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## 1.0. Identification of the individuals responsible

| | |
|---|---|
| **Name of the individual responsible for the form contents** | **Gilsomar Maia Sebastião** |
| **Position** | Investor Relations Officer |
| **Name of the individual responsible for the form contents** | **Dennis Herszkowicz** |
| **Position** | CEO |

# TOTVS S.A.

Publicly-held Company
CNPJ/ MF no. 53.113.791/ 0001-
22 NIRE 35.300.153.171

I, Dennis Herszkowicz, Brazilian citizen, married, graduate in advertising and marketing, holder of identity card 20.310.061 - SSP/SP, and CPF tax registration No. 165.783.068-38, in my position as Chief Executive Officer of Totvs S.A., declare that:

a. I have reviewed this Reference Form;

b. all the information contained in this Reference Form meets the provisions of CVM Instruction No. 480, especially articles 14 to 19;

c. the information contained herein gives a true, accurate and complete picture of the Company's economic and financial situation, of the risks inherent in its activities and of the securities issued by it.

**DENNIS HERSZKOWICZ**

CEO

# TOTVS S.A.

Publicly-held Company
CNPJ/MF n2 53.113.791/0001-22
NIRE 35.300.153.171

I, **Gilsomar Maia Sebastiao, Brazilian citizen, accountant, holder of Identity Card** 24.733.092, and CPF tax registration No. 174.189.288-07, in my position as Vice President for Administration and Finance and Investor Relations Officer of Totvs S.A, declare that:

a. I have reviewed this Reference Form;

b. all the information contained in this Reference Form meet the provisions of CVM Instruction No. 480, especially articles 14 to 19;

c. the information contained herein gives a true, accurate and complete picture of the Company's economic and financial situation, of the risks inherent in its activities and of the securities issued by it.

**GILSOMAR MAIA SEBASTIAO**

Vice President Administration and Finance and Investor Relations Officer

## 2.1/2.2 - Auditors' identification and compensation

| | |
|---|---|
| **Does the issuer have an auditor?** | YES |
| **CVM Code** | 287-9 |
| **Type of auditor** | Domestic |
| **Corporate name** | PricewaterhouseCoopers Auditores Independentes |
| **National Corporate Taxpayers' Register (CNPJ)** | 61.562.112/0001-20 |
| **Period of service provision** | 4/29/2016 to 12/31/2016 |
| **Description of the services contracted** | The independent auditors provided the following services: (i) audit and issue of a report on the Company's individual and consolidated financial statements for the year ended December 31, 2016; and (ii) review and issue of a report on the Company's individual and consolidated Quarterly Information (ITRs) for the periods ended March 31, June 30 and September 30, 2016. |
| **Total compensation paid to the independent auditors segregated by service** | Not applicable |
| **Justification for the replacement** | Replacement by Ernst & Young Auditores Independentes S.S. due to the auditor rotation requirement introduced in 2017 by CVM Instruction 308/99. |
| **Reason presented by the auditor in the event of disagreement with the issuer's justification** | Not applicable. |

| Name of the person in charge | Period of service provision | Individual Taxpayers' Register (CPF) | Address |
|---|---|---|---|
| Ricardo Novaes de Queiroz | 1/1/2016 to 12/31/2016 | 528.099.605-00 | Av. Francisco Matarazzo, 1400, Torre Torino, Água Branca, São Paulo, SP, Brazil, CEP 05001- 903, Phone number (011) 36743433, Fax number (011) 36742045, email address: ricardo.queiroz@br.pwc.com |

| | |
|---|---|
| **Does the issuer have an auditor?** | YES |
| **CVM Code** | 471-5 |
| **Type of auditor** | National |
| **Corporate name** | Ernst & Young Auditores Independentes S.S. |
| **National Corporate Taxpayers' Register (CNPJ)** | 61.366.936/0001-25 |
| **Period of service provision** | 12/7/2016 |
| **Description of the services contracted** | The independent auditors provided the following services: (i) audit and issue of a report on the Company's individual and consolidated financial statements for the years ended December 31, 2017 and 2018; (ii) review and issue of a report on the Company's individual and consolidated Quarterly Information (ITRs) for the periods ended March 31, June 30 and September 30, 2017 and 2018 and March 31, 2019; (iii) ISAE - Review of the software development control environment; and (iv) provision of training on accounting standards. |
| **Total compensation paid to the independent auditors segregated by service** | 2018: Audit of financial statements: R$1,206,820.00; ISAE - ISAE - Review of the software development control environment: R$218,968.00; Other: R$1,600 - Total: R$1,427,388,00; and additional amounts related to auditing fees – R$268,302.00 |
| **Justification for the replacement** | Not applicable |
| **Reason presented by the auditor in the event of disagreement with the issuer's justification** | Not applicable |

| Name of the person in charge | Period of service provision | Individual Taxpayers' Register (CPF) | Address |
|---|---|---|---|
| Luiz Carlos Marques | 1/1/2017 to 12/31/2018 | 043.982.278-57 | Avenida Presidente Juscelino Kubitschek, 1909, 7º andar, Vila Nova Conceição, São Paulo, SP, Brazil, CEP 04543-011, Phone number (11) 25733473, Fax number (11) 25735880, email address: luizcarlos.marques@br.ey.com |

## 2.3 - Other material information

The Company maintains a policy to support the engagement of independent audit services and occasional non-audit services provided by an Independent Auditor or a Party Related to the Independent Auditor.

The engagement of independent auditors to provide non-audit services is supported by principles that preserve their independence. These principles consist of the following conditions: (i) the services do not impact their independence; (ii) the services are previously assessed and recommended by the Audit Committee and approved by the Board of Directors; and (iii) the services are within their professional expertise.

Procedures adopted by the Company pursuant to item III, Article 2, of CVM Instruction No. 381/03: Before contracting other professional services not related to the independent accounting audit, the Company and its subsidiaries adopt as a formal procedure consulting with the independent auditors to ensure that the rendering of these other services will not affect the independence and objectivity required for the performance of independent audit services.

The Policy on Engagement of Independent Auditors was approved by the Board of Directors on September 25, 2018 and is available for consultation on the Company's Investor Relations website, at https://ri.totvs.com/ptb/estatutos-politicas-e-regimentos.

## 3.1 - Financial Information - Consolidated

| (In *Reais*) | Latest Accounting Information (3/31/2019) | Year ended 12/31/2018 | Year ended 12/31/2017 | Year ended 12/31/2016 |
|---|---|---|---|---|
| Shareholders’ equity | 1,307,010,000.00 | 1,288,220,000.00 | 1,261,577,000.00 | 1,220,916,000.00 |
| Total assets | 2,585,845,000.00 | 2,391,277,000.00 | 2,493,625,000.00 | 2,443,912,000.00 |
| Net Revenue/Financial Intermediation Revenue/Insurance Premiums Earned | 563,587,000.00 | 2,320,269,000.00 | 2,227,330,000.00 | 2,183,786,000.00 |
| Gross profit | 382,040,000.00 | 1,435,700,000.00 | 1,363,854,000.00 | 1,307,008,000.00 |
| Net income | 12,118,000.00 | 60,643,000.00 | 93,258,000.00 | 152,269,000.00 |
| Number of shares, ex-treasury (Units) | 163,612,724 | 163,451,636 | 163,405,760 | 163,344,952 |
| Equity value per share (in R$ per unit) | 7.988437 | 7.881353 | 7.720517 | 7.474464 |
| Basic earnings per share | 0.268000 | 0.364400 | 0.569100 | 0.932100 |
| Diluted earnings per share | 0.27 | 0.36 | 0.56 | 0.93 |

# 3.2 – Non-accounting measures

**(a) value of non-accounting measures**

**EBTIDA, EBTIDA Margin, Adjusted EBITDA, Adjusted EBITDA Margin**

EBITDA (*Earnings Before Interest, Tax, Depreciation and Amortization*) is a non-accounting measure prepared by the Company in compliance with CVM Instruction No. 527, of October 4, 2012 ("CVM Instruction 527"), which is reconciled to its financial statements and consists of net income for the year or period, plus financial income and expenses, income tax and social contribution, and depreciation and amortization costs and expenses.

The EBITDA Margin is calculated as EBITDA divided by net revenue from services and sales.

Adjusted EBITDA is a non-accounting measure prepared by us which corresponds to EBITDA adjusted by equity pick-up, the provision for impairment of assets, additional provisions for contingencies, loss (gain) on disposal of permanent assets, additional provisions for doubtful debts, gains on sales of subsidiaries, and net losses on discontinued operations, which, in our view, are no part of our regular business operations and/or distort the analysis of our performance. The adjustments to our operations are classified as follows:

i. Equity pick-up: the equity pick-up included in the Company's consolidated result reflects the loss incurred by the associated company, calculated in accordance with the percentage of our equity interest;

ii. Provision for impairment of assets: refers to the result of the impairment test on assets, which is performed on an annual basis and generated a provision for losses on the cash-generating unit of Bematech Hardware on December 31, 2018;

iii. Additional provisions for contingencies: In 2006, Bematech filed for an injunction against the Federal Revenue Regional Office in Curitiba to obtain the recognition of the illegality/unconstitutionality of the inclusion of ICMS amounts in the PIS and COFINS tax base. In 2017, this case was judged by the Federal Supreme Court (STF), under the general repercussion regime, which decided to exclude ICMS from the PIS and COFINS tax base. Accordingly, Bematech, supported by the opinion of its legal counsel, reversed the provision at December 31, 2017, totaling R$8,454 thousand (R$8,203 thousand at December 31, 2016), R$4,288 thousand of which referred to the principal amount of this contingency, recognized under "General and Administrative Expenses", and R$4,166 thousand to monetary variation losses, recognized under "Financial Expenses".

iv. Loss (gain) on disposal of permanent assets: this amount is not part of our operating expenses.

v. Additional provisions for doubtful debts: exceptionally during the third quarter of 2016, a provision for doubtful debts was set up for the total balance of a certain project, totaling R$17,221, due to credit risk arising from a large customer in the services segment.

vi. Gain on sale of subsidiary: gain resulting from the sale of the subsidiary TOTVS RO;

vii. Net loss from discontinued operations: change in our strategy that decided to put the hardware operations up for sale.

The "Adjusted EBITDA Margin" corresponds to Adjusted EBITDA divided by net revenue from services and sales.

EBITDA, EBITDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin are not measures of financial performance in accordance with the Accounting Practices Adopted in Brazil or the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB), do not represent the cash flow for the reported periods, should not be considered as a replacement for net income, indicators of operating performance, or as an alternative to cash flow as an indicator of the Company's liquidity, nor as the base for dividend payouts. These measures do not have a standardized meaning and may not be comparable to similarly-titled measures reported by other companies.

## 3.2 – Non-accounting measures

EBITDA, EBITDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin are financial indicators used to evaluate the result of companies without the influence of their capital structure, tax effects, other accounting impacts, without a direct effect on the Company's cash flow and other items considered as non-recurring by the Company or which do not arise from its main operations. EBITDA, EBITDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin are additional information to the Company's financial statements and should not be used as an alternative to the audited financial statements.

The Company uses and discloses as non-accounting measures EBITDA, EBITDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin, as shown in the table below:

| | **Three-month period ended March 31** | | **Year ended December 31** | | |
|---|---|---|---|---|---|
| **(In thousands of *Reais*)** | **2019** | **2018** | **2018** | **2017** | **2016** |
| **EBITDA** | 82,920 | 95,996 | 259,439 | 294,493 | 343,917 |
| ***EBITDA Margin (%)*** | *14.7%* | *18.5%* | *11.2%* | *13.2%* | *15.7%* |
| ***Adjusted EBITDA*** | 114,732 | 96,757 | 346,136 | 293,532 | 351,929 |
| ***Adjusted EBITDA Margin (%)*** | *20.4%* | *18.6%* | *14.9%* | *13.2%* | *16.1%* |

**Gross and Net Debt**

Our Gross Debt consists of the sum of the balances of loans and financing, leases, debentures, and obligations for acquisition of investments, both current and non-current. Our Net Debt is calculated as Gross Debt minus the balances of cash and cash equivalents, and collateral for investments made, both current and non-current.

Gross Debt and Net Debt are not measures of financial performance, liquidity or indebtedness recognized by the Accounting Practices Adopted in Brazil or the International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board (IASB), do not present indebtedness as of the reported dates, and are not indicators of our financial condition, liquidity or ability to settle our debt. Also, they are not calculated using a standardized methodology and may not be comparable to the definitions of gross and net debt or similarly-titled measures used by other companies.

Below are the amounts of Gross Debt and Net Debt for the reported dates:

| **In thousands of *Reais*** | **At March 31** | **At December 31** | | |
|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** |
| **Gross Debt** | 734,694 | 553,720 | 761,141 | 779,110 |
| **Net debt** | 261,957 | 50,678 | 322,344 | 479,174 |

## 3.2 – Non-accounting measures

**Recurring and non-recurring revenues**

**Recurring software revenues:** these refer to revenues from agreements with customers with ongoing service provision (12-month contracts renewable on an automatic basis), consisting of revenues from Maintenance (technological evolution and service), Subscription (software as a service), and monthly services, such as Cloud.

**Non-recurring software revenues:** these refer to sales of software licenses of the traditional type, whereby the customer is entitled to use the software for an indefinite period, and software implementation and customization services.

Recurring and non-recurring software revenues for the reported dates are presented below:

| | Quarter ended March 31, | | Year ended December 31, | | |
|---|---|---|---|---|---|
| **In thousands of *Reais*** | **2019** | **2018** | **2018** | **2017** | **2016** |
| Recurring software revenues | 416,141 | 378,743 | 1,547,171 | 1,466,421 | 1,348,883 |
| Non-recurring software revenues | 147,446 | 140,245 | 563,989 | 526,490 | 590,712 |

**(b) Reconciliation between the amounts reported and the amounts presented in the audited financial statements**

The reconciliation between these non-accounting measures and the financial statements is presented below:

**EBTIDA, EBTIDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin**

| | Quarter ended March 31, | | Year ended December 31, | | |
|---|---|---|---|---|---|
| **In thousands of *Reais*** | **2019** | **2018** | **2018** | **2017** | **2016** |
| **Net income** | 12,118 | 34,310 | 60,643 | 93,258 | 152,269 |
| Income tax and social contribution | 23,774 | 18,221 | 26,080 | 10,894 | 23,252 |
| Financial income and expenses | 9,766 | 11,201 | 39,502 | 39,447 | 36,732 |
| Depreciation and amortization | 37,262 | 32,264 | 133,214 | 150,894 | 131,664 |
| **EBITDA** | **82,920** | **95,996** | **259,439** | **294,493** | **343,917** |
| Net revenue from services and sales | 563,587 | 518,988 | 2,320,269 | 2,227,330 | 2,183,786 |
| ***EBITDA Margin (%)*** | ***14.7%*** | ***18.5%*** | ***11.2%*** | ***13.2%*** | ***15.7%*** |
| Equity pick-up | 130 | 129 | 517 | 69 | - |
| *Provision for impairment of assets* | - | - | 87,023 | - | - |
| *Additional provisions for contingencies* | - | - | - | (4,288) | - |
| *Loss (gain) on disposal of permanent assets* | (62) | (557) | (843) | 3,258 | - |
| *Additional provisions for doubtful debts* | - | - | - | - | 17,221 |
| *Gain on sale of subsidiary* | - | - | - | - | *(9,209)* |
| Net loss from discontinued operations | 31,744 | 1,189 | - | - | - |
| **Adjusted EBITDA (i)** | **114,732** | **96,757** | **346,136** | **293,532** | **351,929** |
| ***Adjusted EBITDA Margin*** | ***20.4%*** | ***18.6%*** | ***14.9%*** | ***13.2%*** | ***16.1%*** |

(i) On January 1, 2019, the new standard regulating the accounting treatment to be given to Leases (IFRS 16/ CPC 06(R2)), issued by IASB and the Brazilian Accounting Pronouncements Committee (CPC), respectively, came into effect. The Company adopted the modified retrospective method to implement this standard. Consequently, the financial information as of March 31, 2018 and December 31, 2018, 2017 and 2016 has not been adjusted to reflect the first-time adoption of IFRS 16/CPC 06(R2), and therefore is not comparable to the financial information as of March 31, 2019, which reflects the effects of the first-time adoption of this standard. Adjusted EBITDA for the quarter ended March 31, 2019 includes the impact of the application of IFRS 16 /CPC 06(R2), totaling R$10.3 million, corresponding to payments of rents in the same period that comprises part of the amortization of the assets in use, as well as interest arising from the adjustment of the finance lease liability.

## 3.2 – Non-accounting measures

**Gross and Net Debt**

| In thousands of *Reais* | At March 31, 2019 | At December 31 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Loans and financing (current and non-current)(1) | 384,553 | 201,471 | 402,556 | 561,741 |
| Debentures (current and non-current) | 276,151 | 277,188 | 269,138 | 90,661 |
| Obligations for acquisition of investments (current and non-current) | 73,990 | 75,061 | 89,447 | 126,708 |
| **Gross Debt** | **734,694** | **553,720** | **761,141** | **779,110** |
| (-) Cash and cash equivalents | (423,658) | (452,799) | (387,169) | (214,772) |
| (-) Guarantees for investments (current and non-current) | (49,079) | (50,243) | (51,628) | (85,164) |
| **Net debt** | **261,957** | **50,678** | **322,344** | **479,174** |

(1) The balance of loans and financing (current and non-current) as of March 31, 2019 comprised a financial lease totaling R$270.3 million.

| In thousands of *Reais* | Quarter ended March 31, 2019 | 2018 | Year ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|---|---|
| Maintenance | 262,899 | 247,671 | 1,004,033 | 1,009,836 | 1,000,753 |
| Subscription | 110,814 | 94,622 | 395,121 | 307,866 | 229,235 |
| Services (1) | 42,428 | 36,450 | 148,017 | 148,719 | 118,895 |
| Licenses | 57,801 | 56,060 | 177,723 | 166,660 | 167,759 |
| Customization, implementation and other non-recurring services (2) | 89,645 | 84,185 | 386,266 | 359,830 | 422,953 |
| **Software** | **563,587** | **518,988** | **2,111,160** | **1,992,911** | **1,939,595** |
| Recurring revenues (3) | 416,141 | 378,743 | 1,547,171 | 1,466,421 | 1,348,883 |
| Non-recurring revenues (4) | 147,446 | 140,245 | 563,989 | 526,490 | 590,712 |
| **Hardware (5)** | - | - | **209,109** | **234,419** | **244,191** |
| | **563,587** | **518,988** | **2,320,269** | **2,227,330** | **2,183,786** |

*(1)* BPO, equipment rental, service desk, cloud, online booking and additional services.

(2) Customization, implementation and other services, including training, advisory and cloud setup.

(3) Recurring software revenues: these refer to revenues from agreements with customers with ongoing service provision (12-month contracts renewable on an automatic basis), consisting of revenues from Maintenance (technological evolution and service), Subscription (software as a service), and monthly services.

(4) Non-recurring software revenues: these refer to sales of software licenses of the traditional type, whereby the customer is entitled to use the software for an indefinite period, as well as to software implementation and customization services.

## 3.2 – Non-accounting measures

(5) Due to the classification of hardware assets as available-for-sale at March 31, 2019, accrued revenues and other revenues, as well as revenues and expenses relating to hardware operations, were compiled and presented under “Loss from discontinued operations” in the statement of income for the quarter ended March 31, 2019, totaling R$31.7 million.

**(c) explain why this measure is more appropriate for a proper understanding of your financial condition and the results of your operations**

**EBTIDA, EBTIDA Margin, Adjusted EBITDA, and Adjusted EBITDA Margin**

The Company understands that EBITDA and EBITDA Margin are the measures that best reflect the cash generation arising from the Company’s operating results. Accordingly, they enable the Company’s comparability with other companies from the same field of operation in Brazil and abroad, since the Company’s peers may have different capital structures, and levels of amortization expenses, especially in relation to intangible assets arising from acquisitions.

In general, the Company’s investments in research and development are not capitalized and are fully recognized under “Research and Development” in the statement of income, thus fully impacting the Company’s EBITDA and EBITDA Margin.

The Company understands that Adjusted EBITDA and Adjusted EBITDA Margin are the performance measures most appropriate for a proper understanding of its financial condition and results of operations, and that they enable a comparison with other companies from the same segment, even though other companies may calculate them differently.

The Company believes that Adjusted EBITDA reflects its performance without the influence of factors associated with: (i) equity pick-up; (ii) provision for impairment of assets; (iii) additional provisions for contingencies (iv) loss (gain) on disposal of permanent assets; (v) additional provisions for doubtful debts; (vi) gain on sale of subsidiary; and (vii) net loss from discontinued operations. The Company understands that these characteristics make Adjusted EBITDA a more practical and appropriate measure of its performance.

In general, the Company's investments in research and development are not capitalized, and therefore are fully recorded under "Research and development expenses" in the statement of income, thus fully impacting the Company's EBITDA, Adjusted EBITDA, EBITDA Margin and Adjusted EBITDA Margin.

**Gross and Net Debt**

The Company understands that Net Debt and Gross Net are useful to evaluate its level of indebtedness in relation to its cash position. In addition, the Company is subject to compliance with certain financial covenants that use Net Debt as a parameter as defined in the respective debt agreements. For further information on the financial agreements entered into by the Company and other debt instruments, as well as on the financial covenants to which the Company is subject, see item 10.1(f) of this Reference Form.

**Recurring and non-recurring revenues**

The Company understands that recurring revenue is useful to measure the performance of agreements with customers whose services are provided on an ongoing basis, as well as to monitor indicators such as customer renewal and churn rates. In addition, considering the predictability of recurring revenues, the Company is able to equally predict investments in innovation and new technologies, expanding the solutions portfolio to meet customer needs.

Non-recurring revenues, on the other hand, are one-off revenues arising from direct sales of licenses (traditional software sales model) and the provision of customization and implementation services with a defined development deadline.

## 3.3 - Events subsequent to the latest financial statements

There were no subsequent events related to the quarter ended March 31, 2019.

## 3.4 - Income allocation policy

| *Amounts in Reais* | **2018** | **2017** | **2016** |
|---|---|---|---|
| **a. rules on earnings retention** | The Company does not have a policy establishing retention rules in addition to those provided for in the law. Pursuant to Law 6.404/76, the Company may allocate at least five percent (5%) to the legal reserve, up to a limit of twenty percent (20%) of its capital stock. In a year when the balance of the legal reserve plus the amounts of the capital reserves exceed thirty percent (30%) of capital stock, the allocation of a portion of net income for the year to the legal reserve ceases to be mandatory. Also pursuant to Law 6.404/76, the Company may retain the amount related to the capital budget, submitted by management bodies with a justification for the earnings retention, including the sources of the funds and capital investments, whether fixed or current, for up to five (5) consecutive years, except in case a large project is carried out over a longer period. The budget may be approved by the General Shareholders' Meeting that approves the balance sheet for the year, and reviewed annually, when it has a duration of more than one fiscal year. | | |
| **a.i. amounts of earnings retentions** | Legal reserve R$2,977 thousand and Revenue retention reserve R$2,840 thousand | Legal reserve R$4,649 thousand and Revenue retention reserve R$32,544 thousand | Legal reserve R$7,633 thousand and Revenue retention reserve R$54,237 thousand |
| **a.ii percentages in relation to the total earnings declared** | *4.77%* | *35.00%* | *35.53%* |
| **b. rules on dividend distributions** | A portion corresponding to twenty-five percent (25%) of adjusted annual net income, as provided for in Article 202 of the Brazilian Corporation Law and Article 37 of the Company's bylaws, shall be allocated to the payment of the minimum mandatory dividend. | | |
| **c. frequency of dividend distributions** | At the end of each fiscal year. The Company's bylaws (Article 39) provide for the possibility of paying dividends more frequently. | | |
| **d. any restrictions on the distribution of dividends imposed by law or special regulations applicable to the Issuer, as well as agreements or court, administrative or arbitration decisions** | Currently, there are no restrictions on the payment of dividends imposed by law or special regulations applicable to the Company. | | |
| **e. whether the issuer has a formally approved income allocation policy, stating the body responsible for approval and the date of approval; and, if the issuer discloses the policy, the websites where this document is available for consultation** | The Company did not have any specific policy addressing income allocation. | | |

## 3.5 - Distribution of dividends and retention of net income

| (In Reais) | Latest Accounting Inf. | Year ended 12/31/2018 | Year ended 12/31/2017 | Year ended 12/31/2016 |
|---|---|---|---|---|
| Adjusted net income | 0.00 | 56,571,000.00 | 88,332,000.00 | 145,025,000.00 |
| Dividend distributed in relation to adjusted net income (%) | 0.000000 | 80.894805 | 63.157180 | 63.158076 |
| Rate of return in relation to the issuer's shareholders' equity (%) | 0.000000 | 4.707503 | 7.392177 | 7.500473 |
| Total dividend payout | 0.00 | 45,763,000.00 | 55,788,000.00 | 91,595,000.00 |
| Retained net income | 0.00 | 14,880,000.00 | 37,470,000.00 | 54,237,000.00 |
| Date of approval of the retention | | 4/18/2019 | 4/5/2018 | 4/20/2017 |

| Retained net income | | Amount | Dividend payout | Amount | Dividend payout | Amount | Dividend payout | Amount | Dividend payout |
|---|---|---|---|---|---|---|---|---|---|
| Common shares | | 0.00 | | | | | | | |
| **Mandatory Dividend** | | | | | | | | | |
| Common shares | | | | 17,977,520.00 | 10/3/2018 | 5,441,584.63 | 5/9/2018 | 7,374,975.91 | 5/10/2017 |
| **Interest on shareholders' equity** | | | | | | | | | |
| Common shares | | | | 14,708,880.00 | 10/3/2018 | 32,912,246.64 | 10/6/2017 | 43,605,490.37 | 8/24/2016 |
| Common shares | | | | 13,076,130.88 | 5/9/2019 | | | | |
| Common shares | | | | | | 17,434,329.03 | 5/9/2018 | | |
| Common shares | | | | | | | | 40,614,573.51 | 5/10/2017 |

## 3.6 – Declaration of dividends out of the retained earnings account or reserves

No dividends were declared out of the retained earnings account or reserves for the quarter ended March 31, 2019 and the years ended December 31, 2018, 2017 and 2016.

## 3.7 – Indebtedness Level

| Fiscal Year | Sum of current and non-current | Type of ratio | Indebtedness level | Description and reason for using another ratio |
|---|---|---|---|---|
| **3/31/2019** | 1,278,835,000.00 | Indebtedness Level | 0.97844316 | |
| **12/31/2018** | 1,103,057,000.00 | Indebtedness Level | 0.85626446 | |

## 3.8 - Obligations

| Latest Accounting Information (3/31/2019) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Type of obligation | Type of guarantee | Other guarantees or privileges | Less than one year | From one to three years | From three to five years | Over five years | Total |
| Financing | Collateral | | 68,150,000.00 | 202,150,000.00 | 0.00 | 0.00 | 270,300,000.00 |
| Debt securities | Floating guarantee | | 75,891,000.00 | 0.00 | 0.00 | 0.00 | 75,891,000.00 |
| Financing | Unsecured | | 347,000.00 | 199,913,000.00 | 0.00 | 0.00 | 200,260,000.00 |
| Financing | Other guarantees or privileges | See note below | 110,559,000.00 | 3,694,000.00 | 0.00 | 0.00 | 114,253,000.00 |
| Total | | | 254,947,000.00 | 405,757,000.00 | 0.00 | 0.00 | 660,704,000.00 |

**Note**

Criteria used: (i) loans and financing from the National Bank for Economic and Social Development (BNDES) were classified as debts secured by letters of guarantee (Other); (ii) PNC (debt securities) were classified as debts secured by floating guarantees; and (iii) the 2017 debentures are unsecured. The information provided in this item refers to consolidated financial statements at March 31, 2019. This table does not include the amounts relating to “Obligations for acquisition of investments” (current and non-current), totaling R$74.0 million at March 31, 2019.

| Fiscal year (12/31/2018) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Type of obligation | Type of guarantee | Other guarantees or privileges | Less than one year | From one to three years | From three to five years | Over five years | Total |
| Total | | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

**Note**

## 3.9 – Other material information

The Company's debt agreements contain cross default clauses that are standard conditions of financing agreements in general. Non-compliance with these clauses by the debtor may lead to accelerated maturity of the outstanding balance of the debt, which, in turn, may constitute an accelerated maturity event for other debts. For further information, see item 10.1 (f) in this Reference Form.

On May 8, 2019, the Company released a Notice of Material Event announcing the signature, together with its subsidiary Bematech S.A., of a binding Memorandum of Understanding, the subject matter of which was the sale to ELGIN S.A. of its hardware operations carried out in Brazil through its subsidiary Bematech Hardware Ltda., for R$25 million, subject to adjustments, to be paid upon the closing of the transaction. The consummation of the transaction is contingent on the approval of the Brazilian anti-trust authorities and verification of other usual conditions for this type of business deal.

On May 9, 2019, the Company released a Notice of Material Event announcing the signature of an agreement with VTEX S.A. ("VTEX") for (i) the creation of a joint venture that will focus on the development and distribution of e-commerce software solutions for Brazilian companies; and (ii) the sale to VTEX of the Company's total equity interest in CIASHOP S.A. ("CIASHOP"), representing 70.47% of CIASHOP's capital stock, for twenty-one million, one hundred seventy-five thousand Reais (R$21,175,000.00), subject to adjustments, to be paid upon the closing of the transaction. The total value assigned to CIASHOP was thirty million, forty-eight thousand, nine hundred sixty-six Reais and eight cents (R$30,048,966.08). The consummation of the transaction is contingent on the approval of the Brazilian anti-trust authorities and verification of other usual conditions for this type of business deal.

### As additional information to item 3.8:

| Fiscal Year (12/31/2018) | | | | | | |
|---|---|---|---|---|---|---|
| **Type of obligation** | **Type of guarantee** | **Less than one year** | **From one to three years** | **Three to Five years** | **Over five years** | **Total** |
| Financing | Collateral | 13.227,000.00 | 28,962,000.00 | - | - | **42,189,000.00** |
| Debt security | Floating guarantee | 73,757,000.00 | - | - | - | **73,757,000.00** |
| Financing | Unsecured | 3,562,000.00 | 199,869,000.00 | - | - | **203,431,000.00** |
| Financing | Other guarantees | 152,927,000.00 | 6,355,000.00 | | | **159,282,000.00** |
| | **Total** | **243,473,000.00** | **235,186,000.00** | - | - | **478,659,000.00** |

Note:

Criteria used: (i) loans and financing from the National Bank for Economic and Social Development (BNDES) were classified as debts secured by letters of guarantee (Other); (ii) PNC (debt securities) were classified as debts secured by floating guarantees; and (iii) the 2017 debentures are unsecured. The information provided in this item refers to the consolidated financial statements at December 31, 2018. This table does not include the amounts relating to "Obligations for acquisition of investments" (current and non-current), totaling R$75.1 million at December 31, 2018.

# 4.1 - Description of risk factors

*An investment in securities issued by the Company involves exposure to certain risks. Before making any decision to invest in any security issued by the Company, potential investors should carefully review all information contained in the Reference Form, the risks set forth below and the Company's financial statements and accompanying notes. The Company's business, financial condition, results of operations, cash flow, liquidity and/or future business may be adversely affected by any of the risk factors set out below. The market price of the securities issued by the Company may decrease due to any of these and/or other risk factors, in which case potential investors may lose all or substantially all of their investment in securities issued by the Company. The risks set out below are those which the Company knows and believes, as of the date of this Reference Form, may adversely affect the Company and its subsidiaries. Furthermore, additional risks either unknown or deemed insignificant by the Company as of the date of this Reference Form may also adversely affect the Company.*

*For the purposes of this section "4. Risk Factors," except as otherwise expressly provided for herein or required by the context, any reference to the fact that a risk, uncertainty or problem may or will cause or have an "adverse effect" or "negative effect" on the Company or similar expressions means that such risk, uncertainty or problem may or could have a material adverse effect on the Company's or its subsidiaries' market share, reputation, business, financial condition, results of operations, cash flow, liquidity and/or future business, as well as on the price of securities issued by the Company. Any similar expressions included in this section "4. Risk Factors" should be understood in this context.*

*Notwithstanding the subdivisions of this section "4. Risk Factors," certain risk factors set forth in one item may also apply to other items.*

## a. Risks related to the Company

***The Company's success depends on its ability to develop new products and services, integrate acquired products and services and improve its existing products and services.***

The market for management systems, the primary market in which the company operates in terms of revenue, is characterized by constant technological breakthroughs, evolving computer hardware standards, the development of software and communications infrastructure, a growing complexity of customer requirements, frequent improvements in user experience and new products constantly launching. Should the Company fail to develop technological improvements, to improve and enhance its products and services in a timely fashion or to position or price its products and services so as to meet the market demand, then the Company's clients may refrain from buying new software licenses, subscribing to use software and contracting services or the Company may lose competitiveness when it comes to attracting new clients.

In addition, the technology standards adopted by the Company's industry are rapidly evolving. Therefore, the Company cannot assure that the standards on which it has chosen to develop new products will allow it to compete effectively in the markets it serves. Any lack of advances in standardizing languages adopted, simplifying structures or convergence of solutions may materially impact the Company's business strategy and, consequently, its financial results.

***The Company may not be able to efficiently compete in the Techfin segment and other new markets.***

A significant part of the Company's strategy is to break into new markets, including the techfin market. The Company may not be able to establish itself in such markets on competitive terms. For example, some players in the techfin market are more consolidated and have more experience in the financial segment. Moreover, the Company may have difficulties scaling up the operation in a sustainable way, given its dependence on partners (funding/credit risk) and on merger and acquisition opportunities. In addition, by doing business in the techfin segment, the Company may be subject to the laws and regulations governing the financial segment and payment means, given that this is a market characterized by a dynamic regulatory environment. Should the Company be unable to be competitive in the techfin market or to keep up with technological trends in the industry, then the investments made by the Company in this segment may not achieve the expected returns or may have adverse results, which would adversely impact the Company's financial results.

## 4.1 - Description of risk factors

***The Company may be subject to risks related to errors or malfunction in its products that can be difficult or even impossible to fix.***

We offer technically complex products that, when first introduced or launched as new versions, may contain software or hardware defects that are difficult to detect or to correct. The existence of defects, errors and delays or inability to fix them can result in negative consequences, including: (i) cancellation of orders; (ii) additional warranty expenses; (iii) delays in the collection of receivables; (iv) product returns; (v) loss of acceptance of our products in the market; (vi) diversion of research and development funds that could be used to develop new products; (vii) any actions for damages; and (viii) reputational programs in the marketplace. The occurrence of any such defects or delays and the inability to fix them can adversely affect our reputation, our results and our financial condition.

***The Company's information technology ("IT") security measures may be breached or compromised by cyberattacks, including on the infrastructure required for supporting the Company's IT systems, which may lead to unexpected unavailability of such IT systems, as well as reputational and financial damage to the Company.***

Any action to circumvent the information technology security measures in place at the Company and in our products and/or at our suppliers could lead to misappropriation of proprietary information owned by the Company and/or our clients that is stored on the Company's servers or public clouds homologated by the Company or cause interruptions in our services or operations. Additionally, the security measures in place to protect data, be it our own or out clients', that is processed and stored by the Company can be inadequate or insufficient to prevent security breaches or cyberattacks. Any such event would have a material adverse effect on the Company's results of operations, cash flow, liquidity and reputation.

In addition, the Company's Datacenter, an environment designed to house servers and store data, among other things, is located near the Campo de Marte air base in São Paulo, a place with potential risk of aviation accidents.

If any of the aforementioned risks should materialize, including any such accident in said area as could damage the Company's Datacenter, then the data stored thereat may be affected, which could adversely affect the Company's image and business.

Should the Company be required to expend significant capital and other resources to protect against the threat of security breaches and to fix problems caused by breaches as well as by any unplanned unavailability of the Company's and/or its clients' IT systems, then the Company's business and revenues could be adversely affected.

***The Company's revenues substantially depend and, following the disposal of its hardware operations, will fully depend on revenues from software, license and subscription fees, and revenues from maintenance and other services, including hardware implementation, customization and consulting.***

The Company's revenues substantially depend and, following the disposal of its hardware operations, will fully depend on the Company's enterprise resource planning ("ERP") software and related services, and more specifically on the fees charged for licensing, for subscriptions of its solutions by clients and for the implementation and maintenance services, as well as customization and consulting services, which represent substantially all of the Company's revenues. If the competition or other market conditions force the Company to substantially lower its prices, if the demand for enterprise resource planning software and related services in Brazil decreases or if the Company fails to sell new licenses, subscriptions and services, then the Company's revenues may be substantially lower, which can have a material adverse effect on our results of operations, cash flows and liquidity.

***The Company is subject to risks related to security mechanisms involving our products or services***

Fraud protection is of utmost importance to the end clients using our solutions. Such solutions can be vulnerable to security breaches due to defects in security mechanisms in our operating system, software applications or hardware platform or to misuse by users or third parties, which may jeopardize the security of information transmitted or stored during the use of any of the Company's solutions. If the security of our solutions is compromised, our reputation and financial results may be adversely affected.

## 4.1 - Description of risk factors

***The Company is subject to risks associated with noncompliance with any Data Protection laws (both national and international) and can be adversely affected by any penalties or other sanctions imposed.***

In the year 2018, the General Data Protection Law (Law No. 13.709/2018, or "LGPD") was enacted to come into effect as of August 2020, which will transform the personal data protection system in Brazil. The LGPD establishes a new legal framework to be observed in personal data handling operations and provides, among others, for the rights of data subjects, the legal bases applicable to the protection of personal data, requirements for obtaining consents, obligations and requirements related to security incidents and leaks and to data transfers, as well as an authorization for creation of the National Data Protection Authority. If the Company or its subsidiaries should fail to adapt, then they may be subject to such sanctions, either separately or cumulatively, as warnings, an obligation to publish the incident, temporary blocking and/or elimination of personal data and a penalty equivalent to as much as two percent (2 percent) of the entity, group or conglomerate's revenues in Brazil for the latest fiscal year, net of taxes, up to the lump-sum amount of fifty million *Reais* (R$50,000,000) per breach.

Additionally, because they handle data of people located in the European Union, the Company and its subsidiaries are also subject to sanctions under the GDPR (General Data Protection Regulation), which was passed in April 2016 and took effect in May 2018. Such regulation provides for obligations designed to preserve the right of European citizens, but also applies to all businesses in the world handling data concerning people or services in any European Union countries in connection with consent, right to access, removal and portability of personal data provided. Any breach of any provisions of said Regulation can result in penalties of up to four percent (4 percent) of the entity's overall annual revenues or twenty (20) million Euros, whichever the higher, as well as in the incident being announced to the Market and even the Company's activities being suspended.

Accordingly, any failure to protect the personal data handled by the Company or to adjust to any applicable laws can lead to expensive penalties being imposed on the Company, the incident being reported to the marketplace, personal data being removed from the database, and even suspension of our business, increasing the risks to our image and adversely affecting the Company's reputation and results.

***The Company may be unable to efficiently compete in the highly competitive software industry***

The Company competes with several companies engaged in the global, regional and local software markets and related services, including enterprise resource planning software vendors, open-source software developers, companies providing consulting services and tech startups. Some of our potential or existing competitors are involved in a wider range of lines of business, and some of them have larger installed client bases for their products and services, or have significantly greater financial, technical, marketing and other resources than does the Company, enhancing their ability to compete with the Company. Likewise, the Company could lose market share if the companies with which it competes introduce or acquire new products that compete with the Company's products or add new functionalities thereto. In addition, as a result of signs of a downturn in ERP software market for large companies, some of the Company's competitors may tap the market for small and medium-sized businesses as an alternative course of action to increase their revenues, which could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

***The Company is subject to risks related to unauthorized or improper use of our intellectual and/or industrial property***

The Company is subject to misappropriation and misuse of our solutions, as well as legal and administrative proceedings involving intellectual or industrial property. Any user's misuse of software and/or hardware may further subject the Company to a penalty, which may result in significant costs and lead us to use funds not intended for such purpose, while diverting the attention of Management and the Company's technology team, which may adversely affect our business, competitive position, financial condition, results of operations and cash flows.

## 4.1 - Description of risk factors

***The Company's growth depends on potential successors taking over key positions and on our ability to continue to attract and retain qualified individuals having specific technology expertise.***

The future success of the Company largely depends on its ability to train and retain potential successors to take over key positions on its Management team and other positions deemed strategic. Accordingly, the loss of anyone holding a key position could materially affect the Company's business and results of operations if our succession plan does not prove effective. The Company also relies on the continued service of qualified, key employees having specific technology expertise who may have not been trained appropriately. There is substantial and continuous competition in the information technology industry for highly skilled sales, technical and other personnel, as the Company competes in a global market for such professionals. As a result, the Company may have to offer higher compensation to attract and retain qualified personnel, which may represent additional costs that may not be offset by improved productivity or higher prices.

***Amendments to or different interpretations of any tax or labor laws can adversely affect the Company's results.***

The tax authorities have often introduced changes to tax codes that can affect us, such as changes in tax rates and creation of new taxes, either temporary or permanent. Some of these changes can increase the tax burden on the Company, which may limit is ability to do business in existing markets, thereby having a material adverse effect on our profitability.

The Company is currently entitled to certain tax benefits and/or special taxation systems. There can be no assurance that such benefits will be maintained or renewed given the current political and economic environment in Brazil. Should the Company be unable to renew its tax benefits or if any such benefits are changed, limited, suspended or revoked, then the Company may be adversely affected. In addition, certain tax laws can be subject to conflicting interpretations by tax authorities. Should any tax authorities interpret any tax laws in a manner not consistent with the Company's interpretations, then we may be adversely affected.

In addition, the Company's activities are subject to direct or indirect taxes, levies and contribution that, in turn, are subject to changes, which may adversely affect our business, financial condition, results of operations and cash flows.

Any such change may result in higher taxes being imposed on: (i) the Company's gross revenues; (ii) on the royalties that are paid to the Company's partners both in Brazil and abroad; (iii) any inputs and components used to build the hardware solutions offered by the Company; (iv) financial revenues; (v) gross profit; and, especially, (vi) the Company's personnel costs. The adverse effect of such changes in tax and labor laws can adversely affect the Company's competitiveness relative to its competitors, especially foreign ones, in the event that they raise taxes only to companies based in Brazil.

***Our competitors include suppliers of market business applications (such as ERP, CRM (Customer Relationship Management) and BI (Business Intelligence) software), collaboration products and business intelligence products, and those engaged in open-source software initiatives, in which competitors may provide license-free software and intellectual property and companies are engaged in consulting activities.***

The Company's enterprise resource planning software products automate critical business processes, such as manufacturing, distribution, accounting, finance, human resources and sales. The Company's products include ERP, CRM and BI software, as well as specific modules — vertical ones — that provide additional capabilities that are specifically tailored to our clients' lines of business.

The lower entry barriers for competitors from other countries into the Brazilian market, the trend towards new distribution methods (e.g. software as a cloud service) and opportunities presented by the Internet and e-commerce could result in increased competition with the Company's products through the entry of systems integrators, consulting firms, telecommunications firms, computer hardware vendors and other information technology service providers.

## 4.1 - Description of risk factors

In addition, the competition in the market served by the Company can increase as a result of consolidations between potential clients of its products, as well as between its competitors, or as a result of strategic alliances between its competitors and other companies. In response to the competition, consolidation within the industries in which we are engaged and general adverse economic conditions, the Company may be required to give discounts or other price cuts or otherwise modify its billing practices in order to retain its ability to compete. These developments have adversely affected and may increasingly adversely affect the Company's revenues and profits.

***Acquisitions pose risks, and the Company may not achieve the strategic goals contemplated at the time of any transaction.***

The acquisition of assets is an important element of the Company's strategy, and we expect to continue to acquire companies, products, services and technologies. Risks we may encounter due to an acquisition include the following: (i) the acquisition may not contribute to our business strategy or we may pay more than its fair value; (ii) the Company may have difficulty assimilating the acquired technologies or products with its product lines, thereby failing to maintain uniform standards, controls, procedures and policies; (iii) our relationship with current and new employees, clients and distributors could be impaired; (iv) the due diligence process may fail to identify technical problems, such as issues with the acquired company's product quality or product structure; (v) the Company may face contingencies related to product liability, intellectual property, financial disclosures and accounting practices or internal controls; (vi) the acquisition may result in litigation initiated by terminated employees or third parties; (vii) the acquisition process may be met with setbacks and divert Management's attention to transition or integration-related issues; and (viii) the Company may be unable to timely obtain authorizations from governmental authorities under competition and antitrust laws.

Additionally, the process of integrating the acquired operations may not lead to the expected benefits, which could adversely affect the Company's business. In addition to the aforementioned risks, during this integration process, the Company may face other risks, including the following:

- Integration difficulties, such as (i) higher costs than anticipated to continue the expansion of distribution channels with quality and capillarity to serve the market, (ii) inability to manage more employees who are geographically dispersed, and (iii) inability to effectively create and implement standards, controls, procedures and uniform policies;

- Potential inability to coordinate and integrate software sales and development efforts to effectively communicate the possibilities of selling combined products, cross-sell products and successfully manage the combined sales of products as well as the integration of development activities carried out by acquired companies, failing to maximize expected synergies.

Moreover, there may be other unknown and undisclosed liabilities associated with the acquisition and integration of acquired companies into the Company.

These factors could have a material adverse effect on the Company's business, results of operations, financial condition or cash flows, particularly in the case of acquisition of larger companies or acquisition of a bigger number of companies. Additionally, as the Company issues shares related to future acquisitions, existing shareholders may have their holdings diluted, and earnings per share may decline.

***The Company may be subject to unfavorable results in legal or administrative proceedings that could adversely affect its results and financial condition***

The Company is a defendant in legal and administrative proceedings and cannot assure their outcome will be favorable. The provisions made can be insufficient to cover the total cost of such proceedings. Additionally, the Company may be subject to contingencies for other reasons that may require it to spend significant amounts. Rulings unfavorable to the Company's interests that may reach substantial amounts or prevent the conduct of business as initially planned may have an adverse effect on our business, financial condition and results of operations. For more information on relevant lawsuits, see items 4.3, 4.4, 4.5, 4.6 and 4.7 of this Reference Form.

## 4.1 - Description of risk factors

***The Company is subject to the risk of lawsuits based on alleged infringements of third-party copyrights.***

The Company is subject to lawsuits based on alleged infringements of copyrights owned by third parties due, in part, to a recent increase in the number of patents and copyrights registered by tech companies. In this regard, certain technology upgrades and improvements, the enhancement of new solutions and the development of new products by the Company using standards previously developed and registered by other companies in the information technology sector may subject the Company to lawsuits and arbitration proceedings for infringement of trademarks, computer software, patents and copyrights that may adversely impact our reputation and results.

***The Company is subject to risks related to exclusive franchises and the provision of software implementation and customer care and relationship services in connection with its exclusive franchises.***

The Company conducts its business in the countries where it operates by way of direct sales and through exclusive franchises that sell and implement our solutions. These franchises make a substantial contribution to the Company's sales, particularly in the small and medium-sized business (SMB) market, and, as a result, our business and results can be directly affected by the performance of our franchisees. Franchisees participate in the origination of new clients and new sales, while also providing implementation services for our solutions directly to our clients. Any loss of franchises may compromise our relationship with clients in the relevant franchised territories and, as a result, the Company's financial condition and results of operations.

The quality of implementation services provided by third parties under exclusive franchise agreements may not be equivalent to the quality of implementation provided through our own sales channels, causing financial and operational losses to clients using business solutions from the Company and, as a result, penalties and lawsuits against the Company, as well as any such additional implementation services as may be required to be provided by the Company itself in order to adjust solutions poorly implemented by franchisees, which may adversely affect the Company's business, competitive position, market reputation, financial condition, results of operations and cash flows.

***We can be materially affected by breaches of the Brazilian Anti-corruption Law and similar anti-corruption laws.***

Law No. 12.846, dated August 1st, 2013 (the "Anti-corruption Law") introduced the concept of strict liability for legal entities involved in any acts that may harm the public administration, subjecting infringers to civil and administrative penalties. Similar to the United States Foreign Corrupt Practice Act, the Anti-corruption Law contemplates administrative sanctions to be imposed as result of any acts harming the public administration. Any noncompliance with anti-corruption laws, the existence of any investigations into misconduct or the filing of any lawsuits against us may lead to fines, loss of operation permits and reputational damage, as well as other penalties, which may have a material adverse impact on us. We cannot assure that we will be able to prevent or detect all improper practices, frauds or breaches of the Anti-corruption Law or similar anti-corruption laws by our Management, employees, agents or representatives.

***Holders of shares in the Company may not be paid dividends or interest on equity.***

Under the Company's bylaws, its shareholders are to be paid at least 25 percent of its annual net income, as calculated and adjusted in accordance with the Brazilian Corporate Law, in the form of compulsory annual dividends, interim dividends or interest on equity payments. The Brazilian Corporate Law allows suspension of the payment of compulsory dividends to shareholders for a certain fiscal year if the Company's board of directors determines that such payment is not advisable due to the Company's financial condition. Furthermore, as provided by the Brazilian Corporate Law, the Company's net profit may be: (i) capitalized; (ii) used to offset losses; or (iii) retained and allocated to a special reserve; and it may thus be not available for any dividend or interest on equity payments. Should any such event take place, then the holders of common shares in the Company may not receive dividend or interest on equity payments.

## 4.1 - Description of risk factors

In addition, interest on equity payments may be compromised by any change to the tax laws, and some of the Company's financing agreements provide for restrictions on dividend payments.

***The Company may need additional capital in the future, which it may raise by issuing securities, which may lead to dilution of investors' holdings of shares issued by the Company.***

In the future, the Company may issue additional shares or securities convertible into or exchangeable for shares in the Company in order to raise capital, to make acquisitions or for several other purposes. Additional issues of common shares in the Company may occur as a result of any exercise or conversion of convertible bonds, subscription warrants, stock options or other share-base incentive rewards. Such issues may not contemplate preemptive rights for the Company's shareholders in certain situations provided for in the Brazilian Corporate Law, which may dilute investors' shareholdings in the Company. Additionally, the Company may enter into merger and acquisition transactions or other similar transactions in the future, which may dilute the investors' interest in its share capital. Any strategic partnership or any issue or placement of common shares in the Company and/or securities convertible into or exchangeable for common shares in the Company may affect the market price of its common shares and could result in dilution of investors' shareholdings.

**b. Risk related to the Company's direct or indirect controlling shareholder or controlling group**

***The Company does not have a controlling shareholder or a controlling group holding more than 50 percent of its voting capital, which can make it susceptible to shareholder alliances, shareholder conflicts and other events that can result from the lack of a controlling shareholder or controlling group holding more than 50 percent of the voting capital.***

The Company does not have a controlling shareholder or a group holding the absolute majority of its voting capital. However, alliances or agreements among shareholders may be formed which could have the same effect as having a controlling group.

If a controlling group emerges and gains the power to make the Company's decisions, then the Company could go through sudden and unexpected changes in its corporate policies and strategies, including through mechanisms such as the replacement of its managers. Moreover, the Company may become more vulnerable to hostile takeover attempts and to disruptions that may be associated with these attempts. The Company may also become a target of attacks by investors attempting to evade the provisions of its Bylaws requiring a shareholder who acquires more than 20 percent of its shares to conduct a public offering for all shares. The absence of a controlling shareholder or group holding more that 50 percent of the voting capital could hinder certain decision-making processes since the minimum quorum required by law for certain resolutions may not be achieved. Any unexpected change in the management team, in the corporate policy or strategic orientation, any attempt at acquisition of control or any dispute among shareholders concerning their respective rights may adversely affect the Company's business and results of operations.

**c. Risks related to our shareholders**

There are no material risks involving the Company the source of which are its shareholders.

**d. Risks related to the Company's subsidiaries and affiliates**

***Negative results of any subsidiaries may adversely affect the Company's results of operations.***

The Company holds direct and indirect interests in several companies. Accordingly, part of its results come from the results of said companies and, as such, non-satisfactory results of any such companies may adversely affect the Company's results. Additionally, any worsening of industry and market conditions in the operation of those businesses may adversely affect the consolidated result of the Company's operations.

## 4.1 - Description of risk factors

**e. Risks related to the Company's suppliers**

***The Company licenses languages and/or technological platforms from suppliers, which may affect and/or fail to meet expectations of delivery according to an ever-changing product portfolio, and may have technical specifications that depend on products and platforms, which could have an impact on technology convergence initiatives.***

The dependence on these suppliers and the absence of or failures in mapping the priority of products and solutions could affect the Company's costs regarding its decisions to keep, discontinue or change the technology by interfacing making an interface with processes, people and systems. Additionally, the Company cannot ensure that its suppliers will keep up with changes in the external environment, strategic objectives and propositions with disruptive solutions. In that case, the Company's business and results of operations may be adversely affected.

***Breach of contract by supplies or strikes affecting customs or port services may lead to delays in product delivery, causing financial losses to the Company.***

Any delay or failure to meet contractual obligations by Company suppliers may adversely affect our production, sales and hardware revenues.

Since part of the raw materials and/or components is imported, any strikes can affect the services provided by customs and port authorities. Furthermore, ports are subject to occasional strikes, including dockers and customs officials.

Accordingly, in the event of breach of contracts with suppliers or strikes, there can be no assurance that the Company will be able to rapidly restore its inventory levels. In that case, the Company's business and results of operations may be adversely affected.

The Company cannot ensure that its suppliers will not face problems with labor matters or in connection with sustainability, fourth-party services in the supply chain and improper safety conditions or even that they will not avail themselves of unlawful practices to move their products at lower costs.

Should certain Company suppliers do so, the Company may face damage to its image and, as a result, lose attractiveness among its clients, which would have the direct impact of reducing its net income and results of operations, as well as shares issued by the Company losing value.

**f. Risks related to the Company's clients**

***If Company clients lose confidence in the security and use of their data due to risks of leaks and/or misuse, its revenues could be adversely affected***

Attempts by experienced computer programmers or hackers to gain unauthorized access to client networks or web sites to misappropriate confidential information are currently an industry-wide phenomenon that affects computers and networks across all platforms. Any actual or perceived security vulnerabilities of Company products (or the Internet in general) can lead certain clients to seek to reduce or delay future purchases or to purchase competitive products which are not Internet-based applications. Clients may also allocate an increasing portion of their capital expenditures to the protection of their computer networks from security breaches, which could delay their investment in new technologies.

Any of these actions by clients could adversely affect the Company's business and results of operations.

**g. Risks related to the economic sectors where the Company operates**

***Unfavorable conditions in the Company's industry or the global economy, as well as reduced spending on information technology, can limit the Company's ability to grow and develop our business and adversely affect our results of operations.***

The Company's results of operations may vary according to the impact of changes in the industry or the global economy on the Company or its clients. Growth in revenues and potential profitability of our business depends on the demand for the Company's software and hardware, as well as related services.

Because the Company operates as a service provider, part of its revenues stems from the number of new software users in each of our clients, which is in turn influenced by the existing and potential clients' employee hiring policies. To the extent that unfavorable economic conditions lead the Company's existing

## 4.1 - Description of risk factors

and potential customers to keep or reduce their demand for our services, our revenues can be adversely affected. Economic crises have historically resulted in global spending cuts on information technology, as has the pressure for longer billing cycles, as the case was during the recent 2016 recession. If economic conditions either deteriorate or fail to significantly improve, our existing and potential customers may opt to reduce their information technology solution requirements, which would compromise our ability to expand our business and could adversely affect the Company's results of operations.

***The Company is also subject to risks related to the market where it operates***

Our revenues also depend on our sales of hardware platforms. Given that we face increasing competition from global hardware suppliers, these companies sell hardware, personal computers, servers and computer peripherals directly to clients and through business alliances with IT service providers worldwide such as our Company. Changes in pricing or increase in direct sales to clients by these companies could reduce our hardware sales, in which case the Company's business and results of operations may be adversely affected.

### h. Risks related to the regulation of the industry where the Company operates

***Any failure or inability to protect such intellectual property rights as trademarks, patents and domain names or any infringement of third-party intellectual property can have adverse impacts on the Company's business***

The Company cannot ensure that the existing protections for our confidential information will be appropriate. Furthermore, third parties may succeed in copying or using reverse engineering any part of the Company's products or otherwise obtain and use its intellectual property, which could adversely affect the Company's competitive position and reduce the value of its trademarks and products, in which case the Company's business and results of operations may be adversely affected..

***The Company's commercial automation and electronic tax invoice (NF-e) software products are certified by Brazil's State Treasury Departments (Sefaz), and therefore any loss of one or more certifications can negatively affect our revenues from this solution.***

Among the solutions offered to the Company's clients are commercial automation and electronic tax invoice (NF-e) and cashier's receipt (NFC-e) issuance software products that are parameterized according to the tax laws of the various States of the Federation. Such commercial automation solutions are required to be certified by the Treasury Department of each State for adherence to the applicable rules, including the PAF ECF laws. If the Company loses one of those certifications, it will be barred from carrying on with its business automation, NF-e and NFC-e activities in the state of the federation where such certification is lost, which may have an adverse impact on the Company's financial results.

### i. Risks related to foreign countries where the Company operates

The Company is not subject to any risks related to the foreign countries where it operates.

### j. Risks related to social and environmental issues

The Company's business does not pose any significant risks related to social and environmental issues.

### k. Macroeconomic Risks

**The federal government has exerted and continues to exert significant influence on the Brazilian economy. Such influence, as well as Brazil's current economic and political scenario, can have a material adverse effect on the Company.**

The Brazilian economy has been through frequent interventions by the federal government, which sometimes makes significant changes in its monetary, credit, tariff, tax and other policies to influence said

## 4.1 - Description of risk factors

economy. Measures taken by the federal government to control inflation, as well as other policies and rules, oftentimes lead to higher interest rates, changes in tax policies, price controls, interventions in the exchange market, capital controls and limitations on imports, among other actions. The Company has no control over and cannot anticipate what changes or policies the federal government may adopt in the future.

The Company may be materially and adversely affected by changes in any policies or regulations involving or affecting certain factors, such as:

• expansion or contraction of the Brazilian economy, as measured by GDP growth rates;

• inflation;

• exchange rates;

• interest rates;

• higher unemployment;

• changes in fiscal and tax laws;

• liquidity of domestic financial and capital markets;

• restrictions on fund remittances abroad; and

• any such other political, social and economic developments as may take place in Brazil or affect it.

The uncertainty about the implementation of political or regulatory changes by the Brazilian government creates instability in the Brazilian economy, increasing volatility in the country's securities market. Such uncertainties, the recession with a period of slow recovery in Brazil and other future developments in the Brazilian economy can adversely affect the Company's business and, consequently, its results of operations, as well as the trading price of the Company's shares.

**Political instability has adversely affected the Brazilian economy, as well as the Company's business and results of operations, and may also affect the trading price of its shares.**

Brazil's political environment has historically influenced and continue to influence the performance of the Brazilian economy and the confidence of investors and the public at large, resulting in economic slowdowns and increased volatility for securities issued by Brazilian companies.

The markets in Brazil have shown increased volatility due to uncertainties arising from ongoing investigations conducted by the Brazilian Federal Policy and the Brazilian Federal Prosecutors' Office, among them "Operation Car Wash". Such investigations have impacted the country's economy and political environment. Certain members of the Brazilian Federal Government and Legislative branch, as well as executives of large state and privately-owned companies, are facing corruption charges for allegedly taking bribes, such as kickbacks for contracts awarded by the government to companies engaged in infrastructure, oil and gas, building and construction, among other industries. Such kickbacks have supposedly funded political campaigns, and the amounts have been kept off the books and not publicly disclosed, serving to foster the personal enrichment of beneficiaries of the corruption scheme. As a result, several politicians, including members of Congress, and executives of large Brazilian state and privately-owned companies have resigned from office and/or been arrested, while other persons are still being investigated for alleged unethical and illegal conduct found as part of such investigations.

While the potential outcome of these investigations is uncertain, they have had a negative impact on the image and reputation of the companies involved, as well as the overall market perception of the Brazilian economy. Developments in these cases involving unethical conduct have adversely affected and may continue to adversely affect the Company's business, financial condition and results of operations, as well as the trading price of its shares. The Company cannot anticipate whether ongoing investigations will lead to greater political and economic instability or whether new allegations against government officials and/or private company executives will arise in the future.

## 4.1 - Description of risk factors

Furthermore, the Company cannot anticipate the outcome of such investigations or the impact they will have on the Brazilian economy or stock market.

In addition, in October 2018, elections were held in Brazil for the following offices: representatives, state senators, 2/3 of the federal senate, state governors, and the President of the Republic. The newly elected officials were sworn in their respective offices in early 2019. After a tight presidential election, congressman Jair Bolsonaro became President of Brazil on January 1, 2019. It is not clear if and for how long the political divisions arising prior to the election will continue under Mr. Bolsonaro's administration, nor is it clear what the effects of such divisions will be on Mr. Bolsonaro's ability to govern Brazil and implement reforms.

Any continuation of such divisions could lead to an impasse in Congress, political turmoil and mass demonstrations and/or strikes that could adversely affect the Company's operations. Uncertainties about the new administration's implementation of changes in monetary, tax and social security policies, as well as changes to the relevant laws, can contribute to economic instability. These uncertainties and new measures can increase volatility in the Brazilian securities market.

The President of Brazil has the power to make policies and issue governmental orders concerning the conduct of the Brazilian economy, which may affect the operations and financial performance of businesses, including those of the Company. The Company cannot anticipate what policies the successor in the Presidency will adopt, much less whether such policies or any changes in existing policies may have an adverse effect on the Company or the Brazilian economy.

**Inflation and governmental efforts to fight inflation may contribute to a situation of economic uncertainty, adversely affecting the Company and the market price of its shares.**

In the past, Brazil recorded high inflation rates, which, combined with certain actions taken by the Brazilian government to fight them and speculations about what measures would be taken, have had adverse effects on the Brazilian economy. The General Market Price Index ("IGP-M") was 7.54 percent for 2018, 0.53 percent for 2017 and 7.19 percent for 2016. Inflation control measures taken by the Brazilian government included maintaining strict monetary policies, with high interest rates, and consequently limiting the availability of credit and slowing economic growth. The Monetary Policy Council ("COPOM") often adjusts the key interest rate in situations of economic uncertainty in pursuit of the targets set as part of the Brazilian government's economic policy. Inflation, as well as governmental measures to fight it and public speculation about potential governmental measures going forward, has had material adverse effects on the Brazilian economy and contributed to economic uncertainty in Brazil, which increases volatility in the Brazilian capital market and may have an adverse effect on the Company.

Any measures to be taken by the Brazilian government in the future, including lowering interest rates, intervening in the exchange market and implementing mechanisms to set or determine the value of the *Real*, may trigger inflation, adversely affecting the overall performance of the Brazilian economy. If Brazil should face high inflation in the future, the Company might not be able to adjust the prices it charges to its clients to make up for the effect of inflation on its cost structure, which could increase costs and decrease the Company's operating and net margins.

In addition, in the event of rising inflation, the Brazilian government could choose to significantly raise interest rates. An increase in interest rates can affect not only the costs of our new borrowings, but also the cost of the Company's existing indebtedness, as well as its cash and cash equivalents, bonds and securities and leases payable, which are subject to interest rates. Accordingly, any fluctuation in Brazil's interest rates and inflation can adversely affect us because the Company has borrowings indexed to the Interbank Deposit Certificate ("CDI") rate and the Official Long-Term Interest Rate (TJLP). On the other hand, a significant decrease in the CDI, TJLP or inflation rates can adversely affect the revenues from the Company's financial investments.

**Unstable exchange rates can adversely affect the Brazilian economy and, as a result, the Company.**

The Brazilian currency (*Real*) has experienced intense fluctuation against the US Dollar and other hard currencies over the past four decades. Throughout this period, the Federal Government has implemented various economic packages and used various foreign exchange policies, including sudden currency depreciations, periodic mini-depreciations, floating exchange rate market systems, exchange rate controls, and dual foreign exchange market. Since 1999, Brazil has had a floating currency system in place with the Central Bank intervening in foreign currency purchases or sales. From time to time, there have been significant fluctuations in the exchange rate as between the *Real* and the US Dollar and other currencies. In 2016, the *Real* appreciated against the US dollar by 16.3 percent, ending at R$3.25 at the close of the

## 4.1 - Description of risk factors

fiscal year. On December 29, 2017, the exchange rate in *Reais* per Dollar was R$3.31, rising to R$3.88 at the end of 2018. There can be no assurance that any depreciation or appreciation of the *Real* against the Dollar or other currencies would not have an adverse effect on the Company's business.

A depreciated Real can create additional inflationary pressures on Brazil and lead to interest rate increases, which may adversely affect the Brazilian economy, taken as a whole, and the Company's performance due to a contraction in consumption and an increase in the Company's costs, as well as because part of our raw materials and/or the components used in hardware manufacturing have their price directly or indirectly tied to the US Dollar. On the other hand, an appreciation of the *Real* may lead to deterioration in the country's current accounts and balance of payments and may slow the export-driven growth in the gross domestic product. The Company does not exert any influence on the foreign exchange policy in place in Brazil, nor does it have the ability to anticipate it. The Company's business, financial condition, results of operations and prospects may be adversely affected by changes in such foreign exchange policies.

**Any downgrading of Brazil's credit rating may adversely affect the trading price of the Company's shares.**

Credit ratings affect the risk perception of investments. Risk rating agencies regularly assess Brazil and its sovereign credit ratings based on a variety of factors, including macroeconomic trends, physical and budgetary conditions, debt metrics and prospects of change in any of these factors.

Rating agencies started to review Brazil's sovereign credit rating in September 2015. Subsequently, Brazil lost its investment grade status by the three leading rating agencies.

