(210,819)</b>	<b>-</b>	<b>(18,750)</b>	<b>-</b>	<b>(532,142)</b>
Amortization in the year	(31,875)	(4,200)	(942)	-	-	-	(37,017)
Transfers	6,989	2,151	166	-	123	-	9,429
<b>Balance in 2019</b>	<b>(283,634)</b>	<b>(45,874)</b>	<b>(211,595)</b>	<b>-</b>	<b>(18,627)</b>	<b>-</b>	<b>(559,730)</b>
Amortization in the year	(30,587)	(4,201)	(2,655)	(110)	-	-	(37,553)
Transfers	(6,989)	(2,151)	(166)	-	(123)	-	(9,429)
<b>Balance in 2020</b>	<b>(321,210)</b>	<b>(52,226)</b>	<b>(214,416)</b>	<b>(110)</b>	<b>(18,750)</b>	<b>-</b>	<b>(606,712)</b>
<b>Residual value</b>							
<b>Balance in 2020</b>	<b>65,613</b>	<b>10,923</b>	<b>6,001</b>	<b>16,625</b>	<b>-</b>	<b>280,308</b>	<b>379,470</b>
<b>Balance in 2019</b>	<b>66,415</b>	<b>15,124</b>	<b>4,773</b>	<b>-</b>	<b>-</b>	<b>280,308</b>	<b>366,620</b>
<b>Balance in 2018</b>	<b>80,842</b>	<b>19,324</b>	<b>2,161</b>	<b>-</b>	<b>-</b>	<b>280,308</b>	<b>382,635</b>
Average annual amortization rates	10% a 20%	6,7% a 8%	10% a 12,5%	20% a 50%	10% a 50%		

	Consolidated						Total
	Software	Trademarks & patents	Customer portfolio	R&D (i)	Others (ii)	Goodwill	Intangible assets
<b>Cost or valuation</b>							
<b>Balance in 2017</b>	<b>370,495</b>	<b>99,622</b>	<b>360,892</b>	<b>28,641</b>	<b>49,526</b>	<b>654,047</b>	<b>1,563,223</b>
Additions	14,621	221	-	1	-	8,378	23,221
Transfers	730	-	-	(534)	534	-	730
Write-offs	(1,236)	(5)	(162)	(1)	(212)	-	(1,616)
Exchange variation (iii)	288	994	-	-	-	6,379	7,661
<b>Balance in 2018</b>	<b>384,898</b>	<b>100,832</b>	<b>360,730</b>	<b>28,107</b>	<b>49,848</b>	<b>668,804</b>	<b>1,593,219</b>
Additions	17,504	-	3,554	-	-	-	21,058
Write-offs	(7,139)	(11,059)	(166)	(721)	(123)	-	(19,208)
Write-offs due to company sale	(5,482)	(6,494)	-	(13,496)	-	(2,862)	(28,334)
Exchange variation (iii)	14	-	-	-	-	-	14
<b>Balance in 2019</b>	<b>389,795</b>	<b>83,279</b>	<b>364,118</b>	<b>13,890</b>	<b>49,725</b>	<b>665,942</b>	<b>1,566,749</b>
Additions	27,652	-	3,883	18,959	-	-	50,494
Addition due to business	159,792	44,528	116,244	-	32,437	479,889	832,890
Transfers	2,479	-	-	535	(535)	-	2,479
Exchange variation (iii)	140	-	-	-	-	-	140
<b>Balance in 2020</b>	<b>579,858</b>	<b>127,807</b>	<b>484,245</b>	<b>33,384</b>	<b>81,627</b>	<b>1,145,831</b>	<b>2,452,752</b>
<b>Amortization</b>							
<b>Balance in 2017</b>	<b>(254,757)</b>	<b>(54,590)</b>	<b>(240,105)</b>	<b>(3,827)</b>	<b>(48,976)</b>	-	<b>(602,255)</b>
Amortization in the year	(42,200)	(7,483)	(21,216)	(8,611)	(865)	-	(80,375)
Write-offs	1,236	5	162	1	212	-	1,616
Provision for impairment	-	(218)	-	(10,389)	-	(43,611)	(54,218)
Exchange variation	(155)	(704)	-	-	-	-	(859)
<b>Balance in 2018</b>	<b>(295,876)</b>	<b>(62,990)</b>	<b>(261,159)</b>	<b>(22,826)</b>	<b>(49,629)</b>	<b>(43,611)</b>	<b>(736,091)</b>
Amortization in the year	(36,032)	(5,157)	(11,723)	(2,716)	(74)	-	(55,702)
Write-offs	7,135	4,185	166	721	123	-	12,330
Write-offs due to company sale	2,338	4,730	-	16,349	-	-	23,417
Exchange variation (iii)	(6)	-	-	-	-	-	(6)
<b>Balance in 2019</b>	<b>(322,441)</b>	<b>(59,232)</b>	<b>(272,716)</b>	<b>(8,472)</b>	<b>(49,580)</b>	<b>(43,611)</b>	<b>(756,052)</b>
Amortization in the year	(55,197)	(19,107)	(21,475)	(1,484)	(7,846)	-	(105,109)
Addition due to business	(5,339)	-	-	-	-	-	(5,339)
Transfers	-	-	-	(535)	535	-	-
Exchange variation (iii)	(78)	-	-	-	3	-	(75)
<b>Balance in 2020</b>	<b>(383,055)</b>	<b>(78,339)</b>	<b>(294,191)</b>	<b>(10,491)</b>	<b>(56,888)</b>	<b>(43,611)</b>	<b>(866,575)</b>
<b>Residual value</b>							
<b>Balance in 2020</b>	<b>196,803</b>	<b>49,468</b>	<b>190,054</b>	<b>22,893</b>	<b>24,739</b>	<b>1,102,220</b>	<b>1,586,177</b>
<b>Balance in 2019</b>	<b>67,354</b>	<b>24,047</b>	<b>91,402</b>	<b>5,418</b>	<b>145</b>	<b>622,331</b>	<b>810,697</b>
<b>Balance in 2018</b>	<b>89,022</b>	<b>37,842</b>	<b>99,571</b>	<b>5,281</b>	<b>219</b>	<b>625,193</b>	<b>857,128</b>
Average annual amortization rates	10% to 20%	6,7% to 8%	10% to 12,5%	20% to 50%	10% to 50%		

(i) R&D amortization starts when development is completed and the asset is available for use or sale. In 2020, the development capitalization totaled R\$ 18,959, that majority are related to the Company's strategic plan.

(ii) Includes primarily non-compete rights arising from the purchase price allocation from business combinations.

- (iii) Includes the inflation adjustments of Argentine subsidiaries.

The amortization of intangible assets is based on their estimated useful lives, Intangible assets identified, the amounts recognized and useful lives of assets resulting from a business combination are based on a technical study by an independent specialist firm.

## 17.1. Goodwill

The breakdown and addition/write-off of goodwill in the fiscal years ended December 31, 2020, 2019 and 2018 is shown below:

	2017	Foreign exchange (i)	Addition/ Impairment	2018	Addition/ Impairment	2019	Addition	2020
Bematech (ii)	255,927	6,379	(43,611)	218,695	1,603	220,298	-	220,298
Supplier	-	-	-	-	-	-	288,558	288,558
Consinco	-	-	-	-	-	-	160,436	160,436
Tail	-	-	-	-	-	-	13,561	13,561
RM	90,992	-	-	90,992	-	90,992	-	90,992
W&D	64,070	-	-	64,070	-	64,070	-	64,070
Virtual Age	46,497	-	-	46,497	-	46,497	-	46,497
RMS	35,740	-	-	35,740	-	35,740	-	35,740
SRC	33,688	-	-	33,688	-	33,688	-	33,688
Datasul	30,084	-	-	30,084	-	30,084	-	30,084
WS	-	-	-	-	-	-	17,334	17,334
Gens FDES	16,340	-	-	16,340	-	16,340	-	16,340
Seventeen	15,463	-	-	15,463	-	15,463	-	15,463
TOTVS Agroindústria	13,128	-	-	13,128	-	13,128	-	13,128
Neolog	12,565	-	-	12,565	-	12,565	-	12,565
BCS	11,821	-	-	11,821	-	11,821	-	11,821
Passlack (iii)	-	-	8,378	8,378	-	8,378	-	8,378
Ciashop (iv)	4,465	-	-	4,465	(4,465)	-	-	-
Outros	23,267	-	-	23,267	-	23,267	-	23,267
	<b>654,047</b>	<b>6,379</b>	<b>(35,233)</b>	<b>625,193</b>	<b>(2,862)</b>	<b>622,331</b>	<b>479,889</b>	<b>1,102,220</b>

- (i) Exchange variation for goodwill recorded in a foreign subsidiary.  
(ii) Goodwill arising from the acquisition of the software operation of TOTVS Large (formerly Bematech S.A.);  
(iii) Goodwill generated from the acquisition of Passlack;  
(iv) Write-off for sale of Ciashop as mentioned note 5.

## 17.2. Impairment testing

In 2019, the Company sold the hardware operation (see note 5) and returned its strategic focus to software and the financial segment with the acquisition of Supplier on April 30, 2020. Thus, the Company started the business financial services, issuing and managing credit cards, including credit analysis and intermediation of financing requests.

