



<b>Subject:</b> Litigation Management	<b>Identification:</b> PO-JUR-01 <b>Version:</b> 02
<b>Responsible Management:</b> Legal Board	<b>Published on:</b> 15/03/2023
<b>Related rule:</b>	<b>Review by:</b> 15/03/2026

## 1. Purpose

This policy has as purpose to set criteria and procedures for the management of legal disputes of TOTVS Group companies, both in judicial and administrative proceedings.

The litigation management seeks to make estimates of probable losses of lawsuits and proceedings involving the companies making part of the TOTVS Group by analyzing individually every request made on existing cases. Such analysis is carried out by external lawyers who provide TOTVS Group with assistance in the corresponding cases based on the analyses, which are reviewed as the process progresses, allowing us to make the corresponding estimates and financial allowances.

The decision as to whether or not to recognize a financial provision and whether or not to disclose a Contingent Liability on the financial statements will depend on the estimation of loss that lawyers assign to a certain lawsuit, in which every motion is carefully considered, which must be validated by the Legal Area. The applicable corporate and accounting standards shall always be observed, especially CPC 25 ones.

## 2. Scope

This Policy applies to the TOTVS Group, understood as TOTVS S.A. and direct and indirect subsidiaries in Brazil and abroad (International Market), subject to the respective local laws.

Companies whose control is shared with other entities not directly or indirectly controlled by TOTVS S.A are not necessarily covered by this Policy.

Compliance with these guidelines is mandatory and applies to all Legal Advisors, as defined below.

## 3. References

### 3.1. External references

- Technical Pronouncement CPC 25.

### 3.2. Internal References

- Organizational Policy – Powers - PO-GC-06 – Version: 02.

## 4. Definitions

**Motion for new trial:** autonomous lawsuit that aims at dismissing a res judicata (i.e., a case that has already been decided and became final) resulting from a final court decision, applicable only in the cases provided for by the Brazilian Code of Civil Procedure.

**Appellate Judgment:** a upper court decision rendered by a court of appeals or by the Supreme Court by a panel of judges.



# ORGANIZATIONAL POLICY



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**Settlement:** a mutual agreement reached by and between the parties (plaintiff and defendant) of a lawsuit, whether no a particular issue or on all the subjects of the dispute. Such settlement puts an ends to the dispute or certain issues by mutual agreement.

**CPC 25:** accounting standard (enacted by the Brazilian Committee of Accounting Standards) that aims to ensure that appropriate recognition criteria and measurement bases are applied to financial allowances, contingent liabilities and contingent assets, and that sufficient information is disclosed in the notes to financial statements to allow users to understand their nature, suitability, and value.

**Legal Advisor:** is the lawyer and/or firm hired to act representing the interests of any company of the TOTVS Group, for the purposes of this policy, within the scope of a judicial and/or administrative proceedings.

**Control:** means the power to elect the majority of the managers of a Legal Entity and, cumulatively, to determine and direct the corporate activities and guide the operation of the management bodies of such Person, either (i) through the direct or indirect ownership of the majority (50% fifty percent plus one) of the shares, quotas or other securities with voting rights or, (ii) regardless of the number of shares, quotas or other securities with voting rights held, by means of a shareholders' agreement or voting agreement, qualified quorum in statute or articles of incorporation or other means. Terms derived from Control, such as "Subsidiary", "Controller" or "under Common Control", will have meaning based on the definition of Control.

**Court Escrow:** any asset, money, insurance, letter of guarantee, or other similar guarantee intended to ensure compliance with a certain obligation under the scope of a lawsuit.

**TOTVS Group:** for the purposes of this policy, it means TOTVS S.A. and entities wholly owned by TOTVS or even entities Controlled by TOTVS, directly or indirectly.

**Fees due to the Prevailing Party's Attorneys:** lawyers' fees that the losing party must pay to the winning party's attorneys.

**History of Loss:** means the percentage calculated based on the historical payments of court settlements executed or losses from lawsuits. Such percentage must take deflation into account when the history shows that the amount paid is historically lower than the amount at risk. The beacon is applied to motions ranked as probable, possible, and remote loss;

**Case Law, or Jurisprudence:** legal expressions that means a repeated and consistent decision, particularly by appellate courts, on a certain matter that has already been submitted to trial in courts of a certain jurisdiction.