- Standard & Poor's initially downgraded Brazil's credit rating from BBB- to BB+, and then again from BB+ to BB, keeping its negative outlook on the rating and citing a worse credit condition since the first downgrade. On January 11, 2018, Standard & Poor's downgraded Brazil's credit rating again from BB to BB-, with a stable outlook in view of the presidential election and pension reform efforts.

- In December 2015, Moody's put the ratings assigned to Brazilian Baa3 bonds under review for downgrade, and in February 2016, they downgraded the ratings to below investment grade, to Ba2 with a negative outlook, citing prospects for further deterioration in Brazil's debt indicators, considering an environment of slow growth and challenging political dynamics.

- Fitch downgraded Brazil's sovereign credit rating to BB+ in December 2015 with a negative outlook, citing a rapid expansion of the country's budget deficit and recession at a worse level than expected. Later, in May 2016, Fitch downgraded the rating to BB with a negative outlook, which was maintained in 2017. In February 2018, Fitch downgraded Brazil's sovereign credit rating again to BB-, citing fiscal deficits, the heavy and growing burden of the national debt, and the impossibility of implementing reforms that would improve the structural performance of government finance.

In view of the downgrades occurring since 2015, Brazil has lost its investment grade status by the three leading rating agencies, and, as a result, the trading prices of securities in the Brazilian debt and stock markets have been adversely affected. The continuation of Brazil's current recession could lead now credit rating downgrades. As of the date of this Reference Form, the Brazilian credit rating was BB-, Ba2 and BB- as per Standard & Poor's, Moody's and Fitch, respectively.

We cannot ensure that credit rating agencies will maintain these Brazilian credit ratings, and any downgrade in Brazil's sovereign credit rating may increase the perception of risk among investors and, as a result, increase the cost of future issues of debt instruments and adversely affect the trading price of the Company's shares.

# 4.1 - Description of risk factors

**The relative volatility of the Brazilian capital market may considerably restrict investors' ability to sell the Company's shares for the desired price and at the desired time.**

An investment in Brazilian securities, such as the Company's shares, involves a higher degree of risk than an investment in securities whose issuers are based in countries with more stable political and economic scenarios, and such investments are generally considered speculative in nature. These investments are subject to economic and political risks, including, among others:

- Changes in the regulatory, tax, economic and political arena that can affect investors' ability to be paid, in full or in part, for their investments; and

- Restrictions on foreign investments and on the repatriation of invested capital.

The Brazilian securities market is considerably smaller, less liquid, more volatile and more concentrated than major international securities markets, such as the United States of America. As of March 31, 2019, the total market capitalization of companies listed on B3 S.A. – Brasil, Bolsa, Balcão ("B3") amounted to around R$3.8 trillion, and the ten largest companies listed on B3 represented around 55 percent of the total market capitalization of all listed companies as of said date. These market characteristics could considerably limit the ability of holders of shares in the Company to sell them for the desired price and on the desired date, unfavorably affecting the trading prices of the Company's shares.

**Risks related to the situation of the global economy may affect the risk perception in other countries, especially the United States of America and emerging markets, which may adversely affect the Brazilian economy, including through fluctuations in securities markets, which may impact the trading price of the Company's shares.**

The Company's growth is directly tied to the expansion of Brazil's domestic market, and our business is very integrated with the operations of our clients, which are spread over various sectors of the economy. A slower pace of economic growth in Brazil, with a contraction of both wholesale and retail demand, a reduction of investments in capital assets and infrastructure and a tighter competition is the industry can directly affect the Company's operating and financial results.

In addition, the market value of securities issued by Brazilian companies is influenced to varying degrees by economic and market conditions in other countries, including developed economies like the United States of America and certain European countries, as well as emerging economies. The reaction of investors to developments in such other countries may have an adverse effect on the market value of securities issued by Brazilian companies, particularly those listed on stock exchanges. Share prices on B3, for example, have historically been affected by fluctuations in the interest rates in place in the United States of America, as well as variances in key US stock indices. Any increase in the interest rates of other countries, particularly the United States of America, can reduce global liquidity and investors' interest in Brazil's capital markets, thereby adversely affecting the Company's shares. Furthermore, any crises or material developments in other countries and capital markets can reduce investors' interest in securities issued by Brazilian companies, including securities issued by the Company and their respective trading price, which may additionally hamper or fully prevent the Company's access to capital markets and financing for its operations in the future on acceptable terms.

## 4.1 - Description of risk factors

The main market risks to which the Company is exposed are associated with the inflation rate, interest rates and exchange rates observed in the macroeconomic scenario.

**Inflation**

The main costs and expenses of the Company are regularly adjusted. Examples of expenditures adjusted in line with inflation rates are rent and communications expenses. Personnel expenses (salaries, benefits and charges), which represented 43.8% of total operating costs and expenses for the year ended December 31, 2018, are covered by regional collective bargaining, which takes the inflation rate as a reference (usually close to the Broad Consumer Price Index or IPC-A).

Agreements for recurring software revenues (maintenance, subscription and services) which represented 73.8% of net revenues as at March 31, 2019 (which covered approximately 85.6% of total operating costs and expenses), are also annually updated taking inflation rate as a reference, usually the IGP-M index.

In the past, the Company has also updated its price list of software license fees, new subscriptions, hourly rates for services and hardware solutions in line with inflation rates. There is no guarantee that the Company will continue to pass on the inflationary impacts on these revenue lines in the future.

Since the inflation indices used to adjust the revenue lines are different from those used to adjust costs and expenses, inflation may cause a material effect on the Company's operations.

**Interest rate**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, payables, debentures and loans and financing, and are recorded at cost plus income or charges incurred, or at fair value when applicable. The key risks related to the Company's operations are related to the variations in:

(i) the Interbank Certificate of Deposit (CDI) rate for financial investments and the debentures issued in 2017;
(ii) the official long-term interest rate (TJLP) for loans from the Brazilian Development Bank (BNDES) and for the debentures issued in 2008; and
(iii) IPCA for the debentures issued in 2008.

Investments at fair value through profit or loss relate to privately held startups which do not have prices quoted in an active market. The fair values of these investments are measured by multiple valuation techniques employed by the market, such as discounted cash flow and earnings multiples, considering the reasonableness of the range of values they show. The fair value measurement is the point within that range that best represents fair value in the circumstances.

In order to verify the sensitivity of the indexer on the debts owing by the Company as at March 31, 2019, three different scenarios were defined. Based on the TJLP, IPCA and CDI as at March 31, 2019, a probable scenario (scenario I) was defined for the year 2019. From this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each of these scenarios "gross financial revenue" was estimated, without including taxes or contract maturities scheduled for 2019. The reference date for the loans and debentures was March 31, 2018, with a one-year projection to check their sensitivity to each scenario.

| Transaction (BRL thousand) | Balances as at 3/31/2019 | Risk | Probable Scenario I | Scenario II | Scenario III |
|---|---|---|---|---|---|
| Financing - BNDES | BRL 100,608 | TJLP | 6.26% | 7.83% | 9.39% |
| **Estimated financial expense** | | | **BRL 6,298** | **BRL 7,878** | **BRL 9,447** |
| Debentures | BRL 75,891 | IPCA (b) | 3.89% | 4.86% | 5.84% |
| | | TJLP (a) | 6.26% | 7.83% | 9.39% |
| | BRL 200,260 | CDI (c) | 6.40% | 8.00% | 9.60% |
| **Estimated financial expense** | | | **BRL 21,703** | **BRL 24,907** | **BRL 28,111** |

(a) Long-term interest rate
(b) Broad Consumer Price Index
(c) Interbank certificate of deposit

# 4.1 - Description of risk factors

**Exchange rate**

Some subsidiaries have international operations and are subject to exchange risk arising from exposures in currencies such as the US dollar (USD), Argentinean peso (ARS), Mexican peso (MXN), Taiwan new dollar (TWD), Chilean peso (CLP) and Russian ruble.

Below are the balances of each group company, showing the consolidated net exposure for the periods ended March 31, 2019.

| **As at March 31, 2019** | **BRL thousands** | | | | | |
|---|---|---|---|---|---|---|
| Company | **Accounts payable** | **Cash and Cash Equivalents** | **Accounts receivable** | **Other assets** | **Net exposure** | **Currency** |
| RJ Consultores México | 12 | 1,335 | 293 | - | 1,640 | Peso (MXN) |
| CMNet Participações S.A. | 327 | 1,100 | 1,998 | - | 3,425 | EUR/ Peso (CHI and ARS) |
| TOTVS S.A. | 15,827 | - | - | - | 15,827 | USD |
| TOTVS México | 835 | 1,151 | 7,105 | - | 9,091 | Peso (MXN) |
| TOTVS Argentina | 781 | 2,943 | 6,819 | - | 10,543 | Peso (ARS) |
| TOTVS Corporation | 211 | 253 | 717 | 69,562 | 70,743 | USD |
| **Total** | **17,993** | **6,782** | **16,932** | **69,562** | **11,269** | |

**Credit risk**

Credit risk is the risk that the counterparty of a deal may not meet its obligations under a financial instrument or customer contract, resulting in a loss.

In respect of credit risk on financial institutions, the Company takes steps to diversify this exposure between different institutions in the market. Financial investments must be placed with institutions with a risk rating equal to or below the sovereign risk rating (Brazil Risk) attributed by the rating agencies Standard & Poor’s, Moody’s and Fitch. The limit for each institution may not be more than 30% of the total amount of checking account balances plus financial investments, and may not represent more than 5% of the shareholders’ equity of the financial institution

Credit risk on providing services and selling licenses and hardware is minimized by strict control of the customer base and active management of default, through clear policies on sales of services, software licenses and hardware.

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

The Company and its controlled companies are involved in legal actions on tax, labor and civil matters.

The assessment of the chances of loss includes the assessment of the evidence available, the hierarchy of the laws, the current case law, the latest decisions in the courts on each matter, and the assessment of the outside lawyers. The Company continuously reviews its estimates and assumptions.

The Company records provisions for contingencies in accordance with the accounting practices adopted in Brazil and the IFRS and establishes provisions for proceedings with a chance of probable loss, as assessed and classified by its legal advisors. For those proceedings which chances of loss are deemed possible, the Company does not record any provision; however, it discloses in the notes of its financial statements the nature and amounts of the most relevant matters classified in this category.

Individually relevant proceedings were considered, for purposes of this item 4.3 of the Reference Form, proceedings to which the Company or its controlled companies are defendants and which (i) have an individual amount equal to or greater than R$5 million for proceedings with a chance of probable loss and R$10 million for proceedings with a chance of possible or remote loss; and (ii) regardless of amount, which may have a negative impact on the image of the Company and its controlled companies or have a material adverse effect on the business of the Company and its controlled companies.

The amount of the provisions made on March 31, 2019, December 31, 2017 and 2018 are as follows:

| **Nature (in thousands of *Reais*)** | **On 03/31/2019** | **On 12/31/2018** | **On 12/31/2017** |
|---|---|---|---|
| Tax Matters | 3,260 | 2,946 | 2,827 |
| Labor Claims | 95,841 | 94,832 | 78,945 |
| Civil Proceedings | 34,685 | 30,014 | 35,998 |
| | 133,786 | 127,792 | 117,770 |

**Tax Matters**

On March 31, 2019, the provision made for tax claims amounted to R$3,260 thousand. There are no proceedings of a tax nature that the Company deems to be individually relevant.

**Civil Proceedings**

The proceedings of a civil nature classified as a probable loss concern mainly actions filed by customers on an allegation of certain problems in the delivery of products and/or services, application of the standard increment, application of grace period to terminated agreements, and undue collections. On March 31, 2019, the provision made for these proceedings amounted to R$34,685 thousand.

The following are the legal proceedings that the Company deems to be individually relevant:

| **Case No.: 0046742-37.2008.8.08.0024/ 001223081.2015.8.08.0024 /** | |
|---|---|
| **a. Court** | 11th Lower Civil Court of Vitória – State of Espírito Santo |
| **b. Court Level** | Lower Court |
| **c. Filing date** | July 22, 2009 |
| **d. Parties to the case** | Plaintiff: Unimed Vitória Cooperativa De Trabalho Médico<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$16.028 thousand (adjusted until March 31, 2019)<br><br>The aforementioned amount includes the amount of adverse judgment (R$2,511 thousand) restated and accrued by default interest of 1% per month since the summons (May 12, 2009), plus attorney's fees of 10%, plus the penalties established in article 523, paragraph 1 of the CPC (Code of Civil Procedure) (fine of 10% + fees of 10%) + remote amount. |

# 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

| | |
|---|---|
| | Once both Appeals have become final and non-appealable, the amount relating to the penalties of article 523, paragraph 1 of the CPC shall be excluded from the provision. |
| **f. Main facts** | This is an action for property damages due to alleged failure in the development of a system (Informenge), which caused a loss estimated at the time in R$2,511 thousand.<br><br>The proceeding is currently in phase of objection to judgment enforcement, and the release of the amount deposited by TOTVS (R$10,190 thousand) was stayed due to the interlocutory decision rendered in the case records of Action for Relief from Judgment No. 0003132- 13.2016.8.08.0000.<br><br>In the lower court, the imposition of the penalties established in article 523, paragraph 1 of the CPC (fine + fees) was established twice on grounds that no voluntary payment of the obligation was made. However, both decisions were ruled out by the judgment of interlocutory appeals No. 0014624.90.2017.8.08.0024 (pending judgment of Special Appeal (REsp)) and No. 0030011-14.2018.8.08.0024 (term for special appeal in course).<br><br>The aforementioned Action for Relief from Judgment seeks full exclusion of the adverse judgment imposed in the Action for Indemnity. Early relief was partially obtained to stay the release, by UNIMED, of the amount deposited by TOTVS in the Action for Indemnity. The parties recently made a statement in favor of summary judgment of the case. |
| **g. Chance of loss** | Probable – R$12,416 thousand<br>Remote – R$3,612 thousand |
| **h. Impact in case of loss of suit** | In case of loss of suit, the adverse party shall make the release of the amount already deposited in the case records, in the original amount of R$10,190 thousand. The amount adjusted for inflation in March 2019 is R$12,416 thousand.<br><br>The Court Deposit was made on December 22, 2017 and corresponds to the credit required by UNIMED, without inclusion of the penalties of article 523, paragraph 1, because we understand that said penalty is undue.<br><br>We do not understand that the deposited credit is intended to “guarantee the decision”, but rather to comply with the order of voluntary payment of the obligation. The release by UNIMED was not made only due to the interlocutory decision rendered in the aforementioned Action for Relief from Judgment.<br><br>In case the Action for Relief from Judgment is dismissed, we understand that the deposited amount is sufficient to settle the amount in dispute, especially in view of the release effect (Precedent 179 of the Superior Court of Justice (STJ) – The credit establishment that receives money in court deposit is liable for payment of the monetary restatement). |

**Labor Claims**

The labor claims are proceedings filed by former employees of the Company petitioning for labor amounts, and of service provider companies claiming both acknowledgement of employment relationship and other labor amounts. The provision made for these claims amounted to R$95,841 thousand on March 31, 2019, and the total amount classified as possible loss was R$125,040 thousand on March 31, 2019.

There are no proceedings of a labor nature that the Company deems to be individually relevant, except the proceedings listed below.

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

| Case No.: 0070700-54.2000.5.02.0055 | |
|---|---|
| a. Court | 55th Lower Labor Court of the City of São Paulo, State of São Paulo |
| b. Court Level | Superior Court |
| c. Filing date | March 15, 2000 |
| d. Parties to the case | Plaintiff: F.J.D.L.O<br>Defendant: TOTVS S/A |
| e. Amounts, property or rights involved (R$ thousand) | R$5,366 thousand (adjusted until March 31, 2019) |
| f. Main facts | Labor Claim filed by a former commercial executive of the company Datasul S/A, which was succeeded by TOTVS S/A, petitioning for:<br>(i) annulment of termination of the employment contract and declaration of indirect termination with consequent severance payments;<br>(ii) salary differences arising out of reduction in commissions;<br>(iii) related accruals of the commissions; (iv) differences of monetary restatement and interest of the commissions paid in arrears; (v) supply of the payment forms for release of the Unemployment Compensation Fund (FGTS) and unemployment insurance; (vi) indemnity for moral damages due to delayed payment of commissions; (vii) overtime.<br>Proceeding in phase of liquidation of the award, at which only the criterion of calculation of the amount of the commissions is discussed. The plaintiff presented amounts which the respondent disagreed with, because they are not in accordance with the criteria established in judgment.<br>TOTVS submitted the total guarantees in the original amount of R$5,417 thousand. The amount adjusted in March 2019 is R$6,745 thousand.<br>The case is currently at the Superior Labor Court (TST), awaiting judgment of an interlocutory appeal filed by TOTVS to ensure the judgment of the appeal for review of the respondent which is intended to demonstrate that the execution exceeded the limits of the matter adjudged in order to reduce the amount claimed by the plaintiff.<br>Interlocutory Appeal included in the judgment agenda of April 10, 2019. |
| g. Chance of loss | Probable – R$5,366 thousand |
| h. Impact in case of loss of suit | In case of loss of suit, the adverse party shall make release of the amount already deposited in the case records, in an amount to be ascertained in liquidation of the award |

| Case No.: 0292000-56.2003.5.02.0064 | |
|---|---|
| a. Court | 64th Lower Labor Court of the City of São Paulo, State of São Paulo |
| b. Court Level | Court of Appeals |
| c. Filing date | December 18, 2003 |
| d. Parties to the case | Plaintiff: A.B. F. P<br>Defendant: TOTVS S/A |
| e. Amounts, property or rights involved (R$ thousand) | R$5,111 thousand (adjusted until March 31, 2019) |
| f. Main facts | Labor Claim filed by a former commercial executive of the company Mobile S/A against MOBILE S/A and WISER-WEB BASED SYSTEMS ENGINEERING TECHNOLOGY, petitioning for:<br>(i) acknowledgement of employment relationship and payment of labor charges and severance amounts; (ii) salary differences arising out of reduction in commissions; (iii) related accruals of the commissions; (iv) indemnity for moral damages.<br>The case was partially granted.<br>In phase of execution, TOTVS was included in the case as successor of Datasul, the company that held the equity control of Mobile between 2000 and 2002, before the merger by TOTVS.<br>TOTVS guaranteed the execution in the adjusted amount of R$4,463.<br>We filed Motions to Stay Execution arguing that it lacked standing to be sued, which were dismissed, and successive appeals against said decision.<br><br>On March 11, 2019, an order was issued for release of the undisputed amounts pledged, but there was qualification of the claimant's creditors in the case records, and the establishment of order of preference between creditors was ordered. Interlocutory appeal of petition was filed by |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

| | |
|---|---|
| | the claimant against the monetary restatement index adopted in the proceeding, and the Company submitted its appellee's briefs to the claimant's appeal. The case is currently awaiting judgment of the interlocutory appeal of petition of the Claimant by the Regional Appellate Labor Court of São Paulo. |
| **g. Chance of loss** | Probable – R$5,111 thousand |
| **h. Impact in case of loss of suit** | In case of loss of suit, the adverse party shall make release of the amount already deposited in the case records, in an amount to be ascertained in liquidation of the award. |

**Other pending proceedings (classification as "possible" loss)**

Additionally, the Company and its controlled companies are parties to other legal proceedings the risk of loss of which, in accordance with the outside lawyers in charge and the Company Management, is possible. No provision was acknowledged for them, as follows:

| Nature (in thousands of Reais) | On 03/31/2019 | On 12/31/2018 | On 12/31/2017 |
|---|---|---|---|
| Tributárias | 175,960 | 154,953 | 137,140 |
| Trabalhistas | 125,040 | 160,326 | 161,978 |
| Cíveis | 295,965 | 315,507 | 272,499 |
| | **596,965** | **630,786** | **571,617** |

The Company understands that only the proceedings the amounts in dispute of which may have a substantial impact on its equity or on the equity of its controlled companies are relevant. The following are the proceedings that the Company deems to be relevant:

**Tax and Social Security**

The proceedings of a tax and social security nature classified as possible loss concern mainly actions discussing assessments of IRRF (Withholding Income Tax), debits of ICMS (Tax on Distribution of Goods and Services), IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Net Income) on ICMS presumed credits arising out of governmental subvention.

On March 31, 2019, the amount in dispute in these actions, classified as possible loss, amounted to R$175,960 thousand.

| **Case No.: 19515.000597/2006-14** | |
|---|---|
| **a. Court** | Federal Revenue Department |
| **b. Court Level** | 2nd Administrative Appellate Court |
| **c. Filing date** | March 1, 2013 |
| **d. Parties to the case** | Plaintiff: Brazilian Federal Revenue Office<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$14,205 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Tax Assessment Notice. The Tax Authorities understood that the company made payments to unidentified beneficiaries and made the assessment of IRPJ and, consequently, of CSLL and IRRF (Withholding Income Tax) on said amounts, and identified expenses allegedly not proven, adding the respective amounts to the taxable income. In March 2006 there was an administrative objection, with a decision of the Judgment Unit of the Federal Revenue Office on July 28, 2009, partially granting the appeal filed, cancelling part of the tax assessment notice due to evidence of the origin of the payments made by way of IRRF, and the total amount was waived (already with the reduction) amounting to R$568 thousand. |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

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|---|---|
| | In September 2009 a voluntary appeal was filed, demonstrating that the statement of reasons of the appellate decision is mistaken, given that there was declaration of amounts, in such a manner that there is peremption of part of the enforced amounts, and that there was restraining of access to court because the accounting expert examination was not authorized for demonstration of the other expenses occurred. In October 2018 the Voluntary Appeal was judged by the CARF (Administrative Chamber of Appeals for Fiscal Matters), and the preliminary arguments of nullity and peremption raised were dismissed, and in the merits the enforcement of IRPJ and CSLL was dismissed, and the enforcement of IRRF was granted. On February 14, 2019 a Special Appeal was filed by TOTVS S.A. Currently awaiting judgment of said appeal. |
| **g. Chance of loss** | Possible - R$14,205 thousand |
| **h. Impact in case of loss of suit** | Payment of the amount in dispute. |

| **Case No.: 148330020332** | |
|---|---|
| **a. Court** | State Revenue Office of Santa Catarina |
| **b. Court Level** | 2nd Administrative Appellate Court |
| **c. Filing date** | March 1, 2013 |
| **d. Parties to the case** | Plaintiff: State Finance Office of Santa Catarina<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$19,719 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Tax assessment notice issued against TOTVS as jointly liable for ICMS debts on exits not taxed by the taxpayer. Liability arising out of manufacturing of software of exit control at the taxpayer. Administrative appeals of the taxpayer and of TOTVS were filed in January 2017.<br><br>In the judgment held on May 31, 2017, the administrative appeals of the taxpayer and of TOTVS were dismissed, and the Tax Authorities won by "Tie Vote". The argumentation of the Judging Panel of the Administrative Court was that there is no need for previous administrative proceeding in relation to the software discussed in the case records. And in relation to evidence, the argumentation was that the mere fact that the software enables customization by the taxpayer is already sufficient to hold TOTVS jointly liable.<br><br>In August 2017 a Special Appeal was filed by TOTVS, petitioning for exclusion of the company from the case as a defendant, demonstrating non-suit of joint liability thereof. Said appeal was judged on December 10, 2018 favorably to exclude TOTVS from the proceeding, ruling out the joint liability, and acknowledging the absence of liability of TOTVS for the debts incurred by the original taxpayer. Awaiting notice for writing-off of the case.<br><br>The amount stated with a chance of possible loss relates to imposition of penalty.<br>The amount classified as remote concerns the tax amount that the company (TOTVS' customer) failed to collect to the State of Santa Catarina. |
| **g. Chance of loss** | Possible - R$16,952 thousand<br>Remote - R$2,767 thousand |
| **h. Impact in case of loss of suit** | Payment of the amount in dispute. |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

| Case No.: 10980.729.381/2012-11 | |
|---|---|
| a. Court | Administrative – CARF |
| b. Court Level | 2nd Administrative Appellate Court |
| c. Filing date | December 12, 2012 |
| d. Parties to the case | Plaintiff: Federal Revenue Department<br>Defendant: Bematech S.A. |
| e. Amounts, property or rights involved (R$ thousand) | R$26,947 thousand (adjusted until March 31, 2019) |
| f. Main facts | In 2016 there was a change in the classification of the risk level of remote to possible loss in relation to a tax assessment notice issued by the Federal Revenue Office demanding IRPJ and CSLL on the ICMS presumed credits arising out of governmental subvention granted by the State of Paraná for years 2007 to 2009 of controlled company Bematech.<br><br>After filing of Objection on December 11, 2012 against the issue of the tax assessment notice, the Judgment Unit of the Federal Revenue Office partially granted the proceeding on March 11, 2013 to consider as correct the company's statements of error incurred in the ascertainment, and decided that the correct amount of the taxable revenues by way of subventions was R$29 million. Regarding the merits, it understood that the tax assessment notice was correct.<br><br>In July 2014 an appeal *ex officio* of the Federal Government was dismissed, and the voluntary appeal of Bematech was granted, which was also filed in July 2014 seeking re-discussion of the merits. The Federal Government filed a Special Appeal in relation to the matter of subvention of investments. On June 21, 2017 appellate decision No. 9101-002.562 was disclosed, which partially granted the Special Appeal of the Finance Office, and the writing off of the case records was ordered to the Ordinary Panel of the CARF for determination of compliance with the rules and considerations required by the law that granted the subvention for investment.<br><br>In the meantime, the vetoes of LC 160/2017 were dropped, on the paragraphs and article that addressed ICMS tax incentives, especially of presumed credits, validating the non-taxation of subventions in general. The case records were included in the agenda of February 20, 2019, and on said date the judgment was changed into a legal procedure, to await the availability of the Certificate of the Confaz, certifying the registration and deposit of the presumed tax credit of ICMS used by Bematech. The Confaz Certificate has been already made available and right now we are awaiting the notice of conversion of the judgment into legal procedure. |
| g. Chance of loss | Possible - R$26,947 thousand |
| h. Impact in case of loss of suit | Payment of the amount in dispute. |

| Case No.: 10880.946778/2012-02 | |
|---|---|
| a. Court | Federal Revenue Department |
| b. Court Level | 1st Administrative Lower Court |
| c. Filing date | March 1, 2013 |
| d. Parties to the case | Plaintiff: Brazilian Federal Revenue Office<br>Defendant: TOTVS S/A |
| e. Amounts, property or rights involved (R$ thousand) | R$11,633 thousand (adjusted until March 31, 2019) |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

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|---|---|
| **f. Main facts** | Administrative request for offset of debits against negative balance of CSLL, but the offsets were fully disallowed. Decision issued on July 12, 2012 informing the non-ratification due to inconsistencies allegedly not remedied by TOTVS, to the extent no ascertainment of credit was made in the Corporate Income Tax Return (DIPJ) corresponding to the period of ascertainment of the negative balance reported in the PER/DECOMP. Statement of Disagreement was submitted in August 2012. Awaiting judgment. |
| **g. Chance of loss** | Possible - R$11,633 thousand |
| **h. Impact in case of loss of suit** | Payment of the amount in dispute. |

| **Case No.: 5000740-82.2019.4.04.7201 (Former No. 2002.72.01.004009-5)** | |
|---|---|
| **a. Court** | 5th Lower Federal Court of Joinville |
| **b. Court Level** | Superior Court |
| **c. Filing date** | October 8, 2002 |
| **d. Parties to the case** | Plaintiff: FEDERAL GOVERNMENT - NATIONAL TREASURY<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$10,640 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Tax execution discussing the levy of social security contribution arising out of alleged outsourcing. Motions to stay tax execution were filed on July 22, 2004, assigned under No. 5003971-35.2010.404.7201, which were partially granted on July 7, 2009, to acknowledge that the tax requirement adopted an improper tax basis, not in compliance with the maximum limit of the taxable salary of the insured employees for calculation of the amounts required in the NFLD.<br><br>The maximum amount for contribution to the National Social Security Institute (INSS) of the insured employees applies to the case, in the period corresponding to the debt under discussion, as provided for by article 20 of Law No. 8.212/91 – observing the history of taxable salary established by the Social Security in the debt period -, rather than on the total salary received by the employee of the appellant, as calculated in the administrative proceeding.<br><br>The amount due, in accordance with the court-appointed expert examination, on December 10, 1999, shall be R$1,130,424.87. As a result, an appeal was filed on October 26, 2010, seeking annulment of the judgment and order for remittance of the case records to the court of origin to enable the production of expert evidence.<br><br>In October 2016, the Appellate Decision dismissed the Appeal, upholding the grounds rendered in the judgment by the lower court. Awaiting judgment of motions for clarification which were filed on November 16, 2016, in view of omission. Due to the Appellate Decision rendered, a Special Appeal was filed on October 23, 2017, assigned under No. 1705886/SC, as presented above.<br>In relation to Interlocutory Appeal No. 2004.04.01.008524-0, filed by TOTVS on February 13, 2004, it is an interlocutory appeal with request for staying effect, filed against the decision that, in tax execution, dismissed the appointment for levy of execution of copyrights on software of information technology, in view of the refusal of the judgment creditor. On July 7, 2004 the Interlocutory Appeal was granted, because the documents submitted by TOTVS demonstrate the inexistence of preferential assets, as provided for by article 11 of Law No. 6.830/80, and the feasibility of levy of execution of rights relating to information technology programs.<br>Case shelved away since March 4, 2013. |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

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| | |
| **g. Chance of loss** | Possible - R$10,640 thousand |
| **h. Impact in case of loss of suit** | Payment of the amount in dispute. |

| **Case No.: 6017.2019/0010313-2 (replaced No. 6017.2019/0010309-4)** | |
|---|---|
| **a. Court** | Municipal Government of the City of São Paulo |
| **b. Court Level** | Lower Court |
| **c. Filing date** | February 27, 2019 |
| **d. Parties to the case** | Plaintiff: MUNICIPAL GOVERNMENT OF THE CITY OF SÃO PAULO<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$16,366 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | This is an administrative proceeding in which 227 tax assessment notices issued against TOTVS were brought together, which sought collection of ISS (Municipal Services Tax) allegedly due on services of technical support of information technology and software development for calendar year 2014. Objection filed against the issue of the tax assessment notices on February 27, 2019.<br>Awaiting judgment of the objection, which was assigned a new number, as reported above. |
| **g. Chance of loss** | Possible - R$16,366 thousand |
| **h. Impact in case of loss of suit** | Payment of the amount in dispute. |

| **Case No.: 0000756-14.0500.8.26.0090** | |
|---|---|
| **a. Court** | Court of Appeals of the State of São Paulo |
| **b. Court Level** | Lower Court |
| **c. Filing date** | February 27, 2019 |
| **d. Parties to the case** | Plaintiff: MUNICIPAL GOVERNMENT OF THE CITY OF SÃO PAULO<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ million)** | R$10,308 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | This is a tax execution for collection of ISS on alleged provisions of services made in the City of São Paulo in the period from 1996 to 2001, which the Finance Office argues that was not collected.<br><br>Considering that the company filed to submit documents at the time, the Finance Office determined the amount of the collected tax. Motions to stay execution were filed on February 18, 2015, assigned under No. 0000557- 86.2015.8.26.0090, arguing statute of limitations of the collection and cancellation of the determination of the amount of tax due. The case records are currently awaiting judicial expert examination for survey of the tax invoices of the time of the service provisions, aiming at analyzing the services that were actually provided inside the territory of the City of São Paulo to evaluate whether the determination is correct. |
| **g. Chance of loss** | Possible - R$10,308 thousand |
| **h. Impact in case of loss of suit** | In case of loss of suit, the adverse party shall make release of the amount already deposited in the case records, in an amount to be ascertained in liquidation of the award. |

# 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

**Civil Proceedings**

The proceedings of a civil nature classified as possible loss concern mainly actions filed by customers on an allegation of certain problems in the services provided to the customers, application of the standard increment, application of grace period to terminated agreements, and undue collections.

| **Case No.: 0001309-10.2009.8.26.0659** | |
|---|---|
| **a. Court** | 1st Lower Civil Court of Vinhedo – State of São Paulo |
| **b. Court Level** | Lower Court |
| **c. Filing date** | March 6, 2009 |
| **d. Parties to the case** | Plaintiffs: Guaicurus Comercio E Assessoria De Microcomputadores Ltda., Ginfor Comercio De Sistemas E Computadores Ltda., Sogem Comercio E Representações Ltda., Terena Comercio E Assistência Técnica Ltda.<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$168,794 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Action for damages due to termination of commercial agency agreements, combined with moral and property damages. The Plaintiffs argue that they entered into commercial agency agreements with Defendant RM Sistemas Ltda. (subsequently merged into TOTVS S/A), whereby the Plaintiffs became sales agents of the pieces of software developed by the Defendant. According to the Plaintiffs, at a given time the Defendant decided to interrupt the payment of the commissions due for said commercial agency, and resolved to terminate the agreements previously executed, without paying the indemnities that were allegedly due to the Plaintiffs.<br>For that reason, the Plaintiffs claim declaration of nullity of mutual rescission of the agreements with the Defendant, and the indemnity due for the unilateral agreement terminations and payment of amounts relating to commissions.<br>The judgment has not been rendered yet, and the action is currently in phase of production of evidence, consisting of the performance of expert evidence to determine whether any amounts would be due to the Plaintiff by way of commission and indemnity.<br>In December 2018, the parties were notified to make a statement on the supplementation of the expert report, which was unfavorable to the Defendant, however, it did not indicate any net amounts that would be due by the Defendant. |
| **g. Chance of loss** | Probable - R$518 thousand<br>Possible - R$92,779 thousand<br>Remote - R$75,497 thousand |
| **h. Impact in case of loss of suit** | Amount to be ascertained upon liquidation of the award. |

| **Case No.: 0025004-55.2008.8.11.0041** | |
|---|---|
| **a. Court** | 10th Lower Civil Court of Cuiabá |
| **b. Court Level** | Lower Court |
| **c. Filing date** | October 3, 2008 |
| **d. Parties to the case** | Plaintiffs: Tecnopoint Informática Ltda., Sabianti Consultoria Empresarial Ltda., Valdir Pereira de Souza Júnior and André Giovani Silva Maciel.<br>Defendant: TOTVS S.A. |
| **e. Amounts, property or rights involved (R$ thousand)** | R$16,359 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Action for moral and property damages filed due to commercial problems with former franchisees. Closing arguments were submitted in December 2018.<br><br>This is an action whereby Plaintiffs Valdir Pereira and André Giovani inform that they organized the company TECNOPOINT, the business purpose of which was |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

| | |
|---|---|
| | the provision of advisory services and technical support in the information technology area. They argue that said company had a contractual relationship as a franchisee of TOTVS, investing in logistics, infrastructure and disclosure of the Microsiga trademark. However, in the middle of 2004, at a meeting between TOTVS and the plaintiff, an instrument was entered into whereby the agreement with TECNOPOINT would be terminated and a new company (SABIANTI) was organized, and a Gare agreement was entered into.<br><br>Plaintiffs Valdir Pereira and André Giovani, former partners of TECNOPOINT, continued to provide services to Microsiga, by means of SABIANTI, the agreement of which is different from the franchise agreement. Awaiting judgment of the action. The analysis of the amount in dispute was made by means of the claims of the plaintiffs (property damages, moral damages, loss of profit and fine, due to the agreement termination), and by means of the documentation presented in the case records.<br><br>In April 2019 the judgment was rendered, which partially granted the action only to sentence the Defendant to pay the amount of R$81,673.86, to be monetarily restated and accrued by default interest since the date of summons, in addition to payment of 70% of the court costs and expenses and 10% of attorney's fees. |
| **g. Chance of loss** | Possible - R$16,359 thousand |
| **h. Impact in case of loss of suit** | Amount to be ascertained upon liquidation of the award. |

| **Case No.: 0031798-14.2016.8.26.0100 (0194132-64.2014.8.19.001 original number before the jurisdiction defense)** | |
|---|---|
| **a. Court** | 38th Lower Civil Court - Central Civil Courts |
| **b. Court Level** | Lower Court |
| **c. Filing date** | August 10, 2016 |
| **d. Parties to the case** | Plaintiff: Reginaves Indústria e Comércio de Aves Ltda.<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$23,347 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Action for indemnity filed by a customer that argues alleged problems related to the implemented product, which caused damages. The Plaintiff affirms that it entered into a supply, training, local support and information technology system implementation agreement with DATASUL on January 14, 2002. It argues that, after DATASUL was merged into TOTVS, the parties entered into a new agreement, the purpose of which was the migration of the pieces of software to version<br>11. It informs that the migration started on July 10, 2012 and had a term of 5 months to be completed. However, the migration took 7 months and there were numerous problems, and for that reason it requested restoration of the previous version of the system. It informs that, even after restoration of the previous version, many problems were not solved, which led the Plaintiff to notify TOTVS and subsequently file the action. Finally, the plaintiff claimed adverse judgment in relation to refund for the system migration in the amount of R$310,430.00, in addition to the losses of its customers to be ascertained within the scope of expert examination, and the payment for moral damages in the amount of R$500,000.00.<br><br>The defense was submitted, and the proceeding is currently in the evidentiary stage. Awaiting expert examination. The analysis of the amount in dispute was made by means of the claims of the plaintiffs and by means of the documentation presented in the case records. |
| **g. Chance of loss** | Possible - R$23,347 thousand |
| **h. Impact in case of loss of suit** | Amount to be ascertained upon liquidation of the award. |

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

| Case No. 0001278-13.2012.5.01.0018 | |
|---|---|
| **a. Court** | 1st Lower Labor Court of São Paulo |
| **b. Court Level** | Appellate Court |
| **c. Filing date** | February 1, 2013 |
| **d. Parties to the case** | Plaintiff: F.P.R.F.R<br>Defendant: TOTVS S/A |
| **e. Amounts, property or rights involved (R$ thousand)** | R$12,139 thousand (adjusted until March 31, 2019) |
| **f. Main facts** | Acknowledgement of relationship in the statutory period, with payment of rights arising out of the employment relationship. Awaiting judgment of the plaintiff’s appeal. |
| **g. Chance of loss** | Possible – R$1,108 thousand<br>Remote - R$11,031 thousand |
| **h. Impact in case of loss of suit** | In case of total loss of suit, the Company shall disburse the amount to be ascertained upon liquidation of the award. |

# 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

## 4.4.1 – Total provisioned amount of the cases described in item 4.4.

There is no provision for the cases described in item 4.4.

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

## 4.5 – Relevant confidential proceedings

The Company is not involved in any relevant confidential proceedings.

## 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

The Company does not have any repetitive or related, relevant non-confidential legal, administrative or arbitration proceeding taken jointly.

# 4.3 – Non-confidential and relevant legal, administrative or arbitral proceedings

## 4.6.1 – Total provisioned amount of the cases described in item 4.6.

The Company does not have any repetitive or related, relevant non-confidential legal, administrative or arbitration proceeding taken jointly

## 4.7 - Other relevant contingencies

In November 2011, the Company entered into a Conduct Adjustment Instrument, or Consent Decree (TAC) with the Labor Public Prosecutors' Office of the State of Minas Gerais on labor obligations. In the TAC, the Company undertook to refrain from performing any acts that could be deemed to be in violation of the labor law, subject to penalty of imposition of pecuniary fines. The Company has endeavored all efforts to comply with the obligations undertaken in the TAC, which is being monitored by the Labor Public Prosecutors' Office of the State of Minas Gerais.

## 4.8 - Rules of the origin country and of the country in which the securities are under custody

Not applicable, given that the Company does not have any securities outside Brazil.

a) **Does the issuer have a formal policy of risk management? If so, please indicate the body which approved it and the date of its approval, and, if not, give the reasons why the issuer has not introduced a policy**

The Company has a Risk Management and Internal Controls policy, which was approved by the Board of Directors on June 11, 2019 and published on June 19, 2019. It is revised every two years, or more often, if necessary.

The Risk Management and Internal Controls Policy is available on the Investor Relations website of TOTVS (www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos).

b) **The objectives and strategies of the risk management policy, if any, including:**

The objective of the Risk Management and Internal Controls Policy is to define the principles, guidelines and responsibilities to be observed in managing corporate risks and the internal controls of the Company, so as to properly identify, analyze, assess, deal with, monitor and report corporate risks. The policy also aims to ensure the following:

**Risk Management Governance and Culture:** the risk management culture must be disseminated across all levels of the Company, and risk management and monitoring must not be an action exclusively taken by one executive or department. Managers are primarily responsible for the day-to-day management of risks related to their department or business process and for the dissemination of risk management culture among their team members, managing exposure to risks through action plans defined and monitored by the Board of Directors.

**Identification, analysis, assessment, handling and reporting:** risks must be periodically identified, analyzed, assessed and documented in a structured manner so as to be adequately dealt with and reported to the competent authorities..

**i. <u>Risks against which protection is sought</u>**

The main risks to which the Company is exposed are:

**Strategic Risk:** risk events associated with strategic decisions that affect the Company's business strategy or strategic objectives, in both the internal and external environment.

**Operational Risk: operational** risks relate to possible losses resulting from flaws, shortcomings or inadequacies in internal processes, people or the technological environment, or provoked by external events.

**Financial Risk:** it is associated with the exposure of the Company to possible loss and the reliability of its accounting entries and financial statements. It may materialize, for example, as a result of failure in managing cash flows to maximize and generate operating cash, business losses, customer default, returns on financial transactions, fluctuations in market indices applied to contracts and amounts borrowed or invested, and the possibility of issuing financial, managerial and tax reports that are incomplete, inaccurate or late, exposing the Company to fines and penalties.

**Regulatory/Compliance Risk:** risks of legal or regulatory sanctions, and of financial or reputational loss that the Company could suffer as a result of failing to comply with laws, agreements, regulations, the Code of Ethics and Conduct, etc.

**Information Technology Risks:** risks related to the information technology environment (infrastructure, access management, information security) which could affect Company business, such as cyberattacks, leaks or loss of information, non-availability of the IT environment and technological obsolescence.

**ii. Instruments used for protection:**

**The instruments used for protection are:**

Strategic Risks (Business):

Strategic risks are mapped by the Internal Controls, Risks and Compliance Department, based on an assessment of the internal and external environments and interviews with the "owner" of each risk, who are jointly responsible for assessing risk factors, impact and probability, and for implementing action plans for the minimization of risk. Improvement actions (action plans) are supervised and monitored by the Internal Controls, Risks and Compliance Department, and reported to the Company’s competent governance and management structures.

Operational, Financial and Information Technology Risks:

These risks are identified and documented by mapping the processes considered critical by the Internal Controls, Risks and Compliance Department. They are then attributed impact and probability in order to design the improvement actions (action plans) necessary to minimize them, and each area is responsible for implementation. These action plans are supervised and monitored by the Internal Controls, Risks and Compliance Department, and reported to the competent governance and management structures.

Regulatory/Compliance Risk:

The Company monitors the new regulations applicable to its business, as well as any changes in the regulatory framework to which it is subject. After assessing their impacts on the business, it identifies the measures required to ensure compliance with the legal requirements, it being incumbent on the areas in charge to provide the relevant adjustments.

**iii. Organizational structure of risk management:**

**Board of Directors:** decision-making body whose purpose is to monitor the operations of the Company and periodically assess its exposure to risk and the efficacy of the risk management systems, the internal controls and the compliance system according to approved policy, and:

- To define the strategic objectives of the Company which will guide the work of identifying risks in the organization;
- To approve the Risk Management and Internal Controls policy;
- To approve the Company’s risk management and internal controls methodology;
- To monitor risk management initiatives in directing Company business;
- To define and validate the review cycles of the risk control system and its efficacy;
- To determine risk tolerance;
- To approve the risk map (strategic and operational) and the key risk factors to which the Company is exposed;
- To validate public information documents on the risk management model and the transparency of information provided to the internal and external public.

**Audit Committee** Advisory body to the Board of Directors. Its duties include:

- To propose changes to the Risk Management and Internal Controls Policy and submitting them to the Board of Directors;
- To help management to define guidelines and methods for risk management and internal controls, in addition to metrics for measuring risk tolerance and risk appetite, and submitting recommendations for approval to the Board of Directors
- To assess the action plans drawn up for risks classified as "high" or “critical”;
- To monitor and make recommendations to the Board of Directors about the acceptance of responses to high and critical risks;
- To assess the risk map (strategic and operational) and the key risk factors to which the Company is exposed, and submitting recommendations to the Board of Directors;
- To supervise and periodically monitor the results of tests of controls and mitigatory action plans, reporting any shortcomings and occurrences it deems material to the Board of Directors;

- To monitor risk management initiatives in the direction of Company business.

The other technical committees advising the Board of Directors, in turn, are responsible for monitoring and making recommendations on the acceptance of responses to risk, helping Management define guidelines for risk management and metrics for measuring risk tolerance and risk appetite, monitoring the implementation of mitigatory action plans and reporting their conclusions to the Board of Directors.

**Internal Controls, Risk and Compliance Department:** it is subordinated to the Control and Planning Office, which in turn reports to the Vice President for Administration and Finance. Its key duties are:

- To propose and apply the Risk Management methodology and create an efficient monitoring system;
- Jointly with the areas involved, to identify, assess, deal with, monitor and report strategic and operating risks;
- To report strategic and operating risks to the Executive Board, the Audit Committee and the Board of Directors;
- To propose changes to the Risk Management and Internal Controls policy and submit them for approval;
- To discuss the recommendations made by the risk owners to minimize Company risk in line with defined strategy and objectives;
- To monitor the implementation of internal controls for risk management;
- To monitor the quarterly report of all steps taken to deal with risks classified as “Moderate”, “High” and “Critical”;
- To monitor and periodically report on the progress of action plans;
- To map processes and help identify risks (operating and financial risks, for example), as well as the controls mitigating such risks;
- To monitor and suggest improvements for internal controls in the operating areas;
- To report incorrect or out-of-date designs for process flows, rules and procedures when changes can disturb the controls environment;
- To remind managers about the importance of risk management and internal controls and the responsibility of managers, staff, interns and other TOTVERS.

**Internal Audit:** reports to the Audit Committee. Its key responsibilities are:

- To use the Risk Map to assist with the annual audit plan for the Company and its subsidiaries;
- To audit the Company’s risk management process and issue impartial, independent and timely opinions;
- To monitor the internal controls environment and the effectiveness of risk management based on the work done by the business areas and the Internal Controls, Risk and Compliance Department;
- To test the controls according to the audit plan and report the results to the Audit Committee;
- To check the implementation and efficacy of action plans;
- To identify the need to prioritize action based on the results of the risk processes in execution, and to broaden the scope of substantive tests and constant monitoring in the event of new risks or the aggravation of risks previously mapped;
- To identify and indicate opportunities for improvement in the internal controls and risk management processes;
- To issue a formal opinion on the internal controls tested in the annual audit cycle.

**Owners of Risks / Operational Business Areas:** their responsibility, under the policy, is:

- To constantly identify and document the risks they manage;
- To carry out Control Self-Assessment and make the necessary evidence available;
- To undertake an annual assessment of the performance and results of the risks and controls they manage;
- To inform the Internal Controls, Risk and Compliance Department of any new risks identified and any change in their business process;
- To introduce adequate controls for managing risks;

- To carry out the action plans under their responsibility;
- To ensure that action taken is effective and brings the degree of risk exposure down to acceptable levels.

c) **Adequacy of the operational structure and internal controls to verify the effectiveness of the policy adopted:**

The Company has a structure of Internal Controls whose activities involve mapping processes and helping identify risks (operational and financial risks, for example) and the respective controls that mitigate such risks, monitoring and suggesting improvements to internal controls by the operational areas and, finally, reporting any inconsistency or outdated designs of process flows, rules and procedures whose amendment may aggravate the controls environment. The internal control structure is periodically assessed to check the efficiency of existing internal controls and influences resulting from potential changes in the Company's internal and/or external environment.

The risk management structure, in turn, continuously monitors the risk factors identified to prevent the Company's exposure to risks from increasing and hindering business continuity. Improvement actions (action plans), as well as their effectiveness, are monitored regularly by the Risk Management and Internal Controls Department, which is responsible for reporting their status at the appropriate hierarchical level. Finally, when TOTVS' strategic plan is prepared, a systemic review of the risk management process is carried out, in order to ensure proper mapping and prioritizing of risks through Company strategy.

# 5.2 - Market risks management policy

a) **Does the issuer have a formal policy for market risk management? If so, please indicate the body which approved it and the date, and if not, explain why the issuer has no such policy**

As mentioned in item 5.1, the Company has a Risk Management and Internal Controls Policy to support the process of identifying, assessing, handling, monitoring and reporting strategic, operating, financial, market, regulatory/compliance and information technology risks.

This policy was reviewed by the Risk Management and Internal Controls Department, approved by the Board of Directors on June 11, 2019, and published on June 19, 2019. It will be revised every two years or more frequently if necessary.

b) **The objectives and strategies of the risk management policy, if any, including:**

**i. risks for which protection is sought:**

The operational result of the Company may be affected by domestic economic changes, mainly regarding the short and long-term interest rates, government policies for the sector, inflation rate and exchange policy, as discussed in item 4.2.

**ii. hedging strategy:**

Historically, the effects of risks presented above (item 5.1-b-i) are mitigated because the Company has a disseminated client base, both in terms of revenue and in terms of the industry sectors in which these clients operate.

Inflation - The Company believes that the inflationary impact on its operating results is mitigated by the annual adjustment of maintenance and subscription contracts and the periodic adjustments in the prices of new licensing fees and the hourly rates of sales service projects. However, as mentioned in item 4.2, this natural protection strategy does not address the residual risk of mismatch between costs and expenses inflation and the inflation rates applied to maintenance and subscription contracts. Based on past experience, the Company believes these inflation indicators tend to converge in the medium/long term.

Interest Rate - The Company seeks to monitor net debt by comparing cash generation from operations with total debt, as shown in item 3.7 of this form.

Exchange rate variation- At this stage of maturity of its international operations, the Company seeks to scale cost structures and expenses taking into account their respective revenues.

**iii. hedging instruments:**

The Company is not currently using any active hedging instrument, apart from the “natural” hedges mentioned in the previous item (“ii”) that consist of: revenue adjustment based on inflation indexes (protection against inflation); monitoring of the net debt ratio and the cash flow from individual and consolidated operations (protection against interest rate changes); and international operations with revenues and costs essentially incurred in the same currencies (protection against exchange rate variations).

**iv. parameters used to manage these risks**

The main parameters are the proportion of total revenues represented by recurring revenues, the behavior of recurring revenues, client satisfaction level, the monitoring of net debt indicators (item 3.7), the debt maturity schedule (item 3.8) and the net equity denominated in foreign currency in relation to the total shareholders’ equity of the Company.

**v. Does the issuer use financial instruments other than for hedging purposes? If so, please list these other purposes**

In the period covered by this Reference Form, the Company did not conduct operations of this nature.

**vi. organizational structure for risk management control**

The Board of Directors, advised by the Audit Committee, as shown in item 5.1- b-iii.

## 5.2 - Market risks management policy

c) **Adequacy of the operational structure and internal controls to verify the effectiveness of the policy adopted:**

The Company has an Internal Controls structure, whose activities involve mapping processes and helping to identify risks (operational and financial risks, for example) and the controls that mitigate such risks, besides monitoring and suggesting improvements for internal controls by the operational areas, Item 5.1 - C.

## 5.2 - Market risks management policy

a) **Main practices of internal controls and the level of efficiency of such controls, indicating any imperfections and the measures adopted to correct them.**

The Company, in line with the best market practices for managing internal controls, has an Internal Controls, Risk and Compliance Department, whose main purpose is to lead and establish guidelines for the works related to internal controls and ensure the functioning of the controls environment, seeking to mitigate risks according to the complexity of the TOTVS business and ensure the best governance and market practices, in compliance with laws and regulations.

The process defined also aims to provide reasonable confidence for asset protection, accuracy and reliability of financial reporting, operational efficiency and compliance policies, standards and procedures.

**Definition of scope and performance:**

The internal controls contribute to the mitigation of risks, providing a more secure and effective environment in terms of operating efficiency and the integrity of records and information, taking the following key aspects into account:

(i) the strategic goals of the Company;
(ii) composition and nature of the financial accounts;
(iii) the possibility of losses resulting from errors and fraud; and
(iv) complexity in the transactions of the financial accounts.

To achieve its objectives, the management of internal controls is based on an integrated model of three Lines of Defense, namely:

- First Line of Defense: This consists of the Business Areas, which are responsible for identifying and reporting the risks of their operations and for ensuring that their business objectives are met, and that the internal controls structure functions properly;

- Second Line of Defense: Represented by the Internal Controls, Risk and Compliance Office, it uses the supporting documents produced by the first Line of Defense to help review the controls environment. It acts in an advisory capacity, supporting the business areas in designing and implementing procedures and controls;

- Third Line of Defense: Internal Audit, responsible for an independent analysis and assessment of the internal controls environment based on the work done by the first and second lines of defense. It can do additional work when the need arises.

Subsequently the control designs are tested (by "walkthroughs"), to confirm the understanding of the processes mapped and that the controls are correctly implemented and operational.

If controls do not exist or are considered unsatisfactory for mitigating the risks identified in the business processes, a report is sent to the areas responsible for them to draft action plans (whether for creating a new control or improving an existing one).

Once these stages are completed, the people responsible for the processes must complete an annual Control Self-Assessment, providing evidence of the execution of the controls in the system used by TOTVS and listing any new risks they have identified in their processes or activities.

The processes and controls mapped by the Internal Controls, Risk and Compliance Office are a fundamental tool for Internal Audit's planning. Based on this mapping, Internal Audit defines the com and the tests of efficacy to be undertaken (called "Control Tests"), to evaluate the proper application and operating efficiency of the controls in preventing or detecting material misstatements.

The Company Audit Committee is responsible for supervising and periodically monitoring the results of the tests and the action plans drawn up by those in charge of the processes.

# 5.2 - Market risks management policy

**b) Organizational structures involved:**

**Board of Directors:** decision-making body whose purpose is to monitor the operations of the Company and periodically assess its exposure to risk and the efficacy of the risk management systems, the internal controls and the compliance system according to the approved policy, and:

- To define the strategic objectives of the Company which will guide the work of identifying risks in the organization;
- To approve the Risk Management and Internal Controls policy;
- To approve the Company's risk management and internal controls methodology;
- To monitor risk management initiatives in the direction of Company business;
- To define and validate the review cycles of the risk control system and its efficacy;
- To determine risk tolerance;
- To approve the risk map (strategic and operational) and the key risk factors to which the Company is exposed;
- To validate public information documents on the risk management model and the transparency of information provided to the internal and external public.

**Audit Committee** Advisory body to the Board of Directors. Its duties include:

- Proposing changes to the Risk Management and Internal Controls Policy and submitting them to the Board of Directors;
- Helping management to define guidelines and methods for risk management and internal controls, in addition to metrics for measuring risk tolerance and risk appetite, and submitting recommendations to the Board of Directors for approval;
- Assessing the action plans drawn up for risks classified as "high" or "critical";
- Monitoring and making recommendations to the Board of Directors about the acceptance of responses to high and critical risks;
- Assessing the risk map (strategic and operational) and the key risk factors to which the Company is exposed, and submitting recommendations to the Board of Directors;
- Supervising and periodically monitoring the results of tests of controls and mitigatory action plans, reporting any shortcomings and occurrences it deems material to the Board of Directors;
- Monitoring risk management initiatives in the direction of Company business.

The other technical committees advising the Board of Directors, in turn, are responsible for monitoring and making recommendations on the acceptance of responses to risk, helping Management define guidelines for risk management and metrics for measuring risk tolerance and risk appetite, monitoring the implementation of mitigatory action plans and reporting their conclusions to the Board of Directors.

**Internal Controls, Risk and Compliance Department:** it is subordinated to the Control and Planning Office, which in turn reports to the Administrative and Financial Vice-President. Its key duties are:

- To propose and apply the Risk Management methodology and create an efficient monitoring system;
- Jointly with the areas involved, to identify, assess, deal with, monitor and report strategic and operating risks;
- To report strategic and operating risks to the Executive Board, the Audit Committee and the Board of Directors;
- To propose changes to the Risk Management and Internal Controls policy and submit them for approval;
- To discuss the recommendations made by risk owners to minimize Company risk in line with defined strategy and objectives;
- To monitor the implementation of internal controls for risk management;
- To monitor the quarterly report on all steps taken to deal with risks classified as "Moderate", "High" and "Critical";
- To monitor and periodically report on the progress of action plans;
- To map processes and help identify risks (operating and financial risks, for example), as well as the controls mitigating such risks;

## 5.2 - Market risks management policy

- To monitor and suggest improvements for internal controls in the operating areas;
- To report incorrect or out-of-date designs for process flows, rules and procedures when changes can affect the controls environment;
- To remind managers about the importance of risk management and internal controls and the responsibility of managers, staff, interns and other TOTVERS.

**Internal Audit:** reports to the Audit Committee. Its key responsibilities are:

- To use the Risk Map to assist with the annual audit plan for the Company and its subsidiaries;
- To audit the Company's risk management process and issue impartial, independent and timely opinions;
- To monitor the internal controls environment and the effectiveness of risk management based on the work done by the business areas and the Internal Controls, Risk and Compliance Office;
- To test the controls according to the audit plan and report the results to the Audit Committee;
- To check the implementation and efficacy of action plans;
- To identify the need to prioritize action based on the results of the risk processes in execution, and to broaden the scope of substantive tests and constant monitoring in the event of new risks or the aggravation of risks previously mapped;
- To identify and indicate opportunities for improvement in the internal controls and risk management processes;
- To issue a formal opinion on the internal controls tested in the annual audit cycle.

**Risk Owners/Operational Business Areas:** their responsibility, under the policy, is:

- To constantly identify and document the risks they manage;
- To carry out Control Self-Assessment and make the necessary evidence available;
- To undertake an annual assessment of the performance and results of the risks and controls they manage;
- To inform the Internal Controls, Risk and Compliance Office of any new risks identified and any change in their business process;
- To introduce adequate controls for managing risks;
- To carry out the action plans under their responsibility;
- To ensure that actions deployed are effective and bring the degree of risk exposure down to acceptable levels.

**c) Whether and how the efficiency of internal controls is supervised by management, indicating the position of the people responsible for this supervision**

Once the processes have been mapped, risks identified and walkthroughs completed, the business areas must undertake a Control Self-Assessment, and provide evidence of the execution of the controls in the system used by TOTVS. They must highlight any new risks identified in their processes or activities.

Based on this mapping, and after completing the Self-Assessment, Internal Audit defines the strategy and the tests of efficacy to be undertaken (called "Control Tests"), to evaluate the proper application and operating efficiency of the controls in preventing or detecting material misstatements.

The entire process and results of mapping and revising controls are reported to the Company Audit Committee, which periodically monitors the efficacy of internal controls and the action plans drawn up and their implementation.

**a) Shortcomings and recommendations about internal controls contained in the detailed report drafted by the independent auditor and submitted to the issuer, in accordance with the CVM regulations dealing with the registration and exercise of the activity of independent auditor.**

The report issued by the independent auditors on the Company's financial statements for the year ended December 31, 2018, indicated significant deficiencies in controls relating to Access Management (ITGC Controls), with weaknesses being found in the procedures for granting, revoking, maintaining and periodically reviewing access by staff currently employed,

# 5.2 - Market risks management policy

transferred or no longer with the Company, and in the controls of administrative/privileged accounts in the Company systems. Weaknesses were also found in the Backup and Restore controls.

The independent auditors also recommended, for the Access Management process, a reassessment of the design of the controls for granting and revocation, transfers, periodic maintenance and privileged accounts in order to identify what caused the shortcomings listed, and that any changes made in the access profiles of Company staff should be documented, evidenced and formally validated. For the weaknesses identified in the Backup and Restore controls, it was recommended that formal registration procedures be adopted and the failings found in critical jobs should be addressed. The auditors suggest introducing a regular, formal control for restoring data recorded, to ensure that information could be accessed when necessary.

It should be noted that the result of additional procedures undertaken by the external auditors was that the failings identified did not lead to the accounts being qualified in their final opinion, and did not affect the Company's results.

**b) Management's comments on shortcomings noted in the independent auditor's detailed report and on the corrective measures adopted**

A review of the access management process has been completed and includes the creation of mechanisms and system adjustments to evidence and document the fact that accesses granted, transferred or revoked are in compliance with activities undertaken by staff and are being approved at the appropriate level of authority. An annual review process has also been introduced for all accesses by Company staff.

In the case of weaknesses found in Backups and Restores, systemic routines and procedures have been created to establish rules for these processes and to minimize the occurrence of such failings.

It should be noted that the other recommendations of the independent auditors, which are not considered to be material, were forwarded to the heads of the areas in question and are to be implemented during 2019.

# 5.2 - Market risks management policy

a) **If the issuer has adopted integrity rules, policies, procedures or practices to prevent, detect and remedy frauds and wrongful acts committed against the government, please indicate:**

**i. the main integrity mechanisms and procedures adopted and their adequacy for the profile and risks identified by the issuer, informing how frequently risks are reassessed and policies, procedures and practices adjusted**

TOTVS has integrity mechanisms and procedures in place to prevent, detect and adequately deal with acts of corruption, fraud and wrongful conduct of any nature against the Brazilian or foreign public administration, or in the private sector, in all the countries where the Company has operations.

The Company's Integrity Program is supported by a set of Organizational Policies which are approved by the Board of Directors and reviewed every two years, or more often if necessary. The controls are reviewed annually but may be amended at any time if there are changes in the rules, procedures or the risk scenario. For details of the risk management and methods applied by the Company, see section 5, item 5.1.

**Code of Ethics and Conduct and Corporate Policies as part of the Integrity Program**

**Code of Ethics and Conduct:** its aim is to provide an overall understanding of the conduct and ethical principles that guide TOTVS's commitment to integrity in its business and its internal and external relationships. It applies to all board directors, managers, controlling shareholders, staff, services providers, suppliers and partners.

**Corporate Compliance Policy:** it is aimed as providing guidance and defining the scope, structure and activities of Compliance in TOTVS, through guidelines, principles and responsibilities. It is also intended to disseminate Compliance throughout the Company at every level, demonstrating the importance of being familiar with and executing legal and regulatory requirements, in addition to internal ordinances and the Company Code of Ethics and Conduct.

**Policy on Commercial and Institutional Relations with Public Entities (Anticorruption):** its purpose is to set guidelines for TOTVS's relationship with public entities, through any representative or agent, in the light of the values and principles outlined in its Code of Ethics and Conduct. The Policy also underpins our commitment to comply with the Brazilian Anticorruption Law – Law No. 12.846/2013, and our engagement with the United Nations Global Compact and the Business Pact for Integrity and Against Corruption ETHOS Institute, to both of which the Company is a signatory.

**Risk Management and Internal Controls policy:** intended to establish guidelines and responsibilities for risk management by TOTVS and ensure that the risks inherent in the Company's activities are identified, assessed, dealt with, monitored and reported to Management promptly, for decisions to be taken, minimizing the impact of the risks and taking better advantage of opportunities, by means of its internal controls and proper risk governance.

**Policy for Contributions, Donations and Sponsorship:** the purpose of the document is to set guidelines and rules for contributions, donations and sponsorship undertaken by the TOTVS Group.

**Integrity Mechanisms and Procedures**

**Due Diligence on Supplier Compliance:** this consists of processes and procedures for identifying and assessing the risks of compliance in relations with suppliers, in particular relating to the issue of corruption, to ensure that the Company does not do business with suppliers involved in any kind of illegal or irregular practices under the anticorruption legislation or the ethical principles outlined in the Company's Code of Ethics and Conduct.

**Records of Commercial and Institutional Dealings with Public Entities:** procedures to record in-person dealing of a commercial or institutional nature with public entities, to ensure compliance with the guidelines defined in the Policy for Commercial and Institutional Relations with Public Entities.

## 5.2 - Market risks management policy

**Training in the Code of Ethics and Conduct:** staff take online courses in the Code of Ethics and Conduct which cover every aspect of the document. In addition, understanding of the content is achieved through questions and ethical dilemmas posed which must be answered according to the principles and rules of the Code.

**Training on Dealings with Public Entities:** classroom training given in-house or by specialist consultants, for staff who deal with public entities, to teach them the practices and procedures to be followed in such dealings, in compliance with the law, the Code of Ethics and Conduct and the Policy for Commercial and Institutional Relations with Public Entities.

**Anticorruption Clause and compliance with the Code of Ethics and Conduct:** contracts with suppliers and customers must include a clause providing for compliance with the anticorruption legislation and the Company's Code of Ethics and Conduct.

**Integrity Undertaking and Declaration of Responsibility, Compliance and Social and Legal Commitment:** documents for the use in all TOTVS franchises, whereby the franchisee undertakes to comply with the provisions of Law No. 12.846/2013 (the Anticorruption Law) and with the TOTVS Code of Ethics and Conduct, as well as with the principles of the UN Global Compact.

**Auditing of the Program:** The Integrity Program is subject to periodic auditing, both internal and external, to identify any shortcomings and opportunities for improvement. The result of the audit is reported to the Audit Committee and the corresponding action plans are supervised and monitored by Management.

**ii. the corporate structures involved in the monitoring of the operation and efficiency of internal integrity mechanisms and procedures, indicating their duties, whether their creation was formally approved, the issuer's bodies to which they report and the mechanisms that ensure independence of their leaders, if any**

The Internal Controls, Risks and Compliance Department is responsible for managing the Company's Integrity Program, and is subordinated to the Planning and Control Department, which in turn reports to the Vice-President for Finance and Investor Relations. Periodic reports on the status of the Integrity Program are submitted to the Audit Committee, which is responsible for keeping the Board of Directors informed on this matter.

The Internal Controls, Risks and Compliance Department, within the scope of its duties and as established in the Corporate Compliance Policy, has functional independence and access to the information and documents necessary to carry out the Company's Integrity Program.

**iii. if the issuer has any code of ethics or of conduct formally approved, indicating:**

- **if it applies to all executive officers, fiscal councilors, directors and employees and whether it also applies to third parties, such as suppliers, service providers, intermediaries and associates**

The current version of the Code of Ethics and Conduct was approved by the Board of Directors on March 13, 2018, and reissued on June 21, 2018. It applies to all directors, managers, shareholders involved in control of the company, staff, service providers, suppliers and partners.