As a result, the Company disregarded Neolog as a separate cash generating unit (CGU), since in 2020 TOTVS started to hold 100% of the share capital of this entity, and consolidated in Techology CGU in order to capture all

the synergy of the software operation , as well as the recently acquired Consinco and Wealth Systems, In addition, the Company created a new Credit Products CGU - Supplier that resulted in two report cash-generating units: Technology (formerly TOTVS) and Credit Products – Supplier.

For impairment testing purposes, assumptions for cash flow increase and future cash flow projections are based on the Company's business plan, approved annually by management, as well as on comparable market information, and represent Management's best estimates of the economic conditions that will exist during the useful life of these assets for different cash generating units. Future cash flows were discounted based on the representative rate of cost of capital.

Consistently with the economic valuation techniques, value in use is determined over a five-year period, and considering the perpetuity of assumptions therefrom, in view of the ability to continue as a going concern for an indefinite period. Flow growth projections were made in nominal terms.

Value in use calculation is mainly impacted by the following assumptions:

- Gross margins – revenues were projected between 2021 and 2025, considering the growth of the customer bases and business plans of the two Cash Generating Units, while costs and expenses were projected based on the Company's historical performance of operations.
- Discount rate – represents the assessment of risks in the current market, specific to each cash-generating unit, considering the value of money over time and the individual risks of related assets that were not incorporated into the assumptions included in the cash flow model. Calculation of the discount rate is based on the specific circumstances of each CGU. Estimated future cash flows were discounted at a nominal rate of 10.8% to 12.4% p.y., (pre-tax) for each cash generating unit (11.7% at December 31, 2019).
- Perpetuity – the growth rates used to extrapolate the projections at December 31, 2020, in addition to the five-year period ranged from 3.3% to 5.8%, (3.5% à 5.5% at December 31, 2019).

Key assumptions were based on the Company's historical performance and reasonable macroeconomic assumptions, and on financial market projections, documented and approved by the Company's management.

The annual impairment test of intangible assets and goodwill of the Group did not result in any provision for loss, since the estimated recoverable amount of each CGU was higher than the net book value on the valuation date for the period ended December 31, 2020 and 2019. In 2018, the annual impairment test for intangible assets and goodwill resulted in a provision for loss of R\$87,023 at the Bematech Hardware CGU, which was sold on October 24, 2019.

The sensitivity analysis was performed as follows:

- Gross margins - Through the sensitivity analysis, the Company concluded that an increase or decrease of 0.5 p.p. as at December 31, 2019 and 1 p.p. as at December 31, 2020 in gross margin projection for each CGU would result in a recoverable amount higher than the book value. An increase or decrease of 0.5 p.p. or 1 p.p. would not result in an impairment amount to be recognized by the Company.

- Discount rate - Through the sensitivity analysis, the Group concluded that an increase or decrease of 1 p.p., as at December 31, 2020 and 2019, in the discount rate for each CGU would result in a recoverable amount higher than the book value.
- Perpetuity - Through the sensitivity analysis, the Group concluded that the growth rates used to extrapolate the projections as at December 31, 2020, in addition to the five-year period ranged from 3.3% to 5.8% (3.5% to 5.5% as at December 31, 2019). An increase or decrease of 1 p.p. as at December 31, 2019 and 1 p.p. as at December 31, 2020, in the perpetuity rate for each CGU would result in a recoverable amount higher than the book value.

## 18. Labor liabilities

Balances of salaries and charges payable are detailed as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Labor liabilities:</b>						
Salaries payable	22,556	21,090	19,332	35,787	28,810	27,600
Vacation payable	61,770	55,976	58,568	93,201	76,235	81,704
Profit sharing and bonus	22,263	40,710	23,109	38,202	51,107	30,492
Withholding income tax (IRRF) payable	14,284	13,291	12,303	20,591	17,600	16,552
Actuarial liability due to health care plan and retirement benefits (i)	2,786	2,024	1,287	2,786	2,024	1,287
Other	1,821	1,703	1,675	3,966	4,106	2,982
	<b>125,480</b>	<b>134,794</b>	<b>116,274</b>	<b>194,533</b>	<b>179,882</b>	<b>160,617</b>
<b>Payroll liabilities</b>						
FGTS (Unemployment Compensation Fund) payable	5,082	4,525	4,581	7,305	6,062	6,203
INSS (Social Security Tax) payable	5,788	5,080	5,088	9,765	7,528	8,054
	<b>10,870</b>	<b>9,605</b>	<b>9,669</b>	<b>17,070</b>	<b>13,590</b>	<b>14,257</b>
	<b>136,350</b>	<b>144,399</b>	<b>125,943</b>	<b>211,603</b>	<b>193,472</b>	<b>174,874</b>

(i) Refers to the actuarial provision for the health care plan of the participants who contributed with or still contribute fixed installments to the plan costing and who will be entitled to remain in the plan after retirement.

## 19. Taxes and contributions liabilities

As at December 31, 2020, 2019 and 2018, the balances of taxes and contributions liabilities are comprised as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Tax liabilities</b>						
CPRB payable	14,857	14,221	12,041	19,948	17,552	14,583
ISS payable	5,187	7,628	5,376	7,722	9,588	7,268
PIS and COFINS payable	18,197	15,484	12,487	23,875	18,486	15,589
IRPJ and CSLL payable	-	-	-	19,355	4,238	4,632
Withholding IR and CSLL	932	796	880	3,272	2,677	3,677
Other taxes	850	2,063	1,793	4,363	2,662	1,717
<b>Total</b>	<b>40,023</b>	<b>40,192</b>	<b>32,577</b>	<b>78,535</b>	<b>55,203</b>	<b>47,466</b>
Current liabilities	40,023	40,192	32,577	74,558	55,203	47,466
Non-current liabilities	-	-	-	3,977	-	-

## 20. Loans, financing and lease liabilities

Loans are initially recognized at fair value, net of transaction costs incurred, and are shown at amortized cost. Any difference between the borrowed amounts (net of transaction costs) and the total amount payable is recognized in the statement of profit or loss during the period when the loans are due, using the effective interest rate method.

The loan and financing transactions are as follows:

	Annual financial charges	Individual			Consolidated		
		2020	2019	2018	2020	2019	2018
BNDES PROSOFT	TJLP + 1.5 to 1.52% p,y,	-	-	129,194	-	3,232	137,940
BNDES PSI	3.5% to 4.0% p,y,	-	-	12,197	-	2,227	18,224
Finance lease	5.53% to 17.24% p,y, (i)	204,548	230,108	42,087	223,525	241,340	42,189
BNDES Inovação	TJLP + 0.52% p,y,	-	-	-	-	888	2,404
BNDES Social	TJLP	-	-	714	-	-	714
Working capital (ii)	CDI + 1.9% p,y,	-	-	-	100,740	-	-
Secured accounts and other		-	-	-	785	16	-
		<b>204,548</b>	<b>230,108</b>	<b>184,192</b>	<b>325,050</b>	<b>247,703</b>	<b>201,471</b>
Current liabilities		37,651	44,322	155,278	146,806	55,623	166,154
Non-current liabilities		166,897	185,786	28,914	178,244	192,080	35,317

(i) Rates for the lease of real property right of use range from 7,78% to 10,16% (nominal interest rate) and 5,53% to 17,24% for the lease of the right to use electronic equipment.

(ii) As of December 31, 2020, only the working capital loan of the Supplier Administradora subsidiary had an early maturity clause in the event of default, bankruptcy or protest of a security with a value above R\$10,000, besides other conditions under the agreement.

Amounts recorded in non-current liabilities as at December 31, 2020, 2019 and 2018, have the following maturity schedule:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
2019	-	-	13,173	-	-	19,583
2020	-	-	15,741	-	-	15,734
2021	-	33,120	-	-	36,628	-
2022	36,810	32,032	-	41,761	33,834	-
2023	33,440	29,770	-	37,895	30,754	-
2024	32,512	30,725	-	33,751	30,725	-
2025 onwards	64,135	60,139	-	64,837	60,139	-
<b>Non-current liabilities</b>	<b>166,897</b>	<b>185,786</b>	<b>28,914</b>	<b>178,244</b>	<b>192,080</b>	<b>35,317</b>

Below is the breakdown of loans and debts as at December 31, 2020, 2019 and 2018:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Opening balance</b>	<b>230,108</b>	<b>184,192</b>	<b>374,074</b>	<b>247,703</b>	<b>201,471</b>	<b>402,556</b>
Opening balance of lease – IFRS 16/CPC 06(R2)	-	217,111	-	-	236,470	-
Additions	21,134	27,517	4,712	129,267	33,107	4,712
Additions due to business combination	-	-	-	175,585	-	-
Interest incurred	11,353	19,295	25,396	15,840	21,318	26,885
Interest paid	(11,353)	(19,363)	(24,577)	(13,863)	(20,639)	(26,004)
Principal payment	(46,694)	(198,644)	(195,413)	(229,482)	(214,506)	(206,678)
Write-off due to company sale	-	-	-	-	(5,463)	-
Write-off right-of-use lease	-	-	-	-	(4,055)	-
<b>Closing balance</b>	<b>204,548</b>	<b>230,108</b>	<b>184,192</b>	<b>325,050</b>	<b>247,703</b>	<b>201,471</b>