**Best Estimate:** The amount recognized as a provision must be the best estimate of the disbursement required to settle the present obligation on the balance sheet date, pursuant to CPC 25.

**Liabilities:** it is a current financial obligation, originating from events that have already occurred, the settlement of which is expected to result in an outflow of funds.

**Contingent Liabilities:** (a) a possible obligation that results from past events and the existence of which will be confirmed only by the occurrence or not of one or more uncertain future events not entirely under the control of the applicable organization; or (b) a current obligation that arises from past events, but is not recognized because: (i) an outflow of funds that incorporate economic benefits is not likely to be required to settle such obligation; or (ii) the amount of such obligation cannot be measured with sufficient reliability. **Motion:** means each claim made under the scope of a lawsuit or administrative proceeding;

**Motion for Unliquidated Amount:** means a Motion claiming an amount that has not been determined yet, that is, that has not been liquidated or turned into an exact amount payable.

**Process:** it means a lawsuit brought before a court of law or an administrative procedure involving a company of the TOTVS Group as plaintiff or defendant;

**Estimation of Loss:** means the best assessment, initially carried out by Legal Advisors, then validated by the General Counsel of the TOTVS Group, under the criteria set forth in this policy and based on CPC 25, regarding the chances of loss in each of the motions made, and ranked as "Probable", "Possible", or "Remote".

**Expert Evidence:** in the event that the proof of a fact depends on specialist technical knowledge, judges usually determine, whether by his/her own initiative or at the request of one of the parties, that expert evidence is submitted and attached to the case records. The expert's opinion has as purpose to assist the judge with specialist knowledge not held by a judge in order to provide the judge with objective conditions to make the best possible decision, forming his/her belief from the technical clarification of controversial issues.

**Allowance:** means a Liability the maturity or amount of which is uncertain.

**Final Court Judgment:** expression that means a court decision against which there is no further appeal, making it final.

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## 5. Guidelines

### 5.1 Rules of CPC 25 accounting standard and its Implications on the Follow-up of Process and Reporting

Pursuant to CPC 25, an Allowance or Provision must be recognized whenever: (a) the organization has a current obligation (whether legal or not made formal yet) as a result of a past event; (b) it is probable that an outflow of funds that incorporate economic benefits will be required to settle such obligation; and (c) a reliable estimate of such obligation amount can be made. If such conditions are not met, no Provision should be recognized.

Contingent Liabilities, as a rule, should not be the subject of a Provision, but should be disclosed and detailed in an explanatory note, unless the probability of outflow of Company's funds is remote.

The decision regarding the recognition or reversal of a Provision or the disclosure of a Contingent Liability connected to a Process will be made based on the applicable rules and standards, and will be the responsibility of the Company's Management. However, in order to guarantee the integrity of the process that will culminate in such a decision, it is important that there is an alignment of concepts and terminologies between the various parties involved, notably the Legal Advisors, the Legal Area, Accounting, and the Management.

Provisions/Allowances must be revalued on each balance sheet date and/or when new relevant information is known and must be updated to reflect the best estimate based on the information available available at the closing date of each balance. Attorney's success fees, the hiring of which must comply with the Company's policy on levels of responsibility, should also be subject of allowances to the extent that their disbursement is probable. If an outflow of funds is no longer likely, such Allowance must be reversed.

The Statutory Audit Committee of TOTVS S.A. will assess, together with the Management, all legal issues and/or contingencies that may have a significant impact on the financial statements, including the Provisions for Contingencies.

#### 5.1.1. Illustrative Table

<b>Probable</b>	<b>Possible</b>	<b>Remote</b>
There is a present obligation that probably requires an outflow of funds.	There is a possible obligation or present obligation that you may require, but probably will not require, an outflow of funds.	There is a possible obligation or present obligation causing the likelihood of an outflow of resources to be remote.
The provision is recognized.	No provision is recognized.	No provision is recognized.
The Provision is required to be disclosed.	Its disclosure is required for contingent liabilities.	No disclosure is required.

### 5.2 Estimation of Probable Loss

The Estimation of a Loss originating from a Motion must be ranked as "probable" when (i) it implies a present obligation for the Company, (ii) it is probable that an outflow of funds from the Company will be necessary to



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settle such present obligation, and (iii) it is possible to make a reliable estimate of the amount of such outflow of funds.