- **if and how often executive officers, fiscal councilors, directors and employees are trained on the code of ethics or conduct and on other standards related to this matter**

To provide employees with adequate training, the Company has arranged a compulsory e-learning training program on the new version of the Code of Ethics and Conduct, which includes a test and the issue of a certificate.

## 5.2 - Market risks management policy

- **applicable sanctions in the event of violation of the code or of other standards on the issue, identifying the document where such sanctions are envisaged**

The Company has an Ethics and Conduct Committee, to which any reports of wrongdoing are addressed and which is responsible for determining, through a formal process, if in fact the Code has been violated, and to decide on the penalty, which may range from disciplinary measures, such as a warning, to termination for cause, in addition to appropriate legal action, as applicable.

- **body that approved the code, date of approval and, if the issuer publishes the code of conduct, websites where the document is available for consultation**

The current version of the Code of Ethics and Conduct was approved by the Board of Directors on March 13, 2018 and published on June 21, 2018. It is available for consultation on the Company's Investor Relations website (www.ri.totvs.com/ptb/estatutos-politicas- e-regimentos) and on the webpage of its ethics and conduct channel (https://www.canalconfidencial.com.br/totvs/).

b) **If the issuer has any complaints hotline, indicating, if so:**

- **if the complaints hotline is internal or is managed by third parties**

The Company has an Ethics and Conduct Channel managed by an outsourced company.

- **if the hotline is open to receive complaints from third parties or if it receives complaints from employees only**

The Ethics and Conduct Channel is designed to receive complaints from employees and third parties such as suppliers, service providers and business partners.

- **if there are mechanisms to ensure anonymity and protect whistleblowers in good faith**

The Ethics and Conduct Channel enables complaints to be reported anonymously and ensures confidentiality of the information and anonymity of the person.

- **issuer's body responsible for investigating the complaints**

The Internal Audit unit of the Company is responsible for analyzing and investigating the complaints received, as well as reporting the applicable cases to the Ethics and Conduct Commission, which establishes the appropriates measures to be taken.

c) **If the issuer takes steps in the even of a merger, acquisition or corporate restructuring to identify vulnerabilities and risks posed by improper practices of the legal entities involved.**

The Company adopts due diligence procedures for companies undergoing mergers, acquisition or corporate restructuring. The process consists of an analysis of the environment performed by teams from independent audit firms, as well as a reputational analysis of the legal entities involved. The results are incorporated into an action plan that consists of synchronized actions with the plan for the merger of these companies.

d) **If the issuer does not have rules, policies, procedures or practices to prevent, detect and remedy frauds and wrongful acts committed against the government, identify the reasons why the issuer does not have any controls in this regard.**

Not applicable, since the Company does have rules, policies, procedures and practices to prevent, detect and remedy frauds and wrongful acts committed against the government.

## 5.5 - Significant Changes

During the last year there have not been any significant changes in the risks to which the Company is exposed or in the Risk Management Policy (introduced in 2017).

The risks identified and monitored by TOTVS are listed in item “a” of indicator 4.1 – Risk Factors, in order of criticality and including those that can influence decisions of any type by investors.

## 5.6 - Other material information – Risk management and internal controls

The Company did not identify any other material information related to the items of Risk Management and Internal Controls.

## 6.1. / 6.2 / 6.4. Incorporation, duration and date of registration of the Company with the CVM

| | |
|---|---|
| **Issuer’s incorporation date** | 12/13/1983 |
| **Issuer’s legal form** | Public Company |
| **Country of incorporation** | Brazil |
| **Duration** | Indefinite |
| **CVM Registration date** | 03/07/2006 |

## 6.3 - Brief history

TOTVS was originally a services bureau, created in 1969 by Mr. Ernesto Mário Haberkorn, called SIGA - Sistemas Integrados de Gerência Automática Ltda. The bureau provided general services in the computers area and developed a system that allowed for centralized corporate management, with the main purpose of automating administrative processes. In 1983, with the appearance of microcomputers, the Company was founded, under the legal name of Microsiga Software S.A. (“Microsiga”), by the partners Ernesto Mário Haberkorn and Laércio Cosentino, the former CEO of TOTVS. The Company’s business purpose was to develop software for these personal computers and, later, it started to operate in the integrated corporate management software market, catering to medium and small size companies.

In the 1990’s, strategic decisions were taken to structure TOTVS for sustained growth, with the creation of the environment necessary for the market leadership that the Company would achieve at the end of the decade.

Some decisions and events that deserve highlighting are:

1990: opening of the first franchise;

1997: opening of the first unit abroad, Microsiga Argentina;

2003: acquisition of assets of Sipros, a company in Mexico, and opening of Microsiga Mexico;

2005: acquisition of Logocenter S.A. (“Logocenter”); repurchase of the Company’s participation; admission of BNDES Participações S.A. – BNDESPAR as partner of the Company;

2006: IPO on the São Paulo Stock Exchange (BM&FBOVESPA), in the *Novo Mercado* (highest level of Corporate Governance); acquisition of RM Sistemas S.A. (“RM”), and commencement of the Company’s corporate consulting activities;

2008: merger of Datasul SA (“Datasul”).

2009: amendment to the Company’s corporate purpose to include the activity of “franchising concession”, according to the Extraordinary Shareholders’ Meeting of 04/16/2009; creation of “Full TOTVS” franchises involving the TOTVS and Datasul franchises;

2013: acquisition of PC Sistemas S.A., PRX Soluções em Gestão Agroindustrial Ltda. (“PRX”), RMS Software S.A., Seventeen Tecnologia da Informação em Informática Ltda. (“Seventeen”) and Neolog Consultoria e Sistemas S.A. (“Neolog”).

2014: acquisition of Virtual Age Soluções em Tecnologia Ltda. (“Virtual Age”).

2015: acquisition of Bematech S.A. (“Bematech”) and merger of P2RX Soluções em Software S.A. (“P2RX”).

2016: sale of 100% of our interest in TOTVS Resultados em Outsourcing Ltda. (“TOTVS RO”), a Human Resources BPO (Business Process Outsourcing) company to Propay S.A. Acquisition of a minority interest in the Russian company National Computer Corporation (NCC) by TOTVS México and TOTVS S.A.

2017: Launch of the artificial intelligence platform (Carol) and iDEXO, an institute whose mission is to connect startups, entrepreneurs and developers in order to create new business solutions.

2018: consolidation of the Company’s succession plan and announcement of the arrival of Dennis Herszkowicz to replace the founder of the Company, Laércio Cosentino, who in turn was elected Chairman of the board of directors.

## 6.5 - Information about filing for bankruptcy based on a material amount or filing for judicial or extrajudicial reorganization

There has been no filing for bankruptcy or for judicial or extrajudicial reorganization.

## 6.6 . Other material information

The Company did not identify any other material information related to this item.

# 7.1 - Description of the main activities of the company and its subsidiaries

## Overview

We are the leading enterprise resource planning (“ERP”) software company in Brazil, according to the survey entitle Enterprise Application Software Worldwide, issued by Gartner in 2018, having an approximately 50-percent market share. In Latin America, we have a 30-percent share in the ERP market according to that same survey, and we are one of the top-three players in the region. We have been engaged for more than 36 years in the business of providing companies of all sizes with business solutions, management software, technology platforms and consulting services.

The Company was Latin America’s first IT company to go public, back in 2006, and listed in the *Novo Mercado* (“New Market”) segment of B3 S.A. - Brasil, Bolsa, Balcão (“B3”) under ticker ‘TOTS3’. Since our IPO, our net revenues have increased ten-fold, and they have historically been sustained by organic growth and strategic acquisitions.

With an installed client base in excess of 30,000 clients, TOTVS operates primarily in Brazil, but has a presence in 41 countries, with net revenues of R$2.3 billion for 2018 and approximately 7,800 employees. In Brazil we have 11 branches, 52 franchised territories and 10 development centers. Abroad we have five branches, in Argentina, Colombia, the United States of America, Mexico and Portugal, and two development centers, in the US and Mexico.

The Company’s motto is to “simplify the business world”, and we develop, sell and implement technological tools and platforms with specialized solutions for the core business of our clients in 12 business segments, namely, agribusiness, building and construction, distribution, education, financial services, travel and hospitality, legal, logistics, manufacturing, health care, services, and retail. In this context, we provide integrated enterprise management software, productivity and collaboration, data and intelligence platforms (or smart, collaborative platforms), and value-added services, such as implementation and advisory.

Accordingly, one of our main edges is our development of applied technology based on platforms and creation of segment-based solutions integrated into a distribution model based on owned and franchised units in Brazil and abroad, which enables us to have a presence, proximity and quick and effective services to our clients.

As part of our strategy of expanding, strengthening and adding value to our clients while leveraging growth in our revenues, we initiated in 2019 studies and implementation efforts with a view to accessing new markets that can add complementarity to our business model. Among the opportunities identified by our Management, we should highlight the setting up of the techfin business (technology for financial services), whose main goal is to simplify, expand and cheapen our clients’ access to credit and other financial services. Additionally, we also found opportunities to develop performance solutions for integration with our clients’ value chain to optimize their sales revenues and profitability.

In the techfin business, TOTVS’s first initiative was to enter into a partnership agreement with Redecard S.A., an Itaú Unibanco group company (“Rede”), to promote before our SMB clients the merchant acquisition and prepayment of receivables solutions provided by Rede.

The following table shows the Company’s consolidated key financial and operating indicators:

# 7.1 - Description of the main activities of the company and its subsidiaries

| In millions of Reais (except percentages) | 3-month period ending on March 31, | | Fiscal Year ending on December 31, | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2018** | **2017** | **2016** |
| Net Revenues | 563.6 | 519.0 | 2,320.3 | 2,227.3 | 2,183.8 |
| Software Revenue, Net | 563.6 | 519.0 | 2,111.2 | 1,992.9 | 1,939.6 |
| Recurring Revenue(1) | 416.1 | 378.7 | 1,547.2 | 1,466.4 | 1,348.9 |
| EBITDA(2) (4) | 82.9 | 96.0 | 259.4 | 294.5 | 343.9 |
| Adjusted EBITDA(3) (4) | 114.7 | 96.8 | 346.1 | 293.5 | 351.9 |
| Net Income | 12.1 | 34.3 | 60.6 | 93.3 | 152.3 |
| Renewal Rate(6) | 98.1% | 97.3% | 97.9% | 99.0% | - |

(1) Comprising software subscription, technical support and technology upgrades. For more detail on Software Revenues Net, see item 3.2 of the Reference Form.

(2) EBITDA (Earnings Before Interest, Tax, Depreciation and Amortization) is a non-accounting measure prepared by the Company in line with CVM Instruction No. 527, dated October 4, 2012, which is reconciled with its financial statements and consists of its net income for the fiscal year or period, plus financial income and expenses, income tax and social contribution, and depreciation and amortization cost and expense.

(3) Adjusted EBITDA is a non-accounting measurement prepared by us corresponding to EBITDA adjusted by equity accounting income, provision for asset impairment, additional contingency provisions, losses (gains) on sales of permanent assets, provisions for doubtful debts, gains on sales of subsidiaries and net losses from discontinued operations, which, in our view, are not part of the ordinary course of business and/or distort the analysis of our performance. For more details on Adjusted EBITDA, see item 3.2 of the Reference Form.

(5) EBITDA and Adjusted EBITDA are not financial performance measures according to the Accounting Practices in adopted in Brazil or to the International Financial Reporting Standards (IFRS) issued by the international Accounting Standard Board (IASB), do not represent cash flow for the stated periods, should not be considered substitutes for net income , operating performance indicators or substitutes for cash flow as an indicator of the Company's liquidity. They have no standard meaning and may not be comparable to similarly termed measures provided by other companies.

(6) The Renewal Rate represents the percentage of clients who remained in the recurrence basis at the end of the period relative to the basis at the start of the period, using the amount of recurring revenues as a reference.

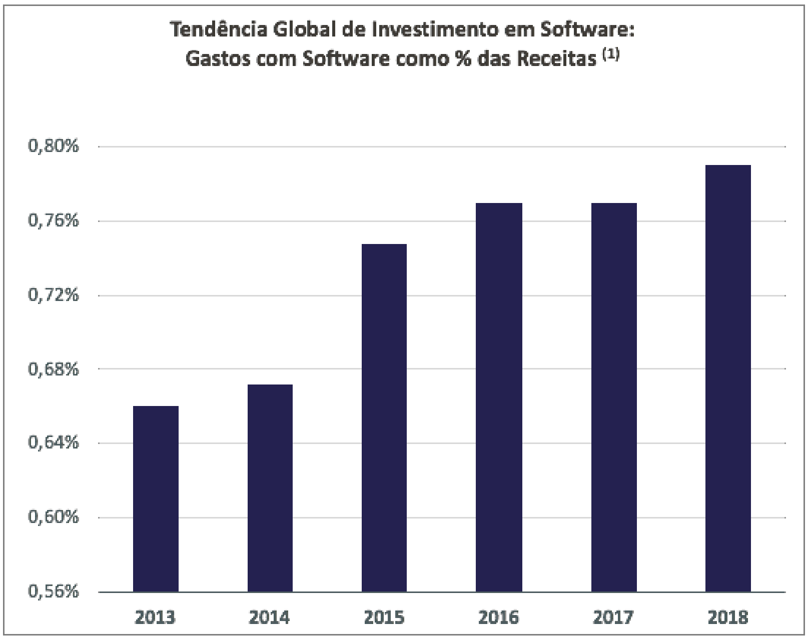
### Market Opportunities

Based on information published by the Brazilian Institute of Geography and Statistics ("IBGE") and Gartner, we estimate that the Total Addressable Market ("TAM") for TOTVS amounts to approximately R$20.7 billion, consisting of more than 4.4 million businesses with up to 9 employees, 615,000 businesses with 10 to 500 employees, and 10,000 businesses with more than 500 employees.

We believe this potential market will benefit from improvements in Brazil's macroeconomic fundamentals, such as resumption of GDP growth (expected average growth of approximately 2.4% per annum between 2019 and 2022) and a stable inflation environment (inflation rates around 4.0% for the next three years). According to the International Data Corporation (IDC), the enterprise management software industry is expected to show average annual growth of 8.6 percent between 2018 and 2022.

We understand there is still a relevant untapped potential market in the IT sector. According to a survey conducted by ASM and published in 2018, ERP systems were used by 48 percent of Brazil's potential market, while CRM and Business Intelligence systems had penetration rates of 28 and 25 percent, respectively. In addition, as shown in the chart below with historical data published by Gartner, companies have systematically increased their software budget relative to their revenues, consuming more technology as their business maturity grows.

# 7.1 - Description of the main activities of the company and its subsidiaries




Caption: Global Software Investment Trend: Software Expenditures as a % of Revenues (1)

Historically, according to data published by the IBGE, the IT sector has grown at a faster pace than the average for the Brazilian economy.

All of this information strengthen our vision that the Brazilian market is an important source of growth and opportunity for TOTVS.

**Techfin**

The Brazilian market shows high banking concentration, where the top-five banks (Caixa Econômica Federal, Banco do Brasil, Itaú Unibanco, Santander, and Bradesco) accounted for 85 percent of all deposits in 2017. This environment contributes to a continued high cost of credit, with an interest rate for individual overdraft accounts of 315.6 percent per annum as of January 2019, according to data provided by the Central Bank, while the Selic rate is at 6.5 percent per annum.

This scenario creates an opportunity for TOTVS to do business in the techfin segment without letting go of our technology DNA as a software company. TOTVS positions itself as techfin rather than fintech in order to offer solutions to simplify, expand the access to and lower the cost of financial products, including payment and credit solutions for our clients. Our techfin segment can be leveraged by: (i) our expertise and know-how in technology and digital solutions; (ii) our ability to collect and analyze large volumes of data; (iii) our ability to launch new products to adapt to user requirements; (iv) our robust distribution platform in all regions of Brazil; (v) our access to a broad recurrent client base across the value chain; and (vi) our well-established brand. These solutions, in fact, can be offered in partnership with players in the financial industry, whether they are firmly established or newcomers, who possess complementary knowledge like product expertise, knowledge of the regulatory environment and client risk assessment skills.

In addition, access to a broad client base whose transactions are carried out through and supported by TOTVS systems, combined with a trend towards digitization of businesses and pressures for efficiency gains and revenue growth, creates an opportunity for TOTVS to develop solutions to enhance its clients' performance based on analysis of their data, including, for example, measures designed to increase sales in certain situations and to better manage company resources.

## 7.1 - Description of the main activities of the company and its subsidiaries

**Strengths and Competitive Advantages**

*Leadership position and brand*

We are a Brazilian multinational standing as Brazil's leading ERP company with a market share of 50 percent, according to a survey conducted by Gartner. We estimate our aggregate revenues from clients at approximately R$1.6 trillion.

We are the 24th most valuable brand in Brazil in the Interbrand ranking for 2018, and ours is the only technology brand in that ranking, which we believe is a valuable asset that contributes to attracting new clients, as well as the best and most innovative tech professionals in the software industry. TOTVS was the only Brazilian IT company ranked in "The 2018 Global Innovation 1000 Study", which is published annually by the consulting firm Strategy&, associated with PwC.

Our leadership position affords us broad access to the various market segments we serve and enables us to offer several products in a verticalized manner for both new and existing clients of all sizes, including cross-selling opportunities. We also believe that because of our solid reputation, we can bring outstanding professionals, partners and clients to our open ecosystem, keeping pace with and integrating evolving demands while anticipating future trends.

*Distribution platform*

TOTVS is present all over the Brazilian territory and has clients in 41 countries. This great capillarity is the fruit of our strategy of expanding through branches and exclusive channels and franchises, which was rolled out in the 1990's and allows us to be close to our clients at all times, to better learn about their business and the specificities of areas where they operate, and to earn their trust.

We believe our distribution platform is a strong edge that, with a local and digital presence, can serve companies of all sizes.

In the large corporation segment, we have a specialized division with skilled professionals trained in each industry served to provide not only a specialized service, but also support and advisory.

In the small and medium-sized business segment, we have five owned units and 52 franchised territories. We believe that this capillarity of our sales force makes for unique knowledge of our clients' needs, as well as for optimized sales and implementation costs. Our franchisees operate on an exclusive basis and are compensated not only based on sales made, but also according to recurring revenues from software, which we believe motivates them to keep a high degree of alignment with our interests, particularly in maintaining long-term relationships with our clients.

To serve microbusinesses, we operate a multi-channel system through partners, retailers and resellers, with enables us to reach all regions and large urban centers in Brazil.

Lastly, TOTVS Store enables us to set up a digital channel to interact with our clients, particularly for cloud computing applications.

*A broad, diverse and flexible portfolio*

Our portfolio comprises a comprehensive horizontal supply of ERP, HR, CRM, Analytics and Artificial Intelligence solutions. We believe our solutions are broad, diverse and flexible, handling and meeting the needs of all our clients in the most varied of verticals in 12 business segments (agribusiness, building and construction, distribution, education, financial services, travel and hospitality, legal, logistics, manufacturing, health care, services, and retail).

We supply companies of all sizes with cloud or on-premises solutions. Our solutions are scalable and modular and can be easily configured to enable specific functionalities for different business segments and sizes with consistent integration.

*Business model with a track record of growth and profitability*

Our core business model consists of offering and developing, in a constantly innovative way, ERP systems that are reliable and efficient to securely process corporate information, making them a tool of paramount importance to our clients in managing their business, where we believe we have deep expertise.

Our business model takes a client-focused approach, comprising a broad product portfolio, an aftersales team that includes experts in promoting cross-selling and upselling, and centralized implementation and maintenance teams. We make it more simple and easier for our clients to contract and use our solutions through a variety of sales methods that adjust to each client's reality according to their stage of maturity. This enables us to support our clients' evolution, positioning ourselves as a long-term partner and expanding our services and cross-selling efforts throughout the life cycle of our partnership.

## 7.1 - Description of the main activities of the company and its subsidiaries

This business flexibility allows us to grow along with our clients, supporting long-term relationships. Over the past eight years, our gross revenues increased by more than 2.15 times, with a renewal rate of approximately 98 percent as of December 31, 2018. We believe these factors, combined with a recurring relationship model (monthly payments with automatic annual renewal of contracts), confer predictability and profitability to our business.

*Acquisition Track Record*

We believe we have solid capacity and track record to identify, negotiate and integrate acquisitions over more than 20 years, creating value for the Company by bringing about significant synergies.

Since 2006, we have acquired more than 25 companies that have strengthen our core business and our ability to break into new business segments. Our executives are experienced in the process of both acquiring and integrating new companies into our business, which boosts potential synergies to be achieved with a focus on increasing cross-selling, reducing churn, expanding services and solutions offered, cutting costs, improving governance and expanding sales using the TOTVS brand. Significant examples of our ability to integrate are the RM and Datasul acquisitions, which were both transformational to the Company due to their size at the time of acquisition.

*An experienced and skilled executive team and strong corporate governance*

We believe the extensive experience and in-depth knowledge of our executive team has given us a decisive competitive edge in the dynamic market where we operate. Our Management currently consists of an engaged, young team boasting 18 years' business experience, on average, in the tech sector, approximately 9 years of which, on average, have been exclusively dedicated to the Company. These highly qualified professionals play a key role in growing our business, creating a culture of operational excellence, transparency and efficiency, and setting high standards of governance and ethics.

Additionally, 2018 saw the Company conclude the succession process for our senior management team, with our founder migrating to our board of directors and Dennis Herszkowicz joining us as CEO. Our strategy and our focus remain as developed over the past several years.

The expertise and skills of our executives will be key to spotting growth opportunities, making acquisitions, successfully integrating acquired assets and implementing the strategy set out below.

In addition to being listed at the highest governance level of B3, the special segment known as *Novo Mercado* ("New Market"), we are a true corporation, with eight out of the nine members of our board of directors being independent and highly qualified. Our audit committee consists solely of independent members of our board of directors, to which our internal audit team reports directly.

**Growth Strategy**

*Strengthening our core business*

Our growth strategy is based on strengthening our core business by continuously focusing on providing solutions that are sold and implemented in simple and rapid way through a digital and capillary distribution and business network and on developing deep, longstanding relationships with a diversified client base.

Additionally, we have completed our process of transitioning to an SaaS[1] and Cloud-based business model, which increases our recurring revenues with a loyal client base.

Considering that the penetration of certain solutions, such as CRM and Business Intelligence, is estimated at less than 5 percent of our existing client base, we believe there is a great opportunity for growth through

greater supply and penetration of our vertical solutions, with great potential for cross-selling to our existing and future clients.

*Expansion into new markets*

Our expansion into new markets (techfin and performance) is based on our competitive advantage of being already present in nearly all segments of our clients' value chain, which enables us to offer new, flexible, customized solutions that help our clients sell more (performance) and increase efficiency in their operating and financial activities (techfin).

As part of this strategy, TOTVS has set up its techfin division, whose main objective is to simplify, expand and cheapen our clients' access to credit and other financial services, including through partnerships with financial institutions. As such, we seek to add further value to the value chains already served by our Brazilian-market-leading enterprise management solutions by offering, for example, credit solutions to sectors as varied as education, health care, HR and manufacturing.

## 7.1 - Description of the main activities of the company and its subsidiaries

We have already struck a partnership with Rede (a technology platform featuring receivables management solutions) that enables us to tackle new markets in the near term. In addition, we are also watching out for new opportunities in e-commerce solutions to eliminate intermediaries from our clients' value chains.

*Accelerated Growth through Acquisitions*

We believe acquisitions are a powerful tool to leverage our strategy of strengthening our core business and expanding into new market. We constantly assess potential strategic acquisitions based on 4 key pillars:

1. Bolstering and supporting our core business (horizontal back-office and/or HR solutions);
2. Broadening our activity by seeking the leading position in our business segments (vertical solutions);
3. Acquiring targets that will add new agnostic and scalable products to our portfolio so as to boost our cross-selling capabilities; and
4. Creating new markets and expanding our potentially addressable market (techfin ad performance).

Our pipeline of potential acquisition targets is constantly updated in view of the dynamism of the information technology market. Targets are assessed on the basis of how they fit in at least one of the four pipeline pillars, their availability for negotiation, and whether their estimated value is consistent with the levels prevailing in the marketplace.

On May 7, 2019, the Company published a call notice for an Extraordinary General Meeting that to be held upon second call on May 16, 2019 to resolve on the proposed change in the authorized limit for capital increases irrespective of amendments to the bylaws, with the resulting amendment to article 6 and restatement of the Company's bylaws.

On May 8, 2019, the Company entered into a binding Memorandum of Understanding in order to sell to ELGIN S.A. ("ELGIN") the hardware operations we run on the Brazilian territory through the subsidiary Bematch Hardware Ltda. for the amount of R$25,000,000.00, subject to adjustments, payable at the closing of the transaction. The decision to sell the hardware operations is part of TOTVS's strategic plan of having its teams and resources focused on the software operation.

The completion of that transaction depends on approval by Brazil's anti-trust authorities and on fulfillment of certain conditions that are customary for this type of deal. The Company will keep the market informed of any such developments as may prove relevant.

On May 9 2019, the Company released a Material Fact disclosing the conclusion of an agreement with VTEX S.A. ("VTEX") to: (i) create a joint venture focusing on the development and distribution of e-commerce software solutions for companies in the Brazilian market; and (ii) sell to VTEX all of the interest held by the Company in the capital stock of CIASHOP S.A. ("CIASHOP"), representing 70.47 percent of CIASHOP's capital stock, for the amount of twenty one million one hundred and seventy-five thousand *Reais* (R$21,175,000.00), subject to adjustments, payable at the closing of the transaction. The total value assigned to CIASHOP was thirty million forty-eight thousand nine hundred and sixty-six *Reais* and eight cents (R$30,048,966.08). The completion of that transaction depends on approval by Brazil's anti-trust authorities and on fulfillment of certain conditions that are customary for this type of deal.

## 7.1.a Specific information on government-controlled companies

Not applicable. The Company is not a government-controlled company.

# 7.2 Information on operating segments

### *a. products and services sold*

TOTVS provides the market with a flexible, broad and diverse portfolio of business solutions, encompassing enterprise resource planning (ERP) software, verticalized solutions (by client industry), smart platforms (for productivity and collaboration, data and artificial intelligence, the Internet of things, analytics) value-added services (implementation, consulting, business education, infrastructure) and hardware for companies of all sizes in 12 strategic sectors of the economy (Agribusiness, Building & Construction, Distribution, Education, Financial Services, Travel & Hospitality, Legal, Logistics, Manufacturing, Health Care, Services, Retail).

**Business Model**

Our business model is focused on our clients. We believe in the transformational power of technology and in its ability to increase the efficiency, productivity and competitiveness of companies, creating wealth in the economy. This is a fundamental guideline that pervades all of our actions, from our research, development and innovation effort, which are aimed at designing solutions for the lines of business of our clients and to add value to their business (Business to Business, or B2B), while also considering the needs of their end clients (Business to Consumer, or B2C), to client care and relationship structures that rely on exclusive teams according to client profile and size to the supply and sale of solutions that make contracting simple and easy, from a traditional software license to the payment of a monthly subscription fee.

Our clients' experience begins with their relationship with the sales team, who seek to understand their profile and the environment in which they operate in order to properly map and identify their needs, which may relate to automating critical business processes, such as accounting, finance or human resources, or to challenges facing their core business, such as student retention at a university, grain production control in agribusiness, a department store point of sale (POS) in retail or automation of production processes in manufacturing, culminating in the architecture and specification of the most suitable solution.

The next step is implementing the solution on the client's premises, for which TOTVS provides dedicated teams that are qualified to do this job, yielding end clients lower costs. Upon implementation of the solution, we provide maintenance and comprehensive support services through a highly experienced team based on TOTVS's own premises who are available 24 hours a day, seven days a week. Lastly, we also have an aftersales group, with locally distributed teams focused on the client's ongoing needs. This sales force specializes in and is encouraged to provide the best cross-sell and upsell solutions to existing clients.

TOTVS offers more than one software contract option. A client that enters into a license agreement, which includes the licensing of rights to use the Company's software, will also, in most cases, enter into software maintenance agreements that ensure the right to receive any new software versions released by TOTVS, containing adjustments and the entire technological, functional or legal development.

On the other hand, when the client's choice is a subscription (software as a service), they are given the right to use the software in its new versions, as released by TOTVS, containing adjustments and the entire technological, functional or legal development, upon payment of a monthly subscription fee, and they may also choose to contract solutions hosting on the cloud.

In both options, clients can contract solutions through owned or franchised distribution channels. Where a franchisee is involved in a sale, the Company bills the client directly and pays a commission to the franchisee.

Regardless of the contract type, consulting, implementation, technical training and customization services (any such specific development to adjust the software as may be conducted according to specific requirements) can be either provided by TOTVS or contracted by the client directly with third parties (including franchisees and/or TOTVS-certified distribution channels), in which case the service is billed directly by the third party.

Our business models contemplates both recurring and non-recurring revenues from software. Revenues are posted net of taxes, returns, rebates and discounts, where applicable. Revenues are recognized in amounts that reflect the consideration to which the Company expects to be entitled in exchange for its transfer of goods or services to a client.

## 7.2 Information on operating segments

**Recurring Revenues:** Recurring software revenues comprise software subscription (involving a low initial investment upon which the client gains access to multiple solutions simultaneously on multiple devices with an unlimited number of users), maintenance (technical support and technology upgrades) and recurring services (cloud computing, recurring client care).

**Non-Recurring Revenues:** Revenues from software license fees, where the client acquires an Assignment of Right to Use (CDU) based on a fixed number of users, as predetermined by contract, or an unlimited number of users if the sale is based on the client's turnover, as well as solution implementation and customization, consulting and business education services.

Our goal is to expand the access to the technology and ensure more and more companies can benefit from its advances and the age of digitization and become more competitive. To that end, we always ensure our clients freedom of choice so they can decide which software contract type best suits their reality.

**1. SOFTWARE PORTFOLIO**

Our software portfolio includes a three-tiered offer: (i) the ERP solution for back-office operations, contemplating general processes involved in running a business, such as marketing, human resources, contacts, administrative and financial activities, among others; (ii) software solutions specialized in the client's business vertical, and therefore completely focused on the challenges of TOTVS's 12 operating segments; and (iii) the platforms, which represent the evolutions of the management system, featuring a more open architecture and integration with apps and designed based on such premises as productivity, collaboration, management and relationship, and a robust intelligence and data analysis capacity.


**Figure: TOTVS business model**

Captions: ERP PLATFORM AND SEGMENT (BACK-OFFICE AND SEGMENT
Ensuring corporate information is processed in compliance with business and security laws and regulations
TOTVS HUMAN RESOURCES PLATFORM
Ensuring management of human resources

### 1.1 ERP Solutions

The enterprise resource planning (ERP) system is the basis for all operations of a business, providing easy and reliable real-time access to a company's data, anytime and anywhere, integrating and facilitating communication among different departments, such as sales, finance, inventory and human resources, while improving the control and management of processes in an organization. The data obtained from an ERP system and their analysis enable deep diagnoses, which can assist a manager in making the best decisions for their company for greater efficiency and productivity, cost reduction, growth, profitability and improved competitiveness.

# 7.2 Information on operating segments

The TOTVS ERP is in a permanent technological improvement process to provide more and more functionalities and benefits to our clients' business, keeping up with the dynamics and rapid changes in the marketplace, while ensuring compliance with business, tax and information security regulations.

**TOTVS BackOffice:** The BackOffice ERP comprises essential and complementary management processes, integrating solutions that are tailored to the special feature they support on a productivity and collaboration platform. This comprises the administrative and financial BackOffice service, in full compliance with the law, as well as modules that are key to running business in any kind of industry, such as engineering, inventory, costs, and production planning and control.

Brazil tax laws are among the most extensive and complex in the world, which requires companies to monitor that ever-changing tax scenario. The difficulty to keep a strategic management of tax risks is aggravated on a daily basis by a calendar filled with different obligations and deadlines to meet all over the national territory, as well as to invest in personnel, software, data storage, consulting services, outsourcing and attorneys and to cover court expenses.

The means used by tax authorities to ensure compliance with tax regulations gain traction with each passing year. The entire history and operating process of a taxpayer are carefully scrutinize by the tax authorities. Having electronic documents (NF-e, NFS-e, NFC-e, Eventos e- Social, EFD Reinf, etc.), monthly book entries (state tax payment forms, SINTEGRA, EFD ICMS IPI, EFD Contributions, Periodic e-Social Periódico and Não-Perioódico, EFD Reinf, Bloco K, etc.) and annual book entries (SPED Contábil, ECF, DIRF, RAIS, etc.) in their possession, tax authorities will use their tax expertise for the most varied of purposes in order to control tax information.

Tax liabilities are part of the day-to-day business at all companies, irrespective of their size and business segment. Understanding the tax scenario in Brazil is an extremely complex task that takes time, knowledge and constant updates.

**TOTVS RH:** TOTVS has complete solutions to support the processes making up the Human Resources suite, making human capital management and development simple and fast for companies in all processes, such as supporting legal requirements and payroll processing, benefit management, employee workday control, workforce planning, talent attraction and retention, training management, competency-based management and monitoring of results through indicators and action plans and by setting strategic targets.

### 1.2 Vertical Solutions

Information technology (IT) is an extremely high value-added industry and has the potential to decisively contribute to sustaining new development cycles in Brazil, having a broad-ranging positive effect—on all supply chains. Accordingly, TOTVS has decided to focus its business on 12 sectors of the economy, a strategy that has enabled the Company to incorporate the best competencies into our portfolio, make our products more specialized and increasingly integrate our clients' end-to-end value chains. For example, the Supply Chain feature combines the Agribusiness, Manufacturing and Logistics segments.

TOTVS builds its teams by selecting professionals specialized in each of our clients' 12 business segments, thereby maximizing the benefits of specialization. That has led us to offer even more specific solutions not only for our client, but also for our clients' clients. This means, for example, that when we develop a tool for a university, we seek to meet not only the needs of that educational institution, but also those of its clients, that is, students.

Integrated into the BackOffice systems, the way in which vertical software products are structured in each industry meets the challenges of the client's core business and is aimed at consolidating solutions and business processes by business sector of the economy, optimizing the development of solutions, updates and innovation. This allows the solutions offered by the Company to meet the most basic needs companies have in connection with routine back-office operations, such as accounts payable, accounts receivable, tax and human relations processes, as well as needs related to their core business, such as controlling students, for a university, controlling inventory, for a manufacturer, or managing construction works, for a builder.

With that in mind, TOTVS's portfolio is organized into specialized business solutions for the following 12 sectors of the economy:

- **AGRIBUSINESS**

TOTVS provides specialized solutions for agribusiness covering the value chain of the following segments: Grain Processing and Origination, Crop Production, and Sugar & Energy. Our goal is to enable greater traceability for production, better economic and financial management, and total planning and control within processes that are typical of the agribusiness.

## 7.2 Information on operating segments

- **MANUFACTURING**

This is one of the main segments served by TOTVS, whose range of offerings spans eight major specialty groups: Extraction & Processing; Pulp & Paper; Chemicals & Recycling; Metallurgy & Plastics; Capital Goods; Durable Goods; Consumer Goods; Textile & Apparel. Our value proposition is to enable the application of Lean Manufacturing concepts, such as continuous improvement, efficiency increase, productivity, and cost reduction, making manufacturing processes more automated in sync with the supply chain and incorporating Industry 4.0 concepts (an industry standard that changes the way in which machines communicate in the production process and use information to optimize it, making it more cost-effective, streamlined and autonomous), while making manufacturing more and more sustainable through technological innovation and the development of products in line environmental preservation principles.

- **LOGISTICS**

TOTVS offers specific solutions for the Logistics segment that meet the challenges faced by operators of logistics, ports and customs facilities and carriers. In this segment, we aim to ensure balanced inventories, shorter order processing cycle times, lower operating costs, higher service levels with greater client satisfaction and loyalty, accurate and reliable information flows for purchasing management, transportation management, tax and billing management, and on-time deliveries with total visibility of the logistics operation.

- **RETAIL**

The following retail sub-segments are served: Management of Car Dealerships, Franchise Networks, Drugstores, Supermarkets, Fashion, Food Service and Foods, Department Stores, and Hardware Stores. Our solutions intend to offer comprehensive management for retailers, from automation of administrative process to the closing of sales at the POS (checkout), including store management, credit management, mobility, e-commerce, inventory management, pricing, RFID, and grid and assortment management, with secure information and integrated solutions.

- **DISTRIBUTION**

Solutions for various types of operations, from distribution of basic inputs to wholesale distribution of the most varied kinds of products, such as groceries, cold cuts, cosmetics, hygiene and cleaning products, building materials, pharmaceuticals, chemicals and auto parts. Our solutions are thought out according to the steps in the supply chain and aim to automate everything from the purchase of goods to the receipt and storage of products, to sale, separation, shipping, billing, shipment adjustment, treasury and finance, and to the company's tax and accounting operations.

- **SERVICES**

TOTVS has solutions tailored to the following sub-segments: Security and Cleaning Service Providers, Equipment Lease, BPO, IT and Telecom, and Passenger Transport. We aim to enable clients to ensure the control of operations with an optimized allocation of resources and, as a result, improved productivity, while creating value for clients in a sustainable way by offering quality services to foster longstanding relationships and skilled labor to provide their services.

- **BUILDING & CONSTRUCTION**

TOTVS provides solutions tailored to the Developers and Real Estate Market subsegments. Our value proposition for this segment is to offer mobility and total data integration for construction site management and to enable a proper project planning with consistent budgeting and accurate monitoring of contracts and supplies of materials that are used in construction.

- **EDUCATION**

TOTVS provides specific solutions for Elementary School, Higher Education and Continuing Education. Our goal is to enable educational institutions to digitize and optimize all of their student management processes, such as enrollments, test management, default management, and ensuring greater student retention and satisfaction with the education offered and services provided by such institutions.

- **TRAVEL & HOSPITALITY**

TOTVS provides solutions specifically developed from typical hotel, inn and resort processes. The goal is to ensure managers can have a comprehensive view and fast and easy access to the main operating and administrative processes comprised in a hotel's day-to-day business, with the ability to access anytime and anywhere check-in, check-out, governance and reservation viewing operations, as well as to view all key hotel management indicators, such as occupancy rates, average daily rates, real-time revenues and REVPAR (accommodation revenues per available room), among others, on a mobile basis.

- **LEGAL**

TOTVS understands the reality of the legal service value chain and helps law firms and legal departments to work with greater flexibility and speed and keep themselves constantly up to date through scalable, specialized solutions that control operations, reduce costs, improve client relations and help to secure new cases to handle. The proposition for this segment is to enable those responsible for legal departments to fully manage procedural and administrative activities, a mobile and accessible management for quality relationships with partner law firms, and definitive management to sustain the operation with a specialized back-office, in addition to ease of operation and scalability.

# 7.2 Information on operating segments

- **HEALTH CARE**

TOTVS develops specific solutions for the health care segment, serving medical offices, clinical centers and hospitals of any size, as well as health care and self-management operators. We seek to improve clinical performance and compliance and to generate sustainable financial results, supporting their business with reliable and interoperable data and information for appropriate decision-making processes, from billing processes and authorizations to the adequate transfer of funds to providers, to disallowance control and compliance with the regulations applicable to the industry, ensuring streamlined, quality patient care.

- **FINANCIAL SERVICES**

TOTVS offers specialized solutions for all kinds of financial institutions, such as banks and credit agencies, credit cooperatives, investment funds, supplementary pension plans and insurance brokers and insurance companies, comprising all of their investments, credit, cards and core banking areas, from business environment to accounting and operations, including management, compliance and market controls. Our aim is to deliver to our clients reliable financial operations, accurate financial calculations and efficient credit extension processes with reduced risks and sending of required information to the legal agencies.

### 1.3 Platform Solutions

For TOTVS, ERP is our core business and, like the world, it is constantly changing — evolving from systems into open, connected and customizable platforms. The Company currently offers clients 5 platforms, namely:

- **Carol Data and Artificial Intelligence Platform:** Carol is TOTVS's data and artificial intelligence platform for interpreting data and recommending attitudes and actions. It is the cognitive intelligence of TOTVS solutions. It allows clients to improve data ownership within organizations and increase analytical capacity and decision-making speed in the face of a business environment with a growing volume of information, while also serving a virtual assistant, answering questions and offering business insights. It uses Deep Learning techniques, Neural Networks, Genetic Algorithms and Machine Learning solutions to drive transformation in the way companies and their results are managed, all in a simple, assertive manner and with solid qualification of business data and information, so that clients can seize the opportunities created by the digital economy based on data, sharing and collaboration. It also has an infinite learning capacity as a strong feature since its API (Application Programming Interface) is open, which allows any person or company to teach it new skills and create other application models on top of Carol itself.

- **TOTVS Analytics Data and Analysis Platform (by GoodData):** A business analytics solution that presents data in a structured manner, consolidating the company's information into dynamic and intuitive dashboards that enable a very agile management of indicators and results, thus allowing for much safer decision-making. The tool is 100-percent available from the cloud, which means zero spending on infrastructure. It provides indicators and reports in a single place, in a practical and speedy way, eliminating the need to access several different sources, as it is already integrated into TOTVS ERP, with more than 300 reports and indicators ready and available.

- **Fluig Productivity and Collaboration Platform:** A solution aimed at unifying systems, digitizing, simplifying processes and exponentially boosting productivity and business in a more fluid and intuitive experience. It is the evolution of productivity and collaboration solutions integrated into one platform, which allows for the creation and fruition of a company's innovation plans, regardless of its legacy systems. fluig has a unique collaborative communication interface and stores all its content in the cloud, with mobility being one of its key features. Users access information safely, anytime, anywhere and on any screen. Among its features, the platform provides process modeling and management tools, portal and layout creation, document management, corporate social network creation, mall for buying and selling applications, management of identities and collaborative e-learning.

- **BemaGo IoT Platform:** This represents the positioning strategy for smart devices and complete IoT solutions, focusing on transforming data into consolidated information to generate business. The BemaGo solution consists of an IoT gateway to which sensors are connected to quantify and qualify people. The gateway is a smart device that communicates with sensors over a wireless network of its own. Information collected by the sensors is handled and sent to the Bema platform cloud, a smart environment with data storage and processing capabilities, so that it can be leveraged by the business through dashboard that facilitate decision-making.

- **TOTVS Master Sales CRM Platform:** A platform focused on business intelligence that enables clients to understand where they stand on the market and devise business strategies to increase productivity in the sales team, while retaining clients and improving their market shares, by reviewing systematized data made available via dashboards showing strategic business indicators, such as sales percentages, projects, targets, average profitability, sales history, payment history and product mix offered. TOTVS Master Sales is a flexible and disruptive cloud -based SaaS solution and accessible to companies of any size. It enables clients to improve and automate all of their sales teams and their strategy, from demand generation to aftersales, increased sales predictability, management of leads, negotiation process pipeline, generation of satisfaction survey forms, price surveys and registration of interactions

# 7.2 Information on operating segments

and all client services provided, among other benefits.

### 1.4 Solutions for Micro and Small Businesses

With its line of customized solutions for microbusinesses, TOTVS meets the challenges of managing a business efficiently and at low cost. These solutions are tailor-made for clients that seek cutting-edge technology, simple and fast implementation, and compliance with applicable legislation, all provided by a trustworthy supplier. We highlight below our solutions and segments served:

- **Bemacash:** An integrated software and hardware solution for microbusinesses and small businesses, enabling clients to get a complete point of sale (POS) that complies with the tax laws. It includes a Smart Payment Card Reader for small shops or street sales that works as a direct check-out system on the device screen, enabling clients to control inventories and sales on a daily basis, as well as receipts of payments from all major payment cards and card brands used in the market. One other solution is the Full Check-Out, which is designed for larger stores and over-the-counter sales to deliver a fast, quality service and includes inventory control, cash register closing and tax law compliance functionalities. Also available is the Financial Management solution, designed for service providers and featuring a system that gives full financial control and invoice issuance capabilities, with a powerful accounts payable and accounts receivable feature, all available from the cloud and directly accessible via cell phone and/or tablet.

- **Manufacturing:** It integrates the company's main areas, streamlining the information flow and enabling quick access to the data required for management.

- **Retail:** Complete automation for points of sale in the micro and small business segment. The solution comprises management systems and devices, all integrated and available at affordable costs, while simplifying compliance with tax obligations and being cloud-based, which makes for a simpler purchase and installation process.

- **Health Care:** A TOTVS solution for medical offices and clinics that provides quick and effective clinical and financial management.

- **Services:** A solution that enables clients to control cash flows taking into consideration purchase and sale orders, control of service orders with allocation of resources and products, control of inputs and outputs by cost center and profit center, and control of expenses and revenues by financial category.

### 2. SERVICES PORTFOLIO

**2.1. Software Implementation:** The TOTVS implementation team deploys only solutions sold by the Company using the TOTVS implementation methodology, which provides the guidelines, methods, standards and stages to be followed from the start of services to the post-implementation quality controls.

TOTVS's own units and franchisees follow the TOTVS implementation methodology at all sites, using the same techniques to perform tasks and the same tools to implement the TOTVS software solutions.

***2.2* Cloud Computing:** Offering for hosting TOTVS solutions in an owned or third-party Datacenter, including a comprehensive range of value-added services, such as environment preparation, provision of infrastructure, hardware (servers), operating system, database, applications, technology environment management, backup management and monitoring, and server monitoring.

***2.3* Corporate Education:** Educational Solutions that use cloud-based environments for exercising and contents and infrastructure for knowledge management and job training, either face to face or remotely. Designed for clients and institutions requiring intensive knowledge dissemination and certification processes that are centralized or geographically distributed.

***2.4* Consulting:** TOTVS Consulting consists of strategic business management and information technology consulting teams based in São Paulo, Rio de Janeiro, Belo Horizonte and Brasília and serve clients throughout Brazil.

# 7.2 Information on operating segments

### 3. HARDWARE PORTFOLIO

Bematech Hardware supplies devices that meet all the points of sale needs. It is recognized for the quality of its products and for its technical support network that ensures excellence in aftersales services. Bematech provides clients with the following main products:

- Data Collectors, Computers, Touch-Screen Computers, Smart Devices, Money Drawers, Receipt Printers, Check Printers, Tax Printers, Internet of Things (IoT), Readers, Micro-Terminals, Self-Service Terminals, SAT, TEF - Payment Systems.

***b.* revenue from the segment and its share of the issuer's net revenues:**

The presentation of information by operating segment is consistent with the internal report provided to the key operational decision-maker, and until December 31, 2018 our Management valued the business as broken down into two business units: Software and Hardware.

As of March 31, 2019, the Company classified the assets of its hardware business units as available for sale and, as a result, started valuing the business as one cash generating unit, which is Software.

For the past three fiscal years and the first three months of 2019, the Company's revenue lines accounted for the following share of its net revenues:

| | Three-month period ending on March 31, | | Fiscal year ending on December 31, | | |
|---|---|---|---|---|---|
| **(in R$1,000)** | **2019** | **2018** | **2018** | **2017** | **2016** |
| Software | 563.587 | 518.988 | 2.111.160 | 1.992.911 | 1.939.595 |
| Hardware | - | - | 209.109 | 234.419 | 244.191 |
| **Net revenues** | **563.587** | **518.988** | **2.320.269** | **2.227.330** | **2.183.786** |

***c.* profit or loss from the segment and its share of the issuer's net income:**

The revenue concentration level shown in Item 7.2b is also seen in the Company's net income.

# 7.3 Information on products and services related to operating segments

**a. production process characteristics**

**Research and Development**

TOTVS seeks to meet the market demand for software and services, which reflects in the continuous efforts of its research and development department to develop state-of-the-art software and services.

The core objectives of the Technology and Development are:

- to improve the technical fundamentals of our software, enabling a more efficient development of solutions;
- to adopt new technologies and assess their impact;
- to implement alternative technologies that keep the operation of our products secured and protected;
- to constantly improve the design, functionality and usability of software products;
- to develop special products for clients;
- to constantly seek new development methodologies in pursuit of software agility and quality;
- to integrate third-party tools; and
- to constantly assess new organizational models and their applicability.

The Company also invests in the development of new products to access new markets. To identify which products should be developed, TOTVS constantly carries out market surveys aimed at identifying business segments that require tailored solutions, and then develops solutions focusing on such segments. The surveys are also used to analyze, in conjunction with sales channels, potential segments that could help increase business volumes.

The modular arrangement has been essential to TOTVS's growth strategies for encouraging internal and external developers (small software and application developers and tech startups) to develop applications that run our chief solutions (ERP, HR and Tax).

TOTVS has increasingly invested in R&D. Research and development expenses for the fiscal years ended December 31, 2016, 2017 and 2018 accounted for 15.0 percent, 16.0 percent and 17.1 percent of the net revenues for said fiscal years, respectively, with innovation thus standing as one of the business growth and improvement strategies.

Currently, TOTVS's structures focusing on research, development and innovation activities are as follows:

**R&D CENTERS.** Specializing in the Company's 12 strategic business segments, these centers have experts who understand the specific challenges and needs of each segment, translating them into solutions that are innovative and in line with the core business of our clients. Each center has teams specializing in product and development, support, customer service and relations, and implementation and other services.

**UX LABS.** Located in São Paulo, it is staffed with a team of researchers and designers solely dedicated to exploring market trends and improving the user experience of our solutions and services through constant research and field studies with clients. At the Lab, projects are driven by the design thinking approach and involve empathy, collaboration and creativity, aiming to constantly streamline processes and review the interfaces and navigability of our products.

**iDEXO (Institute of Exponential Ideas).** It is a nonprofit institute located on the premises of the TOTVS head office in São Paulo. It fosters entrepreneurship and innovation based on co-innovation among startups, entrepreneurs and developers. Designed in the open innovation platform model, and with the potential to host up to 40 startups simultaneously, the initiative connects companies to entrepreneurs to create new business solutions and support them in reaching consumers. The institute seeks to identify innovative ideas with the potential for adoption and exponential growth,

## 7.3 Information on products and services related to operating segments

helping startups to structure business models and connect their solutions to the marketplace. Currently, the institute's community includes more than 35 startups serving 12 business segments related to the Company's and its clients' operations.

**TOTVS LABS USA.** Located in Silicon Valley (California, USA), the Innovation Center is focused on creating disruptive solutions in line with the latest technology trends related to Big Data, Mobile, Social Media and Cloud Computing. TOTVS Labs also seeks to identify new business and startup models, establishing strategic partnerships and transferring knowledge to TOTVS's other business units. The main technologies worked on at TOTVS Labs involve Artificial Intelligence, 3D Printing, Robotics, Virtual Reality and Augmented Reality.

**Agile Software Development**

Tuned in to the main global trends in software development, TOTVS has been evolving significantly in agile software processes and tools by implementing the agile software development process in all of the Company's business segments using the SCRUM and Lean methodologies with the teams developing TOTVS products software (Innovation, Maintenance and Testing).

The initiative represents a significant disruption in the software development process because it radically changes the way in which we used to think and develop our products, sparking important reflection not only on processes, tools and technologies, but also on the people involved and their respective roles, which are now more integrated and more decisive to the quality of the end product, irrespective of their hierarchic level or the job they do during the creative process. It is based on this principle that we foster an end-to-end integration of all professionals in the Innovation, Maintenance and Testing teams.

Under the agile model, with the integration of our teams, we build a highly collaborative process involving professionals with an interdisciplinary vision and devoted to developing the best solution and enjoying greater creative liberty. Furthermore, we now are more focused on planning on what is to be developed, which enables product objectives to be better absorbed through the deployment of squads, thus delivering a more consistent process, reducing the chance of errors and product rework, and making higher-quality, value-added deliveries to the end client.

Over the course of the years, TOTVS has consolidated its leadership position in the ERP software market for small and medium-sized businesses. Our investments in research and development, which added up to more than R$1.2 billion in the last three years and in the three-month period ended March 31, 2019, as shown in the table below, have been key to setting TOTVS apart from the competition by providing innovative solutions based on proprietary technology, as well as value-added services.

| (in R$1,000, | Three-month period ended March 31, | | Year ended December 31, | | |
|---|---|---|---|---|---|
| except %) | 2019 | 2018 | 2018 | 2017 | 2016 |
| Net Revenues | 563,587 | 518,988 | 2,320,269 | 2,227,330 | 2,183,786 |
| Research and development expenses | (96,236) | (87,938) | (396,595) | (357,093) | (326,546) |
| % of Net Revenues | -17.1% | -16.9% | -17.1% | -16.0% | -15.0% |

**Components used in the preparation of integrated management software offerings**

The integrated management software solutions described in item 7.2 are built from the integration of components originated from product lines of different technology platforms according to the source of their development, such as the Protheus, Logix, RM, Datasul, Financial Services and other lines acquired by TOTVS and incorporated into its portfolio.

**Technology platforms used**

TOTVS Platform is the Company's technology platform that supports the development of TOTVS software solutions, as well as management, business and collaboration solutions.

Historically, TOTVS has been developing the TOTVS Platform to ensure its technology independence, offering proprietary development languages and running environments that support existing software developers and provide new functionalities and features for our software solutions. This includes hardware platforms and operating system options, as well as the

# 7.3 Information on products and services related to operating segments

choice of databases and processing and load distribution models across execution environments. This strategy has enabled TOTVS to become one of the few software companies in the world to own this type of technology.

TOTVS currently meets the various application infrastructure requirements of both on-premise and cloud-based models. TOTVS Platform is the Company’s response to the need for a Platform as a Service (PaaS) and lays the foundation for the Software as a Service (SaaS) offering, while being complemented by value-added offerings to need Infrastructure as a Service (IaaS) needs.

TOTVS uses the following programming languages: ADVPL (currently TL++), used in the Protheus product line; and 4GL, used in the Logix line. The TOTVS Platform infrastructure ensures compatibility and adaptability of TOTVS solutions to the various operating systems, databases, architectures and network topologies.

TOTVS believes it is the only company in Latin America to have developed a middleware solution, which is known as TOTVS Platform. This middleware solution is also used by associated companies. The middleware used by the Company ensures its independence from: (i) interface; (ii) technology platform; (iii) topology (physical installation of and communication between the computers used by the Company); (iv) connection (communication between computers); and (v) database, protecting clients against any conflict with their operating platforms. In addition, the middleware domain enables the Company and its clients to build a hardware, operating system, network system and database system suite that best suits their preferences, technical needs and investment capacity.

Components of the RM line are developed using Microsoft and Borland technology, while the development platform used is Microsoft .NET. This platform provides us with greater exposure to the technologies available on the market.

In the Datasul line, components are developed using Progress, Java (J2EE) and also TOTVS Platform technologies for both language and platform.

Components of the Financial Services line use the PowerBuilder and J2EE/Java development platforms and languages.

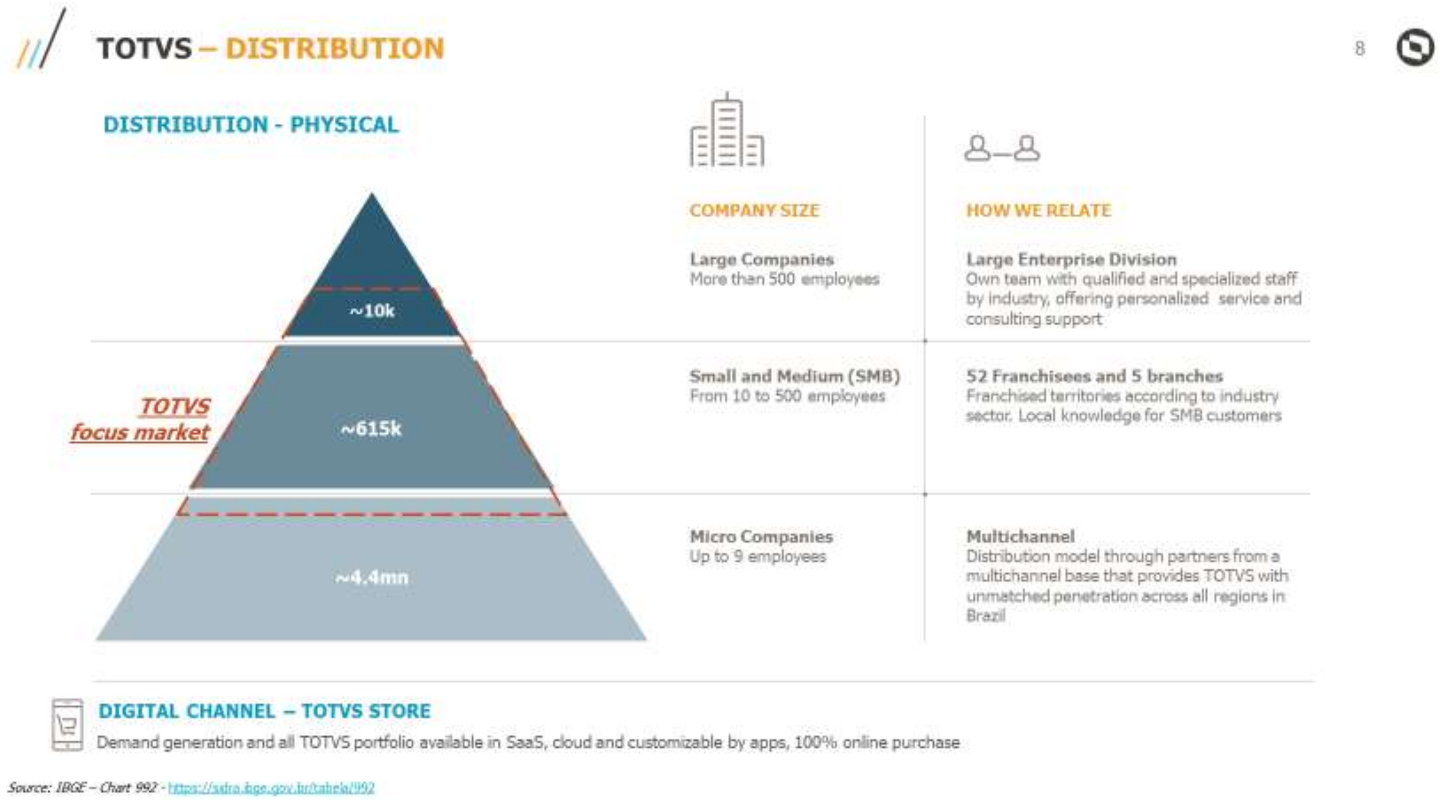
For the fluig platform, components are developed using Java technology.

The Company has also developed a component that enables communication between our products and software from third-party databases. It is called TOTVS DBAccess and avoids the creation of numerous versions for its applications.

**b. distribution process characteristics**

The Company’s strong distribution activities have been supported by its nationwide franchise model, which enables a broad, customized system to be implemented for selling solutions to small and medium-sized businesses.

## 7.3 Information on products and services related to operating segments




### Strategy for Large Clients

TOTVS has its own client care and relationship structure for large clients and for those who are expanding or digitizing their business or changing their business model. Our structure provides advisory through a team of professionals specializing in different business segments and having the skills to enable the client's digital journey.

Our service is provided by skilled professionals and tailored to each client, and comprises prospection, drafting of proposals, designing of products and offerings, implementation methodology and post-implementation service structure.

### Strategy for Small and Medium-Sized Clients

TOTVS licenses and subscribes its software using a combination of sales via direct channels (owned units, subsidiaries or branches) and indirect channels (franchises, representation arrangements, authorized resellers and business agents), with franchising standing as the leading indirect channel. The relationship with indirect sales channels increases TOTVS's market penetration, both domestically and internationally.

On consolidated terms, TOTVS uses the following client service and relationship channels:

**Owned units:** TOTVS has five units of its own in Brazil (Brasília, Belo Horizonte, Rio de Janeiro, Recife, and São Paulo) and, in the international market, units in Argentina, Colombia, the United States and Mexico.

**Franchises:** TOTVS has 52 franchised territories in Brazil and several channels in Latin America.

Franchises are exclusive distribution channels and based on the TOTVS franchise system (*Sistema TOTVS de Franquia*, or STF). The STF defines the geographic regions of operation for each franchise, where exclusivity is granted by line of business (segment). In the regions where they operate, franchises prospect for clients, carry out demonstrations of solutions (pre-sales, sales and post-sales), negotiate terms of sale (within the limits previously set by TOTVS), and provide training, implementation and customization of solutions to the clients' needs, given their local presence and proximity to those clients.

Franchises are paid a percentage commission on license revenues, and there is a special commission for franchises that also receive commission on subscription and maintenance revenues

# 7.3 Information on products and services related to operating segments

generated by clients based in the territories where they operate, in addition to directly invoicing them for the service provided.

TOTVS's own units serve as reference for the operating, commercial and technical activities of franchises. TOTVS has a department to control, monitor and coordinate franchises, which provides advisory services and monitors their operations, as well as their commercial, administrative and marketing strategies. The activities of franchises are also controlled by satisfaction surveys conducted with clients served by all TOTVS sales representatives.

## Strategy for Micro and Small Businesses

**Distributors/Resellers (TOTVS):** TOTVS has resellers primarily dedicated to selling software to microbusinesses and hardware to micro and small, medium-sized and large businesses. Larger resellers carry out their own invoicing and logistics, while for small and medium-sized resellers, direct billing and logistics are run by one of its distributors.

**Marketing**

In 2018, the Marketing team is expected to continue its branding efforts in pursuit of the main goal of informing the market that TOTVS provides innovative, comprehensive solutions for each of its twelve business segments, which represent key sectors of the economy, in addition to creating software sales opportunities, mostly on a subscription basis.

**Alliances and Partnerships**

TOTVS invests massively in strategic alliances with some of the major, most renowned global companies in the information technology sector, as well as in other sectors inherent to its products and services. TOTVS's network of alliances and partnerships comprises companies like Microsoft, IBM, Progress and Oracle, among others. The goal is to enable TOTVS's clients to use a complementary range of solutions and buy products from those partners.

These strategic alliances are formally established to: (i) foster technology exchange between companies, enabling TOTVS to access cutting-edge technology developed by our allies and partners; (ii) carry out joint marketing and advertising actions; (iii) have new products and complementary products available; and (iv) capitalize on synergies between TOTVS's products and trademarks and those of our allies.

In addition to its strategic alliances, TOTVS also uses the partnership approach as a way of leveraging business and shortening product development cycles. The most important partnerships are with players known as Integrated Product Developers (DIP) and System and Solution Developers (DSS), which develop certain modules sold by TOTVS. TOTVS works in association with such companies with a view to expanding our product portfolio and, in turn, providing them with marketing, administrative, sales and technical support. Intelligence Developers software is either developed with or adapted to the TOTVS technology and can be added to our products. Some of the companies partnering or allying with TOTVS use the ADVPL language. The mission of a DIP in an alliance is to provide market expertise and business rules for the module to be developed and sold, while a DSS is responsible for the technical requirements for building and maintaining a proposed module. It is usual for a DIP and DSS to combine into one alliance.

Other partnerships are struck with companies engaged in market sectors that may directly or indirectly provide benefits to TOTVS by publicizing our products and services, by merely referring their customers to TOTVS brands or due to the fact that the products and services offered by such companies add value to TOTVS products and services in segments where they do not compete.

TOTVS has recently entered into a partnership with Redecard S.A. ("Rede"), an acquirer of Itaú Unibanco group, in order to promote among small and medium-sized business clients merchant acquisition and prepayment of receivables solutions through Rede.

# 7.3 Information on products and services related to operating segments

**c. characteristics of the markets served, particularly:**

**i. The Software Market**

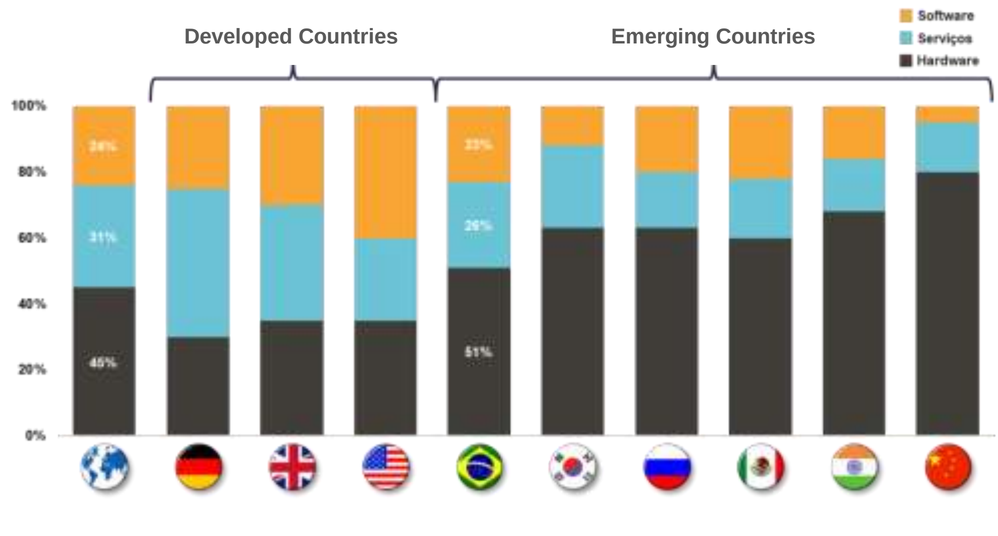
**World**

Information technology has been used to optimize business processes and benefit companies of all sizes in practically all industries and all over the world. The automation of business processes, especially using computer hardware and software, has been reducing inefficiencies and increasing productivity in all globalized business segments. Various software application categories have been developed to optimize the efficiency of certain aspects of a business by automating sales, marketing, manufacturing, distribution, customer support, accounting, financial management, human resources and other tasks until then left to manual processes. For example, human resources management software is currently used for maintaining and storing employee records, which makes for easier payroll and benefits management, as well as for issuing tax statements and reports, among many other tasks that, although routine and exhaustive, are essential to the companies. Over time, those different software application categories were integrated into suites with a view to further facilitating business operations by sharing information from the various functionalities. The two main classes of integrated enterprise management software suites are ERP and CRM. As a rule, ERP suites are focused on administrative or back-office functions, such as management of human and financial resources, while CRM suites cover functions involving direct relationship with clients, or front-office functions, such as sales, marketing and customer support.