#### a) Leases

Lease liabilities are guaranteed by fiduciary sale of leased assets. The table below shows gross liabilities of finance leases at December 31, 2020, 2019 and 2018:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Gross liabilities of Finance lease – minimum lease payments</b>						
Less than one year	46,824	55,050	13,173	55,014	60,304	13,227
More than one year and less than five years	154,671	150,524	36,203	166,413	157,011	36,262
More than five years	33,409	63,460	-	33,783	63,460	-
	<b>234,904</b>	<b>269,034</b>	<b>49,376</b>	<b>255,210</b>	<b>280,775</b>	<b>49,489</b>
Future financing charges in Finance leases	(30,356)	(38,926)	(7,289)	(31,685)	(39,435)	(7,300)
<b>Present value of lease liabilities</b>	<b>204,548</b>	<b>230,108</b>	<b>42,087</b>	<b>223,525</b>	<b>241,340</b>	<b>42,189</b>
Current liabilities	37,651	44,322	13,173	45,281	49,260	13,228
Non-current liabilities	166,897	185,786	28,914	178,244	192,080	28,961

## 21. Debentures

At December 31, 2020, 2019 and 2018, the balance was broken down as follows:

Issue	Debentures	Annual financial charges	Unit price	Individual and Consolidated		
				2020	2019	2018
Single series	200,000	105.95% of CDI	1.00	-	202,973	203,431
		Premium due to non-conversion				73,757
		<b>Total</b>		-	<b>202,973</b>	<b>277,188</b>
		Current liabilities		-	202,973	77,319
		Non-current liabilities		-	-	199,869

(i) The value of the debentures issue is presented net of transactions costs of R\$175 as of December 31, 2019 (R\$306 as of December 31, 2018).

The changes in the years are shown below:

Debentures	Individual and Consolidated		
	2020	2019	2018
<b>Balance at beginning of year</b>	<b>202,973</b>	<b>277,188</b>	<b>269,138</b>
Issuance of debentures	196,924	-	-
Interest accrued	7,878	21,987	21,734
(-) Interest amortization	(7,775)	(13,124)	(13,684)
(-) Principal amortization	(400,000)	-	-
(-) Amortization of Premium due to non-conversion	-	(83,078)	-
<b>Balance at end of year</b>	<b>-</b>	<b>202,973</b>	<b>277,188</b>

### a) Issue of Debentures

Debentures issued in 2017: Fund-raising R\$200,000 through the issue of 200,000 simple, unsecured, nonconvertible debentures of the Company at the face value of R\$1, in a single series, which were subject to public distribution with restricted efforts. For legal purposes the issue date of the debentures was September 15, 2017. The debentures will fall due on September 15, 2020, except in the event of early maturity. The Debentures will bear interest corresponding to 105.95% of the accumulated variation of the daily average DI (interbank) rates, Interest will be paid semiannually. The debentures matured on September 15, 2020 and were settled for the amount of R\$202,838.

Debentures issued in 2020: On April 22, 2020, the Company approved the 2nd issue of Simple, non-convertible, unsecured debentures, in a single series for public distribution with restricted placement efforts in the total amount of R\$200,000, at face value of R\$1,000,00. The Unit Face Value will bear interest corresponding to 100% of the accumulated variation of the average daily rates of the DI (Interbank Deposits), based on 252 business days, plus a spread equivalent to 2.65% per year. On August 10, 2020, the Company redeemed all debentures for R\$203,219. These debentures would mature on April 22, 2021 and the optional early redemption took place under the terms of the Indenture for the 2<sup>nd</sup> Issue of Debentures, by means of payment of the debt balance at unit face value and conventional interest corresponding to 100% of the accumulated variation of average DI daily rates, based on 252 business days, plus spread equivalent to 2.65% p,p, calculated on a pro-rata basis from debenture settlement date to effective payment date, plus a premium corresponding to 0.10%.

**b) Premium due to non-conversion of debentures issued in 2008**

In case of non-conversion of Group debentures issued in 2008, debenture holders will be entitled to a non-conversion premium, which for the 1st series debentures will be equivalent to the difference between IPCA plus 8.0% p.y., and the interest effectively paid, and for the 2nd series debentures, interest of 3.5% p.y.

Premium for non-conversion of 1st series debentures will be restated by IPCA plus 8.0% p.y., while the 2nd series debentures will be restated at TJLP plus 5.0% p.y. The premium for non-conversion was paid in cash on August 19, 2019, since none of the debenture holders chose to receive common shares.

**22. Business partner's payables**

The amount of business partner's payables refers to the amount of outstanding receivables acquired from the establishments affiliated with Supplier Administradora de Cartões de Crédito S.A. to act as a means of payment between the establishment and its customers. The rates are defined for each partner considering the risk analysis of the client's profile and the payments to these business partners related to the acquired credit rights have maturities of less than 30 days. The amount of transfers from partners on December 31, 2020 was R\$328,817.

**23. Accounts payable from acquisition of subsidiaries**

These refer to installments payable due to acquisition of investments by the Company and its subsidiaries, negotiated with installment payments, recorded in current and non-current liabilities, as follows:

	Individual								
	2020			2019			2018		
	Contingent payments	Other	Total	Contingent payments	Other	Total	Contingent payments	Other	Total
Datasul MG	-	4,824	4,824	-	4,695	4,695	-	4,429	4,429
Seventeen	-	3,114	3,114	-	3,039	3,039	-	2,873	2,873
Virtual Age	-	56	56	-	15,187	15,187	-	15,293	15,293
Neolog	-	-	-	7,187	-	7,187	7,187	-	7,187
Ciashop	-	-	-	-	-	-	-	366	366
Other	-	395	395	-	385	385	-	604	604
<b>Total</b>	<b>-</b>	<b>8,389</b>	<b>8,389</b>	<b>7,187</b>	<b>23,306</b>	<b>30,493</b>	<b>7,187</b>	<b>23,565</b>	<b>30,752</b>
Current liabilities	-	8,389	8,389	7,187	23,306	30,493	7,187	23,565	30,752

	Consolidated								
	2020			2019			2018		
	Contingent payments	Other	Total	Contingent payments	Other	Total	Contingent payments	Other	Total
Supplier	117,133	-	117,133	-	-	-	-	-	-
Consinco	40,945	10,171	51,116	-	-	-	-	-	-
Wealth System	5,837	-	5,837	-	-	-	-	-	-
RJ Participações	7,225	-	7,225	8,772	-	8,772	17,542	-	17,542
Tail	11,600	4,073	15,673	-	-	-	-	-	-
Datasul MG	-	4,824	4,824	-	4,695	4,695	-	4,429	4,429
Seventeen	-	3,114	3,114	-	3,039	3,039	-	2,873	2,873
RMS	-	1,584	1,584	-	1,930	1,930	-	13,920	13,920
Virtual Age	-	56	56	-	15,187	15,187	-	15,293	15,293
Neolog	-	-	-	7,187	-	7,187	7,187	-	7,187
Bematech Sistemas	-	-	-	-	-	-	-	7,256	7,256
Other	-	1,638	1,638	-	2,502	2,502	-	6,561	6,561
<b>Total</b>	<b>182,740</b>	<b>25,460</b>	<b>208,200</b>	<b>15,959</b>	<b>27,353</b>	<b>43,312</b>	<b>24,729</b>	<b>50,332</b>	<b>75,061</b>
Current liabilities	34,625	10,156	44,781	7,187	25,367	32,554	9,275	50,332	59,597
Non-current liabilities	148,115	15,304	163,419	8,772	1,986	10,758	15,464	-	15,464

The fair value of contingent payments decreased by R\$25,526, mainly impacted by the extension of the Covid-19 pandemic period compared to the business plan initially prepared, additionally impacted by the variation in macroeconomic indices. The fair value of contingent payments was recorded in the caption “Other operating income (expenses)” in the year ended December 31, 2020.

As at December 31, 2020, 2019 and 2018, the liabilities for acquisition of investments had secured accounts consisting of CBD operations in the amounts mentioned below:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Investment guarantees in current liabilities	8,301	23,217	23,477	10,012	25,278	44,909
Investment guarantees in non-current	-	-	-	1,116	1,987	5,334
<b>Total</b>	<b>8,301</b>	<b>23,217</b>	<b>23,477</b>	<b>11,128</b>	<b>27,265</b>	<b>50,243</b>

## 24. Provision for contingencies

### 24.1. Ongoing proceedings with recorded provision for contingencies and legal liabilities related to legal proceedings

The Company and its subsidiaries are parties to several legal proceedings related to tax, social security, labor and civil matters arising from the ordinary course of their business operations. A provision for contingencies was set up by management, supported by its legal counsel and analysis of pending judicial proceedings, in an amount considered sufficient to cover probable losses. The provision amount reflects the best current estimate of the Company’s Management and its subsidiaries.

The amount of provisions set up As at December 31, 2020, 2019 and 2018 is as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Tax	5,890	5,797	2,337	7,440	7,671	2,946
Labor	70,095	78,848	88,394	82,496	87,988	94,832
Civil	32,121	31,416	27,049	35,882	35,862	30,014
	<b>108,106</b>	<b>116,061</b>	<b>117,780</b>	<b>125,818</b>	<b>131,521</b>	<b>127,792</b>

The summary of main proceedings in progress is presented below.