Considering the opinion of the Legal Advisors responsible for conducting the Process, which will be whether confirmed or challenged by TOTVS Group Legal Area, as the case may be, the following Motions must be ranked as "probable", for example:

- a) Motions for which there is already settled and unequivocal case law against the Company's reasoning at issue until the time of the respective estimate;
- b) Motions in which the discussion involves facts only and the Company does not have the minimum grounds required to construct a defense;
- c) Motions in which the discussion depends on Expert Evidence and the conclusion of the corresponding expert opinion is unfavorable to the Company, which has no reasonable condition to challenge the result of the evidence submitted;
- d) Motions judged by a trial court with little chance of being reversed by upper courts;
- e) Motions having an Appellate Judgment unfavorable to the Company, without any Case Law to the contrary in upper courts; or
- f) Motions with final judgment challenged by a Motion for New Trial pending a final decision that is not supported by a plausible justification for reversing the Final Court Judgment being challenged.

For lawsuits in which there is no money-related Motion, but the Legal Advisors understand that the Company will have to disburse some amount as prevailing party attorneys' fees payable by the losing party, such fees must be subject of an allowance as soon as they are determined by a judgment.

## 5.3 Possible Loss Estimation

The Loss Estimation of a Motion must be ranked as "possible" when it is a Contingent Liability.

The Legal Advisors' opinion shall be considered, which and can be whether confirmed or changed by the TOTVS Legal Area. The following Motions must be ranked as "possible", for example:

- a) Motions that are not supported by settled case law against the Company's reasoning at issue until the time of the respective estimate;
- b) Motions in which the discussion involves facts only and the Company has the minimum grounds required to construct a defense;
- c) Motions in which the discussion depends on Expert Evidence and the conclusion of the corresponding expert opinion is unfavorable to the Company, which has the required reasonable grounds to challenge the result of the evidence submitted;
- d) Motions already decided by a trial judge unfavorably to the Company, (i) but with a chance of being reversed before upper courts, or (ii) in which the chance of a cash outflow is more likely than not;
- e) Motions with an Appellate Judgment unfavorable to the Company, (i) but counting on Case Law favorable to the legal reasoning presented by the Company, sufficient to reverse such Appellate Judgment by the Supreme Court, or (ii) in which the chance of a cash outflow is more unlikely than likely; or

Exceptionally, Motions with unfavorable final judgments, provided, however, that there is a specific legal justification/opinion in the sense that such Final Judgment and its merits can be reversed.

## 5.4 Remote Loss Estimation

The Loss Estimation of a motion must be ranked as remote when (i) it represents neither a present obligation nor a Contingent Liability of the Company; or (ii) it represents a present obligation or a Contingent Liability of the Company, but which, in the best estimate made by Legal Advisors, it is unlikely to require an outflow of funds from the Company.



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Considering the Legal Advisors' opinion, which will be whether confirmed or changed by the TOTVS Group Legal Area, the following Motions must be ranked as "Remote", for example:

- a) Motions supported by a unequivocally settled Case Law in favor of the Company's reasoning until the time of the respective estimate;
  - b) Motions in which the discussion involves facts only and the Company has solid grounds to construct its defense;
  - c) Motions in which the discussion depends on Expert Evidence and the conclusion of the corresponding expert opinion is favorable to the Company; or
- Motions that do not involve a conviction, without any risk of disbursing amounts.

## 5.5 Best Estimate - Measurement of Amount involved in every Motion

The amount involved connected to each Motion and the Loss Estimation must be ascertained according to this Policy, and must be periodically updated based on the progress of the Process and possible changes in the understanding of the courts regarding the matters being discussed.

Such reassessment of the Loss Estimation and of the amount involved must be carried out by the Legal Advisors whenever there is a change in the Process status, including, but not limited to, the presentation of a statement by the Company recognizing controversial issues, evidence being produced and submitted, court decisions rendered, or changes in case law that may have an impact on the Process.

Whenever there is a change in the Loss Estimation, the Legal Advisors must upload to the Company's litigation management system the detailed description of the calculation that justifies the amount to be accounted for or reported. When there is an Unliquidated Motion or a Motion to be liquidated, the Legal Advisors must determine the amount involved according to their best estimate or report that the amount cannot be estimated.