According to the IDC, the software segment accounted for 23 percent of the entire global IT market (software, services, and hardware) in 2018. This global IT market, excluding export, hit the mark of US2.23 trillion, with Brazil ranking 9th among the world's largest markets with a total size of US$46.6 billion. While the IT market today is highly relevant in terms of size, it still has plenty of room for growth, having grown 6.7 percent in 2018 and expecting to grow 4.9 percent in 2019, with Brazil standing as one of the main drivers, given the 9.8-percent growth recorded in this market for 2018 and the growth rate of around 10.5 percent expected for 2019.

The global market has seen software and services hold a bigger share in the total IT market in developed countries by comparison to emerging ones. Out of the group of emerging countries, Brazil is the one whose reality is closest to that of developed nations and to the world average.

**Global IT Market Maturity**




*Source: IDC (2018).*

In 2017, the IDC identified approximately 17,000 companies engaged in the software and service industries around the globe, breaking down into segments as follows: 30.3 percent in development and production; 38.3 percent in distribution and sales; and 31.4 percent in services. Among development companies, only 0.5 percent is considered large (more than 500 employees).

Companies are investing more and more in technology to improve their efficiency, productivity, relationships with customers and capacity to innovate. TOTVS sees in this movement an opportunity to leverage its unique position as the leading ERP player in Brazil.

## 7.3 Information on products and services related to operating segments

Additionally, over the past few years, TOTVS has launched five platforms that are complementary to the ERP suite: fluig (Management, Productivity and Collaboration), Carol (Artificial Intelligence), TOTVS Analytics (Business Intelligence), TOTVS CRM and Bema (IoT)—all of which developed with an agnostic approach, meaning ready for integration of TOTVS solutions with other market solutions, thus expanding the addressable market beyond TOTVS's own client base.

**Latin America**

According to the IDC, 2018 saw the IT market in Latin America reach the level of US$108.8 billion, and Brazil was the leading player, with a 42.8-percent share , followed by Mexico, with a 20.0-percent share. The substantial difference in both size and maturity of Brazil's IT market compared to those of other Latin American countries has been a cornerstone of the country's expansion in these markets.

**Brazil**

The Brazilian market for information technology has grown rapidly in the past several years.

According to the IDC, the IT market in Brazil was worth US$46.6 billion in 2018. The software segment accounted for US$10.5 billion, 23.5 percent of which corresponding to software developed within the country.

While the tech market has significantly evolved in the past few years, it continues to be highly concentrated in Brazil's Southeast region, according to IDC data for 2017. Accounting for 61 percent of the distribution, the Southeast is still far ahead of the other regions, with the South accounting for 13 percent, 11 percent in the Midwest, 10 percent in the Northeast, and 5 percent in the North. In addition to that regional concentration, nearly half of the identified potential market is focused on companies with fewer than 500 employees, which, altogether, represent a majority of the companies using these resources.

Integrated business management software products, known as ERP tools, have been proving indispensable to business administration, and the SaaS (Software as a Service) system has lately gained significant ground in the marketplace compared to the traditional license purchase system. However, the two of them are to coexist in order to meet the needs of most varied of clients.

The Brazilian IT market comprises several work fronts—communication services, mobile phones, PCs and tablets, printers, datacenter systems, IT services, business management software and infrastructure software. Of all these fronts, the one with the brightest prospects for growth is business management software, which have an expected CAGR of 9.7 percent for the 2016-2022 period. Among the largest business software user markets, the most prominent are the financial, manufacturing, retail and telecommunication sectors, which together represented 86 percent of the market in 2017 according to the IDC.

**History of the Software Industry in Brazil**

During the 1980's and early 1990's, Brazil had a market reserve policy in place that set different rules for hardware and software products created/manufactured by domestic and foreign companies in an attempt to create a domestic computer industry. In reality, the market reserve proved detrimental to the development of computer hardware in Brazil because the hardware manufactured in the country was limited and technologically outdated, as well as rather expensive compared to products made in other countries. For software, however, the market reserve was not detrimental, in that it kept up the competition between domestic and foreign software products. The development of the country's software industry played out on the back of technology-based partnerships with providers of basic software and operating, network and database systems, so as to prepare the industry for the end of the market reserve. In the aftermath, whether thanks to the creativity of Brazilians or the ease with which they assimilate new technologies, Brazil's software industry became an international benchmark in certain segments, such as banking automation and the use of the Internet for the most varied relationships. Brazil is technologically independent in several software development areas.

In 1993, the Brazilian government took an important measure in connection with the software industry: the SOFTEX 2000 program (National Export Software Program), which aimed to facilitate the entry of Brazilian companies in the international software market through export incentives. The program was coordinated by the CNPq (National Council on Scientific and Technological Development), and had the participation and representation of Brazilian software companies , and funding by the government and the United Nations Development Programme. In the period from 1993 to 2001, the program achieved the following results, among others:

## 7.3 Information on products and services related to operating segments

- Implementation of Quality Systems in companies, introduction of Assessment Methods for products, and inducement to adherence to international software quality standards—more than 100 domestic software companies implemented ISO 9000 quality management systems;

- Creation of credit facilities specifically for software—more than R$74 million for 52 companies;

- Creation of a network with 32 agents materializing 23 Software Development Centers in Brazil;

- Implementation of a network of 19 business incubators associated with the country's leading academic institutions;

- Contribution to the creation of 73,000 direct jobs for skilled workers.

The Association for the Promotion of Excellence in Brazilian Software (Softex for short) evolved into a Public Interest Civil Society Organization (OSCIP) that carries out the Federal Government's public policies for the IT industry. The actions performed by the entity are aimed at fostering improved competitiveness in the Brazilian Software and IT Service Industry (IBSS) and the training of human resources. The Brazilian Software Excellence Program of the Ministry of Science, Technology, Innovation and Communications has been managed by Softex since 1996.

Currently, the Softex System benefits approximately 6,000 companies in 13 states through its network of 23 agents working in conjunction with the private sector, the public sector and technology-fostering academic institutions. Softex lists its currently guidelines as follows:

1. Implementing software development best practices.
2. Training human resources for the industry.
3. Leveraging financial resources with public and private fund sources.
4. Producing and disseminating quality information on the Brazilian Software and IT Service Industry.
5. Entrepreneurship and innovation.
6. Creating policies in the industry's interests both in Brazil and abroad.
7. Creating and developing business opportunities both in Brazil and abroad.

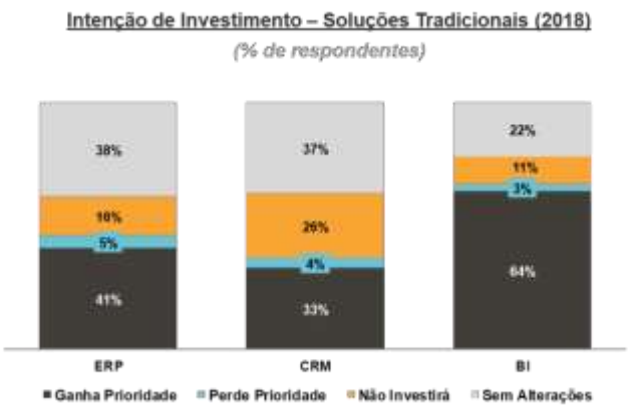
**ii. share in each market**

Essentially, TOTVS is engaged in the business of developing and selling integrated management software and, according to the 2018 Gartner survey, it has a 30.0-percent share in the Latin American market and a 49.6-percent share in the Brazilian market for ERP systems.

In addition to the ERP market, TOTVS has a strong presence in the supply chain management (SCM) market, with a 21.3-percent share in Brazil, according to that same 2018 Gartner survey.

The Company has other initiatives in other segments of the enterprise application software (EAS) market, which shows great potential for growth, but it currently holds a less significant share in it. Such initiatives include Master Sales, Ciashop, TOTVS Analytics, Carol, and fluig. With Gooddata and Carol, by 2018 TOTVS had already achieved a 5.4-percent share in the analytics market.

These segments boast great growth potential as they have become an investment priority for the Company, which invests both in well-established segments and in new technologies. While BI and CRM have been given more priority over the past few years, ERP continues to be a core investment target in Brazil.




*Source: ITData.*

Key:

**Investment Intention – Traditional Solutions (2018)**

*(% of those surveyed)*

Gains Priority

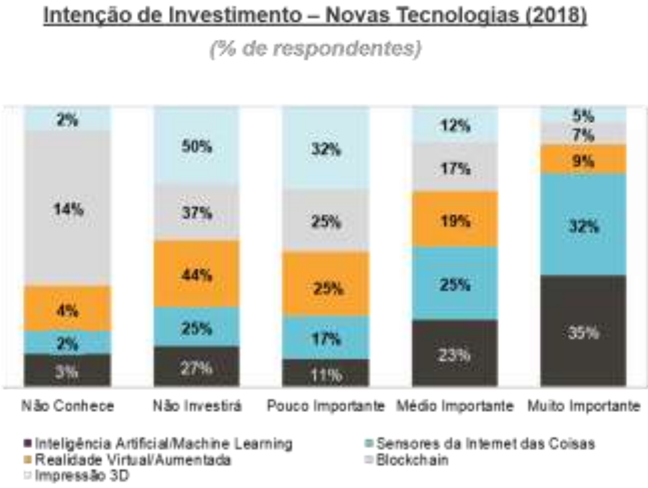
Loses Priority

Won't Invest

Unchanged

## 7.3 Information on products and services related to operating segments

As for new technologies, Artificial Intelligence and the IoT (Internet of Things) stand out as the primary targets of business investment intentions.




*Source: ITData.*

**iii. market competition conditions**

The Company's competition includes suppliers of enterprise management software (such as ERP, CRM and BI), collaboration products and business intelligence products, as well as companies engaged in advisory services. We should point out that the Brazilian software market does not impose any barriers or restrictions to the entry of foreign competitors.

The software industry is highly competitive. TOTVS competes with Brazilian and foreign software companies. Some of the Company's competitors also serve business segments other than enterprise management, such as infrastructure software, security software, databases and cloud computing, among others.

Clients in the enterprise management software market include large, medium-sized and small businesses. Each of these groups can have different needs and be at different maturity stages in connection with the use of technology, which results in different characteristics in terms of competitive conditions.

TOTVS provides solutions to companies of all sizes.

**d. occasional seasonality**

The information technology industry, particularly on the software front, has no relevant seasonality.

**e. key inputs and raw materials, informing:**

**i. description of relationships with suppliers, including whether they are subject to government control or regulation, with an indication of the relevant agencies and applicable laws:**

TOTVS's development activities are concentrated in its own team of professionals. However, the Company teams up with suppliers and partners to develop some of its software solutions, as well as suppliers of databases that are resold to clients, and providers of technology platforms. There is no government control or regulation on these relations.

**ii. possible dependence on few suppliers:**

TOTVS uses third-party technology to develop part of its software and technology components, particularly those in its RM and EMS Datasul product lines, which are based on the Microsoft .Net and Progress platforms, respectively. For more information, see item "7.3.a. Technical platforms used".

**iii. possible price volatility:**

Historically, the prices of TOTVS software and services have not shown significant volatility.

## 7.4 Clients accounting for over 10% of total net revenue

**a. total amount of revenues from client**

There are no clients who individually account for more than 10 percent of the Company's net revenues.

**b. operating segments affected by revenues from client**

There are no clients who individually account for more than 10 percent of the Company's net revenues.

# 7.5 Material effects of state regulation on activities

**a. governmental authorizations required for carrying out activities and history of relationship with the public administration for obtaining such authorizations**

The Finance Departments of several Brazilian states require the Company to obtain government approvals to market certain hardware products (including micro-terminals, issuers of cashier's receipt(ECF) and *SAT Fiscal*) and software products (tax applications and Electronic Tax Invoice), according to acts and agreements signed by the Ministry of Finance through the COTEPE (Permanent Technical Council of the Ministry of Finance). Tax devices are certified according to these rules, and tax applications are certified by registered institutes. There are also decrees and state ordinances regulating activities in the States. Some products are also regulated by ANATEL (National Telecommunications Agency), and require specific certifications to be used and sold.

In 2015, the State of São Paulo introduced a new retail control device (SAT). The RB-1000 FI device was developed to meet this demand, which intensified as of July 2015. In addition, that regulation imposed the obligation to upgrade issuers of cashier's receipt n use for more than 5 years to new SAT and printing devices.

Similar situations also occur when other technologies are introduced. For example, the ECF under ICMS Agreement 09/09 (tax printer) became mandatory in the State of the Mato Grosso do Sul as of May 2015. It is worth pointing out that the NFC-e was also introduced in some states, such as Amazonas and Mato Grosso.

**b. issuer's environmental policy and costs incurred for compliance with environmental regulations and, if applicable, other environmental practices, including adherence to international environment protection standards**

For the software and service industries, the Company is currently not subject to any environmental regulations and has no environmental policy in place. In May 2014, TOTVS joined the United Nations (UN) Global Compact, an initiative designed for companies committed to aligning their operations and strategies with the ten universally accepted principles in matters of human rights, labor, environmental and anti-corruption laws.

Regarding environmental aspects related to hardware, the Company also does not carry out any activities subject to specific regulations of the environmental authorities, as the handling and storage of products is not harmful to the environment. For the disposal of products and components, these are sent out to companies duly licensed by environmental agencies and authorized by the IAP (Environmental Institute of Paraná) to carry out the disposal procedure.

**c. dependence on patents, brands, licenses, concessions, franchises and royalty agreements relevant to the business**

TOTVS uses third-party technology in the development of certain components, as set out in item 7.3.e.ii. For more information on this issue, see Section 9.1 of this Reference Form.

**Software Registration**

TOTVS's Legal department is responsible for software registration with the INPI (National Institute of Industrial Property), which is an important protection for our assets. The law governing software protection is Law No. 9609/98, and the agency responsible for registrations is the INPI, under Decree No. 2558/98. Registration is not mandatory, but before exclusive right to produce, use and sell a computer software product is ensured, it is necessary to prove authorship, which adds great importance to the INPI registration. Unlike trademarks and patents, the registration of computer software, as with foreign software, is not required in Brazil, other than as an assurance for the parties involved in assignment of rights. Registration rights are effective for 50 years, commencing of the first day of the year following the creation date of the software, assuring absolute secrecy about the software submitted to the INPI.

**The Process at TOTVS:**

At the end of each Roadmap (annual innovation cycle), the GCAD (Data Setup and Administration Management) team will send backups and technical documentation to the Legal department.

## 7.5 Material effects of state regulation on activities

Legal will add the rest of the required documentation and conclude the process of updating the Software Registration with the INPI.

The INPI will provide a protocol (filing number) and act as the trustee of such documentation, accepting liability for any damage to third parties arising out of any breach of secrecy.

Legal will safeguard the filing numbers and will be the only one allowed to provide information to other TOTVS and/or outside teams.

## 7.6 Material revenues from abroad

**a. revenue from clients in the issuer's country of origin and its share in the issuer's total net revenues**

For the three-month period ended March 31, 2019, net revenues earned in Brazil (the issuer's country of origin) represented 97.7 percent of the Company's net revenues.

**b. revenue from clients in each of the other countries and its share in the issuer's total net revenues**

For the three-month period ended March 31, 2019, net revenues earned abroad represented 2.3 percent of the Company's net revenues.

**c. total revenue from other countries and its share in the issuer's total net revenue**

For the three-month period ended March 31, 2019, net revenues earned abroad represented 2.3 percent of the Company's net revenues, and much of the revenues earned abroad is concentrated in Argentina and Mexico.

## 7.7 Effects of foreign regulations on activities

Given that revenues earned abroad represented 2.3 percent of total net revenues for the three-month period ended March 31, 2019, as mentioned in item 7.6, the Company believes that foreign regulations have no significant effects on its activities.

# 7.8 Social and environmental policies

**a. if the issuer discloses social and environmental information**

**i. Does the issuer publish sustainability reports or similar documents?**

The Company has been issuing its Integrated Report since 2016, providing unified information on its economic, social and environmental performance.

Starting this year, the Company will be publishing its Integrated Report biannually, and the next release will take place in 2020 for the years 2018 and 2019.

**ii. Does the issuer have a social and environmental policy in place?**

The Company keeps its commitment to protecting the environment, as set forth in its Code of Ethics and Conduct, which can be found on the Company's investor relations website (http://ri.totvs.com/).

The Company's social and environmental policy is being prepared and will be released in 2019.

**b. methodology used to prepare the information**

The Company uses the Global Reporting Initiative (GRI) methodology.

**c. if that information is independently audited or reviewed**

The social and environmental information is not audited by any independent entity.

**d. website on which such information can be found**

The versions of the Integrated Report for the years 2016 and 2017 are available on the CVM website (http://www.cvm.gov.br/) and on the Investor Relations website (https://ri.totvs.com/, "Financial Information" tab).

**Other initiatives**

**Institute of Social Opportunity (IOS)**

Established in 1998 on the initiative of employees of former Microsiga, currently TOTVS, the Institute of Social Opportunity (IOS) was born with the mission of providing low-income youths and people with disabilities with access to technology through job training programs especially focused on employing skilled professionals in the economy of the future.

The IOS is a non-profit organization offering free business training in administration and information technology, with practices in Digital Education, Citizenship, Mathematics, Communication and Expression, as well as psychosocial follow-up through a multidisciplinary team (psychologists, social workers and educational psychologists). The institute's targets are youths in social vulnerability situations and people with disabilities aged 15 to 29, 90 percent of whom come from public schools, 56 percent are women and 56 percent are black, extending social inclusion to minority populations.

Over its 21 years of existence, the IOS has expanded its work in the Greater São Paulo area and in the States of Minas Gerais, Santa Catarina and Rio de Janeiro. During this period, more 34,000 students have been enrolled with the Institute in those areas. Of the 2,000 youths graduating each year, 1,000, on average, get jobs, having a direct social impact on more than 4,000 peoples per cycle. According to the institute, the employability of students graduating from the IOS has increased by 18 percent relative to 2016, and graduated students see an average increase of 40 percent in their family income when they start working.

TOTVS focuses its social investment on the IOS and is currently the key supporting entity of the institute, which counts on the support of other partner companies as well. The IOS has all the infrastructure and support needed to prepare students and place them into the job market, while supporting compliance with the Learning Law and the Quotas for People with Disabilities Law by developing today's talents for tomorrow's economy.

More information on the IOS is available on its website: www.ios.org.br

**United Nations (UN) Global Compact**

TOTVS joined in 2014 the Brazilian Network of the United Nations (UN) Global Compact, an initiative designed for companies that are committed to aligning their operations and strategies with

# 7.8 Social and environmental policies

The ten universally accepted principles in matters of human rights, labor, environmental and anti-corruption laws. With the participation of over 12,000 companies and other stakeholders from more than 145 countries, it is the world's largest joint corporate social and environmental responsibility initiative.

**Business Compact for Integrity and Against Corruption**

TOTVS also joined the Business Pact for Integrity and Against Corruption of the Ethos Institute, whose mission is to mobilize, encourage and help companies to manage their business in a socially responsible and sustainable manner. This pact provides for a set of guidelines and procedures that meet the requirements of the policies in place for integrity and anti-corruption systems.

## 7.9 Other material information

The Company has not identified any material information related to this item other than that being disclosed.

## 8.1 - Extraordinary business

The Company has not undertaken any transactions of this nature.

## 8.2 - Significant changes in the way the issuer conducts its business

There have been no significant changes in the way the Company conducts its business.

## 8.3 - Material agreements executed by the Company or its subsidiaries not directly related to their operational activities

Neither the Company nor any of its subsidiaries has entered into any agreement not directly related to its business.

## 8.4 - Other material information – Extraordinary business

The Company has not identified any other material information related to this item.

## 9.1 - Material non-current assets - others

The Company has no other non-current assets that are material for the development of its activities.

## 9.1 - Material non-current assets / 9.1.a – Property, plant and equipment

***<u>Justification for not filling out the box:</u>***

The company has no other property and equipment that are material for the development of its activities.

## 9.1 – Material non-current assets / 9.1.b – Intangible assets

| Type of asset | Asset Description | Duration | Events that may result in loss of rights | Consequences of loss of rights |
|---|---|---|---|---|
| Trademarks | TOTVS 840754671 | 09/27/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 822840286 | 08/10/2020 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMAETECH 822840294 | 08/03/2020 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 823606031 | 07/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 823606040 | 07/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 823606058 | 07/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 823606066 | 07/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 901912824 | 12/24/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 902219340 | 12/31/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 902219359 | 12/31/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 902219367 | 12/31/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 902377213 | 05/21/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 902377256 | 05/21/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | CMNET 827901100 | 10/25/2021 | As per item 9.2. | As per item 9.2. |
| Trademarks | CMNET 906174988 | 04/26/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | MisterChef.net 828414572 | 05/06/2028 | As per item 9.2. | As per item 9.2. |
| Trademarks | MisterChef.net 828750211 | 11/03/2020 | As per item 9.2. | As per item 9.2. |
| Trademarks | UNUM 902142259 | 09/25/2022 | As per item 9.2. | As per item 9.2. |
| Trademarks | DATASUL 823429369 | 07/17/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | DATASUL 914028413 | 02/19/2029 | As per item 9.2. | As per item 9.2. |

## 9.1 – Material non-current assets / 9.1.b – Intangible assets

| Type of asset | Asset Description | Duration | Events that may result in loss of rights | Consequences of loss of rights |
|---|---|---|---|---|
| Trademarks | DATASUL 914028421 | 02/19/2029 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLY01 9079001682 | 05/15/2028 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLY01 907900755 | 01/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLY01 907900828 | 01/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLY01 907900968 | 01/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530650 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 340530668 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530684 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530692 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530706 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530714 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530722 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | CORPORE RM 820008788 | 09/21/2019 | As per item 9.2. | As per item 9.2. |
| Licenses | PROTHEUS | 01/01/2042 | As per item 9.2. | As per item 9.2. |
| Trademarks | SIGA ADVANCED | 01/01/2041 | As per item 9.2. | As per item 9.2. |
| Internet domain name | TOTVS.COM.BR | 04/27/2029 | As per item 9.2. | As per item 9.2. |
| Internet domain name | BEMACASH.COM.BR | 08/04/2020 | As per item 9.2. | As per item 9.2. |
| Trademarks | RM 817228373 | 04/04/2025 | As per item 9.2. | As per item 9.2. |
| Trademarks | YMF 821050486 | 04/30/2022 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 830574476 | 01/15/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | CMNET 819496278 | 03/09/2029 | As per item 9.2. | As per item 9.2. |
| Trademarks | GSR7 828364290 | 14/101/2028 (sic) | As per item 9.2. | As per item 9.2. |
| Trademarks | DATASUL 823404838 | 07/03/2027 | As per item 9.2. | As per item 9.2. |

## 9.1 – Material non-current assets / 9.1.b – Intangible assets

| Type of asset | Asset Description | Duration | Events that may result in loss of rights | Consequences of loss of rights |
|---|---|---|---|---|
| Trademarks | MisterChef.net 828378061 | 07/01/2028 | As per item 9.2. | As per item 9.2. |
| Trademarks | BEMATECH 816568359 | 09/28/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | DATASUL 810871432 | 11/01/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLY01 907900550 | 01/10/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | FLUIG 840530625 | 02/10/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | RM 819925772 | 09/08/2029 | As per item 9.2. | As per item 9.2. |
| Trademarks | RM 821482076 | 08/07/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 827375743 | 10/16/2027 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 830574468 | 01/21/2024 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 830574484 | UNDER ANALYSIS | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 830574492 | 01/15/2023 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 830574506 | 10/04/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754558 | 09/27/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754566 | 09/27/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754574 | UNDER ANALYSIS | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754582 | UNDER ANALYSIS | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754590 | UNDER ANALYSIS | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754604 | UNDER ANALYSIS | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754612 | 09/27/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754655 | 09/27/2026 | As per item 9.2. | As per item 9.2. |
| Trademarks | TOTVS 840754663 | 09/27/2026 | As per item 9.2. | As per item 9.2. |

## 9.1 – Material non-current assets/ 9.1.c – Equity interests

| Company Name | CNPJ [National Corporate Taxpayer's Register] | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| **Fiscal Year** | **Book value – variation %** | **Market value - variation %** | **Amount of dividends received (Reais)** | | **Date** | **Amount (Reais)** | | |
| BEMATECH S.A. | 82.373.077/0001-71 | 418-9 | Subsidiary | Brazil | PR | Curitiba | Development of solutions specializing in hardware and software in the retail, hotel and food segments. | 100.000000 |
| **03/31/2019** | -12.108357 | 0.000000 | 0.00 | **Market value** | 03/31/2019 | 0.00 | | |
| **12/31/2018** | -9.811996 | 0.000000 | 627,000.00 | **Book value** | 03/31/2019 | 433,856,000.00 | | |
| **12/31/2017** | -0.578188 | 0.000000 | 8,886,600.00 | | | | | |
| **12/31/2016** | 0.492785 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

Together, TOTVS and Bematech serve the entire retail chain, and they will combine know-how in brick-and-mortar retail and e-commerce, in addition to their portfolios of specialized solutions in various retail sub-segments: food services, supermarkets, wholesalers, apparel and footwear, stores and department stores, electronics, construction materials, drugstores, hotels, car dealerships, and passenger transportation, among others. The acquisition of Bematech will strengthen the creation of value for customers in the retail segment, who will benefit from the most complete portfolio of solutions and innovations, and the broadest national presence. Bematech's distribution network includes over 5 thousand resellers that will be added to TOTVS's distribution network.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Ciashop - Soluções para Comércio Eletrônico S.A. | 04.364.470/0001-95 | - | Controlled | Brazil | PR | Curitiba | Development and licensing of customizable computer programs, and information technology advisory. | 70.000000 |
| **03/31/2019** | -0.093932 | 0.000000 | 0.00 | **Market value** | | | | |
| **12/31/2018** | -0.206224 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 5,328,000.00 | | |
| **12/31/2017** | -35.156820 | 0.000000 | 0.00 | | | | | |
| **12/31/2016** | 1.072097 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

Expertise in the development and trade of cloud solutions for e-commerce.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Datasul Argentina S.A. | 00.000.000/0000-00 | - | Controlled | Argentina | | | Development and commercial exploration of its own computer programs and technology solutions, or those of third parties;<br><br>Provision of technical advisory, consulting and training services in areas relating to computing systems;<br><br>Trading of technology-related goods and products. | 100.000000 |
| **03/31/2019** | 0.000000 | 0.000000 | 0.00 | **Market value** | | | | |
| **12/31/2018** | 0.000000 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 0.00 | | |
| **12/31/2017** | 0.000000 | 0.000000 | 0.00 | | | | | |

## 9.1 – Material non-current assets/ 9.1.c – Equity interests

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Book value – variation %** | **Market value - variation %** | **Amount of dividends received (Reais)** | | **Date** | **Amount (Reais)** | | |
| **12/31/2016** | 0.000000 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

Selective acquisition of competitors that may have synergy with TOTVS, aiming at market consolidation and gaining market share.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| National Computer Corporation | 00.000.000/0000-00 | - | Affiliate | Russia | | | Development of solutions; Software | 19.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | -0.024600 | 0.000000 | 0.00 | **Market value** | | |
| **12/31/2018** | 0.332100 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 3,054,000.00 |
| **12/31/2017** | 0.740000 | 0.000000 | 0.00 | | | |
| **12/31/2016** | 0.000000 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

The investment in this company aims at setting up a partnership to develop and provide the Russian market with a management system that combines the reliability, safety, data integrity, continuity, high performance and scalability already present in TOTVS solutions.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Neolog Consultoria e Sistemas S.A. | 05.254.381/0001-59 | - | Subsidiary | Brazil | AP | | Neolog is a software development company that provides implementation, customization and support services. Its main product is a logistic optimization solution that reduces freight costs for the customer through algorithms that calculate routes and accommodation of cargo in the trucks in an optimized manner. The company serves large customers in the logistic and manufacturing sectors, and trades its solutions under the SaaS (Software as a Service) model. | 60.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | -6.030655 | 0.000000 | 741,000.00 | **Market value** | | |
| **12/31/2018** | -8.515062 | 0.000000 | 689,000.00 | **Book value** | 03/31/2019 | 17,779,000.00 |
| **12/31/2017** | -6.783557 | 0.000000 | 180,000.00 | | | |
| **12/31/2016** | -17.064216 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

With this move, the Company reinforces its specialization strategy and its position in the logistics segment by adding Neolog's products and business know-how in order to expand its portfolio of solutions for customers throughout the supply chain. The combination of the Company's distribution strengths and Neolog's solutions and expertise will enable exploring cost optimization opportunities and efficiency gains in key segments of the Brazilian market.

## 9.1 – Material non-current assets/ 9.1.c – Equity interests

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Book value – variation %** | **Market value - variation %** | **Amount of dividends received (Reais)** | | **Date** | **Amount (Reais)** | | |
| Soluções em Software e Serviços TTS Ltda. | 07.363.764/0001-90 | - | Subsidiary | Brazil | PE | Recife | Provision of consulting, advisory and development services for automated systems (software); exploration of rights of use of owned or third-party automated systems, and provision of data processing, business management and administration services, as well as sub-licensing of the TOTVS brand, and import and export of goods and services linked to its activity. | 100.000000 |
| **03/31/2019** | -9.913816 | 0.000000 | 0.00 | **Market value** | | | | |
| **12/31/2018** | 10.720386 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 67,734,000.00 | | |
| **12/31/2017** | -0.881597 | 0.000000 | 0.00 | | | | | |
| **12/31/2016** | -5.654250 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

To maintain a distribution channel in the region is part of TOTVS's strategy to consolidate its channels and its presence in territories deemed as strategic for the company.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| TFS Soluções em Software Ltda | 27.231.185/0001-00 | - | Affiliate | Brazil | SP | São Paulo | Data handling, application service providers and internet hosting services; Information Technology advisory; technical support, maintenance and other IT services; and business management advisory activities, except specific technical consulting. | 100.000000 |
| **03/31/2019** | -61.231969 | 0.000000 | 25,000,000.00 | **Market value** | | | | |
| **12/31/2018** | 3656.821026 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 11,637,000.00 | | |
| **12/31/2017** | 0.000000 | 0.000000 | 0.00 | | | | | |
| **12/31/2016** | 0.000000 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

Company established in March 2017 for future segregation of specific software operations.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Totvs Argentina S.A. | 00.000.000/0000-00 | - | Subsidiary | Argentina | | | Information Technology consulting; Technical support, maintenance and other IT services. | 100.000000 |
| **03/31/2019** | 4.475831 | 0.000000 | 0.00 | **Market value** | | | | |
| **12/31/2018** | 8.715398 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 5,252,000.00 | | |
| **12/31/2017** | -34.698489 | 0.000000 | 0.00 | | | | | |

# 9.1 – Material non-current assets/ 9.1.c – Equity interests

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Book value – variation %** | **Market value - variation %** | **Amount of dividends received (Reais)** | | **Date** | **Amount (Reais)** | | |
| **12/31/2016** | 0.355921 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

To maintain a distribution channel in the region is part of TOTVS's strategy to consolidate its channels and its presence in territories deemed as strategic for the company.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Totvs Brasília Software Ltda. | 07.577.599/0001-70 | - | Subsidiary | Brazil | BA | Itacaré | Advisory in and development of automated systems (software); exploration of rights of use of owned or third-party automated systems, and provision of data processing, business management and administration services, as well as sub-licensing of the TOTVS brand, and import and export of goods and services linked to its activity. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | -31.448145 | 0.000000 | 8,000,000.00 | **Market value** | | |
| **12/31/2018** | 3.457301 | 0.000000 | 11,361,000.00 | **Book value** | 03/31/2019 | 98,363,000.00 |
| **12/31/2017** | 7.109649 | 0.000000 | 4,419,000.00 | | | |
| **12/31/2016** | 10.165223 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

To maintain a distribution channel in the region is part of TOTVS's strategy to consolidate its channels and its presence in territories deemed as strategic for the company.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Totvs Corporation | 00.000.000/0000-00 | - | Subsidiary | Virgin Islands | (British) | | Information Technology consulting; technical support, maintenance of systems and other IT services. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | 0.000000 | 0.000000 | 0.00 | **Market value** | | |
| **12/31/2018** | 0.000000 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 0.00 |
| **12/31/2017** | 0.000000 | 0.000000 | 0.00 | | | |
| **12/31/2016** | 0.000000 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

To maintain a distribution channel in the region.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| TOTVS Incorporation | 00.000.000/0000-00 | - | Subsidiary | United States | | | Information Technology consulting; technical support, maintenance and other IT services. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | -0.451201 | 0.000000 | 0.00 | **Market value** | | |
| **12/31/2018** | 20.449491 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 71,905,000.00 |

## 9.1 – Material non-current assets/ 9.1.c – Equity interests

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Book value – variation %** | **Market value - variation %** | **Amount of dividends received (Reais)** | | **Date** | **Amount (Reais)** | | |
| **12/31/2017** | -2.126023 | 0.000000 | 0.00 | | | | | |
| **12/31/2016** | -23.976610 | 0.000000 | 0.00 | | | | | |

**Reasons for acquiring and maintaining such interest**

Selective acquisition of competitors that may have synergy with TOTVS, aiming at complementing the portfolio of Information Technology solutions and maintaining an IT solutions research and development center in the United States of America.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| Totvs México S.A. de CV | 00,000,000/0000-00 | - | Subsidiary | Mexico | | | Innovation, creation, development and updating of programs; trading of software and hardware, with possible import of owned or third-parties' goods and services relating to computing activities; provision of general services relating to consultancy in management processes and models; granting of rights of use, trading and sale of services sales to third parties. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | 20.608182 | 0.000000 | 0.00 | **Market value** | | |
| **12/31/2018** | -16.465643 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 5,513,000.00 |
| **12/31/2017** | -32.941176 | 0.000000 | 0.00 | | | |
| **12/31/2016** | 756.243440 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

To maintain a distribution channel in the region is part of TOTVS's strategy to consolidate its channels and its presence in territories deemed as strategic for the company.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| TOTVS Serviços Ltda. | 02,497,398/0001-49 | - | Subsidiary | Brazil | RJ | | Provision of consulting, advisory and development services for automated systems (software); exploration of rights of use of owned or third-party automated systems, and provision of data processing services, business management and administration, as well as sub-licensing of the TOTVS brand, and import and export of goods and services linked to its activity. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | -27.285700 | 0.000000 | 29,000,000.00 | **Market value** | | |
| **12/31/2018** | 136.694813 | 0.000000 | 1,395,000.00 | **Book value** | 03/31/2019 | 35,670,000.00 |
| **12/31/2017** | 0.460494 | 0.000000 | 0.00 | | | |
| **12/31/2016** | 0.000000 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

## 9.1 – Material non-current assets/ 9.1.c – Equity interests

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Book value – variation %** | **Market value - variation %** | **Amount of dividends received (Reais)** | | **Date** | **Amount (Reais)** | | |

To maintain a distribution channel in the region is part of TOTVS's strategy to consolidate its channels and its presence in territories deemed as strategic for the company.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| TOTVS Ventures Participações Ltda. | 15,760,400/0001-72 | - | Subsidiary | Brazil | AP | | Interest in other companies as a shareholder or any other legal form. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | 0.681995 | 0.000000 | 0.00 | **Market value** | | |
| **12/31/2018** | -52.287096 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 5,167,000.00 |
| **12/31/2017** | -2.862819 | 0.000000 | 0.00 | | | |
| **12/31/2016** | 0.512129 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

Selective investments in companies that have technology solutions in synergy with the Company's business.

| Company Name | CNPJ | CVM Code | Type of Company | Country of Origin | State of Origin | City of origin | Description of business activities | Issuer's interest (%) |
|---|---|---|---|---|---|---|---|---|
| TQTVD Software Ltda. | 09,131,273/0001-40 | - | Subsidiary | Brazil | RJ | | Development and trading of software products and solutions for digital tv, regardless of the transmission means, also including those to be on-boarded in decoders or intended for transmission purposes, including software solutions for content producing companies or providers of digital tv signal. The company may also explore the rights of use of owned or third-party systems, and provide services including maintenance, update and customization of systems rights, as well as holding interest in other companies as a partner or shareholder. | 100.000000 |

| Year | Book value – variation % | Market value - variation % | Amount of dividends received (Reais) | | Date | Amount (Reais) |
|---|---|---|---|---|---|---|
| **03/31/2019** | 13.823003 | 0.000000 | 0.00 | **Market value** | | |
| **12/31/2018** | 70.882325 | 0.000000 | 0.00 | **Book value** | 03/31/2019 | 20,347,000.00 |
| **12/31/2017** | -27.121360 | 0.000000 | 0.00 | | | |
| **12/31/2016** | -14.903960 | 0.000000 | 0.00 | | | |

**Reasons for acquiring and maintaining such interest**

Technical assistance activities and provision of consulting, training, systems development, analysis, programming and general services in the IT area; software import and export; and exploration of travel agent and tourism operator activities.

# 9.2 – Other relevant information

On March 31, 2019, the Company owned 326 trademark registrations in Brazil and 168 registrations abroad.

The Company is also applying for 85 trademark registrations, of which 38 were filed with Brazil's National Industrial Property Institute, and 47 were filed abroad.

**TRADEMARKS**

**Events that may lead to loss of rights regarding registered trademarks**

According to Article 142 of Law 9.279 of 1996, some events may lead to loss of trademark rights, such as termination of effectiveness without request for renewal of the trademark on the due date; total or partial waiver of rights by the holder; and cancellation, at the request of any person with legitimate interest, if the trademark has not been used in Brazil after 5 years as from the registration date, or if its use has been interrupted for more than 5 years. Also in the administrative sphere, the registration may be declared void by the National Industrial Property Institute – INPI, whether ex-officio or upon opposition of third parties, if the granting of said registration is not in compliance with the legislation applicable, or in the event of 'generification' (when the trademark has become generic in the segment in which it is included) or nullity arising from registration based on bad faith. Also, the nullity of a trademark registration may be declared in the judicial sphere through an action for annulment of trademark registration filed by an interested party. The term for filing such lawsuit is five (5) years as from the date of granting of trademark registration.

**Consequence of loss of registered trademark rights**

The loss of rights on trademarks implies that it will not be possible to prevent third parties from using identical or similar trademarks to indicate equal, competing or similar products or services, given that the holder no longer holds the right to exclusive use of the trademark, thus hindering the communication between the Company and its target audience. The holder may also be accused in the criminal or civil spheres of improper use, in the event of violation of third parties' rights, which may include sentencing to the payment of indemnity and/or prohibition of use of the trademark by the Company.

**Events that may lead to loss of rights of trademarks filed but not registered**

The main event that may cause a loss of rights of trademarks that have been filed but not registered is INPI's refusal to grant registration. It is incumbent on the INPI to decide on the registration of trademarks in Brazil. The Institute may deny the application for registration whether ex-officio, or upon opposition of third parties, if justified.

**Consequence of loss of rights of trademarks filed but not registered trademarks**

In the case that the INPI refuses to grant registration of such trademarks, the Company may be subject to lawsuits in the criminal and civil spheres due to improper use and violation of third parties' rights, which may include sentencing to the payment of indemnity and/or prohibition of use of the trademark by the Company. Moreover, the Company will not be able to prevent the use of identical or similar trademarks in equal, competing or similar products and/or services.

## 9.2 - Other relevant information

**PATENTS**

The assets that are material for the development of the Company’s activities include twenty four (24) patents and seven (7) industrial design registrations. The application for registration of twenty one (21) patents was approved, while three (3) are still under analysis. Of this total, eighteen (18) were registered abroad, while the others were registered in Brazil. All industrial design registrations are in the national territory, and only one (1) registration process is still under analysis.

**Events that may result in loss of rights**

The main event that may cause the loss of rights on patents filed but not granted, is refusal by the INPI, which is responsible for granting patents in Brazil. It may deny an application for patent registration whether ex-officio or upon opposition of third parties (requests for subsidies, administrative proceedings for declaration of nullity), if justified.

The main events that may cause loss of rights to patents already granted include, among others: (i) lack of payment of the annual fee; (ii) administrative proceedings for declaration of nullity filed by interested third parties, considering that INPI, in view of such proceedings, may decide to cancel the patent; and (iii) filing of an action for annulment of the patent. This action can filed within 5 years as from the patent granting date.

**Consequences of loss of rights**

In case the INPI refuses to grant registration of patents, the Company may be subject to lawsuits in the criminal and civil spheres due to violation of third parties' rights, and it may incur in the payment of royalties. Additionally, the Company may be forced to pay an indemnity for undue use of a third party’s invention, or be prohibited from using such invention.

# 10.1 – Overall financial and equity condition

Financial information shown in items 10.1 to 10.9 of this Reference Form comes from our consolidated interim financial statements for the quarters ended March 31, 2019 and 2018 and our consolidated financial statements for the years ended December 31, 2018, 2017, and 2016. Content was prepared in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

New rules for accounting treatment of Leasing Operations (IFRS 16/CPC 06 (R2) issued by the IASB and CPC came into force as of January 1, 2019. To implement them, the Company adopted the modified retrospective method. Therefore, the financial information at March 31, 2018 and December 31, 2018, 2017 and 2016 has not been adjusted to reflect the adoption of IFRS 16/CPC 06 (R2) and is not comparable with the March 31, 2019 financial information, which does reflect the effects of adopting this standard.

Additionally, with effect from January 1, 2018, new rules governed the accounting treatment of revenue from customer contracts (IFRS 15/CPC 47) and financial instruments (IFRS 9/CPC 48) issued by IASB and CPC respectively. The Company adopted the modified retrospective method. Therefore, the financial information at December 31, 2017 and 2016 has not been adjusted to reflect the adoption of IFRS 15/CPC 47 and IFRS 9/CPC 48 and is not comparable with the financial information at March 31, 2019 and December 31, 2018, which do reflect the effects of adopting these standards.

Management's analysis of results obtained and reasons for the fluctuating value of the Company's assets constitute an opinion on the impacts or effects of the data submitted in the financial statements showing the Company's financial position. The Company's management cannot provide any assurance that the financial situation and past results will be repeated in the future.

"HA" and "VA" used in the columns of certain tables in item 10 mean "Horizontal Analysis" and "Vertical Analysis" respectively.

**a. overall financial and equity conditions**

The following information shows our financial and equity structure at the following dates:

| | March 31 | December 31 | | |
|---|---|---|---|---|
| **(in thousands of Reais)** | **2019** | **2018** | **2017** | **2016** |
| Shareholders' Equity | 1,307,010 | 1,288,220 | 1,261,577 | 1,220,916 |
| Current assets | 1,026,741 | 1,020,134 | 1,038,346 | 951,736 |
| Net Debt (1) | 261,957 | 50,678 | 322,344 | 479,174 |

(1) Net Debt corresponds to the sum total of current and non-current loans and financing plus debentures and obligations incurred through acquisition of investments, less current and non-current cash and cash equivalents and investment guarantees. Net debt is not a recognized measure of financial performance under accounting practices adopted in Brazil or International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), and the term does not have a standardized meaning. Other companies may calculate their gross debt differently, so their disclosed reporting data are not comparable. See reconciliation in item 3.2 of this Reference Form.

On January 1, 2019, the Company's net debt was impacted by recognizing leasing liabilities (current and non-current) and other non-current liabilities in the amount of R$236.8 million as per the new IFRS 16 accounting standard. Additionally, net cash from operating activities was down year on year due mainly to lower offsetting of federal taxes from previous years that was used during 2018.

In 2018, the Company showed significant progress in its financial position, with operating cash flow up from the previous year. Therefore, net debt fell steeply from the previous year.

# 10.1 – Overall financial and equity condition

In 2017, the Company also lowered its net debt against the previous year's, mainly as a result of higher net cash from operating activities and lower payments for acquisitions of property, plant and equipment and intangible assets against the previous year's numbers, due to investments in new facilities in 2016.

**b. capital structure, stating:**

The Company finances its operations from its own capital and outside funds. The Company only issues common shares; therefore, there are no redeemable shares.

In the last year and quarter period, our capital structure has been well balanced between own capital and outside capital and therefore, consistent with our activities, in management's view, in the proportion shown in the table below:

| | At March 31 | At December 31 | | |
|---|---|---|---|---|
| **(in thousands of Reais, except %)** | **2019** | **2018** | **2017** | **2016** |
| Current and non-current liabilities (third-party capital) | 1,278,835 | 1,103,057 | 1,232,048 | 1,222,996 |
| Shareholders' equity (own capital) | 1,307,010 | 1,288,220 | 1,261,577 | 1,220,916 |
| Outside capital (1) | 49.5% | 46.1% | 49.4% | 50.0% |
| Own capital (2) | 50.5% | 53.9% | 50.6% | 50.0% |

(1) (1) Third-party capital corresponds to the sum of current and non-current liabilities divided by total liabilities and shareholders' equity.
(2) (2) Own capital corresponds to shareholders 'equity divided by total liabilities and shareholders' equity.

**c. ability to pay in relation to financial commitments assumed**

At March 31, 2019, the Company's gross debt was R$734.7 million, of which R$314.3 million, or 42.8%, consisted of current liabilities and R$420.4 million, or 57.2%, non-current liabilities.

The Company has shown that it is fully capable of meeting its financial commitments, since its operations produce cash flow and any credit granted customers is basically short-term.

Most liabilities and receivables come from software sales and related deployment services provided in the countries where sales are made.

The Company has a conservative financial investment profile and is not currently trading in risk and/or derivative markets.

The table below shows key financial indicators related to our ability to pay:

| (in thousands of Reais, unless stated otherwise) | March 31 | December 31 | | |
|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 |
| Gross Debt (1) | 734,694 | 553,720 | 761,141 | 779,110 |
| Net Debt (2) | 261,957 | 50,678 | 322,344 | 479,174 |
| Adjusted EBITDA (3) | 114,732 | 346,136 | 293,532 | 351,929 |
| Indebtedness ratio (4) | N/A | 0.1 | 1.1 | 1.4 |
| Current liquidity ratio (5) | 1.5 | 1.4 | 1.7 | 1.5 |
| Overall liquidity ratio (6) | 1.0 | 1.2 | 1.1 | 1.0 |

## 10.1 – Overall financial and equity condition

(1) Gross Debt corresponds to the sum of current and non-current loans and financing, debentures and obligations through acquisition of investments. Gross debt is not a measure of financial performance recognized by accounting practices adopted in Brazil or International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), and the term does not have a standardized meaning. Other companies may calculate their gross debt differently, so their disclosed reporting data are not comparable. See reconciliation in item 3.2 of this Reference Form.

(2) Net Debt corresponds to the sum total of current and non-current loans and financing, debentures and obligations for acquisition of investments, less cash and cash equivalents and investment guarantees, current and non-current. Net debt is not a recognized measure of financial performance under accounting practices adopted in Brazil or International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), and the term does not have a standardized meaning. Other companies may calculate their net debt differently, so their disclosed reporting data are not comparable. See reconciliation in item 3.2 of this Reference Form.

(3) Adjusted EBITDA is a non-accounting measurement compiled by the Company consisting of EBITDA calculated as per CVM Instruction 527, adjusted by the equity accounting income, provision for asset impairment, additional contingency provisions, any loss (gain) on written-off assets, additional doubtful debt provisions, gains from sale of subsidiaries and net loss from discontinued operations in 2019. Adjusted EBITDA is not a recognized measure under accounting practices adopted in Brazil or International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB). Adjusted EBITDA does not show cash flow for the periods presented and should not be considered as a substitute for net income (loss) as an indicator of operating performance or a substitute for cash flow as an indicator of the Company's liquidity or basis for dividend distribution. Adjusted EBITDA does not have a standardized meaning and may not be comparable to similarly named measures provided by other companies. For reconciliation of net income for the year/period to EBITDA or Adjusted EBITDA, see item 3.2 of this Reference Form.
(4) The Indebtedness Ratio corresponds to Net Debt at the end of the year over Adjusted EBITDA for the same year, except Adjusted EBITDA for the quarter ended March 31, 2019.
(5) The current liquidity ratio corresponds to current assets over current liabilities.
(6) The overall liquidity ratio corresponds to (i) the sum of current assets and non-current assets (except investment, fixed and intangible assets) over (ii) the sum of current and non-current liabilities.

<u>2019:</u> The Company did not obtain new borrowings in the quarter ended March 31, 2019. The increase in net debt is a result of the recognition of financial lease liability arising from adopting the new accounting standard IFRS 16/CPC 06 (R2). Our current liquidity ratio was 1.5 at March 31, 2019 and 1.4 at December 31, 2018, while out overall liquidity ratio fell to 1.0 at March 31, 2019 showing the Company's ability to meet its long-term commitments. 2018: The Company did not obtain any material amount of new borrowings in 2018. Its indebtedness ratio at December 31, 2018 was 0.1 and its current liquidity ratio at December 31, 2018 was 1.4, showing its continuing financial health and ability to honor its short-term obligations.

<u>2017:</u> In 2017, the Company issued ordinary non-convertible debentures as per CVM Instruction 476 in the amount of R$200.0 million to be used for working capital, investments within the scope of its business purpose and/or prepayment of debt. Its indebtedness ratio at December 31, 2017 was 1.1 and its current ratio at December 31, 2017 was 1.7, which was up 13.3% against the previous year, showing its continuing good financial health to honor its short-term obligations. An analysis of its overall liquidity ratio of 1.1 at December 31, 2017 shows the Company's ability to pay off its long-term commitments.

<u>2016</u>: The Company did not obtain material amounts of new borrowings in 2016. Its indebtedness ratio at December 31, 2016 was 1.4 and its current liquidity ratio was 1.5, showing its continuing good financial health and ability to honor short-term obligations. Its overall liquidity ratio at December 31, 2016 was 1.0. Despite this lower overall liquidity ratio, the numbers show the Company's ability to pay off its long-term commitments.

**d. sources of financing for working capital and investments in non-current assets used**

<u>2016 to 2019:</u> working capital and investments in non-current assets were predominantly financed by own funds from operating cash flow, BNDES credit facilities and debentures issued by the Company as detailed in <u>item 10.1.f.i</u>.

**e. sources of financing for working capital and investments in non-current assets to be used to cover liquidity shortfalls**

At the moment, the Company believes that it has no liquidity shortfall. If there is a need to source financing for working capital or non-current assets, the Company may: (i) obtain credit facilities and financing from private banks or (ii) issue debt securities such as debentures.

Note that, although the Company believes that it has no liquidity shortfall, it does have pre-approved credit facilities from private banks that may be accessed at very short notice.

# 10.1 – Overall financial and equity condition

**f. debt levels and their characteristics, also describing:**

(i) **material loans and financing**

The Company's loans and financing, with the balance of each at the end of each period, are shown in the table below:

| **(In thousands of Reais, unless stated otherwise)** | **Interest charges** | **At March 31 2019** | **At December 31 2018** | **2017** | **2016** |
|---|---|---|---|---|---|
| BNDES PROSOFT | TJLP+1.5% to 1.52% p.a. | 98,077 | 137,940 | 296,565 | 451,214 |
| BNDES PSI | 3.5% to 4.0% p.a. | 13,630 | 18,224 | 36,701 | 55,170 |
| Financial leasing | 15.12% to 17.24% | 270,300 | 42,189 | 63,454 | 44,017 |
| BNDES Social | TJLP p.a. | 501 | 714 | 1,560 | 2,386 |
| BNDES Innovation | TJLP + 0.52% p.a. | 2,030 | 2,404 | 3,897 | 5,347 |
| BNDES EXIM | 5.5% to 8% p.a. | - | - | - | 1.523 |
| Overdraft accounts and other | | 15 | - | 379 | 2,084 |
| **Loans and Borrowings** | | **384,553** | **201,471** | **402,556** | **561,741** |
| Current liabilities | | 178,709 | 166,154 | 220,215 | 196,012 |
| Non-current liabilities | | 205,844 | 35,317 | 182,341 | 365,729 |

| **Issue** | **(In thousands of Reais, unless otherwise stated) Debenture** | **Annual Interest** | **Unit price in Reais** | **At March 31 2019** | **At December 31 2018** | **2017** | **2016** |
|---|---|---|---|---|---|---|---|
| Single Series | 200,000 | 105.95% of CDI | 1.00 | 200,260 | 203,431 | 203,524 | - |
| Single Series | 450 | CDI + 2.25% | 100.00 | - | - | - | 31,877 |
| | Premium for non conversion | | | 75,891 | 73,757 | 65,614 | 58,784 |
| **Total** | | | | **276,151** | **277,188** | **269,138** | **90,661** |
| Current liabilities | | | | 76,238 | 77,319 | 3,841 | 12,111 |
| Non-current liabilities | | | | 199,913 | 199,869 | 265,297 | 78,550 |

# 10.1 – Overall financial and equity condition

The amounts of loans and financing and debentures recognized in non-current liabilities at the end of each period show the following maturity schedule:

| **(In thousands of Reais)** | **At March 31** | | **At December 31** | |
|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** |
| 2018 | | - | - - | 188,658 |
| 2019 | | - | - 226,466 | 251,453 |
| 2020 | 237,339 | 219,452 | 221,172 | 4,168 |
| 2021 and thereafter | 168,418 | 15,734 | - | - |
| **Loans and financing and debentures (Non-current liabilities)** | **405,757** | **235,186** | **447,638** | **444,279** |

Financial leases: The Company and its subsidiaries have several financial lease agreements for terms of 3 to 10 years related to purchases of electronic equipment, vehicles, rents and facilities of the Company's units at interest rates of 11.9% to 15.8% for equipment and vehicles and 6.9 to 10.2% for property lease agreements.

Economic Development Bank (BNDES): On September 13, 2013, the Board of Directors approved a BNDES loan in the amount of R$658.5 million to be repaid in 72 months, including a 24-month grace period for the principal, to be disbursed against evidence of investments made and divided into three sub-credits:

Sub-credit "A", in the amount of R$596.8 million to be charged interest at the TJLP rate + 1.5% per year - Long-Term Interest Rate, to be used from 2013 through 2015 to promote qualitative evolution of solutions offered by TOTVS under the BNDES PROSOFT Program;

Subcredit "B", in the amount of R$58.5 million, to be charged interest at the rate of 3.5% per year, to be used to develop its Fluig platform under the BNDES Investment Support Program's innovation and efficient machinery and equipment subprogram;

Subcredit "C", in the amount of R$3.3 million, to be charged the Long-Term Interest Rate (TJLP), to be invested in social projects the Company will be running.

In October 2013, the first tranche of this credit was disbursed in the amount of R$250.0 million. In November 2014, the second was disbursed in the amount of R$227.6 million. In September 2015, the last amount - R$181.1 million - was disbursed.

TOTVS subsidiary Bematech also obtained loans under BNDES programs such as BNDES PROSOFT, BNDES Innovation, BNDES EXIM, BNDES Internationalization and Finame (the latter two have now been discharged) in the total amount of R$76.8 million. Following the corporate reorganization with TOTVS, on October 23, 2015, BNDES authorized TOTVS to be added as guarantor for the above loans. Note that Bematech's BNDES loan and borrowings do not have guarantees.

2008 Debentures - non conversion premium: On August 19, 2008, the shareholders approved funding for R$200.0 million through an issue of up to 100,000 ("Units") represented by security deposit certificates consisting of two non-detachable debentures, a 1st series convertible debenture and a 2nd series convertible debenture. The total amount of principal and interest was repaid in 2016.
The non-conversion premium for the 1st series debentures will be adjusted by the IPC-A price inflation indicator plus 8.0% per year, while the 2nd series will be adjusted by the TJLP plus 5.0% per year.

The non-conversion premium will be paid by August 19, 2019. Non-conversion premiums may be paid in common shares issued by the Company or in cash at the sole discretion of the Debenture Holders, using for this purpose the volume-weighted average price of Company's shares traded on Brazil`s stock exchange (*B3 S.A. - Brasil, Bolsa, Balcão)* over the latest thirty (30) trading sessions prior to payment date, which would be R$36.34 at March 31, 2019.

## 10.1 – Overall financial and equity condition

TOTVS 2017 Debentures: On September 6, 2017, TOTVS issued a single series of ordinary, non-convertible unsecured debentures for placement through a public offering with restricted distribution efforts. The Debentures had a unit face value of one thousand Reais (R$1,000.00) on issue date for a total of R$200.0 million on issue date. The entire proceeds were used for working capital, investments as per the Company's business purpose and/or prepayment of debt.

Remuneration will be paid out semiannually as of issue date on March 15 and September 15 each year, with the first payment due on March 15, 2018 and the last on September 15, 2020, the debentures maturity date.

The Debentures' Nominal Unit Value will not be monetarily restated. The Nominal Unit Value of the Debentures will bear interest at 105.95% of the cumulative variation of the average daily DI rates on a 252 business-day basis.

The debenture deed has early maturity clauses in the event of non-compliance with certain financial and non-financial conditions in addition to other ancillary obligations.

**ii. other long-term relationships with financial institutions**

The Company does not have any material long-term relationships with financial institutions other than those described in item 10.f.i.

**iii. degree of subordination between debts**

BNDES debts have letters of guarantee from other banks and lease agreements are collateralized by the leased assets, while the debentures' non-conversion premium has a floating guarantee. The Company's other debts are unsecured, so there is no degree of subordination between them.

**iv. any restrictions applied to the issuer, in particular limits to indebtedness and new debt, distribution of dividends, disposal of assets, issuance of new securities and sale of controlling interest**

BNDES TOTVS: under the terms of TOTVS' loan from BNDES in 2013, the Company must keep to the following financial ratios throughout the loan agreement period, to be calculated based on consolidated financial statements and subject to special review in the first half-year and full auditing at year-end by external auditors registered with the Brazilian Securities Commission (CVM):

1. Shareholders' equity ("PL")/Total Assets ("AT"): 40.0% or higher; and
2. Net Debt/Adjusted EBITDA: 1.5 or higher;

If it fails to obey these indicators, the Company shall provide collateral accepted by BNDES in amounts corresponding to at least 130.0% of the outstanding balance of loans from BNDES System with direct exposure, if more than 20.0% of the Company's Total Assets at the time, or there is a bank guarantee to be provided by a financial institution with direct exposure if more than 20.0% of the Company's Total Assets at the time.

If Net Debt/Adjusted EBITDA ratio is higher than 2.0, the Company shall provide collateral accepted by BNDES in an amount corresponding to at least 130.0% of the amount loaned or debt arising thereof, or provide bank guarantee in the total amount of debt.

In addition, the BNDES loan may be subject to accelerated maturity if:

- there is default of any TOTVS obligation to BNDES and its subsidiaries, if effective control of TOTVS is altered after the loan has been agreed without prior authorization from BNDES, or if there are any judicial proceedings or events that may affect the guarantees provided in favor of BNDES.

# 10.1 – Overall financial and equity condition

- the Company’s headcount is reduced due to the project submitted to BNDES to obtain a loan, and there is no training program for employment opportunities in the region and/or an outplacing program for jobs with other companies.

- there is a final unappealable conviction for practices that involve child labor, slave labor or environmental crime;

- a provision added to shareholders agreements, bylaws or articles of association of the Company or its controlling companies may restrict or impair its ability to repay financial obligations arising from this transaction;

BNDES Bematech: The BNDES loan to the Bematech subsidiary has the following financial covenants:

Shareholders’ Equity/Total Assets: 40.0% or higher;
and Net Debt/Adjusted EBITDA: not more than 2.0.

It is important to mention that numbers for these covenants must be calculated based on TOTVS S.A.’s financial statements on the same basis as the covenants applied to TOTVS S.A.’s loan from BNDES in 2013.

TOTVS Debentures 2017: The debentures issued by TOTVS in 2017 have the following covenant: Net Debt/Adjusted EBITDA must not be more than 2.5.

At March 31, 2019 and December 31, 2018, 2017 and 2016, the Company and its Bematech subsidiary were in full compliance with all conditions/covenants stipulated in their loan and debenture agreements.

Debentures may be accelerated for the Company to immediately repay unit face value or remaining unit value if any of the following events take place: (i) unfavorable court decisions, which are standard acceleration events for this type of transaction, involving an individual or aggregate amount of R$50.0 million; (ii) the Company’s shareholding control is no longer dispersed because there is one controlling shareholder; or (iii) any merger or acquisition without prior approval from debenture holders, among other events.

**g. limits for use of existing loans**

Limits for uses of loans obtained from BNDES have now been fully utilized.

# 10.1 – Overall financial and equity condition

## h. significant changes in each item of financial statements

### BALANCE SHEET

| | At March 31 | At December 31 | | | Vertical | | | | Horizontal | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **(in thousands of Reais)** | **2019** | **2018** | **2017** | **2016** | **2019** | **2018** | **2017** | **2016** | **19 v. 18** | **18 v. 17** | **17 v. 16** |
| **Current assets** | | | | | | | | | | | |
| Cash and cash equivalents | 423,658 | 452,799 | 387,169 | 214,772 | 16.4% | 18.9% | 15.5% | 8.8% | -6.4% | 17.0% | 80.3% |
| Guarantees for investments | 44,711 | 44,909 | 44,615 | 74,027 | 1.7% | 1.9% | 1.8% | 3.0% | -0.4% | 0.7% | -39.7% |
| Trade receivables | 484,546 | 504,056 | 515,545 | 569,370 | 18.7% | 21.1% | 20.7% | 23.3% | -3.9% | -2.2% | -9.5% |
| Provision for expected loss | (117,040) | (118,518) | (89,032) | (105,183) | -4.5% | -5.0% | -3.6% | -4.3% | -1.2% | 33.1% | -15.4% |
| Inventories | - | 41,531 | 44,828 | 28,219 | 0% | 1.7% | 1.8% | 1.2% | -100% | -7.4% | 58.9% |
| Taxes recoverable | 33,674 | 38,817 | 93,097 | 122,521 | 1.3% | 1.6% | 3.7% | 5.0% | -13.2% | -58.3% | -24.0% |
| Others current assets | 69,280 | 56,540 | 42,124 | 48,010 | 2.7% | 2.4% | 1.7% | 2.0% | 22.5% | 34.2% | -12.3% |
| Assets available for sale | 87,912 | - | - | - | 3.4% | - | - | - | 100% | | |
| **Total current assets** | **1,026,741** | **1,020,134** | **1,038,346** | **951,736** | *39.7%* | *42.7%* | *41.6%* | *38.9%* | *0.6%* | *-1.8%* | *9.1%* |
| **Non-Current assets** | | | | | | | | | | | |
| Guarantees for investments | 4,368 | 5,334 | 7,013 | 11,137 | 0.2% | 0.2% | 0.3% | 0.5% | -18.1% | -23.9% | -37.0% |
| Financial assets | 69,562 | 69,171 | 57,645 | 56,800 | 2.7% | 2.9% | 2.3% | 2.3% | 0.6% | 20.0% | 1.5% |
| Accounts Receivable | 21,672 | 19,890 | 31,901 | 36,913 | 0.8% | 0.8% | 1.3% | 1.5% | 9.0% | -37.7% | -13.6% |
| Taxes recoverable | 207 | 236 | 20,695 | 21,572 | 0.0% | 0.0% | 0.8% | 0.9% | -12.3% | -98.9% | -4.1% |
| Deferred income tax and social Contribution | 110,182 | 125,124 | 104,715 | 88,658 | 4.3% | 5.2% | 4.2% | 3.6% | -11.9% | 19.5% | 18.1% |
| Court deposits | 70,399 | 65,965 | 61,127 | 40,903 | 2.7% | 2.8% | 2.5% | 1.7% | 6.7% | 7.9% | 49.4% |
| Other assets | 22,907 | 26,340 | 26,844 | 30,437 | 0.9% | 1.1% | 1.1% | 1.2% | 13.0% | -1.9% | -11.8% |
| Investments | 3,054 | 3,129 | 2,349 | 1,350 | 0.1% | 0.1% | 0.1% | 0.1% | -2.4% | 33.2% | 74.0% |
| Property and equipment | 416,837 | 198,826 | 182,022 | 176,270 | 16.1% | 8.3% | 7.3% | 7.2% | 109.6% | 9.2% | 3.3% |
| Intangible assets | 839,916 | 857,128 | 960,968 | 1,028,136 | 32.5% | 35.8% | 38.5% | 42.1% | -2.0% | -10.8% | -6.5% |
| **Total non-current assets** | **1,559,104** | **1,371,143** | **1,455,279** | **1,492,176** | *60.3%* | ***57.3%*** | ***58.4%*** | ***61.1%*** | *13.7%* | *-5.8%* | *-2.5%* |
| **Total assets** | **2,585,845** | **2,391,277** | **2,493,625** | **2,443,912** | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *8.1%* | *-4.1%* | *2.0%* |

## 10.1 – Overall financial and equity condition

**BALANCE SHEET**

| Current liabilities | At March 31 | At December 31 | | | Vertical | | | | Horizontal | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | ***2019*** | ***2018*** | ***2017*** | ***2016*** | ***19 v. 18*** | ***18 v. 17*** | ***17 v. 16*** |
| Social and labor obligations | 168,334 | 174,874 | 148,836 | 140,539 | 6.5% | *7.3%* | *6.0%* | *5.8%* | -3.7% | *17.5%* | *5.9%* |
| Suppliers | 70,560 | 113,907 | 108,424 | 73,553 | 2.7% | *4.8%* | *4.3%* | *3.0%* | -38.1% | *5.1%* | *47.4%* |
| Tax obligations | 44,757 | 47,466 | 28,725 | 28,141 | 1.7% | *2.0%* | *1.2%* | *1.2%* | -5.7% | *65.2%* | *2.1%* |
| Loans and financing | 178,709 | 166,154 | 220,215 | 196,012 | 6.9% | *6.9%* | *8.8%* | *8.0%* | 7.6% | *-24.5%* | *12.3%* |
| Debentures | 76,238 | 77,319 | 3,841 | 12,111 | 2.9% | *3.2%* | *0.2%* | *0.5%* | -1.4% | *1913.0%* | *-68.3%* |
| Commission payable | 47,429 | 43,166 | 39,769 | 43,198 | 1.8% | *1.8%* | *1.6%* | *1.8%* | 9.9% | *8.5%* | *-7.9%* |
| Dividends and Interest on equity payable | 12,293 | 13,902 | 18,487 | 41,561 | 0.5% | *0.6%* | *0.7%* | *1.7%* | -11.6% | *-24.8%* | *-55.5%* |
| Obligations for acquisition of investment | 59,398 | 59,597 | 47,561 | 80,822 | 2.3% | *2.5%* | *1.9%* | *3.3%* | -0.3% | *25.3%* | *-41.2%* |
| Others liabilities | 6,778 | 13,227 | 3,428 | 8,260 | 0.3% | *0.6%* | *0.1%* | *0.3%* | -48.8% | *285.9%* | *-58.5%* |
| Liabilities available for sale | 42,209 | - | - | - | 1.6% | | | | 100% | | |
| **Total current liabilities** | **706,705** | **709,612** | **619,286** | **624,197** | *27.3%* | *29.7%* | *24.8%* | *25.5%* | *-0.4%* | *14.6%* | *-0.8%* |
| **Non-current liabilities** | | | | | | | | | | | |
| Loans and financing | 205,844 | 35,317 | 182,341 | 365,729 | 8.0% | *1.5%* | *7.3%* | *15.0%* | 482.8% | *-80.6%* | *-50.1%* |
| Debentures | 199,913 | 199,869 | 265,297 | 78,550 | 7.7% | *8.4%* | *10.6%* | *3.2%* | 0.0% | *-24.7%* | *237.7%* |
| Contingency provisions | 133,786 | 127,792 | 117,770 | 102,225 | 5.2% | *5.3%* | *4.7%* | *4.2%* | 4.7% | *8.5%* | *15.2%* |
| Obligations for acquisition of investment | 14,592 | 15,464 | 41,886 | 45,886 | 0.6% | *0.6%* | *1.7%* | *1.9%* | -5.6% | *-63.1%* | *-8.7%* |
| Other liabilities | 17,995 | 15,003 | 5,468 | 6,409 | 0.7% | *0.6%* | *0.2%* | *0.3%* | 19.9% | *174.4%* | *-14.7%* |
| **Total liabilities - long term** | **572,130** | **393,445** | **612,762** | **598,799** | *22.1%* | *16.5%* | *24.6%* | *24.5%* | *45.4%* | *-35.8%* | *2.3%* |
| **Shareholders' equity** | | | | | | | | | | | |
| Capital stock | 1,041,229 | 1,041,229 | 989,841 | 541,374 | 40.3% | *43.5%* | *39.7%* | *22.2%* | 0.0% | *5.2%* | *82.8%* |
| Treasury shares | (64,866) | (70,026) | (71,495) | (73,443) | -2.5% | *-2.9%* | *-2.9%* | *-3.0%* | -7.4% | *-2.1%* | *-2.7%* |
| Capital reserve | 168,153 | 169,907 | 165,079 | 162,024 | 6.5% | *7.1%* | *6.6%* | *6.6%* | -1.0% | *2.9%* | *1.9%* |
| Other comprehensive income | 20,187 | 20,704 | 1,728 | 1,785 | 0.8% | *0.9%* | *0.1%* | *0.1%* | -2.5% | *1098.1%* | *-3.2%* |
| Profit reserve | 141,573 | 125,228 | 170,799 | 582,072 | 5.5% | *5.2%* | *6.8%* | *23.8%* | 0.0% | *-26.7%* | *-70.7%* |
| Proposed additional dividends | | - | 5,442 | 7,375 | 0.0% | *0.0%* | *0.2%* | *0.3%* | 0.0% | *-100%* | *-26.2%* |
| Shareholders' equity - non-controlling | 734 | 1,178 | 183 | -272 | 0.0% | *0.0%* | *0.0%* | *0.0%* | -37.7% | *543.7%* | *-167.3%* |
| **Total shareholders' equity** | **1,307,010** | **1,288,220** | **1,261,577** | **1,220,916** | *50.5%* | *53.9%* | *50.6%* | *50.0%* | *1.5%* | *2.1%* | *3.3%* |
| **Total liabilities** | **2,585,845** | **2,391,277** | **2,493,625** | **2,443,912** | *100.0%* | *100.0%* | *100.0%* | *100.0%* | *8.1%* | *-4.1%* | *2.0%* |

**Comments on the Company's consolidated balance sheet at March 31, 2019 and December 31, 2018:**

Current Assets: stood at 39.7% of Total Assets at March 31, 2019, showing an increase of 0.6% against December 31, 2018, mainly impacted by 22.5% growth in Other Assets against 2018, prepayment of annual software licenses, offset by reductions of 13.2% in recoverable taxes and 6.4% in cash and cash equivalents.