## Tax

The lawsuits classified as probable loss deal with recovering tax claims that the Company and its subsidiaries consider undue. The amounts classified as probable losses from these lawsuits were R\$7,440, on a consolidated basis at December 31, 2020 (R\$7,671 at December 31, 2019 and e R\$2,946 at December 31, 2019), there being no other individually significant cases.

## Labor

Labor lawsuits assessed as probable losses refer to lawsuits filed by former employees of the Company seeking labor dues, as well as service provider companies, seeking recognition of both employment relationship and other labor dues.

As of December 31, 2020, 2019 and 2018 the labor claim whose restated amount is deemed individually significant was:

- (i) Lawsuit filed in 2000, whereby a former sales executive claims the payment of severance pay, including differences in commissions. This lawsuit was filed against a company merged into TOTVS and had outcome in December 2019 (R\$4,403 as at December 31, 2018);
- (ii) Lawsuit filed in 2003 by a former sales executive of a company, whose controlling interest was held by Datasul prior to its merger into TOTVS, TOTVS claims that a part of the suit is illegitimate and the suit is in the enforcement phase. The restated amount as of December 31, 2020 is R\$4,900 (R\$5,501 as of December 31, 2019);
- (iii) Lawsuit filed in 2015, whereby a former employee claims the payment of labor pay including salary differences. On July 10, 2019 there was an unfavorable decision that resulted in a payment, and a remain provision of R\$1,569 as at December 31, 2019 (R\$3,348 as at December 31, 2018).

The amounts assessed as probable losses from these lawsuits totaled R\$77,596 at December 31, 2020 (R\$80,918 at December 31, 2019 and R\$87,081 at December 31, 2018), there being no individually significant case.

## Civil

Civil lawsuits classified as probable loss refer mainly to lawsuits filed by customers alleging certain problems with the delivery of products and/or services, application of the default increment, grace period in terminated contracts and undue collections, Notable among the individually significant cases is:

- (i) Civil lawsuit filed by a client alleging problems resulting from the product implemented, which would have caused direct and indirect damages to the customer. The update amount claimed as at December 31, 2020, deemed as probable loss, is R\$13,425 (R\$13,680 at December 31, 2019 and R\$9,578 at December 31, 2018). The Company appealed against the merits of the unfavorable decision and the amount involved,

Amounts classified as probable losses from other lawsuits totaled R\$22,457 as of December 31, 2020 (R\$22,182 as of December 31, 2019 and R\$20,436 as of December 31, 2018), there being no other individually significant cases.

### a) Changes in provisions

The breakdown of provisions in the year ended December 31, 2020, 2019 and 2018 is as follows:

	Individual			Total
	Tax	Labor	Civil	
<b>Balances at December 31, 2017</b>	<b>2,257</b>	<b>73,762</b>	<b>34,763</b>	<b>110,782</b>
(+) Additional provision	1,289	51,875	14,544	67,708
(+) Monetary adjustment	539	6,789	4,091	11,419
(-) Reversal of provision	(490)	(16,889)	(2,738)	(20,117)
(-) Write-off due to payment	(1,258)	(27,143)	(23,611)	(52,012)
<b>Balances at December 31, 2018</b>	<b>2,337</b>	<b>88,394</b>	<b>27,049</b>	<b>117,780</b>
(+) Additional provision	4,795	50,110	16,575	71,480
(+) Monetary adjustment	596	7,393	2,835	10,824
(-) Reversal of provision	(937)	(17,248)	(5,543)	(23,728)
(-) Write-off due to payment	(994)	(49,801)	(9,500)	(60,295)
<b>Balances at December 31, 2019</b>	<b>5,797</b>	<b>78,848</b>	<b>31,416</b>	<b>116,061</b>
(+) Additional provision	394	33,858	11,568	45,820
(+) Monetary adjustment	93	4,142	3,156	7,391
(-) Reversal of provision	-	(7,889)	(3,039)	(10,928)
(-) Write-off due to payment	(394)	(38,864)	(10,980)	(50,238)
<b>Balances at December 31, 2020</b>	<b>5,890</b>	<b>70,095</b>	<b>32,121</b>	<b>108,106</b>

	<b>Consolidated</b>			
	<b>Tax</b>	<b>Labor</b>	<b>Civil</b>	<b>Total</b>
<b>Balances at December 31, 2017</b>	<b>2,827</b>	<b>78,945</b>	<b>35,998</b>	<b>117,770</b>
(+) Additional provision	1,460	54,984	16,504	72,948
(+) Monetary adjustment	578	7,412	4,295	12,285
(-) Reversal of provision	(490)	(18,718)	(3,163)	(22,371)
(-) Write-off due to payment	(1,429)	(27,791)	(23,620)	(52,840)
<b>Balances at December 31, 2018</b>	<b>2,946</b>	<b>94,832</b>	<b>30,014</b>	<b>127,792</b>
(+) Additional provision	6,014	57,993	18,614	82,621
(+) Monetary adjustment	667	7,906	3,276	11,849
(-) Reversal of provision	(963)	(18,570)	(6,409)	(25,942)
(-) Write-off due to payment	(993)	(53,918)	(9,626)	(64,537)
(-) Write-off due to company sale	-	(255)	(7)	(262)
<b>Balances at December 31, 2019</b>	<b>7,671</b>	<b>87,988</b>	<b>35,862</b>	<b>131,521</b>
(+) Additional provision	478	43,476	12,828	56,782
(+) Monetary adjustment	137	6,195	3,491	9,823
(-) Reversal of provision	(61)	(8,518)	(4,078)	(12,657)
(-) Write-off due to payment	(785)	(47,120)	(12,367)	(60,272)
(+) Business combination	-	475	51	526
(+) Exchange rate	-	-	95	95
<b>Balances at December 31, 2020</b>	<b>7,440</b>	<b>82,496</b>	<b>35,882</b>	<b>125,818</b>

The provisions reflect management's best current estimate, which is based on information, external counsel has updated analyses and outcomes of previous legal proceedings in which the Company was defendant, TOTVS's risk monitoring and control constantly review this estimate,

## b) Judicial deposits

The judicial deposits bound and not bound to provisioned lawsuits are stated below and are recorded under non-current assets in the Company's financial statements:

<b>Judicial deposits</b>	<b>Individual</b>			<b>Consolidated</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Tax	12,091	11,833	8,320	12,697	21,554	17,755
Labor	10,835	22,677	30,241	14,669	28,552	34,794
Civil	15,795	14,132	12,610	16,606	14,953	13,416
<b>Total</b>	<b>38,721</b>	<b>48,642</b>	<b>51,171</b>	<b>43,972</b>	<b>65,059</b>	<b>65,965</b>

## 24.2. Contingences with possible risk of loss

In addition, the Company and its subsidiaries are involved in other lawsuits, in which the risk of loss, according to external lawyers and management, is possible, for which no provision has been recognized, as follows:

Nature	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Tax	102,600	109,268	118,507	143,725	137,180	154,953
Labor	103,098	77,458	151,820	119,637	90,509	160,326
Civil	162,929	255,345	295,108	181,097	271,647	315,507
<b>Total</b>	<b>368,627</b>	<b>442,071</b>	<b>565,435</b>	<b>444,459</b>	<b>499,336</b>	<b>630,786</b>

The summary of main proceedings ongoing is presented below:

## Tax

As a result of inspection procedures of the Federal Revenue Service (RFB) in 2006, RFB issued a tax-deficiency notice for understanding that the Company made payments to unidentified beneficiaries, levying the withholding income tax (IRRF) on said amounts, and identified expenses allegedly not proved, adding the respective amounts back to taxable profit. The tax deficiency notice was challenged with decision partially favorable at first instance and is currently awaiting judgment of the Tax Authorities at the second administrative level. The restated amount for this lawsuit was R\$6,539 at December 31, 2019 (R\$12,301 at December 31, 2018).

In 2014, a tax deficiency notice was issued against the Company due to alleged joint liability for payment of ICMS on untaxed outflows for installing outflow control software at the taxpayer (customer). TOTVS was considered jointly liable because the Company installed at the taxpayer a software that controls outflow of goods. The deficiency notice was challenged, a decision was given in favor of TOTVS and the lawsuit was closed in May 2019 (R\$16,726 at December 31, 2018).

A tax deficiency note issued by the Federal Revenue Service of Brazil requiring payment of IRPJ and CSLL on presumed ICMS credits granted as subsidy by the State Government of Paraná in the years 2007 through 2009 to the subsidiary Bematech. The lawsuit was ruled totally in favor of TOTVS in November 2019. The amount as of December 31, 2018 was R\$26,345.

In 2012, the Company offset debts with CSLL negative balance, but offsets were fully disallowed. In January 2020 there was an unappealable decision at the first administrative level, which resulted in the cancellation of R\$11,986 in the assessment. The Company continued with the discussion of the remaining balance by filing an appeal with the second administrative level, still pending judgment. The restated balance for this lawsuit was R\$116 as at December 31, 2020 (R\$12,081 as at December 31, 2019 and R\$11,478 as at December 31, 2018).