Legal Advisors must inform the type of Guarantee or Escrow offered in the Process, if any. In the case of a deposit of funds in escrow with the court, the Legal Advisors must inform the original amount and the respective updated deposited amount for each Process, which will be reflected in the internal controls, as well as in the balance sheet of the TOTVS Group.

## 5.6 Loss History

Aiming at measuring the best estimate for the Provisions connected to Processes, TOTVS Group ascertains the Loss History based on the comparison of historical amounts paid in Settlements or convictions in Processes and the corresponding amounts at risk, determined pursuant to this Policy.

## 5.7 Loss History Calculation

The procedure of calculating the Historical Loss percentage by the TOTVS Group and the metrics used are the following:

1. Setting apart payments of Settlements and final losses in Processes.
2. Determining the percentage of amounts paid in court or administrative Settlements considering the amounts at risk in the last 3 years;
3. Calculating the percentage of amounts paid for losses in Processes regarding the amounts at risk subject of Allowances in the last 3 years;
4. Applying the metrics found in items 1, 2 and 3 separately for labor and civil Processes;
5. Tax and social security Processes and administrative proceedings should not be subject to the Historical Loss percentage, and the full amount of the Motion shall be recorded for Allowance, as applicable, as well as for measuring the Loss Estimation.



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In cases where there is no reliable history basis for ascertaining the History Loss percentage, an amount corresponding to 100% of the Motions in Processes shall be subject of an allowance, ranked as probable loss.

## 5.8 Loss History Review and Periodicity

The Loss History must be reviewed at least every year, aiming at reflecting all Process Settlements and loss payments during the year. The Loss History must be monitored by the TOTVS Statutory Audit Committee, in addition to being reviewed by the Company's external auditors.

## 5.9 Court Settlements

The feasibility of entering into Process Settlements, in principle, will be analyzed on a case-by-case basis, depending on the area involved, the procedural phase in which each Process is (answer, discovery, judgment, appeal) and an in-depth analysis of the respective chances of loss (probable, possible, and remote), as well as the viability and economic interest of maintaining said Process in litigation.

The contingency or Provision/Allowance recommended for the corresponding Process must also be taken into account, always keeping in mind that the Company's interests must be protected, with care to avoid negative precedents.

Settlements may be entered into in the best interest of TOTVS Group, as assessed by the Legal Area, which will involve the Company's higher management, as required, observing the corresponding levels of responsibility.

Such guidance does not prevent that standards to enter into Settlements are created, if there are Processes having very similar objects, with the possibility of financial savings in favor of the TOTVS Group and/or in other particular cases to the best interest of TOTVS.

## 6. Transition Rule

This Policy applies to all entities that come to be directly or indirectly controlled by TOTVS S.A., subject to the respective integration schedules defined for each of the acquired companies.

## 7. Consequence Management

In the event of non-compliance with this Policy, consequences management measures will be adopted that may be applicable to those responsible for non-compliance.

## 8. Assignments

### **Board of Directors**

- Approving this Policy and its reviews every three years or at another time whenever required.

### **Audit Committee**

- Reviewing and monitoring this Policy and submitting recommendations to the Governance and Nomination Committee regarding its approval;
- Reviewing, monitoring, and recommending to Management members any correction or improvement of this Policy, as applicable.

### **Governance and Nomination Committee**

- Reviewing this Policy and submitting a recommendation to the Board of Directors regarding its approval.



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## Legal

- Conducting the entire Litigation management procedure together with Legal Advisers;
- Ensuring compliance with the guidelines contained in this Policy.

## Internal Controls, Risks and Compliance

- Advising the Dept. Legal in establishing mechanisms and controls to ensure compliance with the provisions of this policy.

## 9. Approvals

Name/Position	Description
Maria Ines Bellini Legal Manager	Development
Claudia Karpas Legal Officer	Development and review
Marcos Corradi Executive Manager of Internal Controls, Risks and Compliance	Review
Gilsomar Maia Sebastião Executive Financial Vice President	Review
Statutory Audit Committee	Recommendation
Governance and Nominating Committee	Recommendation
Board of Director	Approval