The reduced Cash and Cash Equivalents reflected a 33.7% decrease in the three-month period ended March 31, 2019 in cash flow from operating activities against the same period of 2018, resulting in: (i) trade receivables, due to the fact that the quarter ended on a non-business day, postponed settlement of these receivables until the beginning of the second quarter of 2019; and (ii) the increase in Income Tax and Social Contribution disbursements due to the new IRS rule that does not allow federal tax credit offsetting before delivery of ancillary obligations next June.

Additionally, on March 31, 2019, given the strategic focus on the software operation, Management decided to sell the hardware operations in order to conclude negotiations with parties interested in short-term acquisition. In this scenario, hardware operation assets were classified and measured at their recoverable sale value of R$87.9 million and shown as available for sale in the interim financial statements at March 31, 2019.

Current Liabilities: The 0.4% reduction in Current Liabilities from 29.7% of Total Liabilities at December 31, 2018 to 27.3% at March 31, 2019 results from a reduction in suppliers due to the higher volume of securities payable and provisions at December 31, 2018 offsetting increases Loans and financing for the lease liabilities recognized on adopting IFRS16/CPC 06 (R2).

Non-current Liabilities: The 45.4% increase in Non-current Liabilities from 16.5% on December 31, 2018 to 22.1% on March 31, 2019 was mainly due to recognition of the liability from leasing arising from the adoption of accounting rule CPC 06 (R2) under Loans and financing. This accounting rule determines a new accounting model for leasing in which on the commencement date of the lease, the lessee recognizes a lease liability to make payments (increasing gross debt) and an asset representing the right to use the underlying asset during the lease term.

## 10.1 – Overall financial and equity condition

Shareholders' equity: The 1.5% increase in Shareholders' Equity was due to retained profits from the previous year under the Profit Reserve heading and shares delivered to Treasury through the Company's share-based compensation plans.

**Comments on the Company's consolidated balance sheet at December 31, 2018 and 2017:**

Current Assets: stood at 42.7% of Total Assets at December 31, 2018, despite a 1.8% fall against December 31, 2017, mainly impacted by 17% growth in Cash and Cash Equivalents, which stood at 18.9% of Total Assets at December 31, 2018, against 15.5% at December 31, 2017, offset by a 33.1% increase in provision for expected loss and 58.3% decrease in Taxes to be recovered. The 34.2% change in other assets was mainly due to assets arising from incremental costs of customer contracts.

The increase in Cash and Cash Equivalents reflected cash flow from the period's operating activities growing 29.2% against December 31, 2017.

Non-Current Assets: The 5.8% decrease in Non-Current Assets, which fell from 58.4% of Total Assets at December 31, 2017 to 57.3% at December 31, 2018, due to amortization of intangible assets during the year and R$87.0 million impairment provision recognized on the Hardware operation's assets at December 31, 2018.

The reduction in Non-Current Assets below the Intangible Assets reduction was due to the 19.5% increase in Deferred Income Tax and Social Contribution, due to temporary differences related to provisions and also tax losses and negative calculation bases for Income Tax and Social Contribution on investees; and a 9.2% increase in Fixed Assets, as a result of renovations at subsidiaries at December 31, 2018.

Current Liabilities: The 14.6% increase in Current Liabilities, which rose from 24.8% of Total Liabilities at December 31, 2017 to 29.7% at December 31, 2018, was driven by a combination of the following factors (i) the R$73.5 million increase in debentures from non-current to current; and (ii) a 65.2% increase in tax obligations reflecting higher revenues and related taxes, as well as higher taxable income after the impact of the year's R$87.0 million impairment provision.

Non-Current Liabilities: The 35.8% decrease in Non-Current Liabilities, which fell from 24.6% on December 31, 2017 to 16.5% at December 31, 2018, was mainly due to the following factors: (i) an 80.6% decrease in the Loans and financing line and a 24.7% decrease in the Debentures line, due to amortization of debt and due to movement to Current, offsetting with a 8.5% increase in contingency provisions mainly reflecting ongoing labor claims, which had a greater weight in the last quarter of the year.

Shareholders' equity: The 2.1% increase in Shareholders' Equity was mainly due to increased Capital stock. The decrease in the Profit Reserve item was due to: (i) the capital increase, without new shares issued by capitalizing the retained earnings reserve voted at the Extraordinary General Meeting held in April 2018; and (ii) the R$19.0 million increase in other comprehensive income due to the cumulative foreign currency translation adjustment related to Bematech's foreign operations.

**Comments on the Company's consolidated balance sheet at December 31, 2017 and 2016:**

Current Assets: The 9.1% growth in Current Assets from 38.9% of Total Assets as of December 31, 2016 to 41.6% as of December 31, 2017 was mainly due to the following factors:
(i) an 80.3% increase in Cash and Cash Equivalents, which stood at 15.5% of Total Assets as of December 31, 2017 against 8.8% as of December 31, 2016; and (ii) a 58.9% increase in Inventories from 1.2% of Total Assets as of December 31, 2016 to 1.8% as of December 31, 2017.

The increase in Cash and Cash Equivalents resulted mainly from the R$200.0 million debenture issue in September 2017 and net operating cash flow in 2017. Among the Current Assets items that contributed to operating cash flows, the highlight was a 9.5% reduction in Trade Receivables mainly due to more use of the subscription model, which led to a shorter average receivables term and a 24.0% reduction in the Recoverable Taxes line, which reflects more use of tax credits - especially for federal taxes - in 2017.

The increase in Inventories was mainly due to a 4.0% reduction in Hardware sales revenues in 2017, concentrated in the second half of 2017.

Non-Current Assets: The 2.5% decrease in Non-Current Assets from 61.1% of Total Assets as of December 31, 2016 to 58.4% as of December 31, 2017 basically related to a 6.5% decrease in Intangible Assets from 42.1% of Total Assets as of December 31, 2016 to 38.5% as of December 31, 2017 due to amortization of intangible assets in the course of the year.

## 10.1 – Overall financial and equity condition

Non-Current Assets fell less than Intangible Assets due to a 18.1% increase in Deferred Income Tax and Social Contribution driven by temporary differences related to provisions and also due to tax losses and negative calculation bases for Income Tax and Social Contribution Taxes on investees; and a 49.4% increase in Court Deposits for legal actions in which the Company is party.

Current Liabilities: The 0.8% reduction in Current Liabilities from 25.5% of Total Liabilities at December 31, 2016 to 24.8% at December 31, 2017 was due to a combination of the following (i) the 41.2% reduction under the Investment Acquisition Obligations heading due to payments for companies acquired by TOTVS and its subsidiaries, largely using funds shown in Current Assets - Guarantee for Investments, which fell 39.7% at December 31, 2017; (ii) reduced Dividends Payable due to the lower Interest on Equity voted in 2017; and (iii) increases Suppliers reflecting assets acquired by the Company against part payment.

Non-Current Liabilities: The 2.3% increase in Non-Current Liabilities from 24.5% of Total Liabilities and Shareholders' Equity at December 31, 2016 to 24.6% at December 31, 2017 was mainly due to the following factors: (i) a 237.7% increase under the Debentures heading due to R$200.0 million funding proceeds in September 2017; (ii) a 50.1% decrease in Loans and financing mainly due to the reclassification to the same Current Liabilities item of part payments to be made in the course of 2018; and (iii) a 15.2% increase in Contingency Provisions reflecting legal advisors assessments of lawsuits combined with the history of losses, as well as the volume of new lawsuits in which the Company appears as defendant.

Shareholders' equity:
The 3.3% increase in Shareholders' Equity is mainly due to the net income of R$93.3 million for the year ended December 31, 2017, less Interest on Equity declared for the year ended December 31, 2017 totaling R$50.3 million. The 82.8% increase in Capital stock and decrease in Profit Reserve was due to a Capital stock increase without issuing new shares by capitalizing the retained earnings reserve as voted by the Extraordinary General Meeting held in April 2017

**STATEMENTS OF INCOME**
The following descriptions relate to the main income lines:

- **Net Revenue:** The Company and its subsidiaries earn software revenues, including licensing fees, monthly software service, revenues from service including deployment, customization, consulting and hardware revenue. Revenues are shown net of taxes, returns, rebates and discounts, when applicable. Revenues are recognized in amounts that reflect the consideration the Company expects in return for transferring goods or services to a customer.

Software revenues are recognized as per the following criteria:

(i) **Licensing fee** is recognized at a certain point in time when all risks and benefits inherent in a license have been transferred to the purchaser by providing software and the amount may be reliably measured and economic benefits will probably accrue in favor of the Company.

(ii) **Monthly software service** revenue is recognized over the period by delivering services over the duration of customer agreements

(iii) **Revenues from services** stand for an obligation for performance distinct from other services and are billed separately and recognized over time as services are performed as scheduled and when there is a valid expectation of amounts to be received from customers. Billed revenues that do not meet recognition criteria are not added to balances of the respective revenues and receivables accounts.

The Company uses the following definitions to segregate software revenues: (i) recurring revenues comprise subscriptions, technical support and technological developments, and (ii) non-recurring revenues cover license fee revenues and deployment and customization services.

Hardware revenues are recognized at the point in time when there is reliable evidence that: (i) a product's risks and benefits have been transferred to the buyer, (ii) the economic benefits will flow to the entity, and (iii) the associated costs and possible return of goods may be reliably estimated. If discounts will likely be granted and their amounts may be reliably measured, discounts are recognized as reduced revenue as and when sales are recognized.

## 10.1 – Overall financial and equity condition

Software and hardware revenues are subject to the following taxes and contributions at the following basic rates:

- Software and hardware revenues are taxed at 0.65% for PIS and 3.0% for COFINS. We adopt the non-cumulative regime for some revenues and may deduct credits earned on purchases and other expenses to which rates of 1.5% for PIS and 7.6% for COFINS are applied;
- Services Tax (ISS) from 2% to 5%;
- Social Security Contribution on Gross Revenue (local acronym CPRB) - 4.5% for software revenues; and
- Tax on Circulation of Goods (ICMS) from 4% to 12%. ICMS is a state government tax on gross revenue from hardware at each stage of the production and marketing chain.

- **Sales Returns**: Amounts relating to hardware sales returned and software services cancelled are recognized as deductions from gross operating revenues.

- **Costs:** Software costs consist primarily of salaries for consulting and support personnel plus costs of database acquisition and prices of licenses paid to third parties for resold software. Hardware costs consist primarily of raw material costs, parts for resale and production costs.

- **Research and Development**: Research and development staff salaries and expenses incurred by software developers related to new products or technological innovation of existing software are recognized as expenses for the year in which they are incurred and shown separately from sales costs in operating expenses.

- **General and Administrative Expenses**: expenses incurred for management and support of operating activities. The Company's main general and administrative expenses are personnel and contingency provisions.

- **Financial Result:** the difference between financial income and expenses. The main groups comprising financial result are interest on loans and financing and income from financial investments.

- **Current and Deferred Income Tax and Social Contribution**: The provision for income tax and social contribution is related to taxable income for each period. The rates for retail activities are 25% for IRPJ and 9% for CSLL. The Company's effective tax rate comprises current and deferred income tax and social contribution as per best accounting practices.

# 10.1 – Overall financial and equity condition

## COMPARISON BETWEEN THREE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018

| (in thousands of R$) | Three-month period ended March 31 2019 | 2018 | Vertical Analysis 1Q19 | 1Q18 | Horizontal Analysis 19 v. 18 |
|---|---|---|---|---|---|
| Software revenues | 563,587 | 518,988 | *100%* | *100%* | *8.6%* |
| (-) Software cost | (181,547) | (171,658) | *-32.2%* | *-33.1%* | *5.8%* |
| **Gross profit** | **382,040** | **347,330** | ***67.8%*** | ***66.9%*** | ***10.0%*** |
| **Operating revenues (expenses)** | **(304,508)** | **(282,280)** | ***-54.0%*** | ***-54.4%*** | ***7.9%*** |
| Research and Development | (96,236) | (87,938) | -17.1% | -16.9% | 9.4% |
| Selling and marketing expenses | (100,851) | (96,097) | -17.9% | -18.5% | 4.9% |
| General and administrative expenses | (63,405) | (56,099) | -11.3% | -10.8% | 13.0% |
| Depreciation and amortization | (37,262) | (32,263) | -6.6% | -6.2% | 15.5% |
| Provision for expected loss | (8,936) | (10,518) | -1.6% | -2.0% | -15.0% |
| Other revenues (expenses) | 2,182 | 635 | 0.4% | 0.1% | 243.6% |
| **Operating income before financial effects and equity pick-up** | **77,532** | **65,050** | ***13.8%*** | ***12.5%*** | ***19.2%*** |
| **Financial Result** | **(9,766)** | **(11,201)** | *-1.7%* | *-2.0%* | *-12.8%* |
| Financial income | 10,883 | 8,273 | 1.9% | 1.6% | 31.5% |
| Financial expenses | (20,649) | (19,474) | -3.7% | -3.8% | 6.0% |
| Equity accounting income | (130) | (129) | - | - | *0.8%* |
| **Income before taxes** | **67,636** | **53,720** | ***12.0%*** | ***10.4%*** | ***25.9%*** |
| Income tax and social contribution | (23,774) | (18,221) | *-4.2%* | *-3.5%* | *30.5%* |
| **Net income from continuing operation period** | **43,862** | **35,499** | ***7.8%*** | ***6.8%*** | ***23.6%*** |
| Net income from discontinued operation period | (31,744) | (1,189) | *-5.6%* | *-0.2%* | *2569.8%* |
| **Net income from period** | **12,118** | **34,310** | ***2.2%*** | ***6.6%*** | ***-64.7%*** |

**Comments on the Company's consolidated financial and operating performance for the three-month periods ended March 31, 2019 and 2018:**

**Net Revenue**

The Company's Net Revenues, which comprises net revenues from software, totaled R$563.6 million in the three-month period ended March 31, 2019, thus showing year-on-year growth of R$44.6 million or 8.6%. This growth was mainly due to the acceleration of Recurring Revenues, which grew organically by 9.9% in the three-month period ended March 31, 2019 and accounted for 73.8% of Total Software Revenues in the period mainly driven by higher volume sales in the fourth quarter of 2018 and contract adjustments based on cumulative 12-month inflation indices (IGP-M and IPC-A).

Nonrecurring Revenues also helped grow the quarter's Software Revenues, especially License revenues, which were positively impacted by the incremented corporate model.

**Costs**

The Company's software cost for the three-month period ended March 31, 2019 was R$181.5 million, an increase of R$9.9 million or 5.8% against the same three-month period of 2018 and in line with Software Revenues growth.

**Expenses**

The Company's Research and Development expenses for the three-month period ended March 31, 2019 totaled R$96.2 million an grew R$8.3 million or 9.4% against the same period of 2018, which reflected: (i) investments in innovation in the period; (ii) development efforts related to changed tax legislation as mentioned in previous quarters; and (iii) foreign exchange effects on TOTVS Labs' structure in California.

The Company's Selling and Marketing Expenses for the three-month period ended March 31, 2019 totaled R$100.8 million to show 4.9% y-o-y growth against 2018's total of R$96.1 million. The reduction was mainly associated with efficiency gains and varying sales mix between own channels and franchises.

## 10.1 – Overall financial and equity condition

The Company's General and Administrative Expenses for the three-month period ended March 31, 2019 totaled R$63.4 million, an increase of R$7.3 million, or 13% over the same period of 2018's, which totaled R$56.1 million. This increase reflected: (i) higher bonus provisioning than the three-month period ended March 31, 2018, given the full reaching of the targets set for the three-month period ended March 31, 2019; (ii) provision for restricted shares of the Long-Term Incentive Plan granted in the period ended June 30, 2018; (iii) the collective bargaining adjustments in the state of São Paulo; and (iv) restatement of contingency provisions as a result of the history of losses and progress of lawsuits in progress.

**Depreciation and Amortization**

The Company's Depreciation and Amortization for the three-month period ended March 31, 2019 totaled R$37.3 million to show an increase of R$5.0 million, or 15.5% against the same period of 2018. This increase was mainly due to depreciation of user right assets recognized in the amount of R$9.1 million under IFRS 16/CPC 06 (R2), which was adopted with effect from January 1, 2019.

**Provision for expected loss**

Provision for expected loss for the three-month period ended March 31, 2019 totaled R$8.9 million, a decrease of R$1.6 million, or 15.0% over the same period of 2018, which totaled R$10.5 million, mainly due to reduced amounts of overdue securities in the period. This expense line as a proportion of revenue was down 0.4 p.p., given the less challenging scenario of early 2019.

**Other Operating Revenues (Expenses)**

The Company's Operating Revenues (Expenses) for the three-month period ended March 31, 2019 totaled R$2.2 million to show an increase in net revenue of R$1.6 million, or 243.6% against the same period of 2018's total of R$600. This variation was mainly due to recognition of tax credits for the period.

**Financial Result**

The Company's Financial Result for the three-month period ended March 31, 2019 totaled R$9.8 million, a decrease of R$1.4 million or 12.8% against to the same period of 2018, when it totaled R$11.2 million, due to the Company's lower net debt incurring lower interest expenses in the period.

**Income tax and social contribution**

The Company's Income Tax and Social Contribution expense for the three-month period ended March 31, 2019 totaled R$23.8 million to show an increase of R$5.6 million, or 30.5% against the same period of 2018's total of R$18.2 million. The increase was mainly due to: (i) taxable income growing faster than tax incentive for innovation; (ii) lower tax benefit for the economic subsidy afforded the hardware operation.

**Net Income from continuing operation**

Net Income from the Company's continuing operation for the three-month period ended March 31, 2019 totaled R$43.9 million to show an increase of R$8.4 million or 23.6% against the same three-month period of 2018's total of R$35.5 million. In general terms, the increase in Net Income is in line with growth in operating income, even considering the impacts of IFRS 16/CPC 06 (R2) which led to an increase in depreciation and amortization expense and a higher Effective Tax Rate for Income Tax and Social Contribution.

**Net loss from discontinued operation**

Net loss from the Company's discontinued operation for the three-month period ended March 31, 2019 totaled R$31.7 million to show an increase of R$30.5 million over the same period of 2018's total of R$1.2 million. The main impact arises from provision for hardware assets impairment in the amount of R$48.8 million or R$32.2 million net of taxes.

## 10.1 – Overall financial and equity condition

### COMPARISON BETWEEN YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

| | Year ended December 31 | | | Vertical analysis | | | Horizontal analysis | |
|---|---|---|---|---|---|---|---|---|
| **(in R$ thousands)** | **2018** | **2017** | **2016** | ***2018*** | ***2017*** | ***2016*** | ***18 v.17*** | ***17 v.16*** |
| Software | 2,111,160 | 1,992,911 | 1,939,595 | *91.0%* | *89.5%* | *88.8%* | *5.9%* | *2.7%* |
| Hardware | 209,109 | 234,419 | 244,191 | *9.0%* | *10.5%* | *11.2%* | *-10.8%* | *-4.0%* |
| **Net Revenues from services and sales** | **2,320,269** | **2,227,330** | **2,183,786** | ***100.0%*** | ***100.0%*** | ***100.0%*** | ***4.2%*** | ***2.0%*** |
| Software cost | (739,210) | (715,470) | (714,369) | *-31.9%* | *-32.1%* | *-32.7%* | *3.3%* | *0.2%* |
| Hardware cost | (145,359) | (148,006) | (162,409) | *-6.3%* | *-6.6%* | *-7.4%* | *-1.8%* | *-8.9%* |
| **Gross profit** | **1,435,700** | **1,363,854** | **1,307,008** | ***61.9%*** | ***61.2%*** | ***59.9%*** | ***5.3%*** | ***4.3%*** |
| **Operating revenues (expenses)** | **(1,308,958)** | **(1,220,186)** | **(1,094,755)** | ***-56.4%*** | ***-54.8%*** | ***-50.1%*** | ***7.3%*** | ***11.5%*** |
| Research and development | (396,595) | (357,093) | (326,546) | *-17.1%* | *-16.0%* | *-15.0%* | *11.1%* | *9.4%* |
| Selling and marketing expenses | (424,784) | (431,619) | (390,486) | *-18.3%-* | *-19.4%* | *-17.9%* | *-1.6%* | *10.5%* |
| General and administrative expenses | (243,705) | (249,445) | (223,708) | *-10.5%* | *-11.2%* | *-10.2%* | *-2.3%* | *11.5%* |
| Depreciation and amortization | (129,391) | (147,574) | (128,350) | *-5.6%* | *-6.6%* | *-5.9%* | *-12.3%* | *15.0%* |
| Provision for expected loss | (43,364) | (36,695) | (49,197) | *-1.9%* | *-1.6%* | *-2.3%* | *18.2%* | *-25.4%* |
| Government subsidy | 7,801 | 6,275 | 10,639 | *0.3%* | *0.3%* | *0.5%* | *24.3%* | *-41.0%* |
| Other revenues (expenses) | (78,920) | (4,035) | 12,893 | *-3.4%* | *-0.2%* | *0.6%* | *1855.9 %* | *131.3%* |
| **Operating income before financial effects and equity pick-up** | **126,742** | **143,668** | **212,253** | ***5.5%*** | ***6.5%*** | ***9.7%*** | ***-11.8%*** | ***-32.3%*** |
| **Financial Result** | **(39,502)** | **(39,447)** | **(36,732)** | *-1.7%* | *-1.7%* | *-1.6%* | *0.1%* | *7.4%* |
| Financial income | 42,580 | 48,663 | 74,251 | *1.8%* | *2.2%* | *3.4%* | *-12.5%* | *-34.5%* |
| Financial expenses | (82,082) | (88,110) | (110,983) | *-3.5%* | *-4.0%* | *-5.1%* | *-6.8%* | *-20.6%* |
| **Equity accounting income** | **(517)** | **(69)** | **-** | *-* | *-* | *-* | *649.3%* | *-* |
| **Income before taxes** | **86,723** | **104,152** | **175,521** | ***3.7%*** | ***4.7%*** | ***8.0%*** | ***-16.7%*** | ***-40.7%*** |
| Income tax and social contribution | (26,080) | (10,894) | (23,252) | *-1.1%* | *-0.5%* | *-1.1%* | *139.4%* | *-53.1%* |
| **Net income for the period** | **60,643** | **93,258** | **152,269** | ***2.6%*** | ***4.2%*** | ***7.0%*** | ***-35.0%*** | ***-38.8%*** |

**Comments on the Company's consolidated financial and operating performance for the years ended December 31, 2018 and 2017:**

In 2018, the Company adopted new rules for showing financial and operating performance. The changed format was due to segregating Software and Hardware income as follows:
(i) recurring software revenues comprise software subscription, maintenance (technical support and technological evolution) and recurring services (Cloud and other additional services); and (ii) non-recurring software revenues comprise license fee and revenues from deployment and customization services.

**Net Revenue from services and sales**

The Company's net sales and services revenues, which consist of net software revenues and net hardware revenues, totaled R$2,320.3 million for the period ended December 31, 2018, showing growth of R$92.9 million or 4.2% against 2017's. This growth was mainly due to a 5.9% increase in software revenues, which accounted for 91% of the year's net revenues, which was partially offset by lower hardware revenues, which accounted for 9% of the year's net revenues.

The Company's net software revenues for the year ended December 31, 2018 totaled R$2,121.2 million to show an increase of R$118.2 million or 5.9% against the year ended December 31, 2017, when the Company posted net revenues of R$1,992.9 million. This growth was mainly due to:

(i) Growth of R$80.8 million, or 5.5% of recurring software revenues, which rose from R$1,466.4 million in 2017 to R$1,547.2 million in 2018, mainly as a result of faster sales growth and to a lesser extent a higher 12-month trailing IGP-M price indicator in the course of 2018, to account for 73.3% of Software Revenues; and

(ii) Higher non-recurring software license sales totaling R$177.7 million in 2018 to show an increase of R$11.1 million or 6.6% against 2017's, and higher pace of sales of services, which totaled R$386.3 million and grew R$26.4 million or 7.3% against 2017;

## 10.1 – Overall financial and equity condition

The Company's net revenues from Hardware for the year ended December 31, 2018 totaled R$209.1 million to show a fall of R$25.3 million or 10.8% against the year ended December 31, 2017, when net revenues were R$234.4 million

The reduction seen continues to reflect in particular the slower pace of sales of tax-note printers due to changed tax legislation in several states.

**Costs**

The Company's software cost for the year ended December 31, 2018 was R$739.2 million, showing an increase of R$23.8 million, or 3.3% against 2017's, which was lower than Software Revenue's 5.9% growth.

The growth is a result of more people from the services team being allocated to support activities to meet increased demands arising from new regulations (e.g. "e-Social") implemented in 2018.

The Company's hardware cost for the year ended December 31, 2018 was R$145.4 million, thus showing a fall of R$2.6 million or 1.8% against 2017, which reflected a slower pace of sales.

**Expenses**

The Company's Research and Development expenses for the year ended December 31, 2018 totaled R$396.6 million to show growth of R$39.5 million or 11.1% against 2017's, reflecting: (i) higher innovation expenses in the period, (ii) higher expenses for development efforts related to new regulations and; (iii) foreign exchange effects on TOTVS Labs structure in California.

The Company's Selling and Marketing Expenses for the year ended December 31, 2018 totaled R$424.8 million to show a 1.6% fall against 2017's, which totaled R$431.6 million. The fall was mainly associated with efficiency gains and sales mix varying across own channels and franchises.

The Company's General and Administrative Expenses for the year ended December 31, 2018 totaled R$243.7 million to show a fall of R$5.7 million or 2.3% against 2017's total of R$249.4 million. The reduction reflected higher operating efficiency and was mainly related to the integration of administrative operations completed in 4Q17.

**Depreciation and Amortization**

The Company's Depreciation and Amortization for the year ended December 31, 2018 totaled R$129.4 million to show a fall of R$18.2 million or 12.3% against 2017's. The fall mainly reflected the end of amortization of intangible assets arising from the Datasul merger.

**Provision for expected loss**

Provision for expected loss for the year ended December 31, 2018 totaled R$43.4 million to show an increase of R$6.7 million or 18.2% against 2017's total of R$36.7 million. The increase reflected higher levels of customer delinquency, particularly under the new provisioning model introduced by IFRS9/CPC48, especially the growth in applications for court supervised reorganization and customers' financial difficulties due to the Brazilian macroeconomic scenario in the period.

**Other Net Operating Revenues (Expenses)**

The Company's Net Operating Revenues (Expenses) for the year ended December 31, 2018 totaled R$78.9 million and showed an increase of R$74.9 million against 2017's total of R$4.0 million. The account line was impacted by the Hardware operation's provision for impairment following reevaluation of the Company's strategy based on the decision to make the Bemacash solution agnostic (capable of operating on different devices) and the migration and centralization of all Electronic Funds Transfer (TEF) solutions to the Software structure.

**Financial Result**

The Company's Financial Result for the year ended December 31, 2018 totaled a net financial expense of R$39.5 million, thus remaining stable against 2017's total of R$39.4 million. The line remained stable reflecting a combination of the following factors: (i) lower income from financial investments due to the lower Selic rate, which does not impact our financial liabilities to the same extent; and (ii) lower revenues from monetary restatement of tax credits, which were offset by higher monetary restatement expenses due to the higher level of contingency provisions.

# 10.1 – Overall financial and equity condition

**Income Tax and Social Contribution**

The Company's amount of Income Tax and Social Contribution for the year ended December 31, 2018 totaled R$26.1 million to show an increase of R$15.2 million or 139.4% against 2017's total of R$10.9 million. The increase was mainly due to: (i) lower proportion of interest on equity in relation to profit before income tax, as a consequence of the Parent Company's lower taxable income in 2018; (ii) lower proportion of tax incentive for innovation in relation to net income before income tax; and (iii) the effects of the provision for impairment commented in Other Net Operating Revenues (Expenses).

**Net Income**

The Company's Net Income for the year ended December 31, 2018 totaled R$60.6 million to show a fall of R$32.6 million or 35% against 2017's total of R$93.3 million. In general terms, the most relevant factor for 2018's lower income was the Hardware operation's recognizing R$87.0 million impairment provision as commented in Other Operating Revenues (Expenses).

**Comments on the Company's consolidated financial and operating performance for the years ended December 31, 2017 and 2016:**

In 2018, the Company adopted a new standard for presenting financial and operating performance, thus impacting comparative financial information for the years ended December 31, 2017 and 2016. The altered format was due to separating Software and Hardware results. (i) recurring software revenues comprised software subscription, maintenance (technical support and technological evolution) and recurring services (Cloud and other additional services) and (ii) non-recurring software revenues include license fees and deployment and customization services.

Selling and Marketing Expenses comprises Advertising Expenses, Selling and Commission Expenses while General and Administrative Expenses consolidate Management Fees information.

**Net Revenue from services and sales**

The Company's net revenues from sales and services for the year ended December 31, 2017 reached R$2,227.3 million to show growth of R$43.5 million or 2.0% against the same period of 2016. This growth was mainly due to a 2.7% increase in software revenues, which accounted for 89.5% of net revenue in 2017, which was partly offset by lower hardware revenues, which accounted for 10.5% of net revenue in the year ended December 31, 2017.

The Company's net revenues from software for the year ended December 31, 2017 were R$1,992.9 million, showing an increase of R$53.3 million or 2.7% against the year ended December 31, 2016, driven by Recurring Software revenues growing R$117.5 million or 8.7% against the year ended December 31, 2016.

The Company's revenues from hardware for the year ended December 31, 2017 totaled R$234.4 million to show a fall of R$9.8 million or 4.0% against 2016's total of R$244, 2 million. The fall was mainly due to lower sales of tax-note printers, which contributed to sales of tax solution posting a smaller share of the year's hardware revenues.

**Costs**

The Company's software cost (comprising Software, Support and Service Costs) for the year ended December 31, 2017 totaled R$715.5 million to show an increase of R$1.1 million or 0.2% against 2016's total of R$714.4 million. Higher software costs were due to higher salaries arising from collective bargaining agreements over the last 12 months.

The Company's hardware cost for the year ended December 31, 2017 totaled R$148.0 million, which was down R$14.4 million or 8.9% against 2016's total of R$162.4 million. The reduction was mainly due to lower hardware sales in the year. Note that hardware cost includes depreciation expenses for assets directly related to manufacturing costs in the amount of R$3.3 million for the year ended December 31, 2017 and R$3.3 million for the year ended December 31, 2016.

**Expenses**

The Company's Research and Development Expenses for the year ended December 31, 2017 totaled R$357.1 million to show an increase of R$30.5 million or 9.4% against 2016's total of R$326.5 million. The increase was mainly due to higher salaries arising from the period's collective bargaining agreements and additional investments in innovation, mainly related to specialized business solutions, open platforms and the micro- and small-business segment.

## 10.1 – Overall financial and equity condition

The Company's Selling and Marketing Expenses (comprising Selling, Advertising and Commission Expenses) for the year ended December 31, 2017 totaled R$431.6 million to show an increase of R$41.1 million or 10.5% against R$390.5 million for the year ended December 31, 2016. The increase was mainly related to growth in the period's recurring revenues. These expenses are directly related to the sales mix across own units and franchises.

The Company's General and Administrative Expenses (comprising General and Administrative Expenses and Management Fees) for the year ended December 31, 2017 totaled R$249.4 million to show an increase of R$25.7 million or 11.5% against 2016's total of R$223.7 million in the year ended December 31, 2016. This growth was mainly associated with higher salaries and additional expenses to absorb controlled companies and integrate Bematech's operations.

**Depreciation and Amortization**

The Company's depreciation and amortization expenses for the year ended December 31, 2017 totaled R$147.6 million to show an increase of R$19.2 million or 15.0% against the year ended December 31, 2016, which totaled R$128.3 million. Growth mainly resulted from
(i) initial depreciation of the assets of the new facilities at the Company's new headquarters; and (ii) infrastructure investments for the Cloud operation.

**Provision for expected losses**

The Company's provision for expected losses for the year ended December 31, 2017 totaled R$36.7 million to show a decrease of R$12.5 million or 25.4% against the year ended December 31, 2016's total of R$49.2 million. The reduction in this provision was mainly due to an additional provision of R$17.2 million related to a major customer's higher credit risk in 2016.

**Other Net Operating Revenues (Expenses)**

The Company's Net Operating Revenues (Expenses) for the year ended December 31, 2017 totaled an expense of R$4.0 million to show a variation of R$16.9 million or 131.3% against the year ended December 31, 2016's total revenues of R$12.9 million. In 2016, the Company sold its human resources consulting (BPO) operation as a one-off event not repeated in 2017.

**Financial Result**

The Company's financial result for the year ended December 31, 2017 was net financial income of R$39.4 million showing an increase of R$2.7 million or 7.4% against the year ended December 31, 2016's total of R$36.7 million. The increase was due to the Selic Rate's steep fall which impacted yields on financial investments, as compared to the Long-Term Interest Rate (local acronym TJLP), which impacts interest charges incurred on the main amounts of borrowings.

**Income Tax and Social Contribution**

The Company's Income Tax and Social Contribution expense for the year ended December 31, 2017 totaled R$10.9 million to show a decrease of R$12.4 million or 53.1% against the year ended 31 December 2016's total of R$23.3 million. This reduction was mainly due to lower income before income tax and social contribution and the higher proportion of interest on equity in relation to income before income tax and social contribution in the period.

**Net Income**

The Company's net income for the year ended December 31, 2017 totaled R$93.3 million to show a fall of R$59.0 million or 38.8% against the year ended December 31, 2016's total of R$152.3 million. The variation in net income resulted mainly from a combination of: (i) the 32.3% fall in net income before financial effects and equity accounting income; (ii) the year's more negative financial result; and (iii) increased depreciation and amortization expenses.

## 10.1 – Overall financial and equity condition

**CASH FLOW STATEMENTS**

The table below shows information extracted from the Company's Cash Flow Statements for the periods ended March 31, 2019 and 2018 and the years ended December 31, 2018, 2017 and 2016. This table shows the main items that impacted the Company's business activities and therefore, its cash and cash equivalents.

**COMPARISON BETWEEN CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2019 AND 2018**

| (in thousands of Reais) | Three-month period ended March 31, 2019 | Three-month period ended March 31, 2018 | *HA (%)* |
|---|---|---|---|
| Net cash from operating activities | 41,495 | 62,572 | *-33.7%* |
| Net cash used in investing activities | (10,656) | (17,572) | *-39.4%* |
| Net cash used in financing activities | (59,980) | (51,464) | *16.5%* |
| Reduction in cash and cash equivalents | (29,141) | (6,464) | *350.8%* |

**<u>Analysis of the main variations for the three-month period ended March 31, 2019 compared to the three-month period ended March 31, 2018:</u>**

Cash flow from operating activities for the three-month period ended March 31, 2019 was R$41.5 million thus showing a decrease of R$21.1 million or 33.7% against the three-month period ended March 31, 2018, mainly due to higher Income Tax and Social Contribution disbursements under to the new Tax Authority rule that does not allow offsetting of federal tax credits before delivery of accessory obligations that will occur next June and to higher profit sharing payouts for the period ended March 31, 2019 compared to the same period of the previous year.

Cash used in investing activities for the three-month period ended March 31, 2019 was R$10.6 million, thus showing a decrease of R$6.9 million or 39.4% against the period ended March 31, 2019, mainly due to heavy investment in electronic equipment in the first quarter of 2018.

Cash used in financing activities for the three-month period ended March 31, 2019 was R$60.0 million, thus showing an increase of R$8.5 million or 16.5% against the three-month period ended March 31, 2018, due to higher volume lease payments, of which R$7.6 million related to the adoption of IFRS 16/CPC 06 (R2) which came into effect as of January 1, 2019.

**COMPARISON BETWEEN CASH FLOWS FOR YEARS ENDED DECEMBER 31, 2018 AND 2017**

| (in thousands of Reais) | Year Ended December 31, 2018 | Year Ended December 31, 2017 | HA (%) |
|---|---|---|---|
| Net cash flow from operating activities | 426,006 | 329,772 | *29.2%* |
| Net cash used in investing activities | (102,212) | (50,312) | *103.2%* |
| Net cash used in financing activities | (258,164) | (107,063) | *141.1%* |
| Increase in cash and cash equivalents | 65,630 | 172,397 | *-61.9%* |

**<u>Analysis of the main variations for the year ended December 31, 2018 compared to the year ended December 31, 2017</u>**

Cash flow from operating activities for the year ended December 31, 2018 was R$426.0 million to show an increase of R$96.2 million, or 29.2% against the year ended December 31, 2017, mainly due to higher net income adjusted by impairment provision for the hardware operation, lower inventories due to better management of hardware raw material and offsetting tax credits in the course of 2018.

Cash used in investing activities for the year ended December 31, 2018 was R$102.2 million, showing an increase of R$51.9 million, or 103.2% against the year ended December 31, 2017, mainly due to cash invested in electronic equipment such as notebooks and servers and repair/refurbishing work at the Belo Horizonte and Joinville facilities.

## 10.1 – Overall financial and equity condition

Cash used in financing activities for the year ended December 31, 2018 was R$258.2 million, showing an increase of R$151.1 million or 141.1% against the year ended December 31, 2017, mainly due to debenture funding in the amount of R$200 million in 2017, which was partly offset by repayment of BNDES loans.

**COMPARISON BETWEEN CASH FLOWS FOR YEARS ENDED DECEMBER 31, 2017 AND 2016**

| (in thousands of Reais) | Year ended December 31, 2017 | Year ended December 31, 2016 | HA (%) |
|---|---|---|---|
| Net cash from operating activities | 329,772 | 260,508 | *26.6%* |
| Net cash used in investing activities | (50,312) | (98,749) | *-49.1%* |
| Net cash used in financing activities | (107,063) | (373,402) | *-71.3%* |
| Increase (decrease) in cash and cash equivalents | 172,397 | (211,643) | *-181.5%* |

**Analysis of the main variations for year ended December 31, 2017 compared to year ended December 31, 2016**

Cash flow from operating activities for the year ended December 31, 2017 was R$329.8 million and showed an increase of R$69.3 million or 26.6% against the year ended December 31, 2016, mainly due to lower payment of federal taxes by offsetting tax credits from previous years and reduced interest charges paid due to reduction of gross debt.

Cash used in investing activities for the year ended December 31, 2017 was R$50.3 million, showing a decrease of R$48.4 million or 49.1% against the year ended December 31, 2016, due to investments in facilities and software for the new headquarters that were funded through financial leases.

Cash used in financing activities for the year ended December 31, 2017 totaled R$107.1 million to show a decrease of R$266.3 million or 71.3% against the year ended December 31, 2016, mainly due to funding through a debenture issue in the amount of R$200 million in 2017. Additionally, in 2017 the amount of dividends and interest on equity paid out totaled R$76.5 million, which was R$64.8 million lower than the amount distributed in 2016.

**a. Results from the issuer's operations, in particular:**

**i. Description of important revenue components**

The criteria for recognizing revenue as a whole were not materially altered to an extent that could compromise comparisons across 2016, 2017, 2018 and the three-month periods ended March 31, 2019 and 2018.

In 2018, the Company adopted a new way of reporting its financial and operating numbers. The format was altered by separating Software and Hardware results in order to show the Software business' numbers more clearly.

The Company and its subsidiaries earn revenues from (i) software, including license fees, recurring software, revenues from services including deployment, customization, consulting, and (ii) hardware, comprising business automation solutions such as tax-note printers, barcode readers, bars, monitors, point-of-sale computers and other items.

Revenues are shown net of taxes, returns, rebates and discounts when applicable. Revenue amounts are recognized to reflect the consideration which the Company expects to obtain in return for transferring goods or services to a customer.

Software revenues are recognized as per the following criteria:

- License fees are non-recurring software revenues that are recognized at a certain point in time when all license risks and benefits are transferred to the purchaser when software is delivered and the amount may be reliably measured and economic benefits favoring the Company are generated.

# 10.1 – Overall financial and equity condition

(i) Subscription, maintenance and recurring services are recognized in the course of time through availability of the service during the term of customer contracts.

(ii) Revenues from non-recurring services such as deployment and customization involve obligations in terms of performance that differ from other services and are billed separately and recognized over time to the extent these services are delivered on schedule and when there is a valid expectation of revenue to be received from a customer. Any revenues invoiced but not meeting criteria for recognition are not included in the balances of the respective revenue and receivables accounts.

The Company uses the following definitions to classify revenues:

(i) Recurring Software Revenues include software subscription, maintenance (technical support and technological developments) and recurring services (Cloud and other additional services); and

(ii) Nonrecurring Software Revenue includes license fee revenues and deployment and customization services.

Hardware revenues are recognized at the point in time when there is reliable evidence that: (i) a product's risks and benefits have been transferred to the purchaser, (ii) economic benefits will flow to the entity, and (iii) associated costs and amounts for any goods returned may be reliably estimated. If discounts are likely to be granted and the amount can be reliably measured, a discount is recognized as a reduction in revenue as and when sales are recognized.

**ii. Factors that materially affected operating results**

The main factors that impacted the Company's operating results for the three-month period ended March 31, 2019 and the fiscal years ended December 31, 2018, 2017 and 2016 were:

(i) **Hardware business strategy changed:** The changed hardware operation strategy has made the Bemacash solution agnostic (capable of operating on different devices) combined with migration of the Electronic Funds Transfer (TEF) structure to the software operation led to impairment provisioning for hardware operations in the amount of R$87.0 million. These changes were the main factors that impacted 2018's 35% fall against 2017's net income.

**(ii) Lower level of economic activity:** The Brazilian economy's lower level of activity in recent years has directly impacted customers' appetite for investing in software solutions and in many cases has delayed their decisions. In this scenario, new customers eventually want looser payment terms and conditions below the historical average that TOTVS has practiced in recent years, thus impacting our average ticket.

(iii) **New ways of selling software:** Following a market trend, customers have been looking at the "software as services" model based on monthly payments that does not require the high short-term investments of the traditional licensing model. This is the model that small- and medium-sized businesses prefer. Most of the customer profiles in TOTVS' database prefer this new model;

(iv) **Investing in research and development**: one of the Company's pillars for leveraging business is to innovate through new solutions and technologies. Our Company has made major investments in research and development even in economic downturn scenarios. R&D expenses for the three-month period ended March 31, 2019 and the fiscal years ended December 31, 2018, 2017 and 2016, accounted for 17.1%, 17.1%, 16.0% and 15.0% of net revenues from services and sales in these periods and years respectively; and

(v) **Tax benefits**: The Company makes use of certain tax benefits, including those related to innovation and tax relief on its payroll expenses. Although these tax benefits do not involve material amounts, they do improve the Company's financial performance. We cannot guarantee that we will continue to enjoy these benefits.

**iii. Variations in revenues due to price changes, exchange rates, inflation, volume changes and new products and services**

Recurring Software revenues, which accounted for 73.8% of the Company's Total Net Revenue in the three-month period ended 2019 (against 73.0% in the same period of 2018) are indexed to the IGP-M (general market price index) and the IPC-A (broad consumer price index) which are adjusted on the "anniversary" of each contract signed with customers.

# 10.1 – Overall financial and equity condition

Brazil's 2018 GDP growth number of 1.1% reflected the currently unstable economic scenario. In relation to inflation, the IGP-M showed major monthly variations during the year which ended with a cumulative rise of 7.5%, while the IPC-A rose 3.8%, which was 0.8 percentage points higher than 2017's 3.0%. As far as monetary policy is concerned, the monetary policy committee (COPOM) based its strategy on keeping the Selic rate below the structural rate to end the year at 6.5%. The Long-Term Interest Rate (TJLP) showed a significant change in 2018, when the National Monetary Council (CMN) approved a rule to automatically calculate and disclose the rate as legally required. Brazil's unemployment rate reached 12.8% in 2017 before starting to downtrend in 2018, although not as much as expected and it is probably consolidating at 12.2%. In addition, delinquency rates for both individuals and corporate entities returned to pre-crisis levels of near 2%.

Brazil's 2017 GDP growth was 1.0% with IPC-A inflation ending the year at 2.95%, which was below the Central Bank's target and the lowest number for 19 years. The Selic interest rate ended 2016 at 13.75% and then fell to 7.25% by December 2017, while the base rate in the United States rose to just 1.99%.

The year 2016 saw the world economy's estimated growth rate slowing due especially to the US and Chinese economies posting lower growth rates and the latter's the lowest for 26 years. Brazil's GDP contracted again in 2016, thus adding to a total of 1.3 million jobs lost in the formal sector, according to data from the official General Register of Employees and Unemployed (local acronym Caged).

IPC-A inflation ended the year at 6.29%, the lowest rate for three years and below the high end of the inflation targeting band set by the Central Bank. The Selic interest rate had ended 2015 at 14.25% and was down to 13.75% in December 2016, while the US dollar depreciated 17.7% against the Brazilian Real in the year - an annual fall for the first time since 2010. The year was also marked by changes on the country's political scenario

**b. Impact on the issuer's operating income and financial result from inflation, changing prices for key inputs and outputs, exchange rates and interest rates**

The Company's operating income may be affected by economic changes, especially Brazil's short- and long-term interest rates, inflation and currency exchange rate policy. Historically, the effects of these changes for the Company have been attenuated by its dispersed customer base consisting of forms of practically every size from every sector of the Brazilian economy.

Several services used by the Company have their prices adjusted based on the IGP-M and IPC-A price indices, including personnel expenses (salaries, payroll charges and benefits), as well as other items such as travel, communication and rent, which are also influenced by these price inflation indices. However, this impact is mitigated in as far as recurring revenues are also indexed to inflation, mostly the IGP-M market price indicator.

The impact of 12-month weighted average IGP-M on the Company's recurring revenues, excluding the cancellation of recurring maintenance and subscriber contracts, led to positive impacts of approximately 3.5% on the Company's total net revenue in 2018, 2% in 2017, and 7% in 2016. The impact of 12-month weighted average IGP-M and average IPC-A on the Company's operating costs and expenses was approximately 3% in 2018, 6% in 2017, and 8% in 2016

Changes in Brazil's basic interest rate may indirectly affect the Company's operating income in as far as any rate hike may lead to customers and prospects investing less in technology. Therefore, the real impact of interest rate variation on the Company's operating income cannot be quantified; however, during periods with high SELIC rates, the Company has historically continued to grow its sales.

Turning to financial result, the Company's borrowings are mainly from BNDES credit facilities and non-conversion premium geared to the long-term interest rate (TJLP) or broad consumer price index (IPCA), whichever is applicable, and more recently to non-convertible debentures geared to the Interbank Deposit Certificate (CDI) rate. For the three-month period ended March 31, 2019, interest charges incurred for loans, borrowings and debentures accounted for 64.6% of financial expenses against 74.4% in the three-month period ended March 31, 2018. In the year ended December 31, 2018, interest charges incurred on loans, borrowings and debentures accounted for 64.2% of financial expenses against 67.5% for the year ended December 31, 2017 and 72.9% for the year ended December 31, 2016.

## 10.1 – Overall financial and equity condition

The Company’s debt is exposed to the following indicators for each period shown below:

| | | At December 31 | | |
|---|---|---|---|---|
| **Index** | **03/31/2019** | **2018** | **2017** | **2016** |
| TJLP | 15.6% | 28.8% | 44.6% | 66.5% |
| DI | 36.8% | 7.6% | 8.3% | 5.6% |
| CDI | 37.6% | 50.0% | 35.4% | 11.6% |
| Selic | 10.0% | 13.6% | 11.7% | 16.3% |

Under the Company’s financial investment policies, the focus is on low-risk securities and investments in prime financial institutions; their remuneration is largely based on the CDI rate. Financial income from these short-term investments accounted for 62.0% of the Company’s financial income for the three months ended March 31, 2019 and 78.1% for the three-month period ended March 31, 2018.

In the year ended December 31, 2018, this source accounted for 63.1% of financial income against 50.0% in the year ended December 31, 2017 and 58.5% for the year ended December 31, 2016.

In addition, revenues for some subsidiaries doing business internationally are exposed to currency risk arising from exposures to currencies such as the United States dollar (USD), Argentinean peso (ARS), Mexican peso (MXN), Taiwan new dollar (TWD), Chilean peso (CLP) and Russian ruble (RUB). The Company strives to maintain its net exposure at an acceptable level in accordance with its policies and limits set by management.

## 10.3 - Events

**a. Introduction or disposal of operating segment**

In order to broaden the Company's strategic focus on software operations, Management decided to sell off hardware operations. The Company hopes to close deals for interested parties to acquire its hardware operations in the short term. In this scenario, hardware operations assets were classified and measured at their recoverable sale value. As a result, a R$48.8 million impairment loss (R$32.2 million net of taxes) was recognized in the interim financial statements at March 31, 2019.

In order to help reach its strategic objectives, the Company is constantly assessing investment and divestment opportunities. TOTVS' main transactions in the period are shown in item b. below.

**b. Constitution, acquisition or disposal of equity interest**

The Company's main mergers and acquisitions over the last 3 years are listed below in chronological order:

RJ Participações: On May 9, 2018, our Bematech S.A. subsidiary exercised an option to purchase 20% of the capital of RJ Participações for R$9.9 million, of which R$4.3 million was paid on the option exercise date and the remainder provisioned for payment in 2019. On the same occasion, the option to buy and sell the remaining 20% stake was prorogated to 2021, to be measured based on 2020's performance metric. Since the initial agreement for the acquisition of RJ Participações stipulated purchase and sale options for the remaining equity, the Company consolidates 100% of its results and posts an estimate for the payment under "Investment acquisition obligations" in Liabilities.

Passlack: On August 1, 2018, our TFS Soluções em Software Ltda. subsidiary paid R$8.2 million to acquire and absorb the Passlack Consultoria em Informática Ltda., which focuses on development and support for the financial services segment. Passlack's net assets were acquired based on the appraisal of net worth approved by the shareholders' meeting together with the merger protocol and rationale.

National Computer Corporation (NCC): On July 8, 2016, TOTVS Mexico and TOTVS S.A. paid R$1.4 million for 18.5% and 0.5% respectively of the shares of Russia's National Computer Corporation (NCC). The purpose of investing in this new company is to build a partnership in Russia to develop and take to market a management system with a combination of the reliability, security, data integrity, continuity, high level performance and scalability featured in TOTVS solutions.

TOTVS RO: TOTVS Resultados em Outsourcing Ltda. (TOTVS RO) focuses on providing Human Resources Business Process Outsourcing (BPO) services. On August 1, 2016, TOTVS sold 100% of TOTVS RO's capital stock to Propay S.A. for R$10.6 million, of which R$6.3 million as first installment. The second installment due in August 2019 is subject to price adjustment depending on the business meeting contractually stipulated targets.

**c. unusual events or operations**

There were no relevant unusual events or operations from 2016 through 2018.

## 10.4 - Significant changes in accounting practices - Qualifications and emphases in auditor's report

**a. significant changes in accounting practices**

On January 1, 2018, new accounting standards issued by the International Accounting Standards Board (IASB) and the Accounting Pronouncements Committee (CPC) came into effect, which led to the following changes:

IFRS-9/CPC-48 - Financial Instruments: among other requirements, introduces a new model for impairment of financial assets due to expected and incurred credit losses to replace the previous model, which recognized only losses incurred based on default event indicators. The application of this rule resulted in additional provisioning for discharge credits based on historical loss determined in each band of the receivables portfolio's aging list, including items yet to fall due, combined with customers' propensity to pay as reported by credit protection institutions.

IFRS-15/CPC-47 - Customer Contracts: introduces new requirements for recognition of revenues from customer contracts based on fulfilling so-called "performance obligations" (deliverables) and requires deferral of incremental costs incurred for sales. The application of this rule resulted in the recognition of recurring maintenance and subscriber revenues during grace periods, as well as deferral of selling expenses and provisioning for commission expenses, as a means of "linearizing" the income over the estimated life of these contracts. The method used to recognize revenues from services was also adjusted to determine projects' percentage of completion (PoC) based on costs incurred against updated estimates of total costs required to complete these projects.

New accounting rules issued by the International Accounting Standards Board (IASB) and Accounting Pronouncements Committee (CPC) came into effect on January 1, 2019:

IFRS 16/CPC 06 - Introduces a new accounting model for leasing whereby on the lease commencement date, the lessee recognizes a lease liability to make payments (adding to gross debt) and an asset representing the right to use the leased asset for the duration. Therefore, interest expense on lease liabilities and depreciation expense on the right to use the asset will be recognized in profit or loss rather than the lease expense previously recognized in the Company's operating income.

**b. significant effects of changes in accounting practices**

On January 1, 2019, the adoption of IFRS 16/CPC 06 (R2) resulted in a R$236.8 million increase in fixed assets (property, plant and equipment) and a R$236.8 million lease liability (current and noncurrent) and other noncurrent liabilities. As part of recognition of the right to use properties for the contractual period, the Company reverted deferral amount for the grace period applied to some lease agreements, which resulted in a R$4.3 million increase in shareholders' equity.

On January 1, 2018, the initial adoption of IFRS 9/CPC 48 and IFRS 15/CPC 47 led to a R$8.0 million decrease in Shareholders' Equity.

In the year ended December 31, 2018, the adoption of IFRS 9/CPC 48 led to a R$6.2 million increase in Doubtful Debt Provision expense, while IFRS 15/CPC 47 led to increases of R$9.2 million in Net Revenue and R$1.9 million in Selling and Marketing Expenses.

The financial statements for the years ended December 31, 2017 and 2016, reflected herein are not comparable with the financial statements for the year ended December 31, 2018 or the financial statements for the period ended March 31, 2019.

**c. qualifications and emphases in auditor's report**

The Company does not have a history of qualifications and/or emphases in reports issued by its independent auditors.

## 10.5 - Critical accounting policies

The main accounting practices adopted by the Company are described in the financial statements for the years ended December 31, 2018, 2017 and 2016 available on the websites of the Company's Investor Relations department and the Brazilian Securities Commission (www.cvm.gov.br).

Preparing financial statements requires the use of certain critical accounting estimates and judgment calls by the Company's management in the process of applying the accounting policies of TOTVS S.A. and its subsidiaries.

**Judgment**

In the process of applying consolidated accounting policies, Management has made judgment calls related to the identification of hardware and software sales performance obligations, which include licensing fees and monthly software service and deployment/customization services that may have material effects on recognition of revenues from customers' contracts.

The Company has concluded that these performance obligations are distinct in that they are sold separately, since promises to transfer services and hardware are effected at different times to software availability, in addition to the fact that deployment and customization services are offered by other vendors.

**Estimates and assumptions**

The following estimates and assumptions pose significant risk and require a higher level of judgment and complexity for the Company's financial statements:

**(i)** **Provisions for expected credit losses on accounts receivable -** the Company and its subsidiaries use a provisioning matrix based on the conglomerate's historical loss rates to calculate expected credit losses. Assessing the correlation between observed historical loss rates, expected economic conditions and expected credit losses requires significant estimates. The amount of expected credit losses is sensitive to changing forecasts of economic circumstances and conditions. The history of credit losses experienced by the Company and its subsidiaries and their forecasts of economic conditions may not show a customer's actual pattern in the future.

(ii) **Impairment of tangible and intangible assets, including goodwill** - there is an impairment loss when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of fair value net of selling expenses and value in use. Key assumptions used to determine impairment of cash-generating units, including sensitivity analyses, are described in the financial statements for the years ended December 31, 2018, 2017 and 2016.

**(iii)** **Deferred taxes -** Deferred tax assets are recognized for all unused tax losses to the extent that that taxable income will probably be available to enable these tax losses to be used. Management has to use significant judgment to determine the amount of deferred tax assets that may be recognized, based on probable dates and levels for future taxable income, together with future tax planning strategies.

(iv) **Provision for contingencies related to legal actions** - Assessing the probability of losing actions includes evaluation of available evidence, hierarchy of laws (precedence), jurisprudence available, the most recent court decisions and their relevance in the legal system, as well as legal opinions from outside attorneys. Provisions are reviewed and adjusted to reflect altered circumstances such as applicable statute of limitations, tax inspectors' conclusions or additional exposures detected due to new issues or court decisions.

When transactions involving these estimates are settled, the amounts may differ materially from those recognized in financial statements because of the probabilistic nature of estimating. The Company reviews its estimates annually or more frequently.

**a. off-balance sheet items, such as:**

**i. operating leases, assets and liabilities**

There are no material items of this nature that have not been disclosed in the financial statements at March 31, 2019.

The Company' financial statements for the years ended December 31, 2018, 2017 and 2016 showed its agreement with VIP VII - Empreendimentos e Participações Ltda., a company organized by some members of TOTVS' direct and indirect management, therefore, a related party, for the construction and leasing of the new head office intended to integrate the company's facilities in the city of São Paulo, for a minimum of 10 years as of its 2017 handover date. The amount estimated for payments of leases in the first 10 years totals approximately R$200 million, negotiated under normal market conditions.

**ii. portfolios of written-off receivables for which the entity retains risks and responsibilities, stating the corresponding liabilities**
There are no material items of this nature that have not been disclosed in financial statements.

**iii. contracts for future purchase and sale of products or services**
There are no material items of this nature that have not been disclosed in financial statements.

**iv. unfinished construction contracts**
There are no material items of this nature that have not been disclosed in financial statements.

**v. agreements for future receipt of borrowings**
There are no material items of this nature that have not been disclosed in financial statements.

**b. other items that have not been disclosed in financial statements**
Not applicable.

## 10.7 Comments on off-balance sheet items.

**a. how the above change - or may change - revenues, expenses, operating income, financial expenses or other items in the issuer's financial statements**

Material changes to operating income arising from the new headquarters were recognized in financial statements for the period ended March 31, 2019.

**b. nature and purpose of the operation**

Construction and leasing of new headquarters intended to integrate the company's facilities in the city of São Paulo.

**c. nature and amount of obligations assumed and rights generated in favor of the issuer as a result of the operation**

There are no material items of this nature that have not been disclosed in financial statements

# 10.8 – Business Plan

**i. quantitative and qualitative description of investments in progress and planned investments**

The Company is continuing to pursue its inorganic growth strategy through mergers and acquisitions of management software developers or companies that may broaden the Company's added-value services offered in the Brazilian and/or international markets.

Research and Development (R&D) is another relevant line in the investment plan, given its strategic importance for the sector in which the Company operates. These investments enable the Company to offer solutions that are increasingly aligned with customers' needs and to aggregate productivity-boosting technological innovations for users of its solutions.

Research and Development (R&D) expenses posted in the financial statements for the period ended March 31, 2019 totaled R$96.2 million. At December 31, 2018, 2017 and 2016, R&D expenses totaled R$396.6 million, R$357.1 million and R$326.5 million respectively.

The main initiatives in the Company's R&D investment line over the last three years focused the Internet of Things (IoT), Artificial Intelligence (AI) and compliance with new regulations:

- Projects for regulatory purposes, such as E-Social and EFD-Reinf.
- Projects for innovation in the financial market, generating better operating results for users of financial *services*.
- Investments in projects to meet manufacturers' requirements with agile integration across various solutions while upholding industry 4.0 best practices in all instances.
- Projects focused on platform integration and productivity in order to facilitate administration and use of cloud infrastructure.
- Research and development applied to obtain efficiency gains and best practices for management of carriers, logistics operators, ports and customs bonded warehouses.
- Research and development to aggregate innovations for the retailing segment in order to deliver new and better experiences for users and customers of these solutions.
- Investments in artificial intelligence projects that will drive innovation, efficiency and performance gain for solutions developed by TOTVS in different segments.

**ii. funding sources for investments**.

Funding for R&D investments comes from the Company's operating activities and PROSOFT, PSI and Debentures (see item 10.1.f). In addition to funds from operating activities, mergers and acquisitions of companies may be funded through structured transactions involving both own and outside funds depending on the magnitude of the deal.

**iii. ongoing material divestments and expected divestments**

In order to broaden the Company's strategic focus on software operations, in April 2019 Management decided to sell our hardware operations. The Company plans to conclude negotiations with parties interested in acquiring the hardware operations in the short term.

In this scenario, the hardware operations' assets were classified and measured at their recoverable sale value. As a subsequent event, these assets were classified as available for sale in the interim financial statements of March 31, 2019.

On May 8, 2019, the Company disclosed a Material Fact announcing that with its subsidiary Bematech S.A., it was signing a binding Memorandum of Understanding through which its hardware operations developed in Brazil through its subsidiary Bematech Hardware Ltda. would be sold to ELGIN S.A. for R$25 million, subject to adjustments, to be paid on closing the deal, which will depend on obtaining the Brazilian competition authorities' approval and confirming other conditions usually required for this type of deal.

On May 9, 2019, the Company disclosed a material fact announcing an agreement with VTEX S.A. ("VTEX") to (i) set up a joint venture to develop and distribute e-commerce software solutions for companies in Brazil; and (ii) sell VTEX its holding in CIASHOP S.A. ("CIASHOP") representing 70.47% of CIASHOP's capital stock for twenty-five million, one hundred seventy-five thousand Reais (R$21,175,000.00), subject to adjustments, to be paid on closing the deal. The total amount attributed to CIASHOP was thirty million, forty-eight thousand. nine hundred sixty-six Reais and eight cents (R$30,048,966.08). The deal depends on obtaining the Brazilian competition authorities' approval and confirming of other conditions usually required for this type of transaction.