Tax enforcement action filed in 2002 disputing the Social Security Contribution arising from an alleged outsourcing of services between 1995 and 1999. Currently awaiting judgement of the Company's and the Tax Authority's appeals at the Federal Supreme Court. Due to the reclassification of the likelihood of loss, a part of the amount is now recorded at the balance, and the possible disbursement amounting is R\$4,645 in December 2019 (R\$20,294 at December 31, 2018).

In 2019, the Company received a tax deficiency notice for ISS tax underpayment in 2014, under the allegation of an error in the assignment of tax rates for the services it provides, in the amount of R\$16,366, whose likelihood of loss is assessed as possible. The defense was deemed unfavorable at first instance and the Company filed an appeal at the second administrative level, where it is pending judgment. The amount involved as at December 31, 2020 is R\$21,948 (R\$18,802 as at December 31, 2019).

In 2015, the Company received a tax enforcement notice to pay ISS on services rendered in the period between 1996 and 2001. The Company appealed claiming the statute of limitations on the collection and the records are awaiting the expert's report. The amount involved as of December 31, 2020 is R\$11,052 (R\$10,755 as at December 31, 2019 and R\$9,608 as a December 31, 2018).

The remaining tax cases assessed as possible losses deal with recovering debt, which the Company considers them to be undue, These cases totaled R\$110,609 as at December 31, 2020 (R\$84,456 as at December 31, 2019 and R\$77.809 as at December 31, 2018).

## **Labor**

Labor lawsuits assessed as possible losses refer to lawsuits filed by former employees of the Company who seek labor dues, as well as service provider companies, seeking recognition of both employment relationship and other labor dues.

The reduction in contingent labor liabilities was due to the closure of lawsuits, especially one filed by the union disputing the application of work routines that was ruled completely invalid and whose restated amount, as of December 31, 2018, was R\$21,638.

The labor lawsuits totaled R\$119,637 as at December 31, 2020 (R\$90,509 as at December 31, 2019 and R\$160,326 as at December 31, 2018), there being no individually significant cases.

## **Civil**

The civil lawsuits assessed as possible losses relate mainly to lawsuits filed by customers alleging problems in the provision of services offered to clients, application of standard price increase, and application of grace period in agreements rescinded and improper charges. Notable among the individually significant cases are:

- (i) Civil lawsuit filed by a customer alleging problems resulting from the product implemented, which would have caused damages and lost profit. The lawsuit is on appeal. The amount involved as at December 31, 2020 was R\$10,719 (R\$9,145 at December 31, 2019);
- (ii) Civil suit for damages due to termination of an agency agreement, in addition to pain and suffering and property damage. The proceeding is its initial phase, and during the expert review phase, the technicians together with our legal advisors revised the lawsuit calculations and concluded that the risk of possible loss as at December 31, 2020 was of R\$2,098 (R\$ 104,361 at 31 December 2019 and R\$94,861 on December 31, 2018);
- (iii) Action for alleged emotional distress and pecuniary damage was filed due to commercial problems with former franchisees. In March 2019, a sentence was partially favorable to TOTVS reducing the amounts possible, and the updated amount at December 31, 2019 is R\$5,169 (R\$16,741 as of December 31, 2018);

- (iv) Civil lawsuit filed by a customer alleging problems resulting from the product implemented, which would have caused damages. The lawsuit was concluded and settled due to the judicial agreement signed in December 2019 (R\$23,893 as of December 31, 2018).

The other suits totaled R\$168,280 as at December 31, 2020 (R\$152,972 as at December 31, 2019 and R\$180.012 as at December 31, 2018), there being no other individually significant cases.

## 25. Senior shares and mezzanine obligations

As a result of the acquisition of Supplier, the Company started to consolidate Supplier FIDC in its financial statements, since most of the fund's risks and benefits are exposed through subordinated shares. The financial liability related to the senior and mezzanine shares represents the obligations with the other shareholders of the fund in the amount of R\$1,011,087 as at December 31, 2020.

The index used for the profitability of senior shares is CDI + 2.5%, for mezzanine I shares, it is CDI + 3%, and for mezzanine II shares, CDI + 4% and the remuneration for the benefit of holders of senior shares and mezzanine is recorded as cost of the operation.

## 26. Shareholder's equity

### a) Share Capital

The Company's share capital was composed of 577,913,181 registered common shares issued and fully paid, with no par value (577,913,181 as of December 31, 2019 and 496.913.181 as of December 31, 2018), as follows:

Shareholders	2020	
	Shares	%
LC EH Participações e Empreendimentos S/A	80,282,970	13,89%
BlackRock	35,950,839	6,22%
Constellation Investimentos e Participações	30,090,381	5,21%
Itaú Unibanco S.A.	28,929,046	5,01%
Laércio José de Lucena Cosentino	6,376,005	1,10%
CSHG Senta Pua Fia	144,000	0,02%
Others	385,986,354	66,79%
<b>Outstanding shares</b>	<b>567,759,595</b>	<b>98,24%</b>
Treasury Shares	10,153,586	1,76%
<b>Total in units</b>	<b>577,913,181</b>	<b>100,00%</b>

Shareholders	2019 (i)		2018 (i)	
	Shares	%	Shares	%
LC EH Participações e Empreendimentos S/A	80,282,970	13,89%	80,282,970	16,16%
GIC Private Limited	29,185,056	5,05%	1,677,600	0,34%
Itaú Unibanco S.A.	29,139,135	5,04%	1,399,866	0,28%
Laércio José de Lucena Cosentino	6,161,670	1,07%	6,558,273	1,32%
CSHG Senta Pua Fia	136,200	0,02%	136,200	0,03%
Others	427,151,783	73,91%	400,299,999	80,56%
<b>Outstanding shares</b>	<b>572,056,824</b>	<b>98,99%</b>	<b>490,354,908</b>	<b>98,68%</b>
Treasury Shares	5,856,357	1,01%	6,558,273	1,32%
<b>Total in units</b>	<b>577,913,181</b>	<b>100,00%</b>	<b>496,913,181</b>	<b>100,00%</b>

On April 27, 2020, the Company's Extraordinary Shareholders Meeting approved the of the stock split of all the common shares issued by the Company at the ratio of one common share to three (1:3) of the same type without any change in capital. Consequently, the number of common shares into which the Company's capital is divided changed from 192,637,727 to 577,913,181 shares. For comparative purposes, the number of shares on the base date of December 31, 2019 is presented considering the effect of the share split.

On May 16, 2019, the Extraordinary General Meeting approved an increase in the authorized Capital limit up to R\$2,500,000.

On May 22, 2019, the Board of Directors approved the pricing of the primary public offering with restricted efforts which price per share was R\$39.50 and the total amount of R\$1,066,500. It was determined that the price per share of R\$39.50 would be earmarked as follows: (i) R\$12.64 earmarked for capital, in the total amount of R\$341,280; and (ii) the balance, of R\$26.86 per share, for capital reserve, in the total amount of R\$725,220. As a result of the capital increase, 81,000,000 new subscription common shares, with no par value, were issued, and the capital stock increased from R\$1,041,229, represented by 496,913,181 common shares, to R\$1,382,509, represented by 577,913,181 common shares, all registered, book-entry common shares with no par value.

## b) Capital reserves

The balance of capital reserves as at December 31, 2020, 2019 and 2018 was broken down as follows:

	2020	2019	2018
Goodwill reserve (i)	795,538	795,538	99,260
Goodwill reserve due merger	14,330	14,330	14,330
Premium on acquisition of non-controlling interest	(24,323)	(25,518)	(25,518)
Debentures converted into shares	44,629	44,629	44,629
Stock option plan	64,650	47,000	37,206
	<b>894,824</b>	<b>875,979</b>	<b>169,907</b>

(i) The goodwill reserve amount of R\$99,260 is comprised of R\$31,557 relating to payments made in 2005 and R\$67,703 relating to corporate restructuring with Bematech. The increase in goodwill reserve of R\$696,278 in 2019, refers to the amount of capital contribution allocated to the capital reserve of R\$725,220, net of borrowing costs that amounted to R\$28,942.

**c) Treasury shares**

As at December 31, 2020, 2019 and 2018, the "Treasury Shares" item was as follows:

	Number of shares (units)	Value (in thousand)	Average price per share (in reais)
<b>Balance at December 31, 2017 (i)</b>	<b>6,695,901</b>	<b>R\$71,495</b>	<b>R\$10.68</b>
Used	(137,628)	(R\$1,469)	R\$10.86
<b>Balance at December 31, 2018 (i)</b>	<b>6,558,273</b>	<b>R\$70,026</b>	<b>R\$10.68</b>
Used	(701,916)	(R\$7,495)	R\$10.68
<b>Balance at December 31, 2019 (i)</b>	<b>5,856,357</b>	<b>R\$62,531</b>	<b>R\$10.68</b>
Purchased	5,100,900	R\$94,734	R\$18.57
Used	(803,671)	(R\$8,728)	R\$10.86
<b>Balance at December 31, 2020</b>	<b>10,153,586</b>	<b>R\$148,537</b>	<b>R\$14.63</b>

(ii) (i) Number of treasury shares adjusted according to the share split mentioned in note 25.a.

On March 6, 2020, the Board of Directors approved the repurchase program for shares issued by the Company, up to the limit of 9,000,000 common shares, to cover the Incentive and Retention Plan based on Company shares. The program ended on August 3, 2020 with a total of 5,100,900 common shares repurchased.

