

<b>Subject:</b> Litigation Management	<b>Identification:</b> PO-JUR-01 Version: 00
<b>Department:</b> Legal Department	<b>Published on:</b> 05/10/2017
<b>Related Standards:</b>	<b>Revision:</b> 05/10/2019

## 1. Purpose

This policy establishes the parameters, criteria and procedures to manage administrative and legal civil, labor and tax litigation of TOTVS Group, in Cases in which the TOTVS Group is the defendant and/or the plaintiff.

Litigation management seeks to correctly assess losses in Cases involving TOTVS Group companies, with an individual analysis of each request formulated within the scope of the lawsuits, which are sponsored and measured in amounts by external Law Firms in order to monitor proceedings and circularization, as well as to determine the best estimate for constituting provision of contingencies related to Cases.

The decision about whether or not to recognize a provision and whether or not to disclose a Contingent Liability in financial statements will depend on an Assessment of Loss attributed by Law Firms, validated by the Legal Department, to each of said requests. The applicable corporate and accounting rules, especially CPC 25, must always be observed.

## 2. Scope

This policy applies to all TOTVS Group companies and Law Firms. Compliance with these guidelines is mandatory.

## 3. Concepts

**Action for Relief from Judgment:** it is an autonomous action filed seeking to reverse the effects of a judgment in which appeals are no longer possible, based on a defect that would make it voidable, creating the opportunity for a fresh judgment.

**Appellate Decision:** it is the decision handed down by an appeals court or the court of last resort by the bench of an appellate court.

**Settlement:** when the parties (plaintiff and defendant) to a Case negotiate about a certain subject disputed in the lawsuit, terminating the case through mutual agreement.

**CPC 25:** it is the standard ruling Provisions, Contingent Liabilities and Contingent Assets, issued by the Accounting Pronouncements Committee (CPC).

**Law Firm:** it is the third-party law firm contracted to monitor and directly file the administrative and legal proceedings that are of interest to the TOTVS Group.

**Guarantee:** act that ensures compliance with the obligation, which is being discussed in the lawsuit. It can be made via bank deposit in an escrow account, or by offering letter of suretyship, performance bond or the attachment of any movable or immovable property.

**TOTVS Group:** refers to TOTVS S.A., its associates and direct and indirect subsidiaries.

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**Costs of Loss of Suit:** refers to the fees payable by the losing party to the lawyer of the opposing party, the winner of the lawsuit.

**Loss Record:** it is the percentage based on past payments of judicial settlements or lawsuits lost. This percentage will be a deflator when records indicate that the amount paid is historically lower than the amount at risk. The percentage is applied to claims classified as probable, possible or remote loss;

**Precedents:** it is a legal term that refers to the decision reiterated in courts on a certain subject already submitted to judgments in courts in a certain jurisdiction.

**Liability:** it means a present obligation, arising from events that have already occurred, whose settlement will probably result in outflow of funds of TOTVS Group;

**Contingent Liability:** it is a possible obligation arising out of past events and whose existence will be confirmed only if one or more uncertain future events occur, which are not entirely under the Company’s control, for which an outflow of funds for the payment of the obligation is possible but not probable.

**Claim:** it means any claim formulated within the scope of a lawsuit or administrative process;

**Illiquid Claim:** it means a Claim that is not liquid, calculated or quantified.

**Case:** refers to a lawsuit or administrative proceeding involving a TOTVS Group company as either plaintiff or defendant;

**Assessment of Loss:** it means the best assessment, initially made by the Law Firm, and validated by the Legal Department of TOTVS Group, based on the criteria established in this policy and on CPC 25, regarding the chances of loss in each of the claims formulated within the scope of a Case filed by it, classified as follows: “Probable”, “Possible” or “Remote”.

**Expert Evidence:** it is the evidence that will take elements to the judge to reach his or her findings about the facts, and these elements depend on special technical knowledge. Its function is to provide to the Case the technical experience that will be employed to solve the case.

**Provision:** it means a Liability for an estimated term or amount.

**Provisions for Contingencies:** refer to provisions to be constituted in view of a present obligation (legal or not formalized) as a result of a past event, in which the disbursement of funds is probable for settlement of obligations and which could be reliably estimated.

**Final and Unappealable Decision:** term used for a decision against which appeals are no longer possible, making it final.