## 10.8 – Business Plan

**b. state any acquisition of plants, equipment, patents or other assets that will probably materially affect the issuer's productive capacity provided that it has been disclosed.**
Not applicable.

**c. new products or services.**

**i. description of ongoing research that has been disclosed**
Not applicable.

**ii. total amounts spent by the issuer on research to develop new products or services**
Not applicable.

**iii. projects in development that have been disclosed**
Not applicable.

**iv. total amounts spent by issuer on development of new products or services**

Research and Development expenses accounted for 17.1%, 16.0%, 15.0% and 17.1% of the Company's net revenues for the years ended December 31, 2018, 2017 and 2016, and the three-month period ended March 31, 2019 respectively.

## 10.9 - Other factors with significant influence

No other factors that have not been mentioned in this section but could significantly affect the Company's operating performance were identified.

## 11.1 - Projections disclosed and assumptions

The Company does not have any public financial projections.

## 11.2 - Monitoring of and amendments to projections disclosed

The Company does not have any public financial projections.

# 12.1 – Description of management structure

**a. duties of the board of directors and standing bodies and committees that report to the board of directors**

**Board of directors**

As provided for in the Company's bylaws approved at the Extraordinary General Meeting held on April 5, 2018, the Board of Directors' duties are:

(i) setting the general course of the Company's business;

(ii) electing and dismissing the Company's officers and assigning their duties;

(iii) calling General Meetings when deemed convenient or pursuant to Article 132 of The Brazilian Corporate Law;

(iv) overseeing the officers' performance of their duties, examining the Company's books and papers at any time, and asking for details of contracts entered into or due to be entered into and any other acts;

(v) selecting and removing the Company's independent auditors;

(vi) stating their prior opinion on Management's Report and the Executive Board's accounts and deciding to submit them to General Meetings;

(vii) approving annual and multi-annual budgets of the Company, its subsidiaries and affiliates, strategic plans, expansion projects and investment programs, and monitoring their execution;

(viii) deciding on opening, closing or altering the Company's offshore branches or subsidiaries;

(ix) authorizing issues of the Company's shares and subscription warrants within the limits of the Company's authorized capital;

(x) deciding on the Company's acquisitions of its own shares to be held in treasury and/or for subsequent cancellation or sale;

(xi) deciding on stock options or share subscriptions granted to managers and employees, and to managers and employees of other companies directly or indirectly controlled by the Company, without preemptive rights for shareholders pursuant to plans approved at General Meetings, having weighed the opinion of the Personnel and Compensation Committee;

(xii) submitting proposals for allocating the year's net income to General Shareholders' Meetings;

(xiii) individually distributing to officers a portion of Management's overall annual compensation decided by General Meetings, after considering the opinion of the Personnel and Compensation Committee;

(xiv) deciding on any business or agreements between (a) the Company and any of its subsidiaries (except wholly owned ones), and (b) between the Company or its subsidiaries (wholly owned or otherwise) and any officers and/or shareholders (including companies directly or indirectly controlled by said managers and/or shareholders or any of their related parties);

(xv) when delegated to do so by General Meetings, deciding on the Company's debentures issues, their dates and conditions for maturity, amortization or redemption, the dates and conditions for payment of interest, profit sharing and reimbursement premium, if any, and types of subscriptions or placements, as well as types of debenture;

(xvi) deciding on subscriptions, acquisitions, disposals or encumbrance by the Company of shares or any securities issued by any of the Company's controlled or affiliated companies, except for transactions involving only the Company and wholly-owned companies;

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(xvii) deciding on the Company's interest in other entities or other ventures, including consortiums or unincorporated joint ventures or silent partnerships;

(xviii) deciding to pay out or crediting interest on equity as per applicable law;

(xix) deciding on interim dividend payouts including from retained earnings or profit reserve accounts existing in the most recent annual or interim balance sheets;

(xx) deciding on assignment or transfer by any means to a third party, of intellectual or industrial property rights of the Company and/or a company directly and/or indirectly controlled by it, except for any remunerated licensing made by the Company in the ordinary course of business;

(xxi) authorizing the following acts for amounts of over five percent (5%) of subscribed capital stock, this amount to be considered as a separate transaction or a set of related transactions: (a) acquisition by the Company, by any means, of assets of another company, including subsidiaries or affiliates; (b) divesture of "permanent assets" items, (c) guarantees of any nature to be provided by the Company; (d) lending to any third party; (e) investments in expansion and improvement projects; (f) taking on long or short-term debt; and (g) entering into any long-term contracts (for more than a year);

(xxii) stating their opinion in favor of or against any public tender offer for the Company's shares through an informed opinion disclosed within 15 days of publication of a public tender offer for shares, which must address at least (a) the convenience and timeliness of the public offering for shares in relation to the interests of the Company and its shareholders as a whole, including the price and potential impacts on the shares' liquidity; (b) strategic plans for the Company disclosed by the offeror; (c) any alternatives to accepting the public tender offer for shares that may be available on the market; (d) the Company's economic value and (e) other points that the Board of Directors believes to be pertinent, as well as information required under applicable CVM rules;

(xxiii) stating their opinions of the terms and conditions of corporate reorganizations, capital increases and other transactions that give rise to a change in control, and formally stating whether they ensure fair and equitable treatment for the Company's shareholders.

The Board of Directors has its own internal regulations that were approved at the Board of Directors' Meeting held on March 11, 2019, filed at the Company's headquarters and available on the Company's Investor Relations website (www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos) which govern its work subject to its bylaws and current legislation.

In addition to the duties set forth in the Company's bylaws, the internal regulations determine the following powers for the Board of Directors:

(i) devising business strategies that weight the impacts of the Company's activities on society and the environment while ensuring the Company's perpetuity and long-term value creation;

(ii) monitoring the Company's operations and periodically assessing their risk exposure and the efficacy of its risk management systems, internal controls and compliance system as per previously approved policy;

(iii) deciding on the Company's values and ethical principles and ensuring the integrity of its corporate culture and the Company's transparency in its relations with all stakeholders;

(iv) annually assessing independent directors and submitting their names to General Meetings as well as stating and explaining any circumstances that may compromise their independence;

(v) periodically reviewing its corporate governance system in order to enhance it;

(vi) setting up mechanisms to appraise the performance of the Board and its committees, such as decision-making bodies, the Board's chairperson and members, taken individually, and the Corporate Governance Secretariat;

(vii) periodically assessing the scope and necessity of the committees, in order to ensure that they all have an effective role to play, deciding on new committees to be set up, in addition to those stipulated in the bylaws, and working groups to advise them, determining their composition and respective attributions, appointing their members, their budget when necessary, and term of office; and

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(viii) approving the powers of the Company's officers and attorneys.

The Company's policy of engaging non-audit services from the independent auditor was approved at the Board of Directors Meeting held on September 25, 2018 and publicly disclosed on October 4, 2018, filed at the Company's headquarters and available on its Investor Relations website (www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos), which governs its engagement, with due regard for the provisions of its bylaws and current legislation.

**Fiscal Council**

As per the Company's bylaws approved at its Extraordinary General Meeting held on April 5, 2018, the Fiscal Council will not be a standing body with its legally conferred powers and duties and will only be instated by a General Meeting resolution or at the shareholders behest in legally stipulated circumstances.

The Company's Fiscal Council does not have its own internal regulations; it is governed by current legislation and the bylaws.

**Audit Committee**

At the Extraordinary General Meeting held on April 5, 2018, the Company transformed the Audit Committee into a statutory advisory body to the Board of Directors, as provided for in its bylaws, whose powers are as follows, among others provided for in its internal regulations, reporting and making recommendations to the Board of Directors:

(i) stating their opinion on engaging the services of independent auditors and their termination;

(ii) appraising quarterly reports, interim financial statements and financial statements;

(iii) monitoring the activities of the Company's internal auditing and internal control area;

(iv) assessing and monitoring the Company's risk exposures;

(v) assessing, monitoring, and recommending measures for management to correct or improve the Company's internal policies, including related-party transaction policy;

(vi) assessing whether the Company has the means of receiving and processing information of any failure to comply with applicable legal and regulatory provisions, as well as internal regulations and codes, including specific procedures to protect persons providing such information (whistleblowers) and their confidentiality; and

(vii) stating their opinion on proposals from management bodies to be submitted to General Meetings involving alteration of capital stock, debenture or warrant issues, investment plans and/or capex budgets, dividend payouts, transformations, mergers, consolidations or spin-offs, tax matters and the market's structured financial transactions.

As provided for in the bylaws, the Audit Committee shall consist of at least three (3) members, a majority of whom must be directors, all of them independent and at least one (1) must have recognized corporate accounting experience. The Audit Committee's coordinator shall attend the Company's annual shareholders' meeting and be available to provide explanations and information for shareholders.

The Company has its own internal regulations for its board of directors and advisory committees approved at the Board of Directors' Meeting held on March 11, 2019 and filed at the Company's headquarters are available on the Company's Investor Relations website (www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos), which governs the Audit Committee's work, structure, organization, powers and duties subject to the provisions of the bylaws and current legislation.

The Audit Committee is responsible for approval of the Company's Internal Corporate Audit Regulations approved at the Board of Directors' Meeting held on May 4, 2018, dated and publicly disclosed on May 15, 2018, filed at the Company's headquarters and available on its Investor Relations website (www.ri.totvs.com/ptb/statutos-politicas-e-regimentos). As per these regulations, the chief audit executive is responsible for effective management of internal auditing in accordance with the regulations, adherence to the profession's code of ethics, standards, annual planning and any other studies developed by the area, managing the area's budget and internal resources. In addition, the chief audit executive shall answer to the Audit Committee, reporting directly to the Board of Directors and administratively to the Company's CFO. The audit committee will also approve all decisions related to the chief audit executive's appointment, dismissal and performance as well as their approval and annual compensation adjustment. Annually, the Company's chief audit executive shall submit an Internal Audit plan to the Audit Committee for its analysis and approval. The chief audit executive shall develop and maintain a quality assurance and enhancement program covering all aspects of internal audit activity. The quality assurance program consists of internal

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and external evaluations. Processes and tools used for internal evaluations may include supervision and review of audit studies, checklists, customers' opinions, selective peer reviews, timekeeping systems, and other metrics.

**Personnel and Compensation Committee**

As a statutory body, the Personnel and Compensation Committee shall carry out advisory duties and assist the Board of Directors set the terms of compensation and other benefits and payments to be received by the Company's directors and officers for whatever reason. The Personnel and Compensation Committee, as provided for in the bylaws, among other powers and duties determined in its internal regulations, shall:

(i) submit to the Board of Directors a proposal for the distribution of annual overall compensation between directors and officers based on IT industry practices, monitor compensation payments, and inform the Board of Directors if the latter is not in keeping with IT industry practices;

(ii) state its opinion on stock options or subscriptions granted to the Company's managers and employees; and

(iii) state its opinion on the company's profit-sharing arrangements for directors, officers and employees.

The Company has its own internal regulations for the Board of Directors and Advisory Committees approved at the Board of Directors' Meeting held on March 11, 2019, filed at the Company's headquarters and available on the Company's Investor Relations website (www.ri. totvs.com/ptb/estatutos-politicas-e-regimentos), which govern the work of the Personnel and Compensation Committee, subject to the provisions of the bylaws and current legislation.

**Strategy Committee**

The duties of the Strategy Committee provided for in the internal regulations of the Board of Directors and Advisory Committees approved at the Board of Directors' Meeting held on March 11, 2019 are to:

(i) analyze and discuss matters in order to formulate the Future Vision/Strategic Planning and evaluate the Company's real ability to deliver the latter;

(ii) evaluate the Executive Board's proposals for execution of Future Vision/Strategic Planning;

(iii) evaluate the Executive Board's proposals concerning M&A deals to execute the Future Vision/Strategic Planning;

(iv) state its opinion of the Executive Board's proposals and address them to the Board;

(v) monitor the evolution of Executive Board proposals by the Board of Directors and suggest course corrections if necessary;

(vi) address the status of Executive Board proposals for the Board of Directors; and

(vii) proceed to self-assess its activities and detect opportunities to improve its modus operandi.

**Governance and Nomination Committee**

As a statutory body set up pursuant to the bylaws, among other duties provided for in its internal regulations, the Governance and Nominations Committee shall:

(i) recommend and monitor good corporate governance practices, as well as the efficacy of their processes, proposing updates and upgrades when necessary;

(ii) set up channels and processes for interaction between the Company's long-term shareholders and the Board of Directors, particularly in relation to strategy, governance, compensation, succession and composition of the Board of Directors;

(iii) select and recommend to the Board of Directors persons who meet legal requirements and the Company's needs, and after hearing those concerned, may be nominated to slates to be approved by the Board of Directors - or individually - for submission to election by a General Meeting;

(iv) select and recommend to the Board of Directors persons who meet legal requirements and the Company's needs, may be nominated to the Advisory Committees of the Board of Directors;

(v) select and recommend to the Board of Directors persons to fill any vacant positions on the board;

(vi) select and recommend to the Board of Directors persons to be on the Company's Fiscal Council, if instated;

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(vii) support the Chair of the Board of Directors to organize a formal process to periodically appraise the performance of the Board of Directors and its members, which should be carried out annually;

(viii) ensure the existence, efficacy and implementation of an succession plan for executives and monitor its execution together with the Personnel and Compensation Committee;

(ix) issue an opinion on disclosure of the Company's governance practices, including information provided in the Reference Form and Management's Proposals for General Meetings;

(x) issue an opinion on the participation of persons related to the Company as members of other companies' Boards of Directors, Advisory Committees and Fiscal Councils, be they publicly listed or closely held;

(xi) support the Board of Directors in assessing candidates for board membership and their status as independent members.

The Company has its own internal regulations for its Board of Directors and Advisory Committees, approved at the Board of Directors' Meeting held on March 11, 2019, filed at the Company's headquarters and available on the Company's Investor Relations website (www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos), which govern the work of the Governance and Nominations Committee subject to the provisions of the bylaws and current legislation.

**b. in relation to statutory board members, their individual duties and powers**

Directors shall have the following duties approved by the Board of Directors at the meeting held on April 26, 2019 pursuant to article 19 (ii) of the Company's bylaws:

CEO
Execute and ensure execution of General Meeting resolutions; preferably represent the Company at Meetings or other corporate events at companies in which the Company has equity holdings as per paragraph 1 (iii) of article 26 of the Company's bylaws; propose, although not as their sole initiative, duties to be assigned each vice-president and director at the time of their respective election; report to the Board of Directors on all the organization's activities; determine long-term plans, strategies and policies. Manage the vice-presidents' activities; call and chair board meetings; suggest the Executive Board replace of any member of management in the event of their absence or temporary impediment; suggest the Board of Directors replace any member of management in the event of a position being vacant; be responsible for the organization's growth strategy, people management and profitability; lead the organization in the execution of the strategy set for the Company.

Vice-President - Administrative and Financial Officer:
Define, plan and lead activities involving support for the Company's business comprising the Pooled Services Center; Supplies, Facilities, Planning and Controllership, Legal, Risks, Compliance, Market Intelligence, Corporate PMO, Mergers and Acquisitions and Internal Controls; analyze accounting records of transactions in which the Company is a party; control financial commitments in relation to transactions' legal, administrative, budgetary, tax and contractual requirements; represent the Company on the Audit Committee; manage activities related to managing the Company's funds and assets and its financial investments.

Investor Relations Officer:
Define, plan and direct investor relations activities; undertake duties required for Investor Relations and develop disclosures for the securities market in accordance with Brazilian Securities Commission (CVM) rules; continue current improvements and submit new ones for relations and communications between the organization and investors, shareholders and financial professionals; plan communication for the Company's relations with local and/or international capital markets; monitor changes and trends in the investment industry and determine appropriate operating strategies; prepare financial reports to be sent to shareholders, the public, investors and financial professionals; conduct relations with banking and investment communities and establish relations with investors.

Vice President - Strategy and New Business Officer:
Responsible for Institutional Marketing, Business Models and Distributions, Partnerships and Customer Experience. Determine and ensure execution of digital strategy and performance model; suggest strategic alliances to develop business and operations, models and processes; define, plan and direct all marketing activities; develop policies, programs and budgets; be responsible for generating business opportunities and business strategy; suggest and monitor the development of the Company new business and/or products.

## 12.2 - Rules, policies and practices relating to shareholders' meetings

Advise the Strategy Committee on strategic IT decisions for Micro and Small Enterprises and Financial Services. Be responsible for TOTVS Micro and Small Business and Financial Services segments. Define, plan and direct strategies involving IT and segmentation to generate better software offerings and development; design and develop segmented solutions for external clients; suggest new systems and monitor the Company's systems; plan and direct support and technical/non-technical services for customers.

Vice President - Business Segments:
Advise the Strategy Committee on strategic decisions involving technology issues; be responsible for the Supply Chain, Healthcare, Professional Services and Retail and Distribution segments; define, plan and direct strategies involving IT and segmentation to generate better software supply and development; design and develop segmented solutions for external clients; suggest new systems and monitor them; plan and direct support and technical/non-technical services for customers.

Vice President - Platforms:
Advise the Strategy Committee on strategic decisions involving technology; promote integration across platforms and ensure development of technology; coordinate the activities of Platform Directors; answer for platforms under their responsibility with strategies to support software delivery and development improvements; suggest new Company systems and monitor them; plan, organize and direct the activities of the Company's production units; plan, organize and direct technical/non-technical customer support and services. Define, plan and direct the Company's operating strategy for research and development, software architecture and infrastructure, Cloud Computing, Data Center and Security and improvement of technologies used by the Company to ensure competitiveness of new products and solutions aligned with market trends and complexities associated with business and technology.

Vice President - Customer Services and Relations:
Plan, define and coordinate systems sales and/or deployment services in relation to current customers' and future prospects' accounts; coordinate and supervise sales for business generation in the context of targets set by management. Plan, organize and direct activities that involve the Company's customer service and relationships; monitor and manage indicators tracking their services; participate in decisions on product pricing and new products; lead the sales force to reach volume sales targets for the organization's products, including long-term plans, goals and strategies.

As provided for in the bylaws, the Executive Board has all powers required to ensure the Company's regular operations and pursuit of its corporate purposes, however special they may be, including waiving rights, compromising and agreeing, subject to pertinent legal or statutory provisions. Members are responsible for managing and leading the Company's business, in particular:

(i) Complying with the bylaws and Board of Directors and General Meeting resolutions and ensure others do so;

(ii) Submitting annual Management's Reports and Executive Board accounts together with independent auditors' reports and proposals for the allocation of earnings for the previous period to be reviewed by the Board of Directors;

(iii) Submitting annual and multi-annual budgets for the Company, its subsidiaries and affiliates, strategic plans, expansion projects and investment programs to be reviewed by the Board of Directors;

(iv) Deciding on any matter that is not the sole responsibility of General Meetings or the Board of Directors; and

(v) Making decisions on opening, closing or changing branches, agencies, warehouses, offices or any other establishments in Brazil.

**c. date the fiscal council was installed, if it is not a standing body**

The Fiscal Council not installed. The Company's Fiscal Council does not have its own internal regulations; it is governed by current legislation and the bylaws.

**d. mechanisms to appraise performance of the board of directors and each body or committee reporting to the board of directors**

As per the internal regulations for the Board of Directors and Advisory Committees approved at the Board of Directors Meeting held on March 11, 2019:

(a) The Board of Directors shall establish mechanisms to appraise the performance of the board and its committees such as decision-making bodies, its chairperson and directors taken individually, and the Corporate Governance Secretariat.

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(b) The Board's chairperson shall collaborate with the Corporate Governance Secretariat, and in accordance with Governance and Nomination Committee recommendations, shall lead a formally structured process to appraise the work of the Board and its committees as decision-making bodies, its chairperson, directors taken individually and the Corporate Governance Secretariat. The results of the Board's assessments will be disclosed to all directors.

(c) The Governance and Nomination Committee is responsible for supporting the Board's chairperson in organizing the process of assessing the performance of the board and directors.

In 2017, having approved the abovementioned internal regulations, the Company introduced a formal process in order to annually assess the performance of the Board of Directors and its Committees as decision-making bodies, the board's chairperson, its members individually, and the Corporate Governance Secretariat.

The Company introduced the appraisal process in 2017 and it was conducted based on a questionnaire answered by directors and committee members which contained questions related to self-assessment; strategic aspects; general dynamics of the board and its meetings; performance of the committees, the Corporate Governance Secretariat and the board's chairperson; as well as a 360-degree assessment of directors and committee members.

The Corporate Governance Secretariat submitted the overall results from the assessment to the chair, the Governance and Nomination Committee and subsequently the Board of Directors. In addition, the chair met individually with board members for 360-degree feedback.

The Board of Directors formulated action plans for certain points detected by this process and their implementation will be monitored by the Board with support from the Corporate Governance Secretariat.

There were no outside experts involved in the 2017 appraisal process.

At its July 25, 2018 meeting, the Board of Directors decided to involve outside experts (Boston Consulting Group - BCG) to support this process. The stages, scope and outcome of the assessment were submitted to the Board meeting held on December 20, 2018.

The document was approved on March 11, 2019, filed at the Company's headquarters and posted on the Company's Investor Relations website (www.ri.totvs.com/ptb/statutos-politicas-e-regimentos) with rules for the Governance and Nomination Committee subject to the bylaws and current legislation.

**a. advance notice required to call general meetings**

The Company's General Meetings will be called on giving legally required advance notice and submitting the documents required as per CVM Instruction 481/09. Additionally, any General Meetings discussing the delisting of a publicly-held company or its delisting from the Novo Mercado segment must be called with at least thirty (30) days advance notice.

The Company does not have special practices for notices calling general meetings. Article 124, Paragraph 1, II of Law No. 6.404/76 and subsequent amendments establishes that General Meetings shall be called with at least fifteen (15) calendar days' notice in advance for the first date and time called and eight (8) calendar days in advance for second date and time.

**b. competences**

In addition to their legally stipulated duties, General Meetings shall:

i) Elect and remove members of the Board of Directors;

ii) Determine annual global compensation for members of the Board of Directors and the Executive Board as well as Fiscal Council members, if the latter has been installed;

iii) Amend the bylaws;

iv) Decide on dissolution, liquidation, merger, spin-off or consolidation of the Company or any company in the Company;

v) Grant stock bonuses and decide any share grouping or splits;

vi) Approve stock option or subscription plans for managers and employees, as well as managers and employees of other companies directly or indirectly controlled by the Company;

## 12.2 - Rules, policies and practices relating to shareholders' meetings

vii) Based on proposals submitted by management, decide to allocate the period's net income and dividend payouts;

viii) Elect a liquidator and a Fiscal Council to operate during the liquidation period;

ix) Decide to leave B3's Novo Mercado segment;

x) Waive a public offering for the acquisition of shares as a requirement for leaving the Novo Mercado;

xi) Decide to cancel the company's registration with the Securities Commission (CVM), except as per Article 52 (ii) of the Company's bylaws; and

xii) be submitted by the Board of Directors.

The resolution referred to in item (x) above shall be taken by a majority of votes of holders of the Company's outstanding shares attending the meeting, not counting blank votes.

**c. addresses (physical or electronic) at which general meeting documents will be available for shareholders to analyze**

The Company posts general meeting documents at the following locations:

<u>electronic address (URL)</u>

- TOTVS S.A. Investor Relations website (ri.totvs.com.br)

- CVM website (www.cvm.gov.br)

<u>Physical address</u>
Avenida Braz Leme, 1000 - Casa Verde – São Paulo - SP – Brazil

**d. conflicts of interest - detection and management**
The Company does not have special practices in relation to corporate law and/or CVM regulations.

**e. management's applications for proxies to exercise voting rights**

The Company does not have public applications for proxies. Shareholders must submit their powers of attorney with the grantor's signature at least forty-eight (48) hours in advance.

**f. formalities required for acceptance of proxies granted by shareholders, stating whether the issuer requires or waives recognition of signatures, notarization, consularization and sworn translation and whether the issuer accepts proxies granted by shareholders over electronic media.**

Pursuant to the Company's articles, shareholders must submit documentation at least forty-eight (48) hours in advance, comprising, in addition to their identity documents and/or relevant corporate documents as proof of their legal representation, and when appropriate: (i) certification issued by the bookkeeping institution at most five (5) days prior to the date of the General Meeting; (ii) power of attorney with the grantor's signature notarized; and/or (iii) for shareholders participating in fungible custody of registered shares, a statement issued by the competent body showing the respective shareholding.

The Company does not accept powers of attorney granted by electronic means.

**g. formalities required for acceptance of remote voting bulletin, when sent directly to the Company, stating whether the issuer requires or waives authenticated signature, notarization and consularization.**

Shareholders wishing to exercise remote voting rights by sending them directly to the Company, must send the following documents to this address: Investor Relations Officer, Avenida Braz Leme, 1000 - Casa Verde, São Paulo, São Paulo State, Brazil:

(i) Physical counterpart of the general meeting bulletin duly filled out, initialed and signed; and

(ii) Certified copies of the following documents:

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For individuals:

- Identity document with photograph of shareholder;

For legal entities:

- Most recent restated bylaws or articles of association and corporate documents as proof of the shareholder's legal representation; and

- Identity document with photograph of legal representative.

For investment funds:

- The fund's most recent consolidated rules;
- By-laws or articles of association of its administrator or manager, as the case may be, depending on the fund's voting rights policy and corporate documents proving powers of representation; and
- Identity document with photograph of legal representative.

For the documents in items "i" and "ii" above, the Company may require, depending on the case, authentication, notarization, consularization (except for any alternative procedures that may be accepted under international agreements or conventions).

Remote voting bulletins together with the respective documentation will only be considered if received by the Company in good order at least seven (7) days prior to the date of the meeting. Pursuant to Article 21-U of CVM Instruction 481/09, the Company will inform shareholders whether the documents received are sufficient for their vote to be considered valid, or the procedures and dates for any rectification or re-sending if necessary.

**h. whether the company provides an electronic system for receiving remote voting bulletins or for remote attendance or participation**

The Company does not currently have an electronic system for receiving remote voting bulletins or for remote attendance or participation.

**i. instructions for a shareholder or group of shareholders to include motions for resolutions, slates or candidates running for membership of the board of directors and the fiscal council on the remote voting bulletin**

If a shareholder wishes to include proposals for deliberation, slates or candidates for membership of the board of directors or fiscal council on the remote voting bulletin, these proposals shall be submitted by mail to this address: Avenida Braz Leme, 1000 - Casa Verde, São Paulo, State of São Paulo, Brazil, together with the relevant documents for the proposal, or sent to this electronic address: ri@totvs.com.br, by the final dates determined under current regulations.

**j. whether the Company provides forums and websites to receive and share shareholder comments on agendas for meetings**

The Company does not provide forums or websites to receive and share shareholder comments on agendas for meetings.

**k. other information necessary for remote participation or attendance and for exercising remote voting rights**

The Company does not broadcast live video and/or audio of meetings. Holders of Company shares deposited with a central depositary may transmit voting instructions for filling out remote voting bulletins through their respective custody agents if the latter provide these services.

Voting instructions may also be collected and transmitted by Banco Itaú, TOTVS's share registration agent, through an electronic platform. To do so, shareholders must register on the Itaú Securities Services Digital Meeting website **Itaú Securities Services Assembleia Digital** (https://www.itau.com.br/securitiesservices/assembleiadigital/).

## 12.3 – Rules poilcies and practices relating to the board of directors

**a. number of meetings held in the most recent fiscal year**

As stipulated in the Company's articles, the Board of Directors holds ordinary meetings at least six (6) times a year and, extraordinary meetings whenever called by the chair or the majority of its members. Board meetings may be held by conference call, video conference, or any other means of communication enabling member identification and simultaneous communication with all other persons attending the meeting. In the last fiscal year, twelve (12) meetings were held, of which nine (9) were ordinary meetings and three (3) extraordinary.

**b. if any, shareholders' agreement terms that restrict or bind board members' exercise of voting rights**

There is no shareholders agreement.

**c. rules for identifying and administering conflicts of interest**

As stipulated in the articles, a member of the Board of Directors cannot have access to information or attend meetings of the Board of Directors related to matters in which he or she has or represents an interest conflicting with the Company's interests.

Pursuant to the Board of Directors and Advisory Committees' internal regulations, in the event of a conflict of interest or particular interest of a Board member being found in relation to a particular matter to be decided, the Board member in question must inform the other members in good time.

If any Board member who may have a potential particular benefit or conflict of interest with a decision to be made does not state his or her benefit or conflict of interest, any other Board member who is aware of the situation may do so. A member failing to voluntarily report such a situation will be considered in breach of the rules, if said particular benefits or conflict of interest are confirmed.

As soon as a conflict of interest or particular benefit has been identified, the person involved must withdraw from discussions and deliberations and should temporarily withdraw from the meeting until the end of discussion on the matter. Before withdrawing, they may provide their information, details or reasons and settle any doubts on the part of the Board.

Their statement of a conflict of interest situation or particular benefit shall be recorded in the Board of Directors meeting minutes.

The board's powers in relation to conflict of interest issues do not affect the General Meetings' legally stipulated powers.

**d. whether there is a policy for nominations and filling positions on the board of directors.**

As an integral part of the process of nominations and filling positions on the Board of Directors, the Company has its Governance and Nomination Committee, an advisory body for the Board of Directors, whose duties are set forth in Article 25 of the bylaws and Article 45 of the Board of Directors' internal regulations.

On November 12, 2018, the Board of Directors approved its Policy for Nominating Members of the Board of Directors, its Advisory Committees and the Executive Board, published on November 22, 2018, which sets forth the process and minimum requirements to nominate members for the Company's Board, Committees and Statutory Board.

As stipulated in the Policy, the Board's composition must reflect a range of academic backgrounds, professional experience, behavior, cultural aspects, age and gender, as well as complementary competencies, thus enabling the Company to benefit from a plurality of arguments in pursuit of higher quality, secure business strategies and decision making processes.

Nomination for Board membership must be aligned with the Company's best interests and fulfill the following criteria:

(i) the positions of chair of the Board of Directors and Chief Executive Officer (or principal executive) must not be held by the same person;

## 12.3 – Rules poilcies and practices relating to the board of directors

(ii) Company executives (officers and managers, except the CEO) must not be members of the Board;

(iii) have an unblemished reputation; anyone who (a) holds positions in companies that may be considered competitors of the Company; or (b) has or represents an interest conflicting with the Company's interests cannot be elected, except at the Shareholders' Meeting;

(iv) highly qualified professionals with outstanding professional, technical and academic experience, compatible with the position for which they are being nominated, and knowledgeable in relation to best corporate governance practices and experience of a wide range of matters such as finance, sustainability, information technology and data security;

(v) alignment with and commitment to the Company's principles, values and culture, and to its Code of Ethics and Conduct (aka CODEC);

(vi) strategic business vision and understanding; and

sufficient time available to properly fulfill the position's duties and responsibilities.

## 12.4 - Description of arbitration clause for dispute resolution

As set forth in its bylaws, the Company, its shareholders, management, and full and alternate members of its fiscal council, if there is one in place, shall be subject to arbitration under the Market Arbitration Chamber's rules to settle any dispute that may arise between them, related to or arising from their status as issuer, shareholders, directors, and members of the fiscal council, in particular arising from Law No. 6.385/76, Law 6.404/76, their bylaws, rules issued by Brazil's National Monetary Council, Central Bank of Brazil and Securities Commission, as well as other rules applicable to the capital market in general, in addition to the Novo Mercado rules and other rules of the Brazilian stock exchange (B3 - Brasil, Bolsa, Balcão) and the Novo Mercado Listing Agreement.

Without prejudice to the validity of the arbitration clause, parties applying to the Judiciary for urgent measures, when applicable, will obey the Market Arbitration Chamber's Arbitration Rules.

## 12.5/6 - Composition and professional experience of management and fiscal council

| Name | Date of Birth | Management Body | Date of Election | Term of Office | Number of Consecutive Terms of Office |
|---|---|---|---|---|---|
| **Individual Taxpayers' Register** | **Profession** | **Elective Position Held** | **Date on which took office** | **Elected by the controlling shareholder** | **% of participation in meetings** |
| **Other positions and duties held at the issuer** | | **Description of other position/function** | | | |
| Dennis Herszkowicz | 12/08/1974 | Is only part of the Executive Board | 11/26/2018 | A.G.M 2021 | 1 |
| 165.783.068-38 | Advertising Executive | 10 - CEO/Superintendent | 11/26/2018 | No | 0.00% |
| Member of the Strategy Committee | | | | | |
| Gilsomar Maia Sebastião | 12/06/1975 | Is only part of the Executive Board | 04/26/2019 | A.G.M 2021 | 5 |
| 174.189.288-07 | Bachelor's Degree in Accounting | 12 – Investor Relations Officer | 04/26/2019 | No | 0.00% |
| Administrative and Financial Vice President and Investor Relations Officer | | | | | |
| Gustavo Dutra Bastos | 03/19/1976 | Is only part of the Executive Board | 04/26/2019 | A.G.M 2021 | 5 |
| 026.942.416-46 | Business Administrator | 11 - Executive Vice President Officer/Superintendent | 04/26/2019 | No | 0.00% |
| Vice President of Platforms | | | | | |
| Marcelo Eduardo Sant'anna Cosentino | 01/06/1983 | Is only part of the Executive Board | 04/26/2019 | A.G.M 2021 | 4 |
| 306.743.308-46 | Business Administrator | 11 – Executive Vice-President - Superintendent | 04/26/2019 | No | 0.00% |
| Business Vice President for the Segments | | | | | |
| Juliano Tubino | 08/05/1974 | Is only part of the Executive Board | 04/26/2019 | A.G.M 2021 | 0 |
| 254.357.978-88 | Bachelor's Degree in Computing | 11 - Executive Vice President Officer/Superintendent | 04/26/2019 | No | 0.00% |
| Vice President of Strategy and New Business | | | | | |
| Alexandre Haddad Apendino | 12/08/1979 | Is only part of the Executive Board | 04/26/2019 | A.G.M 2021 | 1 |
| 292.459.418-92 | Business Administrator | 19 - Other Executive Officers | 04/26/2019 | No | 0.00% |
| | | Executive Vice President Officer | | | |
| Izabel Cristina Branco | 06/24/1976 | Is only part of the Executive Board | 08/05/2019 | A.G.M 2021 | 0 |
| 182.468.118-60 | Administrator | 11 - Executive Vice President Officer/Superintendent | 08/12/2019 | No | 0.00% |
| N/A | | | | | |

## 12.5/6 - Composition and professional experience of management and fiscal council

| Name | Date of Birth | Management Body | Date of Election | Term of Office | Number of Consecutive Terms of Office |
|---|---|---|---|---|---|
| **Individual Taxpayers' Register** | **Profession** | **Elective Position Held** | **Date on which took office** | **Elected by the controlling shareholder** | **% of participation in meetings** |
| **Other positions and duties held at the issuer** | | **Description of other position/function** | | | |
| Guilherme Stocco Filho | 10/25/1967 | Is only part of the Board of Directors | 04/05/2018 | A.G.M 2020 | 1 |
| 176.649.438-25 | Business Administrator | 27 - Independent Board of Directors (Permanent Member) | 04/05/2018 | No | 100.00% |
| Member of the Strategy Committee | | | | | |
| Gilberto Mifano | 11/11/1949 | Is only part of the Board of Directors | 04/05/2018 | A.G.M 2020 | 2 |
| 566.164.738-72 | Business Administrator | 27 - Independent Board of Directors (Permanent Member) | 04/05/2018 | No | 100.00% |
| Coordinator of the Audit Committee and Member of the Governance and Nomination Committee | | | | | |
| Paulo Sergio Caputo | 11/19/1959 | Is only part of the Board of Directors | 04/05/2018 | A.G.M 2020 | 1 |
| 420.174.249-00 | Lawyer | 27 - Independent Board of Directors (Permanent Member) | 04/05/2018 | No | 100.00% |
| Member of the Audit Committee and Member of the Personnel and Compensation Committee | | | | | |
| Maria Letícia de Freitas Costa | 03/27/1960 | Is only part of the Board of Directors | 04/05/2018 | A.G.M 2020 | 2 |
| 050.932.788-58 | Production Engineer | 25 - Vice Chairman of the Independent Board of Directors | 04/05/2018 | No | 100.00% |
| Coordinator of the Strategy Committee | | | | | |
| Mauro Gentile Rodrigues da Cunha. | 11/06/1971 | Is only part of the Board of Directors | 04/05/2018 | A.G.M 2020 | 2 |
| 004.275.077-66 | Bachelor's Degree in Economics | 27 - Independent Board of Directors (Permanent Member) | 04/05/2018 | No | 91.67% |
| Member of the Audit Committee and Member of the Governance and Nomination Committee | | | | | |
| Claudia Elisa de Pinho Soares | 03/23/1968 | Is only part of the Board of Directors | 04/05/2018 | A.G.M 2020 | 2 |
| 005.639.287-78 | Business Administrator | 27 - Independent Board of Directors (Permanent Member) | 04/05/2018 | No | 100.00% |

## 12.5/6 - Composition and professional experience of management and fiscal council

| Name | Date of Birth | Management Body | Date of Election | Term of Office | Number of Consecutive Terms of Office |
|---|---|---|---|---|---|
| **Individual Taxpayers' Register** | **Profession** | **Elective Position Held** | **Date on which took office** | **Elected by the controlling shareholder** | **% of participation in meetings** |
| **Other positions and duties held at the issuer** | | **Description of other position / function** | | | |
| Coordinator of the Personnel and Compensation Committee | | | | | |
| Sylvia de Souza Leão Wanderley | 03/09/1962 | Is only part of the Board of Directors | 08/09/2019 | A.G.M. 2020 | 0 |
| 731.199.977-49 | Social Communication | 27 - Independent Board of Directors (Permanent Member) | 08/09/2019 | No | 0.00% |
| Laércio José de Lucena Cosentino | 08/11/1960 | Is only part of the Board of Directors | 04/05/2018 | A.G.M. 2020 | 7 |
| 032.737.678-39 | Electrical Engineer | 20 - Chairman of the Board of Directors | 04/05/2018 | No | 100.00% |
| Coordinator of the Governance and Nomination Committee and Coordinator of the Strategy Committee | | | | | |
| Eduardo Mazzilli de Vassimon | 10/07/1958 | Is only part of the Board of Directors | 04/18/2019 | A.G.M. 2020 | 0 |
| 033.540.748-09 | Economist | 22 - Board of Directors (Permanent Member) | 04/18/2019 | No | 0.00% |

**Professional experience/Statement of no conviction/Independence criteria**

**Dennis Herszkowicz - 165.783.068-38**

Between 2003 and 2018, Mr. Dennis Herszkowicz was a partner and statutory officer at Linx S.A., holding different positions as vice-president, in addition to being a member of the Board of Directors from 2011 to 2014. Between 2012 and 2017 he was Chief Financial and Investor Relations Officer, being responsible for the IPO held in 2013 and follow-on in 2016, as well as overseeing 20 acquisitions during the period. Between 2017 and 2018, he was Executive Vice President for New Markets, the Fintech-focused Business Unit. Prior to Linx, he was Managing Director of DeRemate.com in Brazil, and founder and CEO of Gibraltar.com, as well as having spent time at Unilever and Credicard S.A. He has a degree in Advertising and Marketing from ESPM. In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified him from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Gilsomar Maia Sebastião - 174.189.288-07**

For the past 5 years, Mr. Sebastião has served as Vice President, Planning Officer, Corporate Finance Officer, Investor Relations Officer and Officer for Mergers and Acquisitions at TOTVS. Between 2006 and 2007 he was TOTVS' Processes and Risk Manager. He worked at Ernst & Young Auditores Independentes as an audit manager, where he worked on external audit projects from 1996 to 2004. He received a degree in Accounting from Universidade Mackenzie in 2000 and has an MBA in Capital Markets from FIPECAFI. In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified him from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Gustavo Dutra Bastos - 026.942.416-46**

Mr. Bastos is currently the Company's Vice President for Platforms. He has spent more than 25 years working in IT companies operating in the software and associated services market. Mr. Bastos has been with the company for almost 20 years and has been responsible for numerous areas including pre-sales, supply, software projects and services, the latter up until 2012. In 2013, he played an important role in structuring the Technical Service and Quality areas, assuming responsibility for the company's Product areas. He has a technical background in Industrial Computing from Centro Federal de Educação Tecnológica de Minas Gerais (CEFET/MG) and received a degree in Business Administration from UFMG - Universidade Federal de Minas Gerais, in 2000. In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified him from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Marcelo Eduardo Sant'anna Cosentino - 306.743.308-46**

Mr. Cosentino joined the Company in 2001 and has worked in a number of areas, including information technology, product development, partnerships, new business, corporate planning and product development. In the last three years, he has been in charge of the Company's international expansion, having taken part in the main M&A processes carried out over the years. He is currently Business Vice President for the Segments. He received a degree in business administration from Pontifícia Universidade Católica (PUC-SP) in 2005 and has an MBA from the Kellogg School of Management (USA). In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified him from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Juliano Tubino - 254.357.978-88**

Mr. Tubino serves as Vice President for Business and Digital Strategy at TOTVS. He was previously an Executive Officer at Accenture Digital, Netshoes, Microsoft and Amazon, accumulating experience in Marketing, Sales, Innovation and Digital Marketing. Mr. Tubino has a degree in Computer Science from Universidade Presbiteriana Mackenzie and a degree in Administration and Marketing from Kellogg Executive Education (USA). In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified him from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Alexandre Haddad Apendino - 292.459.418-92**

For the past 5 years, Mr. Apendino has held the position of Executive Vice President in charge of Customer Service and Relationship at TOTVS, having joined the Company in 2013 as a sales and channel manager, before taking over the Cloud and Analytics (GoodData) business areas. Prior to this, he worked at SAP and Oracle, and has more than 18 years' experience in the Sales and Channel Management field, always with a focus on small and medium sized companies (SMB). Mr. Apendino received a degree in Business Administration from Universidade Presbiteriana Mackenzie in 2001, and has an Executive MBA and a Corporate MBA from INSPER and a specialization course in Effective Sales Management from Wharton University (USA). In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified him from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Izabel Cristina Branco - 182.468.118-60**

Ms. Izabel Cristina Branco holds the position of Vice President for Human Relations at TOTVS. With more than 20 years' experience in business and human resources management, customer segmentation, marketing and strategic communication, Ms. Branco worked at Via Varejo as Executive Officer for Human Resources and Management for the past 4 years. Between 2014 and 2015 she was Superintendent for Customer Value at SulAmérica Seguros. Prior to this she worked at companies such as Banco Santander, Banco Real and Banco Itaú. Ms. Branco holds a degree in Translation and Interpreting from Universidade Ibero Americana and a graduate degree in Business Administration from FGV and in Marketing from ESPM. In the last 5 years the aforementioned administrator has not been subject to (i) any criminal conviction; (ii) or any conviction or penalty imposed in an administrative proceeding with the Brazilian Securities Commission; (iii) or to any final and unappealable conviction, at the judicial or administrative level, which has suspended or disqualified her from the practice of any professional or commercial activity. In addition, the aforesaid administrator is not considered to be a politically exposed person.

**Eduardo Mazzilli de Vassimon - 033.540.748-09**

Mr. Vassimon holds a degree of Bachelor in Economics from the School of Economics of the University of São Paulo - USP, and also a degree in Business Administration from Fundação Getúlio Vargas University, both completed in 1980, in addition to two postgraduate degrees from EAESP/FGV University (Brazil) and École des Hautes Études Commerciales - France, both in 1982. Since April 2019, he has been Chairman of the Board of Directors of Votorantim S.A and since 2015 he has been a member of the Board of Directors of B3 - Brasil, Bolsa, Balcão. He was CEO of Itaú BBA bank and General Director of the Wholesale Area of Itaú-Unibanco bank from 2016 to 2018; Executive Vice President, CFO and CRO of Itaú Unibanco S.A. from 2015 to 2016; Executive Vice President and CRO of Itaú Unibanco S.A. from 2013 to 2015; Member of the Board of Directors - Banco Itaú BBA S.A. from 2003 to 2015; Member of Santos Futebol Clube soccer team from 2009 to 2013; Managing partner of Fundo Pitanga ("venture capital") from 2011 to 2013; and Vice-President of Fundação Bienal de São Paulo from 2009 to 2013. Key contributions for the Company: Business Management; Securities exchange market; and Corporate Governance.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

**Guilherme Stocco Filho - 176.649.438-25**

Mr. Stocco has extensive background in creating digital businesses and business transformation with over 20 years of experience. Responsible for successful projects at Banco Digital (Banco Original), Venture Capital (Koolen & Partners), Mobile and E-commerce (Buscapé), Internet Platforms (Microsoft), and Advertising (TeRespondo). He is currently a member of Advisory Committees of the Board of Directors of TOTVS and Banco Original. Keynote speaker on Trends and Innovation, with more than 120 lectures in Brazil, LATAM, Canada, United States, Denmark, and the United Kingdom. Bachelor in Business Administration from Fundação Armando Alvares Penteado - FAAP University in 1997, with an MBA in Management from Insper in 2010; postgraduate in Marketing Management from FAAP in 2007 and Marketing certificate from Berkeley, University of California, USA, in 1996. Key contributions for the Company: Digital Business Management; Innovative Vision in Technology; and Entrepreneurship.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

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**Gilberto Mifano - 566.164.738-72**

Mr. Mifano holds a degree in Business Administration from the São Paulo School of Business Administration of the Getúlio Vargas Foundation University (1972). Currently, in addition to being an Independent Director and a member of the Audit and Governance Committees of TOTVS S.A., Mr. Mifano is an Independent Director and member of the Audit, Finance and People committees of Cielo S.A., Independent Member and member of the Audit and Risk Management and Finance Committee of Natura S.A., Independent Member of Construtora Pacaembu S.A., Advisory Member of Pragma Gestão de Patrimônio Ltda., Decision-making Director of RAPS - "Rede de Ação Política pela Sustentabilidade" (Political Action Network for Sustainability), Fiscal Council Director of the Arapyaú Institute of Education and Sustainable Development, and Fiscal Council Director of CIEB - Innovation Center for Brazilian Education. Previously, between 2014 and 2019, he was an Independent Board Member of Ambar S/A. until 2017, Independent Director of Baterias Moura S/A until 2014; and Member of the Fiscal Council of Instituto Natura until 2017, and Independent Member of the Sustainability and Governance Committee of Banco Santander Brasil S/A until 2016. Key Contributions for the Company: Corporate Governance; Finance; and Business Management.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

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**Maria Letícia de Freitas Costa - 050.932.788-58**

Ms. Freitas Costa has a degree in Production Engineering from the Polytechnic School of the University of São Paulo and an MBA from the Samuel Curtis Johnson School of Management at Cornell University, USA. She is currently a partner at Prada Assessoria Empresarial and Board Member of Localiza S.A., Mapfre, and Embraer. She is also a Member of the Audit Committee and Coordinator of the Strategy Committee of the corporation Votorantim Cimentos. In the past 5 years, Ms. Freitas Costa worked at Insper University between 2010 and 2015. From 2001 to 2010, Ms. Freitas Costa served as CEO of Booz Allen Hamilton operations (today known as Strategy&). She has also served as a Board Member of Sadia, Gafisa, Technip, RBS Mídia and Marcopolo, in addition to being a member of the Board Committee at the corporations Votorantim Industrial and Bematech. Key Contributions for the Company: Strategic Planning; Management; and Business Vision.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

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**Mauro Gentile Rodrigues da Cunha. - 004.275.077-66**

Mr. Rodrigues da Cunha has a degree in Economics from the Pontifical Catholic University of Rio de Janeiro and an MBA from the University of Chicago, USA; holds the position of Chairman of the Board of Directors of Caixa Econômica Federal, has over 25 years of experience in the securities and exchange markets and corporate governance. He served from 2012 to 2019 as CEO of AMEC - Association of Securities and Exchange Investors. Prior to that, he worked at several asset management corporations and financial institutions, including Mauá Investimentos, Franklin Templeton (Brazil), Bradesco Templeton, Investidor Profissional, among other ones. He was also Chairman of the Board of Directors of IBGC - Brazilian Institute of Corporate Governance. Today he is also a member of the Board of Directors and Coordinator of the Audit Committee of Eletrobrás - Centrais Elétricas Brasileiras, member of the Board of Directors and Coordinator of the People and Compensation Committee of brMalls Participações, and member of the Board of Directors of Klabin. Key Contributions for the Company: Securities and Exchange Market; Corporate governance; and Finance.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

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**Sylvia de Souza Leão Wanderley - 731.199.977-49**

Ms. Wanderley worked for more than 30 years in the retail market, having worked at Walmart Brasil (1995-2000), Grupo Pão de Açúcar (2000 to 2012), and Carrefour (2015 to 2018), where she held positions as Vice President in the areas of Marketing, Sales, Operations, and Human Resources. She also served as Vice President of Marketing and Innovation at BRF from 2013 to 2014. She is currently a member of the Board of Directors of Sodimac Brasil, a Falabella group Company, Mendelics and of the Baumgart Group. She leads the People Committee and is a member of the Strategy Committee at Raiadrogasil. Graduated in Social Communication, with an Executive MBA in Administration at COPPEAD- UFRJ University, and specialization courses at MIT - Massachusetts Institute of Technology (USA), Sloan School of Management, and Fundação Dom Cabral. Key Contributions for the Company: Strategic Planning; People management; and Marketing.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

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**Laércio José de Lucena Cosentino - 032.737.678-39**

Mr. Cosentino is the founder and chairman of the Board of Directors of TOTVS, the largest technology company in Brazil. Graduated in Electrotechnical Engineering from the Polytechnic School of the University of São Paulo (USP), his career and history were consolidated in the IT sector especially by founding the corporation TOTVS in 1983. The Company is an absolute leader in Brazil, being present in 41 countries. Laércio Cosentino is a member of the Decision-making Board of the Brazilian Association of Information and Communication Technology Companies (Brasscom), a member of the Consulting Board of Cristália, chairman of the Board of Mendelics, Board Member of Brain4care, among other activities. Key Contributions for the Company: Entrepreneurship; Human Capital Strategy in Technology; Innovative Vision in Technology; and a renowned businessman in the technology sector and in Brazil.

In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

| |
|---|
| Dennis Herszkowicz - 165.783.068-38 |
| Gilsomar Maia Sebastião - 174.189.288-07 |
| Gustavo Dutra Bastos - 026.942.416-46 |
| Marcelo Eduardo Sant'anna Cosentino - 306.743.308-46 |
| Juliano Tubino - 254.357.978-88 |
| Alexandre Haddad Apendino - 292.459.418-92 |
| Izabel Cristina Branco - 182.468.118-60 |
| Eduardo Mazzilli de Vassimon - 033.540.748-09 |
| Guilherme Stocco Filho - 176.649.438-25 |
| Gilberto Mifano - 566.164.738-72 |
| Maria Letícia de Freitas Costa - 050.932.788-58 |
| Mauro Gentile Rodrigues da Cunha. - 004.275.077-66 |
| Sylvia de Souza Leão Wanderley - 731.199.977-49 |
| Laércio José de Lucena Cosentino - 032.737.678-39 |

## 12.7/8 - Composition of Committees

| Name | Type of Committee | Type of Audit | Position Held | Date of Birth | Date on which took office | Term of Office |
|---|---|---|---|---|---|---|
| **Individual Taxpayers' Register** | **Description Other Committees** | **Profession** | **Description of other positions held** | **Date of Election** | **Number of Consecutive Terms of Office** | **% of participation in meetings** |
| **Other positions and duties held at the issuer** | | | | | | |
| Gilberto Mifano | Audit Committee | Statutory audit committee adhering to CVM Instruction No. 308/99 | Others | 11/11/1949 | 04/30/2020 | 2 years |
| 566.164.738-72 | | Business Administrator | Coordinator of the Committee | 04/30/2020 | 3 | 100.00% |
| Member of the Board of Directors, Coordinator of the Audit Committee and Member of the Governance and Nomination Committee | | | | | | |
| Mauro Gentile Rodrigues da Cunha | Audit Committee | Statutory audit committee adhering to CVM Instruction No. 308/99 | Member of the Committee (Permanent) | 11/06/1971 | 04/30/2020 | 2 years |
| 004.275.077-66 | | Consultant | | 04/30/2020 | 3 | 100.00% |
| Member of the Board of Directors, Member of the Audit Committee and of the Personnel and Compensation Committee | | | | | | |
| Ricardo Baldin | Audit Committee | Statutory audit committee adhering to CVM Instruction No. 308/99 | Member of the Committee (Permanent) | 07/14/1954 | 04/30/2020 | 2 years |
| 163.678.040-72 | | Accountant | | 04/30/2020 | 0 | 0% |
| Member of the Audit Committee | | | | | | |
| Dennis Herszkowicz | Other Committees | | Member of the Committee (Permanent) | 12/08/1974 | 04/30/2020 | 2 years |
| 165.783.068-38 | Strategy Committee | Advertising Executive | | 04/30/2020 | 2 | 100.00% |
| Chief Executive Officer | | | | | | |
| Eduardo Mazzilli de Vassimon | Other Committees | | Others | 10/07/1958 | 04/30/2020 | 2 years |
| 033.540.748-09 | Governance and Nomination Committee | Economist | Coordinator of the Committee | 04/30/2020 | 2 | 100.00% |
| Member of the Board of Directors, Coordinator of the Governance and Nomination and Member of the Personnel and Compensation Committee | | | | | | |
| Guilherme Stocco Filho | Other Committees | | Member of the Committee (Permanent) | 07/01/1974 | 04/30/2020 | 2 years |
| 176.649.438-25 | Strategy Committee | Business Administrator | | 04/30/2020 | 2 | 100.00% |
| Member of the Board of Directors and Member of the Strategy Committee | | | | | | |

## 12.7/8 - Composition of Committees

| Name | Type of Committee | Type of Audit | Position Held | Date of Birth | Date on which took office | Term of Office |
|---|---|---|---|---|---|---|
| **Individual Taxpayers' Register** | **Description Other Committees** | **Profession** | **Description of other positions held** | **Date of Election** | **Number of Consecutive Terms of Office** | **% of participation in meetings** |
| **Other positions and duties held at the issuer** | | | | | | |
| Laércio José de Lucena Cosentino | Other Committees | | Member of the Committee (Permanent) | 08/11/1960 | 04/30/2020 | 2 years |
| 032.737.678-39 | Governance and Nomination Committee | Electrical Engineer | | 04/30/2020 | 2 | 100.00% |
| Chairman of the Board of Directors and Member of the Strategy Committee and of the Governance and Nomination Committee | | | | | | |
| Maria Letícia de Freitas Costa | Other Committees | | Others | 03/27/1960 | 04/30/2020 | 2 years |
| 050.932.788-58 | Strategy Committee | Production Engineer | Coordinator of the Committee | 04/30/2020 | 3 | 100.00% |
| Vice Chairman of the Board of Directors and Coordinator of the Strategy Committee | | | | | | |
| Sylvia de Souza Leão Wanderley | Other Committees | | Other (Permanent) | 03/09/1962 | 04/30/2020 | 2 years |
| 731.199.977-49 | Personnel and Compensation Committee | Business Administrator | Coordinator of the Committee | 04/30/2020 | 0 | 0.00% |
| Member of the Board of Directors and Coordinator of the Personnel and Compensation Committee | | | | | | |

**Professional experience/Statement of no conviction/Independence criteria**

Gilberto Mifano - 566.164.738-72 / N/A / Yes, he is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Mauro Gentile Rodrigues da Cunha - 004.275.077-66 / N/A / Yes, he is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Ricardo Baldin - 163.678.040-72 / N/A/ Yes, he is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Mr. Baldin holds a degree in Accounting Sciences from the University of Vale do Rio dos Sinos – UNISINOS (1978) and has a specialization in Finance from Fundação Dom Cabral (2006) and Executive Management from Fundação Getúlio Vargas (2007). He is currently a member of Audit Committee of TOTVS and a member of the Board of Directors of XP Inc., and also serves as Coordinator of the Audit Committee of Alpargatas, ENEVA and CBMM. Among its main projects are the acquisition of Banco Nacional by Unibanco, the merger of Itaú-Unibanco, the evaluation of the National Public Financial System, evaluation projects for acquisition (Sudameris, Banespa, etc.) and financial audits in major national banks.
In the past 5 years such Management member has not been subject to (i) any criminal conviction; (ii) any conviction or application of any penalty by CVM (Securities and Exchange Commission of Brazil) administrative proceedings; (iii) any final and unappealable judgment, whether in court judicial or at administrative level, which has suspended or disqualified him from practicing any professional or business activity. Furthermore, such administrator is not considered to be a politically exposed person.

Dennis Herszkowicz - 165.783.068-38 / N/A/ N/A

Eduardo Mazzilli de Vassimon - 165.783.068-38 / N/A / Yes, he is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Guilherme Stocco Filho - 176.649.438-25 / NA/ Yes, he is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Laércio José de Lucena Cosentino - 032.737.678-39 / He is not deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Maria Letícia de Freitas Costa - 050.932.788-58 / NA/ Yes, she is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

Sylvia de Souza Leão Wanderley - 731.199.977-49 / NA/ Yes, she is deemed as an Independent Director according to the criteria determined in the 'Novo Mercado' Regulation of B3 S.A. - Brasil, Bolsa, Balcão and adopted by TOTVS' Bylaws.

| Member | Type of conviction / Description of conviction |
|---|---|
| Gilberto Mifano - 566.164.738-72 | N/A |
| Mauro Gentile Rodrigues da Cunha. - 004.275.077-66 | N/A |
| Ricardo Baldin - 163.678.040-72 | N/A |
| Dennis Herszkowicz - 165.783.068-38 | N/A |
| Guilherme Stocco Filho - 176.649.438-25 | N/A |
| Laércio José de Lucena Cosentino - 032.737.678-39 | N/A |
| Maria Letícia de Freitas Costa - 050.932.788-58 | N/A |
| Sylvia de Souza Leão Wanderley - 731.199.977-49 | N/A |

## 12.9 - Existence of marital relationship, stable union or family relationship up to the 2nd degree between managers of the issuer, subsidiaries and controlling shareholders

| Name | Individual Taxpayers' Register | Company name of the issuer, subsidiary or controlling shareholder | National Corporate Taxpayers' Register | Type of relationship with the manager of the issuer or subsidiary |
|---|---|---|---|---|
| **Position** | | | | |
| **Manager of the issuer or subsidiary** | | | | |
| Marcelo Eduardo Sant'anna Cosentino | 306.743.308-46 | Totvs S.A. | 53.113.791/0001-22 | Son or daughter (1st degree of kinship) |
| Executive Vice President of Business for the Segments and IT | | | | |
| **Related Person** | | | | |
| Laércio José de Lucena Cosentino | 032.737.678-39 | Totvs S.A. | 53.113.791/0001-22 | |
| Chairman of the Board of Directors, Coordinator of the Governance and Nomination Committee and Member of the Strategy Committee | | | | |

**Note**

There is no marital relationship, stable union or family relationship up to the second degree between the other Board Members and (a) the Company's other managers; (b) the managers of the Company's direct or indirect subsidiaries; (c) the direct or indirect controlling shareholders of the Company or of its direct or indirect subsidiaries; or (d) the managers of the Company's direct and indirect parent companies.

## 12.10 - Relationships of subordination, provision of services or control between managers and subsidiaries, controlling shareholders or others

| Identification | Individual Taxpayers' Register/ National Corporate Taxpayers' Register | Manager's type of relationship with the related person | Type of related person |
|---|---|---|---|
| **Position/Function** | | | |

### Fiscal Year 12/31/2018

**Manager of the Issuer**

| | | | |
|---|---|---|---|
| Guilherme Stocco Filho<br>Member of the Board of Directors and Member of the Strategy Committee | 176.649.438-25 | Control | Supplier |

**Related Person**

| | |
|---|---|
| Red Mind Consultoria, Participações e Administradora de Bens e Serviços LTDA – EPP<br>Partner | 20.673.070/0001-18 |

Note

Agreement for the provision of advisory services, with TOTVS S.A. as principal and the aforementioned related person as contractor, with the purpose of participating in the Strategy Committee as an external consultant, which was terminated when Mr. Guilherme Stocco Filho was elected as a member of the Board of Directors at the General Shareholders' Meeting held on April 5, 2018.

---

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Control | Supplier |

Chairman of the Board of Directors, Coordinator of the Governance and Nomination Committee and Member of the Strategy Committee

**Related Person**

| | |
|---|---|
| VIP VII - Empreedimentos e Participações Ltda. | 11.284.022/0001-47 |

Partner

**Note**

Property lease agreement, with TOTVS S.A. as lessee and the aforementioned related party as lessor

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Provision of service | Supplier |

Chairman of the Board of Directors, Coordinator of the Governance and Nomination Committee and Member of the Strategy Committee

**Related Person**

| | |
|---|---|
| Inovalli Administração de Obras, Engenharia e Empreendimentos Imobiliários Ltda. | 05.127.830/0001-06 |

Company controlled by a person related to the Manager

**Note**

## 12.10 - Relationships of subordination, provision of services or control between managers and subsidiaries, controlling shareholders or others

| Identification | Individual Taxpayers' Register/ National Corporate Taxpayers' Register | Manager's type of relationship with the related person | Type of related person |
|---|---|---|---|
| **Position/Function** | | | |
| Agreement to carry out the interior design project of TOTVS S.A.'s new headquarters | | | |
| **Manager of the issuer** | | | |
| Laércio José de Lucena Cosentino | 032.737.678-39 | Control | Supplier |
| Chairman of the Board of Directors, Coordinator of the Governance and Nomination Committee and Member of the Strategy Committee | | | |
| **Related Person** | | | |
| VIP IV Empreendimentos e Participações Ltda. | 07.951.381/0001-33 | | |
| Partner | | | |
| **Note** | | | |
| Property lease agreement, with TOTVS S.A. as lessee and the aforementioned related party as lessor | | | |
| **Manager of the issuer** | | | |
| Laércio José de Lucena Cosentino | 032.737.678-39 | Provision of service | Supplier |
| Chairman of the Board of Directors, Coordinator of the Governance and Nomination Committee and Member of the Strategy Committee | | | |
| **Related Person** | | | |
| B3 S.A. - Brasil, Bolsa, Balcao | 09.346.601/0001-25 | | |
| Member of the Board of Directors | | | |
| **Note** | | | |
| Payment of Annuity | | | |
| **Manager of the issuer** | | | |
| Laércio José de Lucena Cosentino | 032.737.678-39 | Provision of service | Supplier |
| Chairman of the Board of Directors, Coordinator of the Governance and Nomination Committee and Member of the Strategy Committee | | | |
| **Related Person** | | | |
| BRASSCOM - ASSOCIACAO BRASILEIRA DAS EMP | 06.244.855/0001-44 | | |
| Member of the Decision-Making Body | | | |
| **Note** | | | |
| Annual Association Fees | | | |

## 12.10 - Relationships of subordination, provision of services or control between administrators and subsidiaries, controlling shareholders and others

| Identification | Individual Taxpayers' Register/ National Corporate Taxpayers' Register | Manager's type of relationship with the related person | Type of related person |
|---|---|---|---|
| **Position/Function** | | | |

### Fiscal Year 12/31/2018

**Manager of the Issuer**

| | | | |
|---|---|---|---|
| Guilherme Stocco Filho | 176.649.438-25 | Control | Supplier |

Member of the Board of Directors and Member of the Strategy Committee

**Related Person**

| | |
|---|---|
| Red Mind Consultoria, Participações e Administradora de Bens e Serviços LTDA – EPP | 20.673.070/0001-18 |

Partner

Note

Agreement for the provision of advisory services, which is no longer in force, with TOTVS S.A. as principal and the aforementioned related person as contractor, the purpose of which was the participation of contractor in the Strategy Committee as an external consultant

---

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Control | Supplier |

Chief Executive Officer, President, Member of the Board of Directors, Member of the Strategy Committee, Member of the Governance and Nomination Committee and Member of the Personnel and Compensation Committee

**Related Person**

| | |
|---|---|
| VIP VII - Empreedimentos e Participações Ltda. | 11.284.022/0001-47 |

Related Person

**Note**

Property lease agreement, with TOTVS S.A. as lessee and the aforementioned related party as lessor

---

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Marcelo Eduardo Sant'anna Cosentino | 306.743.308-46 | Control | Supplier |

Executive Vice President of Business for the Professional Services and IT Segments

**Related Person**

| | |
|---|---|
| VIP VII - Empreedimentos e Participações Ltda. | 11.284.022/0001-47 |

Related Person

**Note**

## 12.10 - Relationships of subordination, provision of services or control between administrators and subsidiaries, controlling shareholders and others

| Identification | Individual Taxpayers' Register/ National Corporate Taxpayers' Register | Manager's type of relationship with the related person | Type of related person |
|---|---|---|---|
| **Position/Function** | | | |

Property lease agreement, with TOTVS S.A. as lessor and the aforementioned related party as lessee

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Weber George Canova | 083.844.858-52 | Control | Supplier |
| Executive Vice President for Technology, TQTVD and Cloud | | | |

**Related Person**

| | | | |
|---|---|---|---|
| VIP VII - Empreedimentos e Participações Ltda. | 11.284.022/0001-47 | | |
| Related Person | | | |

**Note**

Property lease agreement, with TOTVS S.A. as lessor and the aforementioned related party as lessee

### Fiscal Year 12/31/2018

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Maria Letícia de Freitas Costa | 050.932.788-58 | Control | Supplier |
| Member of the Board of Directors and Member of the Strategy Committee | | | |

**Related Party**

| | | | |
|---|---|---|---|
| Prada Assessoria Empresarial LTDA. | 07.420.289/0001-47 | | |
| Partner | | | |

Note

Agreement for the provision of advisory services, which is no longer in force, with TOTVS S.A. as principal and the aforementioned related person as contractor

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Provision of service | Supplier |
| Chief Executive Officer, President, Member of the Board of Directors, Member of the Strategy Committee, Member of the Governance and Nomination Committee and Member of the Personnel and Compensation Committee | | | |

**Related Person**

| | | | |
|---|---|---|---|
| Inovalli Administração de Obras, Engenharia e Empreendimentos Imobiliários Ltda. | 05.127.830/0001-06 | | |
| Company controlled by a person related to the Manager | | | |

## 12.10 - Relationships of subordination, provision of services or control between administrators and subsidiaries, controlling shareholders and others

| Identification | Individual Taxpayers' Register/ National Corporate Taxpayers' Register | Manager's type of relationship with the related person | Type of related person |
|---|---|---|---|
| **Position/Function** | | | |

Note

Agreement to carry out interior design project of TOTVS S.A.'s new headquarters

---

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Control | Supplier |

Chief Executive Officer, President, Member of the Board of Directors, Member of the Strategy Committee, Member of the Governance and Nomination Committee and Member of the Personnel and Compensation Committee

**Related Person**

| | | | |
|---|---|---|---|
| VIP Empreendimentos e Participações Ltda. | 03.936.026/0001-34 | | |

Company controlled by a person related to the Manager

**Note**

Property lease agreement, with TOTVS S.A. as lessor and the aforementioned related party as lessee

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**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Control | Supplier |

Chief Executive Officer, President, Member of the Board of Directors, Member of the Strategy Committee, Member of the Governance and Nomination Committee and Member of the Personnel and Compensation Committee

**Related Person**

| | | | |
|---|---|---|---|
| VIP III Empreendimentos e Participações Ltda. | 05.998.065/0001-91 | | |

Partner

**Note**

Property lease agreement, with TOTVS S.A. as lessor and the aforementioned related party as lessee

---

**Manager of the issuer**

| | | | |
|---|---|---|---|
| Laércio José de Lucena Cosentino | 032.737.678-39 | Control | Supplier |

Chief Executive Officer, President, Member of the Board of Directors, Member of the Strategy Committee, Member of the Governance and Nomination Committee and Member of the Personnel and Compensation Committee

**Related Person**

| | | | |
|---|---|---|---|
| VIP IV Empreendimentos e Participações Ltda. | 07.951.381/0001-33 | | |

Partner

## 12.10 - Relationships of subordination, provision of services or control between administrators and subsidiaries, controlling shareholders and others

| Identification | Individual Taxpayers' Register/ National Corporate Taxpayers' Register | Manager's type of relationship with the related person | Type of related person |
|---|---|---|---|
| **Position/Function** | | | |

Note

Property lease agreement, with TOTVS S.A. as lessor and the aforementioned related party as lessee

| | | | |
|---|---|---|---|
| **Manager of the issuer** | | | |
| Marcelo Eduardo Sant'anna Cosentino | 306.743.308-46 | Control | Supplier |
| Vice President of Business for the Professional Services and IT Segments | | | |
| **Related Person** | | | |
| VIP Empreendimentos e Participações Ltda. | 03.936.026/0001-34 | | |
| Partner | | | |

**Note**

Property lease agreement, with TOTVS S.A. as lessor and the aforementioned related party as lessee

## 12.11 - Agreements, including insurance policies, for payment or reimbursement of expenses borne by management.

The Company and its subsidiaries continue to take out Civil Liability Insurance Policy for Management - D&O (world class), which provides for the payment or reimbursement of expenses incurred by management, as a result of compensation for damages caused to third parties or to the Company.