For the year ended December 31, 2020, 803,671 (701,916 as at December 31, 2019) treasury shares were used through stock options plan which consumed R\$8,728 (\$7,495 as at December 2019) from the capital reserve.

**27. Dividends and Interest on shareholder's equity**

The Company's bylaws provide for mandatory minimum dividend of 25% of net profit for the year, adjusted by the amount of the legal reserve set up, pursuant to the Brazilian Corporation Law.

On April 24, 2020, the General Shareholders' Meeting approved the distribution of dividends in the amount of R\$24,817 relating to net profit for 2019 with payment made on May 20, 2020.

On August 3, 2020, the Board was approved the distribution and payment of Interest on shareholders' equity in the amount of R\$39,743 related the first half of 2020, which were paid from October 22, 2020.

On December 15, 2020, the Board of Directors authorized the distribution and payment of interest on equity to the Company's shareholders, in the amount of R\$56,776, to be calculated towards to the mandatory minimum dividend for the year ended December 31, 2020 to be paid as at May 20, 2021.

On August 5, 2019, the Board of Directors authorized distribution and payment of interest on shareholders' equity, relating to the 1st half of 2019, amounting to R\$36,224, which were paid from October 10, 2019.

On December 18, 2019, the Board of Directors authorized the distribution and payment of interest on shareholders' equity to the Group's shareholders, in the amount of R\$43,857, to be calculated towards to the mandatory minimum dividend for the year ended December 31, 2019 to be paid as at May 20, 2020.

	<b>Individual</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Net income for the year - Company	294,959	209,796	59,548
Accrual of legal reserve (article 193 of Law No, 6404)	(14,748)	(10,490)	(2,977)
Opening balance of new CPCs/IFRS	-	4,263	(7,968)
<b>Net income after legal reserve allocation</b>	<b>280,211</b>	<b>203,569</b>	<b>48,603</b>
Mandatory minimum dividend – 25%	70,052	50,892	14,143
Additional dividends proposed by Management	77,427	54,006	31,620
<b>Dividends proposed by Management</b>	<b>147,479</b>	<b>104,898</b>	<b>45,763</b>
<b>Payment:</b>			
Interest on shareholders' equity	96,519	80,081	27,785
Dividends	50,960	24,817	17,978
	<b>147,479</b>	<b>104,898</b>	<b>45,763</b>
Number of outstanding shares at December 31	567,759,595	572,056,824	490,354,908
<b>Dividends and interest on shareholders' equity per thousand shares - in Reais</b>	<b>0.26</b>	<b>0.18</b>	<b>0.09</b>

The balance of dividends and interest on equity payable of R\$57,687 on December 31, 2020 (R\$44,579 as at December 31, 2019 and R\$13,902 as at December 31, 2018) includes the distribution of the year, as presented above, as well as the residual balance of previous years.

Interest on equity is a part of dividends, which is deductible for purposes of Brazilian tax law, It is, therefore, reported in different lines in order to show the income tax effect.

Mandatory minimum dividends are shown in the statement of financial positions legal obligations (provisions in current liabilities), and dividends in excess of this minimum as reserve in a special line in the statement of equity.

The capital budget proposed for 2021 to be submitted to the Annual Shareholders Meeting, allocates the balance in the amount of R\$132,732 in the reserve account to retained earnings, for the following:

<u>Investments:</u>	<b>2021</b>
Investments in property, plant and equipment's and intangible assets	91,305
Investments in strategic projects	41,427
<b>Total investments (unaudited)</b>	<b>132,732</b>
<u>Sources:</u>	
Retained earnings reserve at December 31, 2020	132,732
<b>Total sources</b>	<b>132,732</b>

## 28. Share-based compensation plan

The Company measures the cost of transactions settled with shares to its employees based on the fair value of the shares on the grant date,

The Incentive Plan based on Shares of the Company establishes rules for certain employees and directors of TOTVS or other companies under its control so they can acquire shares of the Company through the grant of shares, thereby aligning over the medium and long terms, interests of the beneficiaries and shareholders' interests, broaden the sense of ownership and commitment of the executives through the concept of investment and risk. The Plan is administered by the Board of Directors of the Company, which establishes grant programs annually, and according to the rules of the Company's Code of Ethics, managers do not participate in the decisions of the plan that directly benefit them,

The Company have two share-based compensation plans in place:

### 28.1. Restricted share plan

Since December 2015, the plan grants to beneficiaries the right to restricted shares that are divided into three programs:

- (i) Regular restricted shares: the eligible participants shall have the right to receive the Restricted Shares of the Regular Program at the end of the vesting period. During the vesting period of the Regular Program, participants will not be entitled to receive dividends or interest on shareholders' equity in connection with the Restricted Shares.
- (ii) Partner program: the eligible participants in this plan shall have the right to receive the Restricted Shares of the Partner Program at the end of the vesting period, provided the Participant has and maintains, on the date of granting of Restricted Shares on a continuous and uninterrupted basis, including on the date of delivery of the Restricted shares an amount equal to twelve (12) fixed monthly gross salaries invested in Company shares. During the vesting period of the Partner Program, participants will not be entitled to receive dividends or interest on shareholders' equity in connection with the Restricted Shares.
- (iii) Discretionary Bonus in Restricted Shares: This plan enables the Board, within the established limit for dilution of shares, in order to attract and retain certain key personnel of the Company and/or its subsidiaries, at its sole discretion, to use any remaining balance of Restricted Shares under this Plan for additional grants to participants.

### 28.2. Stock option plan

Until 2015, the Company maintained the stock option plan that was divided into two programs:

- (i) Regular options: the eligible participants needed to acquire Company shares using 50% or 100% of net amount received as bonus, based on the profit or loss for the immediate preceding year. For

participants who chose to use 50% or 100% of the bonus to acquire Company shares received, respectively, 100% or 150% of a matching number of restricted shares; and

- (ii) Restricted options: participants in this plan were elected by the Company's Board of Directors based on performance appraisal and for having invested 100% of the net amount received as bonus for acquisition of Company shares in the regular restricted share plan. In this program, participants received, in addition to regular restricted shares, a number of Company restricted shares corresponding to 2/3 of its target bonus,

The fair value of restricted shares is the market value of each one on the grant date. The main events relating to plans in force, the variables used in the calculations and the results are:

Date	Plan	Grant		Fair Value Assumptions	
		Number of options/shares	Fair value of shares in reais	Dividends	Expectation: Vesting Period
5/4/18	Regular	918,555	9.84	1.80%	3 years
5/4/18	Partner	1,066,695	9.84	1.80%	3 years
11/26/18	Discretionary	73,035	8.40	1.80%	6 months
11/26/18	Discretionary	73,035	8.31	1.80%	18 months
4/26/19	Regular	1,891,380	12.83	1.40%	3 years
4/26/19	Partner	820,710	12.83	1.40%	3 years
4/27/20	Regular	2,091,610	16.41	1.20%	3 years
4/27/20	Partner	1,049,820	16.41	1.20%	3 years

Changes in options in the year are shown below:

	December 31, 2020			
	Share options		Restricted shares	Total equity instruments
	Average price (in Reais)		Number (in units)	
<b>Opening balance of year</b>	11.87	145,665	4,902,105	5,047,770
<b>Transactions:</b>				
Exercised	11.87	(145,665)	(905,446)	(1,051,111)
Granted	-	-	3,141,430	3,141,430
Cancelled	-	-	(156,680)	(156,680)
<b>Closing balance</b>	-	-	<b>6,981,409</b>	<b>6,981,409</b>

	December 31, 2019 (i)			
	Share options		Restricted shares	Total equity instruments
	Average price (in Reais)		Number (in units)	
<b>Opening balance of year</b>	11.37	636,675	3,244,917	3,881,592
<b>Transactions:</b>				
Exercised	10.73	(344,478)	(512,838)	(857,316)
Granted	-	-	2,712,090	2,712,090
Cancelled	-	(11,214)	(542,064)	(553,278)
Expired	11.10	(135,318)	-	(135,318)
<b>Closing balance</b>	<b>11.87</b>	<b>145,665</b>	<b>4,902,105</b>	<b>5,047,770</b>

	December 31, 2018 (i)			
	Share options		Restricted shares	Total equity instruments
	Average price (in Reais)		Number (in units)	
<b>Opening balance of year</b>	<b>12.58</b>	<b>1,943,067</b>	<b>1,880,847</b>	<b>3,823,914</b>
<b>Transactions:</b>				
Exercised	0.79	(66,693)	(104,445)	(171,138)
Granted	-	-	2,131,320	2,131,320
Cancelled	11.87	(26,703)	(662,805)	(689,508)
Expired	13.69	(1,212,996)	-	(1,212,996)
<b>Closing balance</b>	<b>11.37</b>	<b>636,675</b>	<b>3,244,917</b>	<b>3,881,592</b>

- (i) Retroactively adjusted to give effect to the 1-for-three share split of our common shares, as mentioned in note 26.a.

As at December 31, 2020, all share plan options had been exercised. As at December 31, 2019, there were 145,665 vested options, since the period of 36 months had already elapsed.