## 4. Guidelines

### 4.1. Rules of CPC 25 and their Implications in Monitoring of Cases and Circularization

A Provision must be recognized only when: (a) the entity has a present obligation as a result of a past event; (b) it is probable that an outflow of funds will be necessary to settle such obligation (that is, a Liability, not a Contingent Liability); and (c) a reliable estimate of the obligation amount can be made. If these conditions are not cumulatively fulfilled, no Provision must be recognized.

Contingent Liabilities must not be provisioned for, but they must be disclosed, unless the probability of outflow of funds from the entity is remote.

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The decision on recognizing or reversing a Provision or disclosing a Contingent Liability related to a Case will be, as a last resort, the responsibility of the Company’s Management. However, in order to ensure the integrity of the process that will lead to such decision, there must be an alignment of concepts and terms between the diverse parties involved, notably the Law Firms, the Legal Department, the Accounting Department and the management of TOTVS Group companies.

The Provisions must be revaluated on each balance sheet date and adjusted to reflect the best current estimate. If an outflow of funds that incorporate future economic benefits to settle the obligation is no longer probable, the Provision must be reversed.

The Audit Committee of TOTVS S.A. shall evaluate, together with the company’s Management, all legal issues and/or contingencies that could have a significant impact on financial statements, including Provisions for Contingencies.

**4.1.1. Table Summarizing of the Differences in Claims**

Probable	Possible	Remote
There is a present obligation that will probably require an outflow of funds	There is possible or present obligation that may, but will probably not, require an outflow of funds	There is a possible or present obligation whose probability of outflow of funds is remote
The provision is recognized	No provision is recognized	No provision is recognized
Disclosure of balance of provision is required	Disclosure of balance of contingent liability is required	No disclosure is required

**4.2. Estimate of Probable Loss**

The Assessment of Loss on a Claim will be classified as “probable” when: (i) it implies a present obligation for the entity; (ii) it is probable that an outflow of funds from the entity is necessary to settle such present obligation; and (iii) it is not possible to make a reliable estimate of said outflow of funds.

Respecting the opinion of the Law Firm responsible for conducting the Case, confirmed or amended by the Legal Department of TOTVS, and the specific situations of each Claim, the following Claims must be classified as “probable”:

- a) Claims with grounded and unambiguous Precedents against the arguments;
- b) Claims in which the discussion is purely factual and the Company does not present the minimum information to mount a defense;
- c) Claims in which the discussion depends on Expert Evidence and the conclusion of the evidence is unfavorable to the Company, there being no reasonable information to challenge the evidence produced;
- d) Claims decided in Lower Court with little chance of being upturned by the Appellate Courts;
- e) Claims with Appellate Decision unfavorable to the company, without Precedents to the contrary at Higher Courts; or

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f) Claims with final decisions on which Actions for Relief from Judgment pending a final decision that does not put up a plausible justification for reversing the Final and Unappealable Decision and the merits of decision that the party wants to annul.

In lawsuits in which there is no pecuniary Claim, but the Law Firm believes that the Company will have to disburse some amount as Costs of Loss of Suit, said costs must be provisioned for after the sentencing.

**4.3. Estimate of Possible Loss**

The Assessment of Loss of a Claim must be classified as “possible” when it is a Contingent Liability.

Respecting the opinion of the Law Firm, confirmed or amended by the Legal Department of TOTVS, and the specific situations of each Claim, the following Claims must be classified as “possible”:

- a) Claims without grounded Precedents against the arguments of the Company;
- b) Claims in which the discussion is purely factual and the Company submits reasonable information to mount a defense;
- c) Claims in which the discussion depends on Expert Evidence and the conclusion of the evidence is unfavorable to the Company, there being reasonable information to challenge the findings of the evidence produced;
- d) Claims decided in Lower Court with unfavorable outcome to the company: (i) but with chances of reversing the merits at other courts; or (ii) whose cash outflow is more probably no than yes;
- e) Claims with Appellate Decision unfavorable to the company, (i) but with Precedents favorable to the arguments of the Company, sufficient to reverse the decision at higher courts or (ii) whose cash outflow is more probably no than yes; or
- f) Exceptionally, for Claims with unfavorable final decisions, provided there is specific justification/legal assessment that could reverse the Final and Unappealable Decision and the merits of the judgment.