The current policy number 087372018010310000948 (insurance plan registered with SUSEP under No. 15414.901229/2017-25), which was taken out with the insurance company **AIG SEGUROS BRASIL S.A.**, is valid up until June 1, 2019 and has a maximum indemnity limit of one hundred million Reais (BRL 100,000,000.00).

Although covered by the current D&O policy taken out in Brazil, the executive officers and managers of the operations in Mexico, Argentina and the United States of America are also covered by a local policy issued in each country, with a coverage amount of one million US dollars (USD 1,000,000.00), with a view to speeding up the reimbursement of expenses resulting from any possible claims.

TOTVS does not sign Indemnity agreements with its Officers, Executives or Board Members.

## 12.12 – Other material information

**In addition to Section 12.6**

| Board of Directors | | |
|---|---|---|
| Name of Board Member | Total Meetings Held by the respective body since he/she took office | % participation by the member in meetings held after he/she took office |
| CLAUDIA ELISA DE PINHO SOARES | 12 | 100% |
| GILBERTO MIFANO | 12 | 100% |
| GUILHERME STOCCO FILHO | 12 | 100% |
| LAÉRCIO JOSÉ DE LUCENA COSENTINO | 12 | 100% |
| MARIA LETÍCIA DE FREITAS COSTA | 12 | 100% |
| MAURO GENTILE RODRIGUES DA CUNHA | 12 | 91,67% |
| PAULO SERGIO CAPUTO | 12 | 100% |
| EDUARDO MAZZILLI DE VASSIMON | 0 | 0 |
| SYLVIA DE SOUZA LEÃO WANDERLEY | 0 | 0 |

**In addition to Section 12.8**

| Audit Committee | | |
|---|---|---|
| Name of member | Total Meetings Held by the respective body since he/she took office | % participation by the member in meetings held after he/she took office |
| GILBERTO MIFANO | 10 | 100% |
| MAURO RODRIGUES DA CUNHA | 10 | 100% |
| PAULO SERGIO CAPUTO | 10 | 100% |

Meetings held from 4/26/2018 (considering the date of taking office to be 4/5/2018) to 2/27/2019 (considering the date on which Management's Proposal was presented to the AGM on 3/18/2019).

| Governance and Nomination Committee | | |
|---|---|---|
| Name of member | Total Meetings Held by the respective body since he/she took office | % participation by the member in meetings held after he/she took office |
| LAÉRCIO JOSÉ DE LUCENA COSENTINO | 8 | 100% |
| MAURO RODRIGUES DA CUNHA | 8 | 100% |
| GILBERTO MIFANO | 8 | 25% |

* Meetings held from 4/20/2018 (considering the date of taking office to be 4/5/2018) to 3/8/2019 (considering the date on which Management's Proposal was presented to the AGM on 3/18/2019), and bearing in mind that Mr. Mifano was elected a member of the Committee at the Board of Directors' meeting of 12/20/2018.

| Personnel and Compensation Committee | | |
|---|---|---|
| Name of member | Total Meetings Held by the respective body since he/she took office | % participation by the member in meetings held after he/she took office |
| CLAUDIA ELISA DE PINHO SOARES | 8 | 100% |
| PAULO SERGIO CAPUTO | 8 | 100% |

* Meetings held from 4/11/2018 (considering the date of taking office to be 4/5/2018) to 2/26/2019 (considering the date on which Management's Proposal was presented to the AGM on 3/18/2019).

| Strategy Committee | | |
|---|---|---|
| Name of member | Total Meetings Held by the respective body since he/she took office | % participation by the member in meetings held after he/she took office |
| GUILHERME STOCCO FILHO | 8 | 100% |
| LAÉRCIO JOSÉ DE LUCENA COSENTINO | 8 | 100% |
| MARIA LETÍCIA DE FREITAS COSTA | 8 | 100% |
| DENNIS HERSZKOWICZ** | 2 | 100% |
| SYLVIA DE SOUZA LEÃO WANDERLEY | 0 | 0 |

## 12.12 – Other material information

* Meetings held from 4/24/2018 (considering the date of taking office to be 4/5/2018) until 2/13/2019 (considering the date on which Management's Proposal was presented to the AGM on 3/18/2019. As of April 26, 2019, the Board Member Mr. Eduardo de Mazzilli Vassimon was elected a member of the Personnel and Compensation Committee.

** The date on which the Chief Executive Officer Mr. Dennis Herszkowicz took office was 11/26/2018. The date on which he took office as an executive director was 11/26/2018 and as a member of the strategy committee was 12/20/2018.

In accordance with the Novo Mercado Listing Rules, the Company discloses the positions held in other companies by its board members, in the table below:

| Member | Company | Position Held |
|---|---|---|
| **Claudia Elisa de Pinho Soares** | DM Card | Advisory Board |
| **Gilberto Mifano** | Cielo S.A. | Member of the Board of Directors |
| | | Member of the Audit Committee |
| | | Member of the Finance Committee |
| | | Member of the People Committee |
| | Pragma Gestão de Patrimônio | Advisory Board Member |
| | Natura S.A. | Member of the Board of Directors |
| | | Member of the Audit Committee and Risk Management and Finance Committee |
| | Construtora Pacaembu Ltda. | Independent Board Member |
| | Ambar | Board Member |
| | Instituto Arapyaú de Educação e Desenvolvimento Sustentável | Fiscal Council |
| | CIEB | Fiscal Council |
| | Fundo patrimonial Amigos da Poli | Fiscal Council |
| **Guilherme Stocco Filho** | B3 S.A. – Brasil, Bolsa, Balcão | Member of the Board of Directors |
| | Gr1d Consultoria | CEO |
| **Laércio José de Lucena Cosentino** | LC-EH PARTICIPAÇÕES E EMPREENDIMENTOS | Shareholder and Executive Officer |
| | MCLC4 PARTICIPAÇÕES E EMPREENDIMENTOS | Managing Partner |
| | INOVALLI - ADM. DE OBRAS, ENG. E EMPREEND. IMOB. LTDA. | Partner (as an individual) and Partner by means of MCLC |
| | CFO CONSULTORIA EMPRESARIAL EM NEGÓCIOS LTDA. | Managing Partner and Director General |
| | VIP Empreendimentos e Participações | Managing Partner |
| | VIP III Empreendimentos e Participações | Managing Partner by means of MCLC |
| | VIP IV Empreendimentos e Participações | Managing Partner by means of MCLC |
| | VIP VI Empreendimentos e Participações | Partner by means of MCLC/Administrator and Director General |
| | VIP VII Empreendimentos e Participações | Shareholder by means of MCLC |
| | Luma Empreendimentos e Participações | Partner |
| | Mendelics Análise Genômica | Chairman of the Board of Directors |
| | Associação Brasileira de Empresas de Tecnologia da Informação e Comunicação (Brasscom) | Member of the Decision-Making Body |
| | VIP IX Empreendimentos e Participações | Partner by means of MCLC/Administrator and Director General |
| | VIP XII Empreendimentos e Participações | Partner by means of MCLC |
| | VIP XV Empreendimentos e Participações | Partner by means of MCLC/Administrator and Director General |
| | INOVALLI CAPITAL S/A | Shareholder by means of MCLC |
| | VALLI 20 - PARTICIPAÇÕES E EMPREENDIMENTOS S/A | Shareholder by means of MCLC |
| | Cristália | Member of the Advisory Board |
| **Maria Letícia de Freitas Costa** | Prada Assessoria Empresarial | Partner |
| | Localiza S.A. | Member of the Board of Directors |
| | Mapfre | Member of the Board of Directors |
| | Embraer | Member of the Board of Directors |
| | Votorantim Cimentos | Member of the Audit Committee |
| | | Coordinator of the Strategy Committee |

## 12.12 – Other material information

| | | |
|---|---|---|
| **Mauro Gentile Rodrigues da Cunha** | Associação de Investidores no Mercado de Capitais – Amec | Chairman/Chief Executive Officer |
| | BR Malls | Independent Member of the Board of Directors |
| | | Coordinator of the Personnel and Compensation Committee |
| | Eletrobrás | Independent Member of the Board of Directors |
| | | Coordinator of the Audit and Statutory Risks Committee |
| **Paulo Sérgio Caputo** | Ória Gestão de Recursos Ltda. | Founding Partner |
| | CSU CardSystem | Independent Member of the Board of Directors |
| | Opentech, | Board of Directors |
| | Interplayers | Board of Directors |
| | Navita | Board of Directors |
| **Eduardo Mazzilli de Vassimon** | B3 S.A. – Brasil, Bolsa, Balcão | Member of the Board of Directors |
| | Votorantim S.A. | Chairman of the Board of Directors |
| **Sylvia de Souza Leão Wanderley** | MENDELICS | Member of the Board of Directors |
| | SODIMAC | Member of the Board of Directors |

The Company discloses below information in relation to the meetings held during the last three (3) years and in the current year:

| **Type** | **Date** | **Quorum (% of the Company's share capital)** | **Call to open the meeting** |
|---|---|---|---|
| Annual and Extraordinary General Meeting (AGM & EGM) | April 18, 2019 | AGM 71.11% and EGM 73.06% | Convened on 1st call |
| Annual and Extraordinary General Meeting (AGM & EGM) | April 5, 2018 | 85.12% | Convened on 1st call |
| Extraordinary General Meeting (EGM) | December 20, 2017 | 80.31% | Convened on 1st call |
| Annual and Extraordinary General Meeting (AGM & EGM) | April 20, 2017 | 75.70% | Convened on 1st call |
| Annual and Extraordinary General Meeting (AGM & EGM) | April 26, 2016 | 68.50% | Convened on 1st call |
| Extraordinary General Meeting (EGM) | January 21, 2016 | 61.84% | Convened on 1st call |

The Company has an immersion process for new members of the Board of Directors, by means of which the member has access to the Company's organizational structure, market positioning, strategic vision and a review of its main strategic projects. The process lasts approximately one day and ideally is carried out prior to the member's first attendance at a Board meeting.

In addition, the Company makes it clear that all employees participated in the training regarding the Code of Ethics and Conduct. In addition to this, we hereby give notice that the executive board should take part in the training on an annual basis.

For more information in relation to the assessment process of the Board of Directors, Committees, Executive Board and the members of each of these bodies, see item 12.1 (d) of this Reference Form.

**Corporate Governance Practices**

The Company adopts Governance practices for the Board of Directors' meetings mentioned in the Board of Directors' Internal Regulations, the review of which was approved by the Board at its last meeting on March 11, 2019.

On October 31, 2018, the Company published on the Brazilian Securities Commission's website and on its Investor Relations website the newsletter in relation to the Brazilian Code of Corporate Governance, in which details and descriptions were given about the governance practices adopted in connection with matters regarding shareholders, the board of directors, the executive board, supervisory and control bodies, and ethics and conflicts of interest.

# 13.1 - Description of compensation policy or practice, including for non-statutory executive board

a. **objectives of the compensation policy or practice, stating whether the compensation policy has been formally approved, the body responsible for its approval, the date of its approval, and, if the issuer discloses the policy, where on the world wide web the document can be consulted.**

The Company has a Human Relations Management and Compensation Policy, which was approved on May 4, 2018 and made public on May 15, 2018. The purpose of the Policy is to ensure compensation models which are competitive and in line with market practices which boost the company's ability to attract and retain professionals by increasing the alignment over the medium and long term between the interests of the executives and those of the shareholders.

The Human Relations Management and Compensation Policy is available on TOTVS' Investor Relations website (www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos) as well as on the Brazilian Securities Commission's website.

b. **composition of compensation, indicating:**

**i. description of the elements of compensation and the objectives of each of them**

**Executive Board**

Fixed Compensatio: refers to the amount received monthly by the professional which is designed to compensate him for the duties and responsibilities applicable to the position held.

Variable Compensation:

*Annual Bonus:* refers to the variable amounts received annually by the professional, as a reward for his/her individual results and for the overall results of the Company. The annual bonus is linked to global financial issues and individual performance by means of meeting the established targets.

*Share Plan:* refers to the value of the Company's restricted common shares that are delivered to eligible Participants, in strict accordance with the terms and conditions set forth in the current Share-based Incentive and Retention Plan, which was approved on December 15, 2015 and amended on April 05, 2018, with the aim of increasing the medium and long term alignment between the interests of the executives and those of the shareholders. The number of shares to be granted to each executive is determined by the Board of Directors, based on the individual performance measured by means of the "9 Box" methodology, which takes into account what each executive actually delivered during the year. The assessments are made individually by the executive's manager, with subsequent evaluation by a collective decision-making body which includes the CEO and the HR Department. The result of this collective decision-making body is submitted for consideration of the Personnel and Compensation Committee, with the final decision being up to Board of Directors. Further details about this system can be found in the section (iii) below.

*Benefits:* refers to the set of benefits granted to the professionals, such as health plans, meal vouchers, private pension and life insurance, among others. The set of benefits is the same for all the professionals, however, there may be differences in the amounts of the benefits granted depending on the geographic region in which the professional operates.

**Board of Directors**

The compensation of the members of the Board of Directors is monthly, fixed, and is designed to reward the administrators in accordance with market practices.

Taking into account the new and expanded scope of his duties, which were approved by the Board of Directors, the Chairman of the Board receives a higher compensation than the other Directors. In addition to this, from 2019 onward, he is eligible for the following benefits: life insurance, medical plan, dental plan and a vehicle with driver. Last but not least, with effect from 2019, the Chairman of the Board of Directors is covered by the share plan, in strict accordance with the terms and conditions set forth in the current Share-based Incentive and Retention Plan, which was approved on December 15, 2015 and amended on April 5, 2018. The number of shares granted varies according to the achievement of quantitative indicators (70% weight) and qualitative indicators (30% weight) measured 3 years after each grant.

# 13.1 - Description of compensation policy or practice, including for non-statutory executive board

**Audit, Personnel and Compensation, Governance and Appointment and Strategy Committees**

As of 2017, in accordance with the main market practices, the proposal for the Board of Directors' compensation already includes an additional fixed compensation for the members of the Board of Directors who also participate in these committees.

**ii. in relation to the last 3 years, what is the share of each element in total compensation**

**Executive Board**

In terms of the total annual target compensation, the composition varies by position and ranges of achievement of annual bonus targets, as shown in the following table:

| Career level | CEO | | | |
|---|---|---|---|---|
| **Compensation element** | **Fixed compensation** | **Variable compensation - Bonus** | **Share Plan** | **Total** |
| **Ceiling** | 15% | 20% | 65% | 100% |
| **Target** | 20% | 17% | 63% | 100% |
| **Minimum** | 91% | 9% | 0% | 100% |

| Career level | VP | | | |
|---|---|---|---|---|
| **Compensation element** | **Fixed compensation** | **Variable compensation - Bonus** | **Share Plan** | **Total** |
| **Ceiling** | 24% | 25% | 51% | 100% |
| **Target** | 31% | 21% | 48% | 100% |
| **Minimum** | 92% | 8% | 0% | 100% |

| Career level | Executive Officer | | | |
|---|---|---|---|---|
| **Compensation element** | **Fixed compensation** | **Variable compensation - Bonus** | **Share Plan** | **Total** |
| **Ceiling** | 34% | 25% | 41% | 100% |
| **Target** | 41% | 21% | 38% | 100% |
| **Minimum** | 94% | 6% | 0% | 100% |

## 13.1 - Description of compensation policy or practice, including for non-statutory executive board

In relation to the last 3 years, the average share of each element in total compensation was as follows:

| Compensation element/Career level | Fixed compensation | Variable compensation - Bonus | Share Plan | Total |
|---|---|---|---|---|
| **CEO** | 61% | 9% | 30% | 100% |
| **VP** | 61% | 11% | 28% | 100% |
| **Executive Officer** | 66% | 17% | 17% | 100% |

**Board of Directors**

The compensation of the members of the Board of Directors is 100% fixed, with the exception of the Chairman of the Board, who, in the event of approval of management's proposal to the AGM, will be eligible for the share plan from 2019 on. Notwithstanding this, some members of the Board of Directors are shareholders in the Company, and/or have Individual Investment Plans in the Company's shares, whereby they undertake to invest part of their compensation in the Company shares. The growth in the equity interest of the members of the Board of Directors can be observed in the respective documents submitted to the Brazilian Securities Commission, in relation to Article 11 of ICVM 358.

**Audit, Personnel and Compensation, Governance and Nomination and Strategy Committees**

The compensation of the committee members is 100% fixed.

**iii. calculation and adjustment methodology for each compensation elements**

Below are the calculation methodologies used for each element of management compensation:

**Executive Board**

*Annual Bonus:* The annual bonus pool to be distributed depends on the achievement of an EBITDA target set for the year. If the Company does not achieve the EBITDA target, the pool will be reduced, and can go down to a minimum of 25% of the number of standard salary targets.

In addition, the Bonus will be weighted according to: (i) 50% corresponding to the achievement of 5 individual targets, which reflect the definitions of the Company's financial, productivity and strategic priority objectives; and (ii) 50% corresponding to the Company's overall performance, measured by means of financial, efficiency and productivity indicators, such as EBITDA and Churn.

The weighted achievement of the bonus will be applied to the bonus pool formed for the year and multiplied by the number of target salaries, which varies according to the job level.

The individual targets are defined according to the executive's area and come to a total of 5 for the year. There is the possibility of adjustments to the targets throughout the year for extraordinary reasons (change of function, others); however, adjustments should be carried out and approved by the responsible bodies (Board of Directors and the Personnel and Compensation Committee, as applicable).

*Share Based Plan:* assisted by the Personnel and Compensation Committee, the Board of Directors elects the members of the executive board and other key individuals who may participate in the share plan. The Company will grant the right to receive shares issued by the Company, subject to the program's vesting period. The number of shares to be granted to each executive is determined by the Board of Directors, based on the individual performance as measured in accordance with the “9 Box” methodology, which takes into account what each executive actually delivered during the year. According to the methodology, (i) 50% are result indicators, linked to the individual quantitative targets established for the year (indicators such as EBITDA, Revenue, Net Income and Churn, among others); (ii) 25% measure adherence to 7 strategic business competencies such as Operational Excellence, Innovation for Results and Focus on Customer Success, among others; and (iii) 25% is the potential that the Executive exhibits, according to the defined succession plan, to take on greater challenges in the organization. The assessments are made individually by the executive's manager, with subsequent evaluation by a collective decision-making body which includes the CEO and the HR Department. The results of this collective decision-making body is submitted for consideration by the Personnel and Compensation Committee, with the final resolution being up to the Board of Directors.

## 13.1 - Description of compensation policy or practice, including for non-statutory executive board

*Fixed Compensation:* the fixed compensation can be adjusted annually according to the following metrics: inflation index, collective adjustment or collective bargaining, comparison with the market and/or individual performance. Between 2016 and 2018, the collective bargaining agreements of the State of São Paulo resulted in readjustments of 10.67%, 6.29% and 2.07%, respectively. The amounts related to the statutory administrators are incorporated into management's proposal which is submitted to the Company's shareholders at the AGM.

Benefits: the appropriateness of the benefits is reviewed on an annual basis taking into account market practices.

Board of Directors

The appropriateness of the fixed compensation is reviewed on an annual basis taking into account market practices, and the amounts are incorporated into management's proposal that is submitted to the AGM.

Audit, Personnel and Compensation, Governance and Nomination and Strategy Committees

The appropriateness of the fixed compensation is reviewed on an annual basis taking into account market practices, and the amounts are incorporated into management's proposal that is submitted to the AGM.

**iv. reasons that justify the make-up of compensation**

The compensation components established are designed to ensure equity with market practices and should act as competitive support strategies in terms of attracting and retaining qualified professionals by means of a balance between monthly reward/compensation, annual reward/compensation and the share plan. In the last two cases, the Company's variable compensation strategy which is tied to its results is intended to ensure greater engagement, a sense of ownership among the executives and a greater alignment of interests with those of the shareholders.

Specifically in relation to the Chief Executive Officer, within three (3) years from November 2018, if (i) a Material Corporate Change occurs and (ii) the Company terminates the agreement without cause, the Chief Executive Officer shall be entitled to receive the equivalent of 100% of the Annual Global Compensation of the remaining proportional period between the date of dismissal without cause and three (3) years.

**v. the existence of members who do not receive compensation from the issuer and the reason for this fact**

Board of Directors

At present the company does not have any members of the Board of Directors who does not receive compensation.

c. **main performance indicators that are taken into account in determining each compensation element**

The main performance indicators used in determining the Annual Bonus are: (i) the Company's results, measured by means of a financial profitability target (EBITDA) and a quality target (Churn); (ii) individual performance, which includes numerical targets in terms of sales and profitability, quantitative targets in terms of productivity and efficiency, and targets linked to strategic priorities in the Company's annual plan.

The current performance indicator used by the Board of Directors to determine the number of shares to be granted under the Share Plan is the “9 Box” methodology, as described in item 13.1(b) (i) and (iii).

d. **how compensation is structured to reflect the change in performance indicators**

In order to achieve a closer alignment between compensation and the Company's performance, the performance indicators mentioned in items 13.1(b)i, 13.1(b)iii and 13.1(c) directly affect the calculation for determining the elements of compensation: (i) the annual bonus; and (ii) the share plan. The relevance of each of these elements is described in item 13.1(b) iii.

## 13.1 - Description of compensation policy or practice, including for non-statutory executive board

e. **how the compensation policy or practice is aligned with the issuer's short-, medium- and long-term interests**

The definition of the elements of the compensation policy is designed with a view to retaining and engaging the professionals and creating among them a sense of ownership in relation to the Company's results, balancing elements based on short, medium and long-term metrics.

f. **existence of compensation borne by subsidiaries, controlled companies or direct or indirect controlling shareholders**

There is no compensation of statutory management that is borne by the Company's subsidiaries, controlled companies or direct or indirect controlling shareholders.

g. **existence of any compensation or benefit related to the occurrence of certain corporate events, such as the sale of the issuer's controlling interest**

The executive officers' agreement only provides for the payment of indemnities to them in the event that the officer is removed from office occurs after the following Material Corporate Changes: changes in the Company's controlling power; acquisitions and/or subscriptions by third parties to shares representing 20% of the Company's capital stock; corporate restructurings; or a resolution to dissolve the Company.

h. **practices and procedures adopted by the board of directors to define the individual compensation of the board of directors and of the executive board, indicating:**

**i. the issuer's bodies and committees that take part in the decision-making process, identifying the way in which they take part**

The Personnel and Compensation Committee is the body that advises the Board of Directors in the decision-making process in relation to the drafting of the individual compensation proposal of the Board of Directors and of the Executive Board, by means of analyzing the best market practices.

The Personnel and Compensation Committee consists of at least three members, all directors, at least two of whom must be independent directors, to be nominated by the Board of Directors. The term of office of the Committee members will coincide with the term of office of the directors and they may be reelected for four more consecutive terms.

Currently, the Personnel and Compensation Committee consists of three independent members.

The Governance and Nomination Committee selects and recommends to the Board of Directors people who, meeting the legal requirements and the Company's needs, may be nominated to the Advisory Committees to the Board of Directors.

In short, the nomination of members of the Personnel and Compensation Committee is the responsibility of the Board of Directors, whose decision is based on advice from the Governance and Nomination Committee, which selects and recommends potential candidates who meet the legal requirements and the Company's needs.

**ii. the criteria and methodology used to determine individual compensation, indicating whether studies are used to verify market practices, and if so, what the comparison criteria and scope of these studies are**

The criteria and methodology used to determine individual compensation take into account studies related to best market practices in Brazil, based on companies with a profile similar to that of the Company in terms of size and structure.

**iii. how often and in what way does the board of directors assess the appropriateness of the issuer's compensation policy**

Every year, the Personnel and Compensation Committee evaluates the retention of talent by the Company, which includes an analysis of the need to adjust current compensation practices, including benefits, to market practices, especially in the information technology market. If the Committee finds it necessary and/or appropriate, it may recommend that the Board of Directors adjust such practices. Furthermore, the targets of executives, whose achievement is a determining factor in calculating the amount to be paid by the Company as variable compensation, and the number of restricted shares to be granted to said executives in connection with the Share-Based Compensation Plan approved at the Extraordinary Shareholders Meeting held on December 15, 2015, as amended, are annually reviewed and validated by the Board of Directors.

## 13.2 - Total compensation of the board of directors, statutory executive board and fiscal council

| Total compensation foreseen for the current year 12/31/2019 - Annual Amounts | | | | |
|---|---|---|---|---|
| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
| Total no. of members | 9.00 | 7.58 | | 16.58 |
| No. of members receiving compensation | 9.00 | 7.58 | | 16.58 |
| **Annual fixed compensation** | | | | |
| Salary or pro-labore fees | 3,682,177.50 | 7,280,488.48 | | 10,962,665.98 |
| Direct and Indirect Benefits | 247,929.22 | 1,263,653.27 | | 1,511,582.49 |
| Compensation for participating in committees | 965,778.45 | 0.00 | | 965,778.45 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other fixed compensation | | | | |
| **Variable Compensation** | | | | |
| Bonus | 0.00 | 5,339,710.37 | | 5,339,710.37 |
| Profit Sharing | 0.00 | 0.00 | | 0.00 |
| Compensation for participating in meetings | 0.00 | 0.00 | | 0.00 |
| Commissions | 0.00 | 0.00 | | 0.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other variable compensation | | | | |
| **Post-employment benefits** | 0.00 | 364,024.42 | | 364,024.42 |
| **Cessation of office** | 0.00 | 1,014,147.86 | | 1,014,147.86 |
| **Share-based compensation (including options)** | 742,500.00 | 8,933,363.58 | | 9,675,863.58 |
| **Note** | | | | |
| Total Compensation | 5,638,385.17 | 24,195,387.99 | | 29,833,773.17 |

**Total compensation for the year 12/31/2018 - Annual Amounts**

| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
|---|---|---|---|---|
| Total no. of members | 9.00 | 9.50 | | 18.50 |
| No. of members receiving compensation | 8.17 | 9.50 | | 17.67 |
| **Annual fixed compensation** | | | | |
| Salary or pro-labore fees | 2,646,697.51 | 10,839,218.40 | | 13,485,915.91 |
| Direct and Indirect Benefits | 0.00 | 880,442.93 | | 880,442.93 |
| Compensation for participating in committees | 0.00 | 0.00 | | 0.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other fixed compensation | | | | |
| **Variable Compensation** | | | | |
| Bonus | 0.00 | 3,160,896.96 | | 3,160,896.96 |
| Profit Sharing | 0.00 | 0.00 | | 0.00 |
| Compensation for participating in meetings | 620,288.20 | 0.00 | | 620,288.20 |
| Commissions | 0.00 | 0.00 | | 0.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other variable compensation | | | | |
| **Post-employment benefits** | 0.00 | 146,765.52 | | 146,765.52 |
| **Cessation of office** | 0.00 | 0.00 | | 0.00 |
| **Share-based compensation (including options)** | 0.00 | 3,724,983.56 | | 3,724,983.56 |
| **Note** | | | | |
| Total Compensation | 3,266,985.71 | 18,752,307.37 | | 22,019,293.08 |

| Total compensation for the year 12/31/2017 - Annual Amounts | | | | |
|---|---|---|---|---|
| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
| Total no. of members | 9.00 | 10.83 | | 19.83 |
| No. of members receiving compensation | 7.67 | 10.83 | | 18.50 |
| **Annual fixed compensation** | | | | |
| Salary or pro-labore fees | 1,930,749.68 | 11,628,572.80 | | 13,559,322.48 |
| Direct and Indirect Benefits | 0.00 | 0.00 | | 0.00 |
| Compensation for participating in committees | 343,000.00 | 0.00 | | 343,000.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other fixed compensation | | | | |
| **Variable Compensation** | | | | |
| Bonus | 0.00 | 1,349,630.67 | | 1,349,630.67 |
| Profit Sharing | 0.00 | 0.00 | | 0.00 |
| Compensation for participating in meetings | 0.00 | 0.00 | | 0.00 |
| Commissions | 0.00 | 0.00 | | 0.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other variable compensation | | | | |
| **Post-employment benefits** | 0.00 | 447,776.05 | | 447,776.05 |
| **Cessation of office** | 0.00 | 0.00 | | 0.00 |
| **Share-based compensation (including options)** | 0.00 | 3,548,681.64 | | 3,548,681.64 |
| **Note** | | | | |
| Total Compensation | 2,273,749.68 | 16,974,661.16 | | 19,248,410.84 |

| Total compensation for the year 12/31/2016 - Annual Amounts | | | | |
|---|---|---|---|---|
| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
| Total no. of members | 8.75 | 11.83 | | 20.58 |
| No. of members receiving compensation | 6.75 | 11.83 | | 18.58 |
| **Annual fixed compensation** | | | | |
| Salary or pro-labore fees | 1,778,881.59 | 10,668,643.85 | | 12,447,525.44 |
| Direct and Indirect Benefits | 0.00 | 0.00 | | 0.00 |
| Compensation for participating in committees | 0.00 | 0.00 | | 0.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other fixed compensation | | | | |
| **Variable Compensation** | | | | |
| Bonus | 0.00 | 1,227,818.82 | | 1,227,818.82 |
| Profit Sharing | 0.00 | 0.00 | | 0.00 |
| Compensation for participating in meetings | 0.00 | 0.00 | | 0.00 |
| Commissions | 0.00 | 0.00 | | 0.00 |
| Others | 0.00 | 0.00 | | 0.00 |
| Description of other variable compensation | | | | |
| **Post-employment benefits** | 0.00 | 442,105.94 | | 442,105.94 |
| **Cessation of office** | 0.00 | 0.00 | | 0.00 |
| **Share-based compensation (including options)** | 0.00 | 1,555,072.11 | | 1,555,072.11 |
| **Note** | | | | |
| Total Compensation | 1,778,881.59 | 13,893,640.72 | | 15,672,522.31 |

# 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

**Variable compensation - year ending on 12/31/2019**

| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
|---|---|---|---|---|
| **No. of members** | 9.00 | 7.58 | - | 16.58 |
| **No. of members receiving compensation** | 9.00 | 7.58 | - | 16.58 |
| **Bonus** | | | | |
| Minimum amount foreseen in the compensation plan | - | 667,463.80 | - | 667,463.80 |
| Maximum amount foreseen in the compensation plan | - | 8,009,565.56 | - | 8,009,565.56 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | 5,339,710.37 | - | 5,339,710.37 |
| Amount actually recognized in income for the year for the year | - | N/A | - | - |
| **Profit Sharing** | | | | |
| Minimum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Maximum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | - | - | 0.00 |
| Amount actually recognized in income for the year for the year | - | - | - | 0.00 |

**Variable compensation - year ended 12/31/2018**

| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
|---|---|---|---|---|
| **No. of members** | 9.00 | 9.50 | - | 18.50 |
| **No. of members receiving compensation** | 8.17 | 9.50 | - | 17.67 |
| **Bonus** | | | | |
| Minimum amount foreseen in the compensation plan | - | 972,841.94 | - | 972,841.94 |
| Maximum amount foreseen in the compensation plan | - | 11,674,103.34 | - | 11,674,103.34 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | 7,782,735.56 | - | 7,782,735.56 |
| Amount actually recognized in income for the year for the year | - | 3,160,896.96 | - | 3,160,896.96 |
| **Profit Sharing** | | | | |
| Minimum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Maximum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | - | - | 0.00 |
| Amount actually recognized in income for the year for the year | - | - | - | 0.00 |

# 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

**Variable compensation - year ended 12/31/2017**

| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
|---|---|---|---|---|
| **No. of members** | 9.00 | 10.83 | - | 19.83 |
| **No. of members receiving compensation** | 7.67 | 10.83 | - | 18.50 |
| **Bonus** | | | | |
| Minimum amount foreseen in the compensation plan | - | 1,896,965.14 | - | 1,896,965.14 |
| Maximum amount foreseen in the compensation plan | - | 11,381,790.81 | - | 11,381,790.81 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | 7,587,860.54 | - | 7,587,860.54 |
| Amount actually recognized in income for the year for the year | - | 1,349,630.67 | - | 1,349,630.67 |
| **Profit Sharing** | | | | |
| Minimum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Maximum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | - | - | 0.00 |
| Amount actually recognized in income for the year for the year | - | - | - | 0.00 |

**Variable compensation - year ended 12/31/2016**

| | Board of Directors | Statutory Executive Board | Fiscal Council | Total |
|---|---|---|---|---|
| **No. of members** | 8.75 | 11.83 | - | 20.58 |
| **No. of members receiving compensation** | 6.75 | 11.83 | - | 18.58 |
| **Bonus** | | | | |
| Minimum amount foreseen in the compensation plan | - | 2,047,017.97 | - | 2,047,017.97 |
| Maximum amount foreseen in the compensation plan | - | 14,738,529.38 | - | 14,738,529.38 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | 8,188,071.88 | - | 8,188,071.88 |
| Amount actually recognized in income for the year for the year | - | 1,227,818.82 | - | 1,227,818.82 |
| **Profit Sharing** | | | | |
| Minimum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Maximum amount foreseen in the compensation plan | - | - | - | 0.00 |
| Amount foreseen in the compensation plan, if the targets were achieved | - | - | - | 0.00 |
| Amount actually recognized in income for the year for the year | - | - | - | 0.00 |

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

The Company currently has two share-based compensation plans, “Plan 2” which was approved at the Meeting held on 11/29/2012 and “Plan 3”, which was approved at the Meeting held on 12/15/2015 and amended at the Meeting held on 4/5/2018. At the present time, no new options are granted under the scope of plan 2.

**Description of Plan 2**

**a. general terms and conditions of the plan**

TOTVS's Stock Options Plan (“Plan 2”) is managed by the Board of Directors, which has the exclusive authority:

(i) to define the Beneficiaries of each type of option and select people for the Partners Program;
(ii) to define the total number of options of each type that are the subject of the grant, as well as the number of options of each type to which each Beneficiary will be entitled individually;
(iii) to define the performance-related targets to establish the selection criteria for Beneficiaries and determining the number of options to be granted to each Beneficiary;
(iv) to define the form and term of payment of the exercise price of the options;
(v) to modify the terms and conditions of the options granted in the event of any change in the applicable laws;
(vi) to propose changes to the Plan to be submitted to the Company's General Meeting for its approval;
(vii) to authorize the Company's Executive Board to sign the Option Agreements with the Plan's Beneficiaries, as well as Share Subscription Agreements and any amendments, as necessary; and
(viii) to decide in relation to cases therein not covered, with due regard for the Plan's general guidelines and the applicable legal provisions.

The Plan will be valid for a period of 60 months immediately after its approval by the Company's General Meeting and will remain in effect until the expiration of the Exercise Period or the Period of Validity of the outstanding Options.

**The main characteristics of Plan 2 are listed below:**

- Participants: Managers and employees of the Company, who are members of the Company's Executive Committee, hold the position as Executive Officers or Executive Managers, or who are employees of the Company and its subsidiaries who, at the discretion of the Board of Directors, have stood out on account of having made a significant contribution to the Company's performance, or whose hiring or retention is of critical importance to the proper execution of the Company's plans and strategies;

- Grant of Regular Options linked to the acquisition of shares: to the beneficiary acquiring TOTVS shares with funds corresponding to amounts received by way of profit sharing in a given year and who undertakes to maintain them for the Lock-up period in order to receive options, so-called Regular Options will be granted;

- Vesting Period: the options will mature 3 years from the date on which they were granted;

- Exercise Period: the options may be exercised by the participants within a maximum period of 2 years following the end of the vesting period, i.e., up to 5 years from the date on which they were granted;

- Lock-up period for Shares to receive Regular Options: in order for shares acquired under Plan 2 to be entitled to receive Regular Options they will be inalienable for a period of 2 years. Shares acquired as a result of the exercise of Regular Options are not subject to the lock-up rule;

- Grant of Restricted Options linked to the acquisition of shares: to the beneficiary acquiring TOTVS shares by means of the investment of an amount corresponding to 100% of the amount received by way of profit sharing in a given year, and who undertakes to maintain them for the Lock-up period in order to receive Restricted Options, so-called Restricted Options will be granted. Restricted Options are intended for approximately 20% of the beneficiaries of Regular Options, who are part of the so-called “Partners Program”;

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

- Exercise of the Restricted Options: the Restricted Options may be exercised upon proof of the exercise of the Regular Options;

- The Lock-up period for those Shares resulting from the exercise of the Restricted Options: the shares acquired by means of the exercise of the Restricted Options will be inalienable for a period of 1 year from the date on which they were exercised;

**b. the plan's main objectives**

The purpose of the Share-based Incentive Plan ("Plan 2") is to establish rules so that certain employees and managers of the Company or other companies under its control ("Beneficiaries") may acquire shares issued by it by means of the granting of Stock Options. The idea here is to align the medium and long term interests of the Beneficiaries with those of the shareholders, boosting the sense of ownership and commitment on the part of the executives by means of the concept of investment and risk, linking the granting of long-term incentives to the Company's and the executive's short-term results and introducing the concept of a "Partners Program", which reinforces the ability to retain a selected strategic group.

**c. how the plan contributes to these goals**

The plan contributes to this goal as it creates a link between the compensation of those beneficiaries who are eligible and the Company's performance, as the better the Company's performance and its reflection on the appreciation in its stock price, the higher the benefit.

Those who are eligible tend to be more motivated by the possibility of raising their compensation over the long term and working in line with the expectations of the market and the shareholders, making decisions that do not just benefit themselves, but also the organization as a whole.

**d. how the plan fits into the issuer's compensation policy**

The plan supplements the compensation eligible beneficiaries, by adding an element of long-term compensation [for more information see item 13.1 (b), given that in order to become the holder of Regular Options, the beneficiary who is eligible is required to invest a percentage of the amount received in the year by way of Bonus/Profit Sharing, net of income tax, which may be 50% or 100%. The percentage of the amount received during the year by way of Bonus/Profit Sharing invested will be considered as a criterion for determining the number of Regular Options to be granted by the Company to the Beneficiary and to take part in the Partners Program and become the holder of Restricted Options should be 100%.

The plan is also designed to retain talent in an increasingly competitive market and to create incentives in order to provide the beneficiaries with greater motivation.

**e. how the plan aligns the managers' and the issuer's interests over the short, medium and long term**

Plan 2 is part of management's compensation strategy by adding a long-term element whereby the Beneficiary who wishes to exercise his/her options may do so for a period of two years starting on the day following the end of the Vesting Period, taking into account that the exercise price of the Options will be the price at which Shares issued by the Company will be acquired.

The Options will be valid for a period of five years from the date on which they were granted, after which they will extinguished.

Another important element is best described in item 13.4(n), as the termination for due cause of the eligible beneficiary extinguishes those options granted which have not yet been exercised by the date of the termination, with exceptions being made where there is specific approval from the Board of Directors. In this way, both the vesting period and the termination of the employee require, in different ways, that the professional behavior of eligible individuals should not be opportunistic and should instead be focused on longer periods of time. This is because, in the short term, their compensation will not be boosted by the variable portion of their compensation which is made up of stock options and, in the medium term, the employee's poor performance level could result in termination or in a reduction in the Company's share price.

**f. maximum number of shares covered**

The total number of Shares set aside for the Plan may not exceed 2.5% (two whole and five tenths of a percent) of the Company's capital stock within the space of four years (counting from the date of the Plan approval by the Company's General Meeting).

All Options granted based on the Plan, as well as those Shares already acquired or subscribed for by the respective Beneficiaries as a result of the Plan, whether or not they are already in their possession, will be taken into account for the purpose of calculating this limit.

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

For the purpose of satisfying the exercise of Options granted under the Plan, the Company may issue new shares within the authorized capital limit, excluding the preemptive right of the Company's current shareholders, as permitted by Article 171, paragraph 3, of Law no. 6.404, of December 15, 1976, as amended.

**g. maximum number of options to be granted**

The total number of Shares set aside for the Plan may not exceed 2.5% (two whole and five tenths of a percent) of the Company's capital stock within the space of four years (counting from the date of the Plan approval by the Company's General Meeting).

**h. share acquisition conditions**

For the Regular Options it will be the Share market price at the time on which the Option was granted, as determined based on the average closing price of the last five trading sessions prior to the Date of grant.

The exercise price of the Restricted Options will be fulfillment of the obligation to do, which consists of the acquisition of Shares issued by the Company with the investment of 100% of the amount received by the Beneficiary in the previous year by way of Bonus/Profit Sharing, net of income tax, and maintaining ownership of the aforesaid Shares unaltered throughout the Lock-up Period.

**i. criteria for setting the acquisition or exercise price**

The exercise price is based on the unit value of TOTVS shares and corresponds to the arithmetic average of the price of the 5 trading sessions prior to the date of grant.

**j. criteria for setting the exercise period**

Regular Options may be exercised for up to 24 months after the end of the Vesting Period, which is set at 36 months, and the Restricted Options may only be exercised after the end of the Vesting Period and upon proof of exercise of the Regular Options.

Only full lots of Options may be exercised, with the fractional exercise of merely a single part of a grant not being allowed.

**k. form of settlement**

The exercise price should be paid in cash, at the moment of subscription or acquisition of the corresponding shares. The Company intends to use treasury shares to satisfy the exercise of stock option rights.

**l. restrictions on transfer of the shares**

Those shares acquired in order for the beneficiary to be entitled to receive Regular Options will be inalienable for a period of 2 years. While shares acquired as a result of the exercise of Regular Options are not subject to the lock-up rule. And those shares acquired by means of the exercise of the Restricted Options will be inalienable for a period of 1 year from the date of exercise of the option.

**m. criteria and events which, when confirmed, will result in the suspension, alteration or termination of the plan**

It is up to the General Shareholders' Meeting to modify, suspend or extinguish the Plan, particularly in the event of factors that imply a significant change in the economic outlook, which may compromise the Company's financial condition.

The granting of Options under the Plan will not prevent the Company from engaging in operations for disposal of control or corporate restructuring, such as transformation, consolidation, merger and spin-off.

If the Company is dissolved, liquidated or is declared bankrupt, the options will automatically be extinguished, terminating all their effects by operation of law, without prejudice to any provision to the contrary provided for in the plan.

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

**n. effects of manager's dismissal from the issuer's bodies on his/her rights provided for in the share-based compensation plan**

In the case of the Beneficiary's termination at the Company's initiative, for any whatsoever reason, either at the Beneficiary's initiative or at the Company's initiative, with or without due cause, the following rules will apply: (a) the Lock-up Period that applied to Shares acquired directly by means of the investment of the Beneficiary's Profit Sharing will cease to exist and the Shares will immediately be released for sale; (b) the Lock-up Period of those Shares Acquired with Restricted Options will continue to flow normally; (c) Mature Options may be exercised for a period of three months from the date of termination, after which they will be extinguished; (d) any unvested Options will be abolished. Any exceptions to this rule should be approved by the Company's Personnel and Compensation Committee.

In the case of the Beneficiary' death, permanent disability or retirement, the following rules will apply: (i) the Lock-up Period that applied to Shares acquired directly by means of the investment of the Beneficiary's Profit Sharing will cease to exist, and the Shares will immediately be released for sale; (ii) the Lock-up Period of those Shares Acquired with Restricted Options will cease to exist; (iii) the Vesting Period will be eliminated, and the Options may be exercised immediately during the Exercise Period of the Options or the Period of Validity of the Options.

**Description of Plan 3**

**a. general terms and conditions**

The Plan, originally approved at the Company's extraordinary general meeting held on December 15, 2015, was amended at the meeting held on April 5, 2018, for the purpose of improving its concepts, effectiveness and simplicity, focusing on the central and most critical aspects.

The Plan is managed by the Company's Board of Directors, with the assistance of the Personnel and Compensation Committee, which will have wide-ranging powers to manage and interpret it, having, among others, the powers necessary:

- **(i)** to decide in relation to any and all measures in connection with the Plan's management, and to interpret and apply the general rules set forth herein;
- **(ii)** to select, from among those individuals who are eligible to participate in the Plan, those who will take part in any given year;
- **(iii)** to determine the number of Restricted Shares to be granted to each Participant, subject to the quantitative limit provided for in the plan;
- **(iv)** to decide in relation to the acquisition of Shares by the Company itself, as required in order to comply with the provisions of the Plan;
- **(v)** to approve the Agreement to be signed between the Company and each of the Participants;
- **(vi)** to modify the Vesting Periods, as well as the other terms and conditions of the Agreement to the extent that the rights of the Participants resulting from, or related to the Plan are not negatively affected, with any adaptations that may be made by the Board of Directors on account of changes implemented in the relevant legislation, being excluded from this limitation;
- **(vii)** to analyze exceptional cases resulting from or related to the Plan; and
- **(viii)** to settle doubts with regard to the interpretation of the general rules established in the Plan and to address omitted cases.

No Participant will have any of the rights and privileges of the Company's shareholders, including to receive dividends, interest on equity and other earnings up until the date on which the Restricted Shares are effectively transferred to the Participants.

The Plan, as amended, came into effect on the date of its approval by the Company's General Meeting on April 5, 2018 and remains in force until December 14, 2025.

**The main characteristics of Plan 3 are listed below:**

- Shares: means the common shares issued by the Company.

- Restricted Shares: means the common shares issued by the Company that will be delivered to the Participant, in strict accordance with the terms and conditions set forth in the Plan and in the Agreement.

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

- Board of Directors: means the Company's Board of Directors.

- Agreement: means the Agreement for Granting of Shares and Other Covenants, approved by the Board of Directors, to be entered into between the Company and each Participant.

- Company: means TOTVS S.A.

- Date of grant of the Restricted Shares: means the date on which the Agreement between the Participant and the Company is signed.

- Termination: means any act or fact that puts an end to the Participant's legal relationship with the Company, except in the case of retirement under the National Institute of Social Security on account of permanent disability, death or a judicial declaration of absence due to the Participant's disappearance. Termination includes, but is not limited to, voluntary termination of the Participant, resignation from office, dismissal, replacement or non-reelection as a statutory executive officer without employment contract and termination of employment contract, for any whatsoever reason, with or without due cause, at the initiative of either of the parties.

- Participants: means the current and future employees and administrators of the Company and/or of the Company's controlled companies or subsidiaries appointed by the Personnel and Compensation Committee and chosen by the Board of Directors to take part in the Plan.

- Vesting Periods: means the Vesting Period of the Partners Program and the Vesting Period of the Regular Program, together;

- Vesting Period of the Regular Program: means, in relation to the Regular Program, the 3 (three) year vesting period from the date of grant of the Restricted Shares, after which the Participant acquires the right to become the holder of the Restricted Shares and the Company will be obliged to transfer the Restricted Shares to the Participant under the Agreement.

- Vesting Period of the Partners Program: means, in relation to the Partners Program, the 3 (three) year vesting period from the date of grant of the Restricted Shares, after which the Participant acquires the right to become the holder of the Restricted Shares and the Company will be obliged required to transfer the Restricted Shares to the Participant under the Agreement.

- Plan: means the Share-Based Incentive and Retention Plan which consists of (i) the Partners Program and (ii) the Regular Program which covers (ii.1) the Executive Program and (ii.2) the Highlights of the Year Program.

- Regular Program: means a part of the Plan which is made up of: (i) the Executive Program - for which those employees and managers of the Company and/or of the Company's controlled companies or subsidiaries, who are considered executives of the Company, based on their assessment and performance, will be eligible; and (ii) the Highlights of the Year Program - for which those employees of the Company and/or of the Company's controlled companies or subsidiaries, who are not executives but regarded as highlights of the year, based on their assessment and performance, will be eligible; all of them nominated by the Personnel and Compensation Committee and approved by the Company's Board of Directors, at its sole and exclusive discretion.

- Partners Program: means a part of the Plan that certain employees and managers of the Company and/or of its controlled companies or subsidiaries may be invited to join, by nomination of the Personnel and Compensation Committee and selection by the Company's Board of Directors, at its sole discretion, based on individual and corporate assessment methods, performance, potential, career path and degree of relationship with the Company.

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

**b. the plan's main objectives**

The purpose of "Plan 3" is: (i) to establish rules so that the Participants can receive Shares in an expensive way; (ii) to increase the degree to which the medium and long term interests of the Participants are in alignment with those of the shareholders, boosting the sense of ownership and commitment on the part of the Participants by means of the concept of investment and risk; and (iii) strengthening the Participants' incentives for long-term permanence and stability within the context of a publicly-held company.

**c. how the plan contributes to these goals**

The granting of Restricted Shares under the scope of the Plan allows the Participants to feel encouraged to become shareholders in the Company, building equity in the form of TOTVS shares, due to meritocracy, taking into account individual assessment and performance criteria (9 Box methodology), potential and ties to the Company and/or its subsidiaries or controlled companies and the Participant's impact on the Company's present and future business. Further details are provided in section 13 (b) iii. As a result, the Participants will be encouraged to perform their activities in the best interest of the Company and, consequently, of its shareholders, generating value for it. At the same time, the granting of Restricted Shares under the scope of the Plan is structured in such a way as to allow the potential gains resulting from the sale of the aforesaid shares to be realized, if that is the case, over the long term, as determined by the Board of Directors, and provided that the Participant remains employed at the Company and/or the Company's controlled companies or subsidiaries, thus encouraging them to remain with the company, and fulfilling the purpose of retaining the management and senior employees of the Company and its controlled companies and subsidiaries.

**d. how the plan fits into the issuer's compensation policy**

The focus on the long-term variable compensation is designed to keep pace with market practices and offer attractive packages which, on the other hand, look after the Company's interests in the most efficient way. The purpose of the Plan is to strengthen the focus on this type of compensation, offering the possibility of even more attractive returns and, on the other hand, requiring a strong demonstration in terms of commitment on the part of the Participants in creating value for the Company and its shareholders.

**e. how the plan aligns the manager's and the issuer's interests over the short, medium and long term**

By means of the Plan, the Company seeks to stimulate improvement in its management, with a view to achieving gains as a result of commitment to long-term results. For their part, the improved results and appreciation of the shares issued by the Company maximize the gains of the Participants in their capacity as investors, together with the Company's other shareholders.

In addition, the existence of vesting periods makes the Participants commit to constantly increasing the Company's value over the short, medium and long term.

**f. maximum number of shares covered**

The maximum number of Restricted Shares to be granted to the Participants under the scope of the Plan may not exceed Restricted Shares corresponding to 5.68% (five whole and sixty-eight hundredths of a percent) of the Company's total capital stock, with this limit including the grants carried out under the scope of the Share-based Incentive and Retention Plan which was approved at the General Meeting held on December 15, 2015.

**g. maximum number of options to be granted**

Not applicable, as the new plan does not include stock options.

**h. share acquisition conditions**

The rules of the Plan determine the objective criteria for selecting the Participants and establishing the number of Restricted Shares granted under the scope of the Company's Regular Program and its Partners Program.

The granting of the Restricted Shares will be formalized by the signing between the Participant and the Company of the Agreement for Granting of Shares and Other Covenants ("Agreement"), which should establish the Participant's total number of Restricted Shares determined under the criteria set by the Board of Directors, and the conditions for the effective delivery of the Restricted Shares to the Participant.

Regular program. The Participants will be entitled to receive the Restricted Shares of the Regular Program and the Company will be required to transfer the aforesaid Regular Program Restricted Shares at the end of the Regular Program's vesting period, in accordance with the procedures to be established in the Agreement.

## 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

Partners Program. With respect to the Partners Program, the Participants will be entitled to receive the Restricted Shares of the Partners Program and the Company will be required to transfer ownership of the aforesaid such Partners Program Restricted Shares at the end of the Partners Program's vesting period, provided that the Participant has an amount equal to 12 (twelve) monthly fixed salaries invested in the Company's shares between the date of grant of the Restricted Shares (date of execution of the Agreement) and the date of delivery of the Restricted Shares, continuously and without interruption.

Any Participant who does not maintain an amount equal to 12 (twelve) monthly fixed salaries invested continuously and uninterruptedly in the Company's shares after the date of the effective delivery of the Restricted Shares will not be eligible for future grants of Restricted Shares under the Company's Partners Program.

For the current Participants of the Partners Program and for those Participants Eligible for the Partners Program in the year 2018, the amount equal to 12 (twelve) monthly fixed salaries invested in the Company's shares could be achieved by the respective Participant within a period of up to 3 (three) years counting from the date of grant of the Restricted Shares of the Partners Program for the year 2018, or based on other criteria as may be defined by the Board of Directors.

For purposes of clarification, the mere existence and maintenance of the investment in the Company's shares by the Participant, in the sum referred to above, and its communication to the Company, does not imply any whatsoever vested right or guarantee of the Participant's integration or inclusion in the Company's Partners Program.

**i. criteria for setting the acquisition or exercise price**

Not applicable. Among other things, the Plan's purpose is to grant Restricted Shares to certain Participants in order to engage and retain critical resources, without requiring any financial consideration from the Participants, subject to the conditions set forth in item 2(d) above in relation to the Partners Program.

Therefore, it is not a stock options plan, under article 168, paragraph 3 of the Brazilian Corporate Law, but rather a compensation plan based on the delivery of Restricted Shares directly to the Participants.

Notwithstanding this, the reference price for the calculation of the number of Restricted Shares to be delivered under the scope of the Plan will correspond to the average closing price of the Company's shares in the 30 (thirty) trading sessions prior to the date of effective delivery of the Restricted Shares to the Participant or another value in accordance with criteria determined by the Board of Directors that reflects the market value of the Shares.

**j. criteria for setting the exercise period**

Not applicable. Among other things, the Plan's purpose is to grant Restricted Shares to certain Participants in order to engage and retain critical resources, without requiring any financial consideration from the Participants, subject to the conditions set forth in item 2(d) above in relation to the Partners Program.

Therefore, it is not a stock options plan, under article 168, paragraph 3 of the Brazilian Corporate Law, but rather a compensation plan based on the delivery of Restricted Shares directly to the Participants.

**k. Form of settlement**

As mentioned in the items above, among other things, the Plan's purpose is to grant Restricted Shares to certain Participants, without any financial consideration. The Company's obligation to transfer Restricted Shares under the scope of the Plan is (i) subject to the execution of an Agreement for Granting of Restricted Shares and Other Covenants with each of the Participants, and (ii) subject to the continued employment and/or statutory relationship, as applicable, of each Participant with the Company until the end of the applicable vesting periods.

Accordingly, once the conditions set forth in the Plan are met, the Participant will be entitled to receive the aforesaid Restricted Shares, with it being up to the Company's management to take all the measures necessary to formalize the respective transfer.

**l. restrictions on the transfer of the shares**

Subject to the continued employment and/or statutory relationship, as the case may be, of the Participant with the Company and/or its controlled companies or subsidiaries up until the end of the applicable Vesting Period and the rules contained in each Agreement, the Restricted Shares will be transferred by the Company to the Participant within the space of 30 (thirty) days after the end of the Vesting Period, as applicable, as well as under the Agreement.

# 13.3 – Variable compensation of the board of directors, statutory executive board and fiscal council

**m. criteria and events which, when confirmed, will result in the suspension, alteration or termination of the plan**

The Board of Directors, in the interest of the Company and of its shareholders, may extinguish or suspend the Plan or revise the Plan's conditions, provided that it does not alter the respective basic principles, particularly the maximum limits for the transfer of Restricted Shares, approved by the General Shareholders' Meeting. The General Shareholders' Meeting may also approve a new incentive plan based on the Company's shares, including in order to allow the acquisition of shares that exceed the maximum limits approved in the Plan.

The Board of Directors may also establish specific treatment for special cases and situations during the period in which the Plan is in force, provided that neither the rights already granted to the Participants nor the basic principles of the Plan are affected. The abovementioned specific treatment will not constitute a precedent to be invoked by other Participants.

**n. effects of manager's dismissal from the issuer's bodies on his/her rights provided for in the share-based compensation plan**

None of the Plan's provisions should be construed as constituting rights to the Employee and/or statutory Participants, as the case may be, other than those inherent in the Restricted Shares, and nor will they grant rights to the Participants in relation to guaranteeing that they will remain as an employee and/or a statutory officer of the Company and/or of the Company's controlled companies or subsidiaries, nor will they in any way interfere with the Company's right, subject to the legal conditions and those contained in the employment contract or management agreement (in the case of statutory Participants without any employment relationship), to terminate the relationship with the Participant at any whatsoever time.

In the event of a Participant's termination at his/her initiative at any whatsoever time during the Vesting Periods, the Participant will cease to be entitled to receive the Company's Restricted Shares as provided for in Section 3. Notwithstanding this, the Participant will retain the right of ownership over any Restricted Shares of the Regular Program and of the Partners Program which he/she already owns as a result of the expiration of the Vesting Periods.

In the event of a Participant's termination at the Company's initiative without due cause, the Participant will be entitled to receive half of the Restricted Shares if more than 2 (two) years of the applicable Vesting Periods have elapsed. The Participant will lose the right to receive all other Restricted Shares under the Regular Program and/or the Partners Program.

In the event of Termination of the Participant for due cause, the Participant will forfeit the right to receive all Restricted Shares that have not been transferred up to the date of Termination, regardless of the program applicable to the Participant.

In the event of the Participant's death, disappearance or permanent disability, all Vesting Periods will be deemed to have expired in advance, at the time of the Participant's death, disappearance or disability.

## 13.5 – Share-based compensation for the board of directors and statutory executive board

**Share-based compensation foreseen for the year 2016:**

| | **Board of Directors** | **Statutory Executive Board** |
|---|---|---|
| **No. of members** | - | 11 |
| **No. of receiving compensation** | - | 11 |
| Weighted average exercise price: | | |
| *(a) of the options outstanding at the start of the year* | - | 28.44 |
| *(b) of the options forfeited during the year* | - | 26.74 |
| *(c) of the options exercised during the year* | - | 28.30 |
| *(d) of the options expired during the year* | - | 33.42 |
| Potential dilution if the all the options granted are exercised | - | 0.4% |

**Share-based compensation foreseen for the year 2017:**

| | **Board of Directors** | **Statutory Executive Board** |
|---|---|---|
| **No. of members** | - | 9 |
| **No. of receiving compensation** | - | 9 |
| Weighted average exercise price: | | |
| *(a) of the options outstanding at the start of the year* | - | 22.16 |
| *(b) of the options forfeited during the year* | - | 29.64 |
| *(c) of the options exercised during the year* | - | 38.61 |
| *(d) of the options expired during the year* | - | 11.68 |
| Potential dilution if the all the options granted are exercised | - | 0.5% |

**Share-based compensation expected for the year 2018:**

| | **Board of Directors** | **Statutory Executive Board** |
|---|---|---|
| **No. of members** | - | 11 |
| **No. of receiving compensation** | - | 11 |
| Weighted average exercise price: | | |
| *(a) of the options outstanding at the start of the year* | - | 37.73 |
| *(b) of the options forfeited during the year* | - | - |
| *(c) of the options exercised during the year* | - | 0.00 |
| *(d) of the options expired during the year* | - | 41.07 |
| Potential dilution if the all the options granted are exercised | - | 0.8% |

**Share-based compensation expected for the year 2019 (current year):**

| | **Board of Directors** | **Statutory Executive Board** |
|---|---|---|
| **No. of members** | 9 | 8 |
| **No. of receiving compensation** | 1 | 8 |
| Weighted average exercise price: | | |
| *(a) of the options outstanding at the start of the year* | - | 33.84 |
| *(b) of the options forfeited during the year* | - | - |
| *(c) of the options exercised during the year* | - | - |
| *(d) of the options expired during the year* | - | - |
| Potential dilution if the all the options granted are exercised | - | 1.1% |

## 13.5 – Share-based compensation for the board of directors and statutory executive board

**Information about each grant recognized in income for the last 3 years as well as for the current year**

**2016**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (16) of shares** | | |
| Date of Grant | - | 03/18/2016 |
| Number of shares granted | - | 37,112 |
| Vesting Period | - | 3 years |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 29.02 |

**2016**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (17) of shares** | | |
| Date of Grant | - | 03/18/2016 |
| Number of shares granted | - | 98,132 |
| Vesting Period | - | 3 years |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for on the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 29.02 |

**2016**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (18) of shares** | | |
| Date of Grant | - | 03/18/2016 |
| Number of shares granted | - | 174,973 |
| Vesting Period | - | 3 years and 10 months |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for on the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 28.37 |

**2017**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (19) of shares** | | |
| Date of Grant | | 02/22/2017 |
| Number of shares granted | - | 43,787 |
| Vesting Period | - | 3 years |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for on the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 23.54 |

## 13.5 – Share-based compensation for the board of directors and statutory executive board

**2017**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (20) of shares** | | |
| Date of Grant | | 02/22/2017 |
| Number of shares granted | - | 143,445 |
| Vesting Period | - | 3 years |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for on the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 23.54 |

**2018**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (21) of shares** | | |
| Date of Grant | | 05/04/2018 |
| Number of shares granted | - | 105,463 |
| Vesting Period | - | 3 years |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for on the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 29.52 |

**2018**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (22) of shares** | | |
| Date of Grant | | 05/04/2018 |
| Number of shares granted | - | 297,375 |
| Vesting Period | - | 3 years |
| Maximum period for the exercise of the options | - | - |
| Lock-up period for on the transfer of the shares | - | - |
| Fair value of the shares on the date of grant | - | 29.52 |

**2018**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **Grant (23) of shares** | | |
| Date of Grant | | 11/26/2018 |
| Number of shares granted | - | 24,345 |
| Vesting Period | - | 18 months |
| Maximum period for the exercise of the options | - | |
| Lock-up period for on the transfer of the shares | - | |
| Fair value of the shares on the date of grant | - | 24.94 |

## 13.5 – Share-based compensation for the board of directors and statutory executive board

**2018**

| | **Board of Directors** | **Statutory Executive Board** |
|---|---|---|
| **Grant (23) of shares** | | |
| Date of Grant | | 11/26/2018 |
| Number of shares granted | - | 24,345 |
| Vesting Period | - | 6 months |
| Maximum period for the exercise of the options | - | |
| Lock-up period for on the transfer of the shares | - | |
| Fair value of the shares on the date of grant | - | 25.19 |

Table related to "Plan 2":

| | Board of Directors | Statutory Executive Board | Statutory Executive Board |
|---|---|---|---|
| | | 12th and 14th grants | 13th and 15th grants |
| **No. of members** | 9.00 | 11.00 | 11.00 |
| **No. of receiving compensation** | 0.00 | 7.00 | 5.00 |
| **Options not yet exercisable** | | | |
| *Number* | - | - | - |
| *Date on which they will become exercisable* | - | - | - |
| *Maximum period for the exercise of the options* | - | - | - |
| *Lock-up period for the transfer of the shares* | - | - | - |
| *Weighted average exercise price* | - | - | - |
| *Fair value of the options on the last day of the year* | - | - | - |
| *Fair value of all the options on the last day of the year* | - | - | - |
| **Options exercisable** | **Board of Directors** | **Statutory Executive Board** | **Statutory Executive Board** |
| *Number* | - | 41,678.00 | 4,739.00 |
| *Maximum period for the exercise of the options* | - | 5 years | 5 years |
| *Lock-up period for the transfer of the shares* | - | N/A | N/A |
| *Weighted average exercise price* | - | 35.60 | 0.01 |
| *Fair value of the options on the last day of the year* | - | 11.36 | 33.27 |
| *Fair value of all the options on the last day of the year* | - | 473,462.08 | 157,666.53 |

## 13.6 - Information about outstanding options held by the board of directors and the statutory executive board

Table related to "Plan 3":

| | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board | Statutory Executive Board |
|---|---|---|---|---|---|---|---|---|---|
| | **16th grant** | **17th grant** | **18th grant** | **19th grant** | **20th grant** | **21st grant** | **22nd grant** | **23rd grant** | **24th grant** |
| **No. of members** | 7.00 | 6.00 | 7.00 | 9.00 | 10.00 | 10.00 | 10.00 | 1.00 | 1.00 |
| **No. of members receiving compensation** | 6.00 | 5.00 | 6.00 | 9.00 | 9.00 | 10.00 | 9.00 | 1.00 | 1.00 |
| **Outstanding shares** | | | | | | | | | |
| *Number* | 18,127 | 69,181 | 84,312 | 98,452 | 28,266 | 91,713 | 257,375 | 24,345 | 24,345 |
| *Vesting Period* | 3 years | 3 years | 3,83 years | 3 years | 3 years | 3 years | 3 years | 18 months | 6 months |
| *Maximum period for the exercise of the options* | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| *Lock-up period for the transfer of shares* | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| *Reference price of the restricted shares* | 31.61 | 31.61 | 31.61 | 25.43 | 25.43 | 31.15 | 31.15 | 25.39 | 25.39 |
| *Fair value of the shares on the last day of the year* | 29.02 | 29.02 | 28.37 | 23.54 | 23.54 | 29.52 | 29.52 | 24.94 | 25.19 |
| *Fair value of all the options on the last day of the year* | 526,045.54 | 2,007,632.62 | 2,391,931.44 | 2,317,560.08 | 665,381.64 | 2,707,367.76 | 7,597,710.00 | 607,164.30 | 613,250.55 |

# 13.7 – Options exercised and shares delivered related to the share-based ompensation of the board of directors and statutory executive board

**Options exercised - year ended 12/31/2018**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **No. of members** | - | 7 |
| **No. of members receiving compensation** | | 7 |
| **Options exercised** | - | |
| *Number of shares* | - | 18,973 |
| *Weighted average exercise price* | - | 0.00 |
| *Difference between the exercise price and the market value of shares related to the options exercised* | - | N/A |
| **Shares delivered** | - | |
| *Number of shares delivered* | - | 23,426 |
| *Weighted average acquisition price* | - | 0.00 |
| *Difference between the acquisition price and the market value of the shares acquired* | - | N/A |

**Options exercised - year ended 12/31/2017**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **No. of members** | - | 10.00 |
| **No. of members receiving compensation** | | 10.00 |
| **Options exercised** | - | |
| *Number of shares* | - | 59,209 |
| *Weighted average exercise price* | - | 38.62 |
| *Difference between the exercise price and the market value of shares related to the options exercised* | - | N/A |
| **Shares delivered** | - | 0 |
| *Number of shares delivered* | - | 0 |
| *Weighted average acquisition price* | - | 0 |
| *Difference between the acquisition price and the market value of the shares acquired* | - | 0 |

## 13.7 – Options exercised and shares delivered related to the share-based ompensation of the board of directors and statutory executive board

**Options exercised - year ended 12/31/2016**

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| **No. of members** | - | 11.83 |
| **No. of members receiving compensation** | | 11.83 |
| **Options exercised** | - | |
| *Number of shares* | - | 50,000 |
| *Weighted average exercise price* | - | 28.3 |
| *Difference between the exercise price and the market value of shares related to the options exercised* | - | N/A |
| **Shares delivered** | - | 0 |
| *Number of shares delivered* | - | 0 |
| *Weighted average acquisition price* | - | 0 |
| *Difference between the acquisition price and the market value of the shares acquired* | - | 0 |

## 13.8 - Information necessary to understand the data in items 13.5 to 13.7 – method of pricing of shares and options

a. **pricing model**

The value of Plan 2 option was determined using the "Black & Scholes" methodology, which establishes the fair value considering the expected dividends, the expected volatility, the risk-free interest rate and the maturity term.