The cumulative effect in the year ended December 31, 2020 was R\$24,650 (R\$13,504 as at December 31, 2019 and R\$6.297 as at December 31, 2018), recorded as share-based compensation expenses.

## 29. Operating Segment

The presentation of information by operating segment is consistent with the internal report provided to the Company's main operational decision-makers.

During 2019, the hardware operation was disposed of according to the Group's strategy of focusing on the software business and, consequently, started to evaluate the business in a single reportable segment, software segment. In 2018, Management had two reportable segments: software and hardware. Additional disclosures are provided in Note 5.

As mentioned in note 4, on April 30, 2020, the Company acquired control over Supplier Participações, as mentioned in Note 4, a B2B credit operation company, focused on the relationship between customers and

suppliers, Supplier holds subordinated shares of Supplier FIDC, which is included in the Company's consolidated financial statements. As such, in order to manage performance of this new business, the Company began to present two separate reportable segments:

**Technology segment (formerly Software segment):** represents TOTVS software operation. This segment, comprises the dimensions of management software, with ERP, HR and Vertical, and Business Performance solutions, which started to be built with CRM, e-Commerce solutions, among others that will be added to the portfolio. In addition, there are Techfin solutions that do not involve the assumption of credit risk and/or the definition and/or application of credit policies, such as partnerships for payroll loans, TEF, Financial Dashboard, among others that will be added in the future.

**Credit product segment - Supplier:** includes Supplier's businesses that involve, besides the origination, the assumption of some degree of credit risk and/or the definition and/or application of credit policies, such as products "Supplier Card", "Antecipa" and the "Mais Prazo". This segment also consolidates the results of the subordinated shares of the Supplier FIDC, to which Supplier Administradora currently assigns the originated credits.

The statement of profit or loss for the year ended December 31, 2020 for these two reportable segments is as follows:

Statement of profit or loss	Technology	Credit product segment - Supplier	Consolidated
Net Revenue	2,467,959	128,118	2,596,077
(-) Costs	(734,770)	(41,934)	(776,704)
<b>Gross profit</b>	<b>1,733,189</b>	<b>86,184</b>	<b>1,819,373</b>
(-) Operating expenses	(1,164,955)	(55,999)	(1,220,954)
(-) Depreciation and amortization	(203,008)	(1,579)	(204,587)
(-) Finance income (expenses) and equity	(13,477)	1,749	(11,728)
(-) Income and social contribution taxes	(76,481)	(9,587)	(86,068)
<b>Net income (loss) for the year</b>	<b>275,268</b>	<b>20,768</b>	<b>296,036</b>

The table below presents the reconciliation between segment information and Statement of Profit or Loss:

	2020		
	Segments consolidated	Reclassification	Statement of Profit or Loss
Net revenue	2,596,077	-	2,596,077
(-) Costs	(776,704)	(69,422)	(846,126)
<b>Gross Profit</b>	<b>1,819,373</b>	<b>(69,422)</b>	<b>1,749,951</b>
(-) Operating expenses	(1,220,954)	(135,165)	(1,356,119)
(-) Depreciation and amortization	(204,587)	204,587	-
(-) Finance income (expenses) and equity	(11,728)	-	(11,728)
(-) Income and social contribution taxes	(86,068)	-	(86,068)
<b>Net income (loss) for the year</b>	<b>296,036</b>	<b>-</b>	<b>296,036</b>

Likewise, the statement of financial position for each operating segment as at December 31, 2020 is as follows:

ASSETS	Technology	Credit product segment - Supplier	Consolidated
<b>CURRENT ASSETS</b>	<b>1,302,412</b>	<b>1,529,561</b>	<b>2,831,973</b>
Cash and cash equivalents	837,093	190,640	1,027,733
Marketable securities	-	179,308	179,308
Trade and other receivables, net	385,078	1,112,151	1,497,229
Other current assets	80,241	47,462	127,703
<b>NON-CURRENT ASSETS</b>	<b>2,304,682</b>	<b>9,751</b>	<b>2,314,433</b>
Other assets	360,413	3,396	363,809
Property, plant and equipment	358,807	5,640	364,447
Intangible assets	1,585,462	715	1,586,177
<b>TOTAL ASSETS</b>	<b>3,607,094</b>	<b>1,539,312</b>	<b>5,146,406</b>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>	<b>576,117</b>	<b>1,465,919</b>	<b>2,042,036</b>
Loans and financing	45,103	101,703	146,806
Business partners payable	-	328,817	328,817
Senior shares and mezzanine (i)	-	1,011,087	1,011,087
Other current liabilities	531,014	24,312	555,326
<b>NON-CURRENT LIABILITIES</b>	<b>497,231</b>	<b>2,973</b>	<b>500,204</b>
Loans and financing	175,878	2,366	178,244
Provision for contingencies	125,211	607	125,818
Other non-current liabilities	196,142	-	196,142
<b>SHAREHOLDERS' EQUITY (ii)</b>	<b>2,533,746</b>	<b>70,420</b>	<b>2,604,166</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>3,607,094</b>	<b>1,539,312</b>	<b>5,146,406</b>

- (i) Senior and mezzanines I and II shares of Supplier FIDC;  
(ii) Represents the value of net assets and liabilities for each operating segment.

### 30. Earnings per share

Basic earnings per share is calculated by dividing net income for the year (attributed to the Individual's common shareholders) by the weighted average number of common shares outstanding in the year.

Diluted earnings per share is calculated by dividing net income attributed to the holders of the Individual's common shares by the weighted average number of common shares available in the year plus the weighted average number of common shares that would be issued if all the potentially diluted common shares are converted into common shares.

As mentioned in note 26, on April 27, 2020, the Company's Extraordinary Shareholders Meeting approved the split of all our common shares at the ratio of 1:3 (three to one) (the "Share Split"). The Share Split has been applied retrospectively to all of the figures in the consolidated financial statements setting forth the number of our common shares and per common share data. Consequently, the Company' number of common shares of 192,637,727 prior to the Share Split are 577,913,181 shares on a split basis. For comparative purposes, the number of shares in the base data on December 31, 2019 and of 2018 are presented considering the effect of the split of shares.

The tables below present the data of profit and loss used in the calculation of basic earnings and diluted earnings per share:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Basic earnings per share</b>			
<b>Profit or loss for the year</b>			
Continuing operations	296,036	253,064	136,640
Discontinued operations	(1,077)	(43,268)	(77,092)
<b>Profit for the year assigned to the Company's shareholders</b>	<u>294,959</u>	<u>209,796</u>	<u>59,548</u>
<b>Denominator (in thousands of shares)</b>			
Weighted average number of common shares outstanding	568,155	542,358	490,301
<b>Basic earnings per share – in Reais</b>	<u>0.51915</u>	<u>0.38682</u>	<u>0.12145</u>
<b>Basic earnings per share continuing operations – in Reais</b>	<u>0.52105</u>	<u>0.46660</u>	<u>0.27869</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>
<b>Diluted earnings per share</b>			
<b>Profit or loss for the year</b>			
Continuing operations	296,036	253,064	136,640
Discontinued operations	(1,077)	(43,268)	(77,092)
<b>Net income for the year assigned to the Company's shareholders</b>	<u>294,959</u>	<u>209,796</u>	<u>59,548</u>
<b>Denominator (in thousands of shares)</b>			
Weighted average number of common shares outstanding	568,155	542,358	490,301
Weighted average number of stock options/ restricted shares	6,772	4,766	3,961
<b>Weighted average number of common shares adjusted according to dilution effect</b>	<u>574,927</u>	<u>547,124</u>	<u>494,262</u>
<b>Diluted earnings per share – in Reais</b>	<u>0.51304</u>	<u>0.38345</u>	<u>0.12048</u>
<b>Diluted earnings per share continuing operations – in Reais</b>	<u>0.51491</u>	<u>0.46254</u>	<u>0.27645</u>

There is no other transactions involving common shares or potentials common shares in the date of statement of financial position and the conclusion of these Financial Statements.