**4.4. Estimate of Remote Loss**

The Assessment of Loss a Claim must be classified as “remote” when: (i) it neither represents a present obligation nor a Contingent Liability for the company; or (ii) represents present obligation or Contingent Liability for the company but which, in the best estimate of the Law Firm, will probably not require outflow of funds from the company.

Respecting the opinion of the Law Firm, confirmed or amended by the Legal Department of TOTVS, and the specific situations of each Claim, the following Claims must be classified as “Remote”:

- a) Claims in which the Precedents are unambiguously in favor of the arguments of the Company;
- b) Claims in which the discussion is purely factual and the company submits solid information necessary to mount a defense;
- c) Claims in which the discussion depends on Expert Evidence and the conclusion of the evidence is favorable to the Company; or
- d) Non-conviction claims, without risk of disbursement.

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**4.5. Best Estimate – Measurement of Amount involved in each Claim**

The amount involved in each Claim and the Assessment of Loss will be calculated according to this Policy, and it must be periodically updated based on the progress of the Case and possible changes in the understanding of the courts regarding the matters under discussion.

This reassessment of the Assessment of Loss and the amount involved will be conducted by the Law Firm every time there is a change in the status of the Case, including, but not limited to, the presentation of statement by the Company recognizing the disputed issues, submission of evidence, entry of judgments, or changes in precedents at the higher courts, all with an impact on the Cases.

Whenever there is a change in the Assessment of Loss, the Law Firm must attach to the Company’s litigation management system the detailed calculation that serves as the basis for the amount to be recorded or reported. In case of Illiquid Claim or Claim pending calculation, the Law Firm must calculate the best estimate of the amount involved and inform the Company, or inform the impossibility of preparing an estimate.

The Law Firm must indicate the type of Guarantee offered in the Case, if any. In case of legal deposits, the Law Firm shall inform the deposit amount and the adjusted deposit amount for each Case.

**4.6. Loss Record**

To measure the best estimate for the Provisions linked to the Cases, TOTVS Group calculates the Loss Record based on the comparison of amounts paid per Settlement or loss of Cases and their respective amounts at risk.

**4.7. Calculation of Loss Record**

The process to calculate the percentage Loss Record by the TOTVS Group and the metrics used are:

1. Separate payments of Settlements and definitive losses in Cases.
2. Calculate the percentage of amounts paid for legal or administrative Settlements with regard to the amounts at risk in the last 3 years;
3. Calculate the percentage of amounts paid for Case losses with regard to amounts at risk provisioned for in the last 3 years;
4. Apply the metrics calculated in items 1,2 and 3 separately for labor and civil Cases;
5. The Loss Record percentage will not apply to legal and administrative tax and social security Cases, and hence the full amount of the Claim must be Provisioned for and also used in the measurement of Assessment of Loss.

When there is no reliable historical basis to calculate the Loss Record percentage, the amount corresponding to 100% of the Claims of Cases deemed as probable loss must be provisioned for.

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**4.8. Review and Periodicity of Loss Record**

The Loss Record must be reviewed at least once a year to reflect all the variables of negotiations in Settlements and loss payments during the year. The Loss Record must be monitored by the Audit Committee of TOTVS S.A. and reviewed by the company’s external auditor.

**4.9. Settlements**

The feasibility of arriving at Settlements in Cases, in principle, will be analyzed on a case-by-case basis, depending on the area involved (civil, labor, tax), the phase (defense, production of evidence, judgment, appeal) of each case and an in-depth analysis of the respective chances of loss (probable, possible and remote).

The amount involved and the contingency or Provision indicated for said Case must also be taken into consideration, always in the best economic benefit for the TOTVS Group, taking care to avoid precedents that could affect future claims.

This guideline does not impede the creation of a standard for Settlements, if lawsuits with very similar purposes are observed and the possibility of financial savings for the TOTVS Group is verified.

**5. Approvals (document)**

Name / Position	Description
Paula Cocuzza Legal Manager	Preparation
André Rizk Chief Legal Officer	Revision
Silvio Roberto Reis de Menezes Executive Officer - Ombudsman, RCC, Processes, Risks and Compliance	Revision
Gilsomar Maia Sebastião Chief Financial Officer	Revision
Audit Committee	Recommendation
Board of Directors	Approval