### 31. Operating revenue

Below is information about gross operating revenue and respective deductions for calculation of net revenues presented in the Company's Statements of profit or loss for the years ended December 31, 2020, 2019 and 2018:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Recurring software revenue	1,595,092	1,440,110	1,324,459	2,213,744	1,961,187	1,756,522
Nonrecurring software nonrecurring	395,608	416,986	450,009	587,232	631,848	642,128
License fees	193,814	184,207	149,706	252,869	243,614	203,198
Services	201,794	232,779	300,303	334,363	388,234	438,930
Credit product - Supplier	-	-	-	134,756	-	-
<b>Total</b>	<b>1,990,700</b>	<b>1,857,096</b>	<b>1,774,468</b>	<b>2,935,732</b>	<b>2,593,035</b>	<b>2,398,650</b>
Cancellations of sales	(17,716)	(16,373)	(20,494)	(28,346)	(25,609)	(29,540)
Sales tax	(224,005)	(210,001)	(195,861)	(311,309)	(285,302)	(257,950)
<b>Deductions</b>	<b>(241,721)</b>	<b>(226,374)</b>	<b>(216,355)</b>	<b>(339,656)</b>	<b>(310,911)</b>	<b>(287,490)</b>
<b>Net revenues</b>	<b>1,748,979</b>	<b>1,630,722</b>	<b>1,558,113</b>	<b>2,596,077</b>	<b>2,282,124</b>	<b>2,111,160</b>

### 32. Costs and expenses by nature

The Company presents below the information on operating expenses by nature for the years ended December 31, 2020, 2019 and 2018:

Nature	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
Salaries, benefits and payroll charges	749,827	704,374	685,813	1,106,293	992,180	927,346
Outsourced services and other inputs	398,999	401,447	382,592	560,571	523,181	506,947
Commissions	184,610	161,731	143,673	207,565	176,703	156,544
Depreciation and amortization	124,758	118,346	93,774	204,587	147,033	122,291
Provision for contingencies	34,892	47,752	47,591	44,125	56,679	50,294
Rent	1,044	1,246	35,679	2,310	1,965	42,982
Impairment loss on trade and other receivables	26,115	19,066	24,226	43,856	28,434	36,992
Other	30,003	16,981	26,038	32,938	30,497	42,109
<b>Total</b>	<b>1,550,248</b>	<b>1,470,943</b>	<b>1,439,386</b>	<b>2,202,245</b>	<b>1,956,672</b>	<b>1,885,505</b>

### 33. Finance income and expenses

The finance income and expenses for the years ended December 31, 2020, 2019 and 2018 are comprised as follows:

	Individual			Consolidated		
	2020	2019	2018	2020	2019	2018
<b>Finance income</b>						
Short-term investments interest	23,327	51,465	17,651	34,135	60,946	26,004
Interest received	3,498	4,946	5,617	4,125	5,707	6,510
Inflation adjustment gains	1,541	512	2,302	2,002	2,952	5,576
Adjustment to present value	1,522	955	1,553	1,707	1,077	1,702
Exchange gains	125	594	(669)	7,672	1,657	(204)
Other finance income (i)	(1,292)	(2,591)	(1,236)	(2,297)	(3,027)	(1,693)
	<b>28,721</b>	<b>55,881</b>	<b>25,218</b>	<b>47,344</b>	<b>69,312</b>	<b>37,895</b>
<b>Finance expenses</b>						
Interest expense	(22,437)	(43,600)	(49,576)	(23,803)	(46,276)	(52,706)
Inflation adjustment losses	(7,571)	(8,695)	(10,235)	(11,084)	(13,119)	(13,204)
Bank expenses	(4,825)	(4,661)	(4,662)	(5,775)	(6,171)	(6,038)
Adjustment to present value of liabilities (iii)	(521)	(539)	(808)	(11,915)	(678)	(1,663)
Exchange losses	(38)	(812)	(2,147)	(5,841)	(1,462)	(2,339)
Other finance expenses (ii)	(294)	(116)	(502)	(360)	(2,783)	(2,407)
	<b>(35,686)</b>	<b>(58,423)</b>	<b>(67,930)</b>	<b>(58,778)</b>	<b>(70,489)</b>	<b>(78,357)</b>
<b>Net finance income (expenses)</b>	<b>(6,965)</b>	<b>(2,542)</b>	<b>(42,712)</b>	<b>(11,434)</b>	<b>(1,177)</b>	<b>(40,462)</b>

- (i) Includes the amounts of PIS e COFINS on finance income;  
(ii) Includes inflation adjustments of Argentine subsidiaries;  
(iii) Adjustment to present value of the "Accounts payable from acquisition of subsidiaries".

### 34. Private pension plan – defined contribution

The Company offers the TOTVS Private Pension Plan, managed by Bradesco Seguros, which receives contributions from the employees and the Company, described in the Program Membership Agreement. The three types of contributions are:

- Basic Contribution – corresponds to 2% of the employee's salary; in case of executive officers, the contribution ranges from 2% to 5%;
- Voluntary Contribution – made exclusively by employees, with no matching contribution by the Company;
- Company Contribution – corresponds to 100% of the basic contribution. The Company is allowed to make extraordinary contributions, in the amounts and with the frequency it chooses,

The private pension expenses for the year ended December 31, 2020 was R\$3,962 (R\$3,344 as at December 31, 2019 and R\$2,722 as at December 31, 2018).

### 35. Insurance coverage

Based on the opinion of their advisors, the Company and its subsidiaries maintain insurance coverage at amounts deemed sufficient to cover risks on their own and leased assets, and civil liability risks, Insured assets include own and leased vehicles, as well as buildings where the Company and its subsidiaries operate.

As at December 31, 2020, the main insurances coverage items taken out were:

Type	Insurance Company	Effective		Maximum limit of Responsibility
		From	To	
Business Comprehensive	Mitsui	July/2020	July/2021	R\$196,955
General Liability	Chubb Seguros	June/2020	June/2021	R\$8,000
Vehicles (i)	Porto Seguro	January/2020	January/2021	(*) FIPE
D&O Directors and Officers Liability (ii)	AIG Seguros	July/2020	July/2021	R\$100,000
E&O – Errors and Omissions	AIG Seguros	July/2020	July/2021	R\$10,000

(i) Market value determined by FIPE - Institute of Economic Research,

(ii) For operations in Mexico, Argentina and the United States, the local policy issued in each country with coverage in the amount of US\$1,000.

### 36. Subsequent events

#### RD Station acquisition

On March 9, 2021, the Company celebrated the share and purchase agreement for the acquisition of shares corresponding to 92% of the capital stock of RD Gestão e Sistemas S.A. (“RD”), through its subsidiary TOTVS Large with transaction amount after price adjustment of R\$1,864,593. RD is a leader company of digital marketing automation software market and it is included in the company’s strategy of Business Performance.

The transaction closing depended of Brazilian competitives authorities (CADE) approval, occurred on April 14, 2021 and the check of other usual conditions for this type of business. The transaction was concluded on May 31, 2021.

In addition, the transaction provides the option of purchase and sale of remaining installment from RD which can be exercised among April and June 2024. The price of exercise option will be measeured based on multiples applied to the RD performance on December 31, 2023. Considering that the option os purchase and sale of additional interest issued in favor of non controlling shareholders were agreed together wih business combination, the obligation fair value was recognized and recorded in account “Accounts payable from acquisition of subsidiaries”.

#### Issue of debentures

On May 21, 2021, the Company approved the issuance of simple, non-convertible, unsecured debentures, in a single series, which will be for public distribution with restricted placement efforts purposes in the total amount of R\$1,500,000, being the unit nominal value of R\$1. On the unit nominal value or balance of unit nominal value,

will affect compensatory interests corresponding to 100,00% of accumulated variation of average daily interests from DI (Interbank deposits), plus spread equivalent to 1,90% p.y. on a 252 business day basis. The interests will have semiannual maturity and will be paid always in the day 21 from the months of May and November of each year, being the first payment due on November 21, 2021 and the last one due to the maturity date.

#### Primary public offering of shares

On September 2021, was approved in the Board of Directors Meeting the fixing of price per share in the scope of primary public offering for issuance of common shares, in the value of R\$36,75 per share with capital increase in the total amount of R\$1,443,173, which corresponds to the issue of 39,270,000 new common shares with no par value, free and clear of any liens or encumbrances. Thus, the Capital went from R\$1,519,412, divided in 577,913,181 common shares to R\$2,962,585, divided in 617,183,181 common shares, all with no par value, free and clear of any liens or encumbrances.

#### Partnership between TOTVS and B3

On October 1<sup>st</sup>, 2021, the Company concludes the negotiation involving the subscription by the B3 S.A, – Brasil, Bolsa, Balcão (“B3”) of representative minority interest, of 37,5% of the total shares from Dimensa S.A. (“Dimensa”), after fulfillment of all previous conditions by the amount of R\$600,000.

With conclusion of the transaction, TOTVS have 62,5% of interests in the capital from Dimensa (former TFS Soluções em Software Ltda.) and the transaction generated a gain by the change of interest of R\$352,540 in equity pick-up line.

#### Payment of Interests on capital

On December 22, 2021, was approved by the Board of Directors, the payment of Interests on Capital (“JCP”) in the total amount of R\$79,050, correspondents to R\$0,13 per share of the Company, regarding to second semester of 2021, which will be imputed to the obligatory dividends of the year, in accordance to Article 39 from bylaws of the Company. The JCP will be paid on May 20, 2022.

#### InovaMind Tech Ltda. acquisition

On January 07, 2022, was celebrated the Share Sale and Purchase Agreement and Other Covenants, for acquisition of 100% of quotas of capital from the startup InovaMind Tech Ltda, by Dimensa S.A., in the amount of R\$23,5 million. InovaMind is a artificial intelligence startup which uses Big Data to create products and digital services for the companies of all sizes. With this acquisition, Dimensa S.A. expands its offer of products and services for its customers and give another strategic step to reinforce its leadership position in the B2B technologies for finance sector and fintechs segments.

Mobile2you Ltda. acquisition

On January 31, 2022 was celebrated the Share Sale and Purchase Agreement and Other Covenants, for acquisition of 100% of quotas of capital from Mobile2you Ltda., by Dimensa S.a. in the amount of R\$26,9 million. Mobile2you is a mobile-house responsible for the development of custom financial apps (“Tailor-made”) for companies that desire to start the entry journey in the “fintech” market. Integrating the back-office layer, the complete experience of journey from the user, the Mobile2you delivery value to the customers offering digital financial products which generates traction to business rules of the companies.

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