The fair value of Plan 3 Restricted Shares will be determined based on the market share value on the date of grant, considering the expected dividends.

b. **data and assumptions used in the pricing model, including the weighted average price of the shares, the exercise price, the expected volatility, life of the option, expected dividends and the risk-free interest rate**

The data and assumptions used in the pricing model are shown in the table below. It should be stressed that the grants between 2013 and 2015 are related to the granting of stock options, while the grants between 2016 and 2017 are related to the grants of restricted shares:

**Table for "Plan 2":**

| | **12th grant** | **13th grant** | **14th grant** | **15th grant** |
|---|---|---|---|---|
| **Date** | 02/20/2015 | 02/20/2015 | 04/02/2015 | 04/02/2015 |
| **Grant price** | 35.6 | 0.01 | 35.6 | 0.01 |
| **Expected dividends** | 2.60% | 2.60% | 2.60% | 2.60% |
| **Expected volatility** | 29.61% | 29.61% | 29.61% | 29.61% |
| **Risk-free interest rate** | 12.75% | 12.75% | 13.00% | 13.00% |
| **Maturity** | 3 years | 3 years | 3 years | 3 years |
| **Fair Value** | R$ 11.36 | R$ 33.27 | R$ 12.12 | R$ 34.06 |

**Table related to "Plan 3":**

| | **16th grant** | **17th grant** | **18th grant** | **19th grant** | **20th grant** | **21st grant** | **22nd grant** | **23rd grant** | **24th grant** |
|---|---|---|---|---|---|---|---|---|---|
| **Date** | 03/18/2016 | 03/18/2016 | 03/18/2016 | 02/20/2017 | 02/20/2017 | 05/04/2018 | 05/04/2018 | 11/26/2018 | 11/26/2018 |
| **Reference price of the restricted shares** | 31.61 | 31.61 | 31.61 | 25.8 | 25.8 | 31.15 | 31.15 | 25.39 | 25.39 |
| **Expected dividends** | 2.80% | 2.80% | 2.80% | 2.57% | 2.57% | 1.80% | 1.80% | 1.80% | 1.80% |
| **Expected volatility** | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| **Risk-free interest rate** | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| **Vesting period** | 3 years | 3 years | 3 years and 10 months | 3 years | 3 years | 3 years | 3 years | 18 months | 6 months |
| **Fair Value** | R$ 29.02 | R$ 29.02 | R$ 28.37 | R$ 23.54 | R$ 23.54 | R$ 29.52 | R$ 29.52 | R$ 24.94 | R$ 25.19 |

# 13.8 - Information necessary to understand the data in items 13.5 to 13.7 – method of pricing of shares and options

c. **method used and assumptions assumed to incorporate the expected effects of early exercise**

The options granted vest 3 years from the date of grant, which means that the option can only be exercised during the period between 3 and 5 years after grant. Therefore, the assumption used to incorporate the expected effects of the early exercise of the options was to recognize the options in the statement of income over 3 years. For the restricted shares, the vesting period is also 3 years, with the date in this case referring to the date of delivery of the aforesaid shares.

d. **way in which the expected volatility was determined**

The annualized volatility was determined by the standard deviation of the changes in the weekly prices of TOTVS shares traded on the B3, adjusted for the distribution of dividends, over the three-year period up to the date of each grant.

e. **whether any other characteristic of the option was incorporated into its fair value measurement**

No elements other than those described in item 13.8 (a) were taken into account.

## 13.9 – Number of shares and other convertible securities held by managers and fiscal councillors - by body

| | Company that issued the securities | 12/31/2018 |
|---|---|---|
| **Board of Directors** | TOTVS S.A. | 29,060,537 |
| **Statutory Executive Board** | TOTVS S.A. | 91,693 |
| **Fiscal Council*** | N/A | N/A |

* The Company does not have a fiscal council in place.

## 13.10 - Information in relation to pension plans granted to members of the members of the board of directors and to the statutory executive officers

In addition to the social security contribution (INSS), the executive officers may voluntarily elect to join the Company's private pension plan. The basic contribution consists of monthly contributions limited to an amount equal to between 2% and 5% of the executive officer's fixed compensation (base salary) which is matched (with a deposit of an equal amount) by the Company. In addition, voluntary monthly (or sporadic) contributions can be made, which are not matched by the Company, however. In order to be entitled to make withdrawals against the amounts deposited by the Company, the executive officer is required to contribute to the program for at least three years, and the percentage to be redeemed varies as shown in the table below:

| Length of time of contribution to the program | Percentage of the balance of the company's normal contributions |
|---|---|
| Up to 2 years and 11 months | - |
| Between 3 years and 3 years and 11 months | 30% |
| Between 4 years and 4 years and 11 months | 40% |
| Between 5 years and 5 years and 11 months | 50% |
| Between 6 years and 6 years and 11 months | 60% |
| Between 7 years and 7 years and 11 months | 70% |
| Between 8 years and 8 years and 11 months | 80% |
| Between 9 years and 9 years and 11 months | 90% |
| 10 years or more | 100% |

| | Board of Directors | Statutory Executive Board |
|---|---|---|
| No. of members | - | 9.50 |
| No. of members RECEIVING COMPENSATION | | 9.50 |
| Name of the plan | - | Plano de Previdência Privada TOTVS |
| Number of managers who qualify to retire | - | No executive is currently up for retirement |
| Conditions for early retirement | - | There is no possibility of early retirement |
| Restated cumulative amount of the accumulated contributions up to the end of the last fiscal year, minus the portion related to the contributions made directly by the managers | - | 3,480,632.58 |
| Total cumulative amount of the contributions made during the last fiscal year, minus the portion related to the contributions made directly by the managers | - | 146,765.52 |
| Possibility of early redemption and conditions | - | The executive has the right to redeem private pension plan contributions, however with the cancellation of the plan with no possibility of returning to it. The executive will be eligible to receive the contribution made by the company, as per the table regarding the length of time of contribution. |

The private pension plan does not include members of the Board of Directors.

## 13.11 - Maximum, minimum and average individual compensation of the Board of Directors, Statutory Executive Board and Fiscal Council

**Annual Amounts**

| | Statutory Executive Board | | | Board of Directors | | |
|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2017 | 12/31/2016 | 12/31/2018 | 12/31/2017 | 12/31/2016 |
| No. of members | 9.50 | 10.83 | 11.83 | 9.00 | 9.00 | 8.75 |
| No. of members receiving compensation | 9.50 | 10.83 | 11.83 | 8.17 | 7.67 | 6.75 |
| Highest compensation amount (Reais) | 3,557,103.36 | 2,144,438.31 | 2,045,707.32 | 443,564.95 | 374,536.24 | 271,608.72 |
| Lowest compensation amount (Reais) | 1,328,892.00 | 519,642.00 | 320,470.68 | 353,856.95 | 75,000.00 | 251,489.64 |
| Average compensation amount (Reais) | 1,973,927.09 | 912,836.53 | 1,174,441.31 | 399,875.85 | 204,937.81 | 263,538.01 |

## 13.12 - Compensation or indemnification mechanisms for managers in the event of removal from office or retirement

In the case of the Company terminating the contract without due cause within the space of 12 (twelve) months after the date of a Material Corporate Change, the executive officer will be entitled to receive an indemnification equal to 18 (eighteen) monthly compensations in force at the time of termination, as well as to receive the full amounts related to the Target-Based Annual Bonus Program.
Specifically with respect to the CEO's contract, in addition to the above described conditions, the following rules apply:

- In the event that the Company terminates the agreement at its convenience prior to the period of 2 (two) years as from November 2018, it should pay the Chief Executive Officer the equivalent of 100% of the remaining outstanding Annual Global Compensation for the years 2018, 2019 and 2020, required to complete the proportional period of 2 (two) years.

The Company and its subsidiaries continue to take out a Civil Liability Insurance Policy for Management - D&O (world class), which provides for the payment or reimbursement of expenses incurred by the management, as a result of compensation for damages caused to third parties or to the Company. The current policy number 087372018010310000948 (insurance plan registered with SUSEP under No. 15414.901229/2017-25), which was taken out with the insurance company AIG SEGUROS BRASIL S.A., is valid up until June 1, 2019 and has a maximum indemnity limit of R$ 100 million. Although covered by the current D&O policy taken out in Brazil, the executive officers and managers of the operations in Mexico, Argentina and the United States of America are also covered by a local policy issued in each country, with a coverage amount of USD 1.0 million, with a view to speeding up the reimbursement of expenses resulting from any possible claims. The total amount paid by way of insurance premium in Brazil is R$ 202,876.61, in Mexico US$ 4,727.00, in Argentina U$S5,140.98 and in the US US$ 4,100.

## 13.13 - Percentage of total compensation paid to administrators and members of the fiscal council who are related parties of the controlling shareholders

Not applicable. There is no direct or indirect controlling shareholder in the Company.

## 13.14 - Compensation paid to managers and members of the fiscal council, grouped by body, for purposes other than the position they hold

There are no managers in the Company who receive any compensation for any reason other than the position they hold.

## 13.15 - Compensation paid to managers and members of the fiscal council recognized in income of the issuer's direct or indirect controlling shareholders, companies under common control and subsidiaries

There are no managers in the Company who have received compensation from the issuer's direct or indirect controlling shareholders, companies under common control or subsidiaries.

## 13.16 - Other material information

There is no other material information which is applicable to item “13”.

## 14.1 - Description of human resources

**a. number of employees (total, by groups based on the activity performed and by geographical location)**

| Activity Performed | 1Q19 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Provision of Services | 3684 | 3.778 | 3.707 | 3.707 |
| Research and Development | 2323 | 2.382 | 2.239 | 2.105 |
| Sales | 685 | 695 | 767 | 759 |
| Administrative/Others | 918 | 950 | 1.055 | 1.112 |
| **Total [1]** | 7610 | 7.805 | 7.768 | 7.683 |

| Geographical Location | 1T19 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Brazil | 7330 | 7.529 | 7.481 | 7.388 |
| Other Latin American countries | 223 | 221 | 214 | 224 |
| United States | 44 | 44 | 51 | 49 |
| Europe | 4 | 3 | 12 | 11 |
| Asia | 9 | 8 | 10 | 11 |
| **Total [1]** | 7610 | 7.805 | 7.768 | 7.683 |

[1] Consolidated information, that is, human resources in the Company's controlled companies and subsidiaries were also included.

**b. number of outsourced workers (total, by groups based on the activity performed and by geographical location)**

| Activity Performed | 1Q19 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Security, Reception Services and Cleaning | 229 | 209 | 212 | 162 |
| Sales Representatives | 0 | 0 | 0 | 0 |
| Other Activities | 130 | 77 | 74 | 96 |
| **Total [1]** | 359 | 286 | 286 | 258 |

| Geographical Location | 1Q19 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Brazil | 359 | 286 | 286 | 258 |
| **Total [1]** | 359 | 286 | 286 | 258 |

[1] Consolidated information, that is, human resources in the Company's controlled companies and subsidiaries were also included.

**c. turnover**

| Index | 1Q19 | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| *Turnover*[1] | 21,99% | 22,21% | 21,22% | 18,74% |

[1]*Turnover* = [(Hired + Terminated) / 2] / Active Employees

## 14.2 - Material Changes - Human Resources

The variation in the number of employees over the years is mainly due to the Company's natural organic growth during the period.

Over the last three years, there has been a decrease in the number of employees in TOTVS's Administrative Departments, which reflects the synergy plan and the efficiency gains at the acquired companies.

# 14.4 - Description of issuer/union relations

**a. salary and variable compensation policy**

The Company's compensation policy includes provisions for compensation to be established in accordance with market standards for positions with similar activities and responsibilities, with a view to maintaining the company's ability to attract and retain the participants.

The compensation structure is approved by the Personnel and Compensation Committee and the necessary changes are submitted to the aforesaid committee for its analysis. The Company organizes positions within the same nature of function, according to hierarchy, strategic contribution, scope, technical-professional maturity, complexity of assignment and inherent responsibility. Every position has its compensation established according to the responsibilities and qualifications required to perform the function, with the total compensation being divided between fixed and variable compensation.

The fixed compensation refers to the amount received on a monthly basis by the participant, which is paid by means of the payroll system, which is designed to compensate the participant for the duties and responsibilities that are applicable to the position held, which is also referred to as “nominal salary”.

The variable compensation refers to the amounts received at regular intervals by the participant, which reward the participant for his or her differentiated individual performance, for the results of his/her area of activity and/or for TOTVS's overall results, which may be the result of the achievement of targets, as defined in the specific program.

**b. benefits policy**

The Company offers a number of benefits to its participants with a view to providing them with a better quality of life, with this being one of the company's strategies for attracting and retaining the professionals. Among the main benefits offered by the Company are: i) a health plan that provides medical, laboratory and hospital care to all participants and their direct dependents; ii) a dental plan for the participants and their direct dependents; and iii) a private pension program (defined contribution plan), in partnership with a financial institution, with part of the contributions coming from the Company and part from the participant himself/herself.

**c. share-based compensation plans for employees who are not managers**

**i. groups of beneficiaries**

The current and future employees and managers of the Company and/or of its controlled companies or subsidiaries indicated by the Personnel and Compensation Committee and selected by the Board of Directors to take part in the Plan, under the terms of “Plan 3” described in item 13.4 of this form are eligible to take part in the Plan.

**ii. conditions for exercise**

Not applicable, as the plan does not include stock options to be exercised, only restricted shares that will be delivered to the participants under the terms and conditions established in the plan.

**iii. exercise prices**

Not applicable, as the plan does not include stock options to be exercised, only restricted shares that will be delivered to the participants under the terms and conditions established in the plan.

**iv. exercise periods**

Not applicable, as the plan does not include stock options to be exercised, only restricted shares that will be delivered to the participants under the terms and conditions established in the plan.

**v. number of shares committed by the plan**

The total number of shares may not exceed 5.68% (five point sixty-eight one hundredths of a percent) of the Company's capital stock, taking into account: (i) a period of 10 years from the date on which the plan is approved; and (ii) restricted shares granted to managers and employees, under the terms of “Plan 3” described in item 13.4 of this form.

TOTVS maintains a transparent and friendly relationship with the unions that represent the participants, at all of its domestic units, with regard to the need to negotiate collective bargaining agreements and specific agreements, and with a focus on compliance with the clauses established.

The Company maintains a relationship of respect for the roles of the parties, recognizing the importance for the employees of keeping this relationship at a good level. This attitude is designed to help with the development of feasible and evolving agreements, which are satisfactory to all of those involved.

## 14.4 - Description of issuer/union relations

As at March 31, 2019, the Company's employees were represented by the following unions: (i) Union of Workers in the Industries of Electrical, Electronic and Similar Appliances, of Radio Transmission Devices, of Refrigeration, Heating and Air Treatment, Lamps and Electrical Lighting Devices of Curitiba and the Metropolitan Region (*Sindicato dos Trabalhadores nas Indústrias de Aparelhos Elétricos, Eletrônicos e Similares, de Aparelhos de Radiotransmissão, de Refrigeração, Aquecimento e Tratamento de Ar, Lâmpadas e Aparelhos Elétricos de Iluminação de Curitiba e Região Metropolitana*)- SELETROAR; (ii) the Union of Workers in Public and Private Companies and Entities of Data Processing, Computer Services, Similar and Data Processing Professionals of Paraíba (*Sindicato dos Trabalhadores em Empresas e Órgãos Públicos e Privados de Processamento de Dados, Serviços de Informática, Similares e Profissionais de Processamento de Dados da Paraíba*); (iii) the Union of Workers in Telecommunications and Call Centers in the States of Goiás and Tocantins (*Sindicato dos Trabalhadores em Telecomunicações e Teleatendimentos nos Estados de Goiás e Tocantins*) - SINTTEL GO/TO; (iv) Union of Workers in Public and Private Companies and Entities of Data Processing, Computer Services and Similar Services of the State of Bahia (*Sindicato dos Trabalhadores em Empresas e Órgãos Públicos e Privados de Processamento de Dados, Serviços de Informática e Similares do Estado da Bahia*) - SINDADOS/BA; (v) Union of Workers in Public and Private Companies and Entities of Data Processing, Computer Services and Similar Services of the State of Minas Gerais (*Sindicato dos Trabalhadores em Empresas e Órgãos Públicos e Privados de Processamento de Dados, Serviços de Informática e Similares do Estado de Minas Gerais*) - SINDADOS / MG; (vi) Union of Commercial Employees in the State of Goiás (*Sindicato dos Empregados no Comércio no Estado de Goiás*); (vii) Union of Workers in Data Processing, Computer Services and Similar Services of the State of Ceará (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Estado do Ceará*) - SINDPD/CE; (viii) Union of Workers in Data Processing and Information Technology of the State of São Paulo (*Sindicato dos Trabalhadores em Processamento de Dados e Tecnologia da Informação do Estado de São Paulo*) - SINDPD / SP; (ix) the Union of Workers in Computer Companies and Courses, Computer Systems Consulting, Development of Computer Programs, Database Activities (Access Providers), Maintenance, Repairs and Sales of Office Machinery and Computer Equipment, and Other Unspecified Computer Activities of the North, Northwest, West and Southwest of the State of Paraná (*Sindicato dos Trabalhadores nas Empresas e Cursos de Informática, Consultoria em Sistemas de Informática, Desenvolvimento de Programas de Informática, Atividades de Bancos de Dados (Provedores de Acesso), Manutenção, Reparação e Venda de Máquinas de Escritórios e Equipamentos de Informática, e Outras Atividades de Informática Não Especificadas do Norte, Noroeste, Oeste e Sudoeste do Paraná*- SINTINORP; (x) Union of Workers in Information Technology in the State of Pará (*Sindicato dos Trabalhadores e Trabalhadoras em Tecnologia da Informação no Estado do Pará*) - SINDPD/PA; (xi) Union of Workers in Data Processing, Computer Services and Similar Services of the Federal District (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Distrito Federal*)- SINDPD/DF; (xii) Union of Workers in Data Processing, Computer Services and Similar Services of the State of Goiás (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Estado do de Goiás*) - SINDPD/GO; (xiii) Union of Workers in Data Processing, Computer Services and Similar Services of the State of Pernambuco (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Estado de Pernambuco*) - SINDPD/PE; (xiv) Union of Workers in Data Processing, Computer Services and Similar Services of the State of Rio de Janeiro (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Estado do Rio de Janeiro*) - SINDPD/RJ; (xv) Union of Workers in Data Processing, Computer Services and Similar Services of the State of Santa Catarina (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Estado de Santa Catarina*) - SINDPD/SC; (xvi) Union of Workers in Data Processing, Computer Services and Similar Services of the State of Rio Grande do Sul (*Sindicato dos Trabalhadores em Processamento de Dados, Serviços de Informática e Similares do Estado do Rio Grande do Sul*) - SINDPD/RS; and (xvii) Union of Workers in Data Processing Companies of Curitiba (*Sindicato dos Trabalhadores em Empresas de Processamento de Dados de Curitiba*) - SITEPD/PR.

The Company's employees have not been on strike or work stoppage for the last 3 years.

## 14.5 – Other material information

At a meeting held on March 16, 2017, the Board decided to adopt a policy for the election of members of the Executive Board, with effect from this date onward, consisting of the following:

(i) No individual who has already reached the age of 62 (sixty-two) as at the date of election should be elected to the position of Chief Executive Officer; and

(ii) No individual who has already reached the age of 60 (sixty) as at the date of election should be elected to take up any other position on the Executive Board.

## 15.1 / 15.2 - Shareholding position

| Shareholder | | | | | |
|---|---|---|---|---|---|
| Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) - shareholder | Nationality/State agreement | Party to a shareholders' agreement | Controlling Shareholder | Most recent alteration | |
| Shareholder Resident Abroad | Name of Legal Representative or Attorney-in-fact | | Type of Person | Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) | |
| Number of common shares (Units) | Common Shares % | Number preferred shares (Units) | Preferred Shares % | Total number of shares (Units) | Total shares % |
| Breakdown by class of shares (Units) | | | | | |
| Share Class | Number of shares (Units) | Shares % | | | |
| **LC EH Participações e Empreendimentos S/A** | | | | | |
| 02.986.755/0001-32 | BRAZILIAN – SAO PAULO | No | No | 11/08/2010 | |
| No | | | | | |
| 80,282,970 | 13.891% | 0 | 0.000% | 80,282,970 | 13.891% |
| **Laércio José de Lucena Cosentino** | | | | | |
| 032.737.678-39 | BRAZILIAN - SAO PAULO | No | No | 02/19/2018 | |
| No | | | | | |
| 6,376,005 | 1.103% | 0 | 0.000% | 6,376,005 | 1.103% |
| **Constellation Investimentos e Participações Ltda.** | | | | | |
| 06.182.127/0001-55 | BRAZILIAN - SAO PAULO | No | No | 03/25/2020 | |
| No | | | | | |
| 30,090,381 | 5.206% | 0 | 0.000% | 30,090,381 | 5,206% |
| **HG SENTA PUA FIA** | | | | | |
| 08.613.315/0001-16 | BRAZILIAN - SAO PAULO | No | No | 01/30/2008 | |
| No | | | | | |
| 145,500 | 0.025% | 0 | 0.000% | 145,500 | 0.025% |
| **GIC Private Limited** | | | | | |
| | | No | No | 04/22/2019 | |
| Yes | Citibank Distribuidora de Títulos e Valores Mobiliários S.A | | Legal Entity | 33.868.597/0001-40 | Yes |
| 29,185,056 | 5.050% | 0 | 0.000% | 29,185,056 | 5.050% |

## 15.1 / 15.2 - Shareholding position

| Shareholder | | | | | |
|---|---|---|---|---|---|
| Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) – shareholder | Nationality/State agreement | Party to a shareholders' agreement | Controlling Shareholder | Most recent alteration | |
| Shareholder Resident Abroad | Name of Legal Representative or Attorney-in-fact | | Type of Person | Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) | |
| Number of common shares (Units) | Common Shares % | Number preferred shares (Units) | Preferred Shares % | Total number of shares (Units) | Total shares % |
| Breakdown by class of shares (Units) | | | | | |
| Share Class | Number of shares (Units) | Shares % | | | |
| **ITAÚ UNIBANCO S.A** | | | | | |
| 60.701.190/0001-04 | Brasil-SP | No | No | 02/20/2020 | |
| No | | | | | |
| 29,496,270 | 5.103% | 0 | 0.000% | 29,496,270 | 5.103% |
| **OTHERS** | | | | | |
| 397,224,490 | 68.738% | 0 | 0.000% | 397,224,490 | 68.738% |
| **TREASURY SHARES - Date of last alteration: 02/19/2018** | | | | | |
| 5,112,510 | 0.884% | 0 | 0.000% | 5,112,510 | 0.884% |
| **TOTAL** | | | | | |
| 577,913,182 | 100.000% | 0 | 0.000000% | 577,913,182 | 100.000% |

## 15.1 / 15.2 - Shareholding position

| PARENT COMPANY/INVESTOR | | | | | |
|---|---|---|---|---|---|
| SHAREHOLDER | | | | | |
| Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) – shareholder | Nationality/State agreement | Party to a shareholders' agreement | Controlling Shareholder | Most recent alteration | |
| Shareholder Resident Abroad | Name of Legal Representative or Attorney-in-fact | | Type of Person | Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) | |
| Breakdown of shares (Units) | | | | | |
| Number of common shares (Units) | Common Shares % | Number preferred shares (Units) | Preferred Shares % | Total number of shares (Units) | Total shares % |
| PARENT COMPANY/INVESTOR | | | | Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) - shareholder | Composition of share capital |
| HG SENTA PUA FIA | | | | 08.613.315/0001-16 | |
| Laércio José de Lucena Cosentino | | | | | |
| 032.737.678-39 | BRAZILIAN - SAO PAULO | No | No | 02/19/2018 | |
| No | | | | | |
| 2,785,041 | 99.840 | 0 | 0.00 | 2,785,041 | 99.840 |
| Share class | Number of shares (Units) | Shares % | | | |
| TOTAL | 0 | 0.000000 | | | |
| Marcelo Eduardo Sant'anna Cosentino | | | | | |
| 306.743.308-46 | Brazilian - Sao Paulo | No | No | 01/30/2008 | |
| No | | | | | |
| 4,355 | 0.160 | 0 | 0.000 | 4,355 | 0.160 |
| Share class | Number of shares (Units) | Shares % | | | |
| TOTAL | 0 | 0.000000 | | | |
| OTHERS | | | | | |
| 0 | 0.000 | 0 | 0.000 | 0 | 0.000 |
| TOTAL | | | | | |
| 2,789,396 | 100.000 | 0 | 0.000 | 2,789,396 | 100.000 |

## 15.1 / 15.2 - Shareholding position

| PARENT COMPANY/INVESTOR | | | | | |
|---|---|---|---|---|---|
| SHAREHOLDER | | | | | |
| Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) - shareholder | Nationality/State agreement | Party to a shareholders' agreement | Controlling Shareholder | Most recent alteration | |
| Shareholder Resident Abroad | Name of Legal Representative or Attorney-in-fact | | Type of Person | Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) | |
| Breakdown of shares (Units) | | | | | |
| Number of common shares (Units) | Common Shares % | Number preferred shares (Units) | Preferred Shares % | Total number of shares (Units) | Total shares % |
| PARENT COMPANY/INVESTOR | | | | Individual Taxpayers' Register/ National Corporate Taxpayers' Register (CPF/CNPJ) - shareholder | Composition of share capital |
| **LC EH Participações e Empreendimentos S/A** | | | | **02.986.755/0001-32** | |
| **Ernesto Mário Haberkorn** | | | | | |
| 029.258.698-15 | BRAZILIAN SAO PAULO | No | No | 02/08/2018 | |
| No | | | | | |
| 109,019 | 19.962 | 92,351 | 16.910 | 201,370 | 36.873 |
| **Share class** | **Number of shares (Units)** | **Shares %** | | | |
| TOTAL | 0 | 0.000 | | | |
| **Laércio José de Lucena Cosentino** | | | | | |
| 032.737.678-39 | BRAZILIAN - SAO PAULO | No | No | 02/19/2018 | |
| No | | | | | |
| 344,745 | 63.126 | 0 | 0.000 | 344,745 | 63.126 |
| **Share class** | **Number of shares (Units)** | **Shares %** | | | |
| TOTAL | 0 | 0,000000 | | | |
| **OTHERS** | | | | | |
| 0 | 0.000000 | 0 | 0.000000 | 0 | 0.000000 |
| **TOTAL** | | | | | |
| 453,764 | 83.089000 | 92,351 | 16.910000 | 546,115 | 100.000000 |

## 15.3 - Distribution of capital

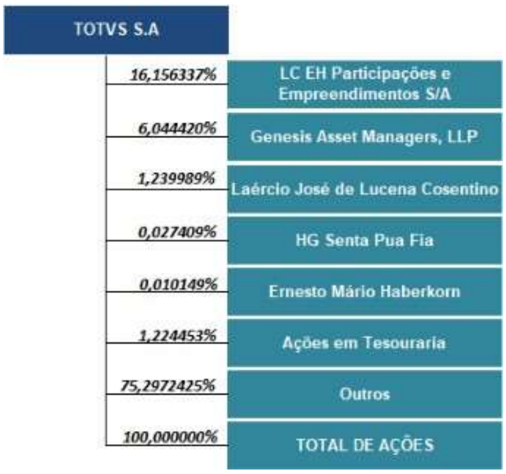
| | |
|---|---|
| **Date of the last shareholders' meeting / Date of the last alteration** | 05/16/2019 |
| **Number of individual shareholders (Units)** | 5,265 |
| **Number of corporate shareholders (Units)** | 179 |
| **Number of institutional investors (Units)** | 551 |

**Outstanding Shares** *Outstanding shares correspond to all of the issuer's shares except those held by the controlling shareholders, persons related to the controlling shareholder, the issuer's managers and treasury shares*

| | | |
|---|---|---|
| **Number of common shares (Units)** | 134,465,885 | 81.180711% |
| **Number of preferred shares (Units)** | 0 | 0.000000% |
| **Total** | 134,465,885 | 81.180711% |

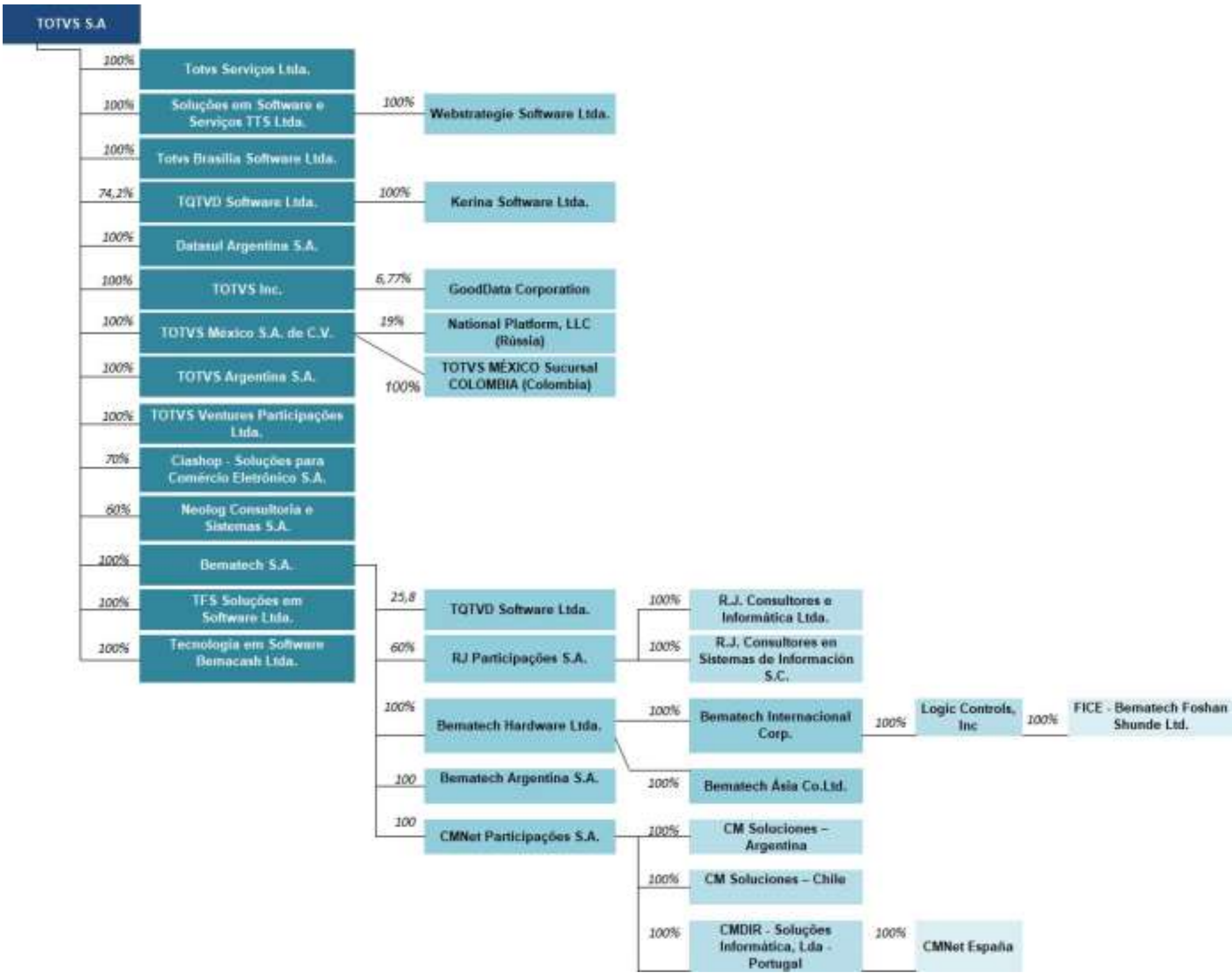
## 15.4 - Shareholder and economic group organization chart

**Shareholders**




(*) Laércio José de Lucena Cosentino and Ernesto Haberkon own interests in the fund LC EH Participações e Empreendimentos S/A

**Economic Group**



## 15.5 - Shareholders' agreement filed at the headquarters or to which the controlling shareholder is a party

Management is not aware of any agreement among the Company's shareholder's

## 15.6 - Material changes in the interests of members of the controlling group and management of the issuer

Not applicable as there is no controlling group in the Company

## 15.7 - Main corporate operations

There were no relevant corporate events in the last three years.

## 15.8 - Other material information

The Company has not identified any other material information related to this item.

## 16.1 – Description of rules, policies and practices of the issuer in terms of transations with related parties

Transactions with parties related to the Company are always carried out in compliance with the Brazilian Corporate Law and best corporate governance practices, and are contracted at usual market prices and conditions and therefore do not generate any benefit or loss to the Company or to any other parties. In addition to this, transactions carried out by the Company, including those contracted with related parties, are always backed up by the proper prior analysis of their conditions and of the Company's strict interest in carrying them out. In this sense, the Company negotiates contracts to be signed with related parties on an individual basis, analyzing their terms in relation to those practiced in the market, as well as the specific characteristics of each transaction (such as terms, amounts, compliance with quality standards, etc.). The individuals who take part in the aforementioned negotiations have no personal interests in the matters being negotiated.

In addition, the Company has a related party policy which includes all the procedures, principles and methodology for the approval of related party transactions and for managing potential conflict of interest situations. This policy was reviewed and approved by the Board of Directors on March 11, 2019, made public on March 20, 2019, and can be found on the Company's Investor Relations website at www.ri.totvs.com/ptb/estatutos-politicas-e-regimentos.

Among this policy's main points, highlight goes to the following ones:

- Each of management's key individuals along with those who have significant influence should complete a questionnaire annually which is designed to collect information regarding parties related to them, in accordance with the definitions of the aforesaid policy, and about any transactions between them and the Company of which they are aware, and should obtain information from close family members and managers of the respective entities, if this is applicable.

- TOTVS's Compliance area will maintain an up-to-date record identifying key management personnel, as well as those with significant influence, as well as related parties, which should be consulted by those responsible for transactions prior to their completion, in order to check as to whether the respective transaction may be a related party transaction.

- The Company's key management personnel and those with significant influence will be briefed, and periodically advised, regarding the obligation to inform Risk and Compliance of any potential related party transaction of which they become aware.

- Any transaction that may qualify as a Related Party transaction should be reported to the Compliance area, which is responsible for issuing an opinion, together with the Legal Department, in order to determine whether the transaction actually constitutes a Related Party Transaction that is subject to the procedures of said policy.

- Such transactions should be accompanied by the information necessary for their analysis, as well as evidence and the opinion of the manager responsible for carrying out the transaction that (a) there are clearly demonstrable reasons, from the point of view of the Company's business, for the Transaction to be carried out with the Related Party, and (b) the transaction is conducted on terms at least equally favorable to the Company as those generally available on the market or those offered to, or by, a third party which is not related to the Company, in equivalent circumstances, also taking into account its monitoring cost by the Company.

- All transactions with Related Parties should be submitted to the Board of Directors for approval, in accordance with TOTVS Bylaws. To this end, the transaction should previously be submitted to TOTVS Audit Committee, accompanied by the opinion of TOTVS Compliance area and of its Legal Department, which is responsible for assessing whether the guidelines of the aforesaid have been observed in the fact-finding process regarding the transaction under analysis.

- Related party transactions should be entered into in writing, specifying their main characteristics and conditions, such as price, terms, guarantees, conditions for termination, liability for tax collection and obtaining of licenses, among other things. These characteristics should also expressly include the possibility of termination by the Company of any related party transaction that may be automatically renewed, under conditions equivalent to those available in agreements with unrelated parties.

- Members of the Board of Directors or the Board of Directors, as well as the Audit Committee and its members, at their discretion, will have access to all documents related to related party transactions, including any technical reports or opinions they may have received.

## 16.1 – Description of rules, policies and practices of the issuer in terms of transations with related parties

- The Board of Directors should define the content and format of the information that is deemed to be necessary for its deliberation in relation to a Related Party transaction, which should be distributed at the same time as the calling of the meeting at which the transaction will be submitted for analysis.

- The Board of Directors may approve the related party transaction if it concludes, in good faith, that the transaction is equitable and is in the Company's interest, and, at its discretion, make approval of the aforesaid transaction dependent upon those changes that it deems necessary so that the transaction takes place on an equitable basis and is in the Company's interest.

## 16.2 - Information on transactions with related parties

| Related PARTY | Transaction date | Amount involved (Reais) | Existing balance | Amount (Reais) | Duration | Loan of or other type of debt | Interest rate charged |
|---|---|---|---|---|---|---|---|
| VIP VII Empreendimentos e Participações S.A. | 10/21/2013 | 245,440,998.27 | R$ 202,332,573.35 | R$ 104,876,938.56 | 03/02/2027 | NO | 0.000000 |
| **Relation with the issuer** | Agreement entered into between the Company and VIP VII - Empreendimentos e Participações SA "VIP VII", in which Laércio José de Lucena Cosentino indirectly holds a 41.964% interest and Marcelo Eduardo Sant´Anna Cosentino directly holds 0.254% of the capital of said related party | | | | | | |
| **Purpose of the agreement** | Lease of commercial property in the 'built to suit' mode for the Company's new headquarters in the city of São Paulo, located at Avenida Braz Leme, 1000. | | | | | | |
| **Guarantee and insurance** | Surety provided by TOTVS Serviços Ltda. Company's obligation to take out insurance against fire, gales, flooding, lightning and explosions in relation to the building, its belongings and accessories, for a sum equal to 96 times the monthly rent. | | | | | | |
| **Termination or extinction** | If the Company terminates the agreement before the 10-year term, a fine corresponding to 70% of the remaining rents will be applied. | | | | | | |
| **Nature and reason for the transaction** | Location of the Company's Head Office. | | | | | | |
| **Contractual position of the issuer** | Debtor | | | | | | |
| **Specify** | | | | | | | |
| VIP IV Empreendimentos e Participações Ltda. | 06/01/2016 | 6,922,546.29 | R$233,960.04 | R$2,734,405.78 | 05/31/2019 | NO | 0.000000 |
| **Relation with the issuer** | Agreement entered into between the Company and VIP IV Empreendimentos e Participações Ltda. (“VIP IV”), indirectly held by Laércio José de Lucena Cosentino, owner of 39.5% of the capital of VIP IV. | | | | | | |
| **Purpose of the agreement** | Commercial Lease Agreement of the property located at Av. Braz Leme, No. 1793, São Paulo/SP. The contract is to be adjusted on an annual basis in accordance with the variation in the IGP-M during the period. . | | | | | | |
| **Guarantee and insurance** | N/A with regard to the guarantee. Th Company's obligation to take out insurance against fire for the properties, based on their updated value. | | | | | | |
| **Termination or extinction** | In the case of contractual breach, a fine corresponding to three monthly rents | | | | | | |
| **Nature and reason for the transaction** | Location of the Company's datacenter. | | | | | | |
| **Contractual position of the issuer** | Debtor | | | | | | |
| **Specify** | | | | | | | |
| Inovalli Administração de Obras, Engenharia e Empreendimentos Imobiliários Ltda. | 09/04/2015 | 0.00 | - | 0 | Indefinite. | NO | 0.000000 |
| **Relation with the issuer** | Agreement entered into between the Company and Inovalli Administração de Obras, Engenharia e Rmpreendimentos Imobiliários Ltda., in which Laercio José de Lucena Cosentino holds 27.5% of the capital. | | | | | | |

## 16.2 - Information regarding related party transactions

| Related party | Transaction date | Amount involved (*Reais*) | Existing balance | Amount (*Reais*) | Duration | Loan or other type of debt | Interest rate charged |
|---|---|---|---|---|---|---|---|
| **Purpose of the agreement** | Design, development, complete specifications and implementation of the interior design of TOTVS's new headquarters in São Paulo. A charge of 5% will be levied on all products purchased and services performed for monitoring and implementing the new headquarters. | | | | | | |
| **Guarantee and insurance** | None | | | | | | |
| **Termination or extinction** | None | | | | | | |
| **Nature and reason for the transaction** | | | | | | | |
| **Contractual position of the issuer** | Debtor | | | | | | |
| **Specify** | | | | | | | |
| Inovalli Administração de Obras, Engenharia e Empreendimentos Imobiliários Ltda. | 03/31/2019 | 41,551.81 | R$0 | R$11,426.75 | Indefinite | NO | 0.000000 |
| **Relation with the issuer** | Inovalli is one of TOTVS's customers and owns the product "FLUIG 100 USUARIOS" and Cloud rental.<br>Laercio José de Lucena Cosentino owns 27.5% of Inovalli's capital. . | | | | | | |
| Purpose **of the agreement** | Monthly fee for use of software. | | | | | | |
| **Guarantee and insurance** | N/A | | | | | | |
| **Termination or extinction** | The parties may terminate the agreement with prior notice without penalties, or also in case of non-payment on the part of the client and failure to provide services/accesses by the Company. | | | | | | |
| **Nature and reason for the transaction** | N/A | | | | | | |
| **Contractual position of the issuer** | Creditor | | | | | | |
| **Specify** | | | | | | | |
| BRASSCOM ASSOCIACAO BRASILEIRA DAS EMPRESAS DE TECNOLOGIA DA INFORMACAO E COMUNICACAO | 03/31/2019 | 248,213.00 | R$0 | R$314,197.93 | Indefinite. | YES | 0.000000 |
| **Relation with the issuer** | Laércio José de Lucena Cosentino is a member of the board of directors of BRASSCOM. | | | | | | |
| **Purpose of the agreement** | Annual membership dues. | | | | | | |
| **Guarantee and insurance** | N/A | | | | | | |
| **Termination or extinction** | N/A | | | | | | |

## 16.2 - Information regarding related party transactions

| Related party | Transaction date | Amount involved (*Reais*) | Existing balance | Amount (*Reais*) | Duration | Loan or other type of debt | Interest rate charged |
|---|---|---|---|---|---|---|---|
| **Nature and reason for the transaction** | Laércio José de Lucena Cosentino is a member of the board of BRASSCOM. | | | | | | |
| **Contractual position of the issuer** | Debtor | | | | | | |
| **Specify** | | | | | | | |
| Ciashop - Soluções para Comércio Eletrônico S.A. | 02/20/2017 | 2,050,000.00 | R$2,535,000.00 | R$760,436.46 | 01/20/2021 | YES | 6.500000 |
| **Relation with the issuer** | TOTVS S.A. has a 70% interest in Ciashop - Soluções para comércio eletrônico S.A. with the other 30% being held by the minority shareholders Maurício José Trezub and Kleber Martins Albertini. | | | | | | |
| Purpose **of the agreement** | Loan agreement convertible into shares | | | | | | |
| **Guarantee and insurance** | N/A | | | | | | |
| **Termination or extinction** | N/A | | | | | | |
| **Nature and reason for the transaction** | N/A | | | | | | |
| **Contractual position of the issuer** | Creditor | | | | | | |
| **Specify** | | | | | | | |

## 16.3 Identification of measures taken for handling conflicts of interests and proof of the strictly commercial nature of the conditions agreed and proper compensatory payment

The Board of Directors of TOTVS S.A. has established, through the policy mentioned in item 16.1 guidelines and procedures to ensure that transactions between Related Parties and TOTVS or its subsidiaries are conducted in the best interest of TOTVS or its subsidiaries, as the case may be, and are based on the principles of transparency and arm’s length basis. Similarly, the policy is designed to prevent and manage situations of potential conflict of interest when carrying out Transactions involving Related Parties.

In order to ensure that the protection mechanisms defined in the policy regarding conflict of interest are triggered, the Policy provides for the possibility of reporting by anyone who is aware of a situation that may qualify as a Related Party Transaction, with it being up to the Compliance area, in conjunction with the Legal Department, to issue an opinion to determine whether the transaction in fact constitutes a Related Party Transaction that is subject to the procedures of the Policy.

In addition, in situations where related party transactions require approval, the person involved in the approval process who has a potential private benefit or conflict of interest with the decision to be made should declare himself or herself impeded from taking part in the decision, explaining his or her involvement in the transaction, and if requested, provide details of the transaction and of the parties involved. The impediment should be stated in the minutes of the meeting of the corporate body that makes the decision regarding the transaction and the individual in question remove himself or herself from the discussions and deliberations.

In their analysis, the Board of Directors and the Audit Committee should take into account the following factors: (a) whether or not there are clearly demonstrable reasons from the Company's business point of view for the Related Party Transaction; (b) whether or not the transaction is carried out on terms at least equally favorable to the Company as those generally available on the market or those offered to or by a third party which is not related to the Company, in equivalent circumstances, taking into account the Company's cost of monitoring the transaction; (c) the results of assessments made or opinions issued by a specialized independent firm, if there are any; (d) whether or not a competitive process was carried out for the aforesaid engagement and its outcome; (e) the pricing methodology used and other possible alternative forms of pricing of the transaction; and (f) the extent of the Related Party's interest in the transaction, bearing in mind the amount of the transaction, the financial situation of the Related Party, the direct or indirect nature of the Related Party's interest in the transaction and the continuing or otherwise nature of the transaction, and any other aspects that it considers to be relevant.

In the process of approving Related Party Transactions, the Board of Directors and the Audit Committee should analyze the following information, as well as any other information that they deem to be relevant for the analysis of the specific transaction: (a) the terms of the transaction; (b) the Related Party's interest and the impact of the approval of the transaction on its commitment to TOTVS; (c) the purpose and timing of the transaction; (d) whether or not the Company is a party to the transaction and, if not, the nature of its participation; (e) if the transaction involves the sale of an asset, the description of the asset, including its acquisition date and its book value or assigned cost; (f) information about potential counterparties in the transaction; (g) the approximate financial amount of the transaction, as well as the amount of the Related Party's interest; (h) a description of any provisions or limitations imposed on the Company as a result of the execution of the transaction; (i) whether or not the transaction involves any reputational risk to the Company; and (j) any other information that may be relevant to the shareholders and investors, in light of the circumstances of the specific transaction.

In the lease of the Company's headquarters, the process of analysis and selection of the property was carried out by an independent consultancy. In addition, the consultancy also handled the process of financial negotiation of the alternatives. The Company's Compensation and People Committee and Audit Committee reviewed both studies carried out by the consultancy as well as TOTVS's contractual protection clauses, in the event of non-compliance with the execution schedule and/or with the technical specifications, and recommended that the Board of Directors approved the transaction.

## 16.4 - Other material information

The Company has not identified other relevant information related to this item.

## 17.1 - Information on capital stock

| Date of authorization or approval | Amount of capital (*Reais*) | Deadline for payment | Number of common shares (Units) | Number of preferred shares (Units) | Total number of shares (Units) |
|---|---|---|---|---|---|
| **Type of capital** | **Issued Capital** | | | | |
| 04/27/2020 | 1,382,508,564.43 | | 577,913,181 | 0 | 577,913,181 |
| **Type of capital** | **Subscribed Capital** | | | | |
| 04/27/2020 | 1,382,508,564.43 | | 577,913,181 | 0 | 577,913,181 |
| **Type of capital** | **Paid-In Capital** | | | | |
| 04/27/2020 | 1,382,508,564.43 | | 577,913,181 | 0 | 577,913,181 |
| **Type of capital** | **Issued Capital** | | | | |
| 05/28/2019 | 1,382,508,564.43 | | 192,637,727 | 0 | 192,637,727 |
| **Type of capital** | **Subscribed Capital** | | | | |
| 05/28/2019 | 1,382,508,564.43 | | 192,637,727 | 0 | 192,637,727 |
| **Type of capital** | **Paid-In Capital** | | | | |
| 05/28/2019 | 1,382,508,564.43 | | 192,637,727 | 0 | 192,637,727 |
| **Type of capital** | **Authorized Capital** | | | | |
| 05/16/2019 | 2,500,000,000.00 | | 0 | 0 | 0 |
| **Type of capital** | **Issued Capital** | | | | |
| 04/05/2018 | 1,041,228,564.43 | | 165,637,727 | 0 | 165,637,727 |
| **Type of capital** | **Subscribed Capital** | | | | |
| 04/05/2018 | 1,041,228,564.43 | | 165,637,727 | 0 | 165,637,727 |
| **Type of capital** | **Paid-In Capital** | | | | |
| 04/05/2018 | 1,041,228,564.43 | | 165,637,727 | 0 | 165,637,727 |
| **Type of capital** | **Authorized Capital** | | | | |
| 04/20/2017 | 1,300,000,000.00 | | 0 | 0 | 0 |

## 17.2 – Capital stock increases

| Date of resolution | Body that resolved on the increase | Date of issue | Total amount of issue (*Reais*) | Type of increase | Common shares (Units) | Preferred shares (Units) | Total shares (Units) | Subscription/Previous Capital | Issue Price | Price quote Factor |
|---|---|---|---|---|---|---|---|---|---|---|
| 04/20/2017 | Board of Directors | 04/20/2017 | 448,466,498.84 | Without issue of shares | 0 | 0 | 0 | 0.00000000 | 0.00 | R$ per unit |
| **Criteria for setting the issue price Form of payment** | | | | | | | | | | |
| 04/05/2018 | Board of Directors | 04/05/2017 | 51,387,796.01 | Without issue of shares | 0 R$ per Unit | 0 | 0 | 0.00000000 | 0.00 | Board of Directors |
| **Criteria for setting the issue price** | | | | | | | | | | |
| **Form of payment** | | | | | | | | | | |
| 05/22/2019 | Board of Directors | 05/28/2019 | 341,280,000.00 | public subscription | 27,000,000 | 0 | 27,000,000 | 32.78776665 | 12.64 | R$ per Unit |

**Criteria for setting the issue price**

To approve the price of thirty nine *Reais* and fifty cents (R$39.50) for the issue, by the Company, of each common share in the context of the Offering (“Price per Share”), which was fixed after the conclusion of the Bookbuilding Procedure, having as parameters: (i) the quoted price of the common shares issued by the Company on the B3 S.A. - Brasil, Bolsa, Balcão (“B3”); and (ii) the indications of interest based on the quality and quantity of demand (by volume and price) for the shares. Under the terms of article 170, paragraph 1, item III, of Law no. 6404, of December 15, 1976 (“Brazilian Corporate Law”), the choice of the criterion for determining the Price per Share is justified because it has been obtained through the Bookbuilding Procedure and, therefore, did not cause any unjustified dilution to the Company's shareholders.

To determine that, out of the Price per Share of thirty nine *Reais* and fifty cents (R$39.50): (i) twelve *Reais* and sixty four cents (R$12.64) will be allocated to the capital stock, totaling three hundred and forty one million, two hundred and eighty thousand *Reais* (R$341,280,000.00); and (ii) the balance, of twenty-six *Reais* and eighty-six cents (R$26.86) per share, will be allocated for setting up a capital reserve, pursuant to line 'a' of paragraph 1 of Article 182 of the Brazilian Corporate Law, totaling seven hundred and twenty-five million, two hundred and twenty thousand *Reais* (R$725,220,000.00).

**Form of payment**

Paid in cash at the time of subscription in domestic currency (R$)

## 17.3 - Information on share splits, reverse splits and stock dividends

| | | Number of stocks before approval | | | Number of stocks before approval | | |
|---|---|---|---|---|---|---|---|
| Approval | Deliberation date | Common | Preferred | Total | Common | Preferred | Total |
| Split (1:3) | 04/27/2020 | 192,637,727 | - | 192,637,727 | 577,913,181 | - | 577,913,181 |

## 17.4 - Information on capital stock reductions

***Justification for not completing the table:***

There was no reduction in capital stock

## 17.5 - Other material information

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 in the ratio of one common share for three of the same type without any change in the capital stock. To make it clear, for each common share currently held, the shareholder will receive, as a result of the split, two more shares of the same type so that they will have a total of three common shares of the Company (1:3). Consequently, the number of common shares in which the Company's capital is divided changed from 192,637,727 to 577,913,181 shares.

## 18.1 - Rights of shares

| | |
|---|---|
| **Share or CDA type:** | **Common** |
| **Tag along:** | 100.000000 |
| **Right to dividends:** | The shares guarantee their holders the right to a mandatory dividend, in each fiscal year, equivalent to 25% of the adjusted net income pursuant to article 202 of Brazilian Corporate Law. In addition, according to the Company's Bylaws and Brazilian Corporate Law, the holders of common shares have are entitled to receive dividends or other distributions made in relation to common shares, proportional to their interests in the capital stock. |
| **Voting rights:** | Full |
| **Convertibility:** | No |
| **Right to capital refund:** | Yes |
| **Description of the capital refund characteristics:** | See item 18.12 of this form |
| **Restriction on free float:** | No |
| **Redeemable** | No |
| **Redemption situations and formula for calculating the redemption amount** | |
| **Conditions for changing the rights guaranteed by those securities:** | See item 18.12 |
| **Other material characteristics:** | TOTVS is listed in "Novo Mercado", the most advanced corporate governance level for Companies listed on the BM&FBOVESPA, and adopts practices that exceed the requirements related to corporate governance and shareholders' rights, in accordance with the Novo Mercado Listing Rules. |

## 18.2 - Description of any statutory rules that limit the right to vote of significant shareholders or that oblige them to make a public offering

***Voting Limit***

There are no rules in the Bylaws that limit or restrict the right to vote of the Company's stockholders. Chapter VII of the Company's Bylaws includes rules governing the holding of public offerings for the acquisition of shares in case of sale of the shareholding control, acquisition of material equity interests, cancellation of the adjusted as a publicly-traded company registration and exclusion from the Novo Mercado.

***Offerings***

Transcribed below are the clauses of TOTVS Bylaws, including provisions of events related to the obligation to undertake public offerings:

**Article 42 -** The direct or indirect disposal of the Company's ownership control (as defined in Paragraph 1 of this Article), either through a single or successive operations, shall be contracted under either a suspensive or resolutory condition that the party acquiring Ownership Control be obliged to undertake an Initial Public Offering ("IPO") for the acquisition of shares of the other shareholders, subject to any conditions and terms set forth in the prevailing legislation and the Novo Mercado Regulation, so that such shareholders are entitled to the same treatment as the Selling Controlling Shareholder (as defined in Paragraph 1 of this article).

**Paragraph 1 -** For purposes of the Bylaws, the expressions below commencing with capital letters shall have the following meanings: **"Controlling Shareholder"** means shareholder(s) or Group of Shareholders that control the Company. **"Selling Controlling Shareholder"** - means the controlling shareholder when it promotes the sale of the Company's control. **"Controlling Shares"** - means the block of shares that ensures their holder, directly or indirectly, individual and / or combined control of the Company. **"Acquirer"** means the party to whom the Controlling Shareholder transfers Controlling Shares in a Divestment of Control of the Company. **"Divestment of Control of the Company"** - means the transfer to third parties, against payment, of the Controlling Shares, securities convertible to voting shares, assignment of rights to subscribe shares and other securities or rights referring to the securities convertible to shares of the Company that may result in the acquisition of Control by the Acquiring Party. **"Group of Shareholders"** means a group of persons who are (i) bound by agreements or contracts of any nature, either directly or by means of Subsidiaries, Parent Companies or under common control; or (ii) among whom there is a controlling relationship; or (iii) under common control. **"Control"** means the power effectively used to manage the business and how the Company's bodies function, directly or indirectly, in fact or law, regardless of ownership interest held. **"Economic Value"** - means the value of the company and its shares to be determined by a specialized company, by using recognized methodology or based on other criteria that may be defined by the CVM.

**Paragraph 2 -** In the event the acquisition of Control also obligates the Acquirer of Control to undertake the Initial Public Offering required pursuant to Article 43 of the Bylaws, the purchase price of the IPO shall be either as per Article 42 or Article 43, Paragraph 2 of the Company's Bylaws, whichever is greatest.

**Article 43** – Any shareholder or person who acquires or becomes a holder of the Company's shares in an amount equal to or exceeding twenty per cent (20%) of the Company's total shares shall, within a maximum of sixty (60) days from the date of acquisition or the event that resulted in ownership of shares equal to or exceeding twenty per cent (20%) of the Company's shares, undertake or request registration, as the case may be, of an IPO of the Company's total shares, with due regard for the provisions of the applicable regulations of the CVM, the Regulations of Novo Mercado, other regulations of B3 and the terms of Article 43 of the Bylaws.

**Paragraph 1** – The IPO shall be: **(i)** intended indistinctly for all Company shareholders; **(ii)** carried out in an auction held at B3; **(iii)** issued at a price determined in accordance with Paragraph 2 of Article 43 of the Bylaws; and **(iv)** paid in cash in Brazilian currency against acquisition in the IPO of the Company's shares.

**Paragraph 2** – The acquisition price in the IPO of each Company share cannot be less than the greater of **(i)** one hundred and twenty-five per cent (125%) of the highest share price attained by the Company's shares during the period of twelve (12) months preceding the IPO, o any stock exchange where the Company's shares are traded; **(ii)** one hundred and twenty-five per cent (125%) of the highest share price paid by the shareholder or person, at any time, for a Company share or batch of shares; **(iii)** or the Economic Value ascertained in a valuation report.

## 18.2 - Description of any statutory rules that limit the right to vote of significant shareholders or that oblige them to make a public offering

**Paragraph 3** – Holders of shares representing at least ten per cent (10%) of the capital stock may request the preparation of a new valuation report in the same manner as that mentioned in section **(iii)** of Paragraph 2 of Article 43 of the Bylaws, but from a different institution. **(I)** If the new report arrives at a lower share price than that calculated in the manner of Paragraph 2 of Article 43 of the Bylaws, the higher price shall prevail and the shareholders who requested preparation of the valuation report shall bear the full cost thereof in proportion to their equity holding in the Company's capital stock. **(II)** In the event the report provided for in this paragraph arrives at a higher share price than that obtained in the manner of Paragraph 2 of Article 43 of the Bylaws, the shareholder or person may: **(1)** withdraw from the IPO, agreeing to divest the surplus holding, within three months from the acquisition date, and the costs of the new report shall be borne in full by the shareholders who requested its preparation, in proportion to their equity holding in the Company's capital stock; **(2)** undertake the IPO at the price indicated in the new report whose costs shall be borne by the Company.

**Paragraph 4** – In the event the price of the IPO is revised in the manner provided for in Paragraph 3 of Article 43 of the Bylaws, and provided there is no withdrawal by the shareholder or person, the auction will commence with the new price, and material fact shall be published informing the price review and the maintenance or withdrawal of the IPO.

**Paragraph 5** – The revision of the IPO price shall adopt the following procedure:

**(i)** the request for preparation of a new valuation report on the Company's share price based on the Economic Value properly grounded and accompanies by convincing elements that show the failure or lack of precision in employing the calculation methodology or in the valuation criteria adopted shall be formulated within fifteen (15) days from disclosure of the value of the public offering, and will suspend the registration process proceedings or, where this has already been granted, the tenor of the IPO notice, postponing the respective auction, and the shareholder or person shall arrange for publication of a material fact advising of the postponement and the date designated for holding a meeting of the Board of Directors which will resolve on the choice of the specialized company that will prepare the report;

**(ii)** if the Board of Directors resolves not to undertake a new valuation of the Company, the registration process procedure, or the IPO itself, shall resume for the remaining period, as the case may be, and the shareholder or person shall arrange, in this latter case, for the publication of a material fact containing the new date for holding the auction;

**(iii)** if the valuation report arrives at an amount equal to or less than that of the IPO obtained in the manner of Paragraph 2 of Article 43 of the Bylaws, the registration process procedure or the IPO itself shall resume for the remaining period, as the case may be and the shareholder or person shall arrange, in this latter case, for the publication of a material fact containing the new date for holding the auction;

**(iv)** in the event the valuation report ascertains an amount that exceeds that of the IPO obtained in the manner of Paragraph 2 of Article 43 of the Bylaws, the shareholder of persons shall arrange to publish, within five (5) days from the date of presentation of the report, a material fact advising if the IPO is to be maintained or their withdrawal from it clarifying, in the former case, that the registration process procedure or the IPO itself shall resume for the remaining period, as the case may be, and the shareholder or person shall arrange, in this latter case, for the publication of a material fact containing the new date for holding the auction and the new price;

**(v)** the period of fifteen (15) days referred to in subparagraph (i) of Paragraph 5 will only commence following delivery of the original valuation report to the CVM, or after it has been made available in the manner of section (viii) of Paragraph 5 of Article 43 of the Bylaws, if this occurs first, and the shareholder or person shall publish a material fact advising of said delivery;

**(vi)** the meeting of the Board of Directors that resolves to undertake a new valuation shall appoint the person responsible for preparing the report, approve their compensation, set a deadline not to exceed thirty (30) days for completion of the services, and determine that the report be forwarded to the Company in the person of its Investor Relations Officer, the stock exchange in which the auction is to take place and the CVM, in addition to also forwarding it to the latter's electronic address in the specific format indicated by the CVM;

**(vii)** the institution responsible for preparing the valuation report shall also, on the same date of delivery of the report to the CVM, notify the intermediary institution operating the IPO, as provided for in Article 4, IV of CVM Instruction 361 dated March 5, 2002 ("CVM Instruction 361"), as to the outcome of the valuation, so that the latter and the shareholder can make the appropriate arrangements, including those provided for in subsections (iii) and (iv) of Paragraph 5 of Article 43 of the Bylaws

## 18.2 - Description of any statutory rules that limit the right to vote of significant shareholders or that oblige them to make a public offering

**(viii)** the valuation report dealt with in this Paragraph 5 will be available in the same places and in the same format as the valuation report dealt with in Article 8 of CVM Instruction 361; and

**(ix)** the meeting of the Board of Directors referred to in this Paragraph 5 shall necessarily indicate the name of the shareholders who requested the preparation of a new report for the purposes of imposition, as the case may be, of the provisions of Paragraph 3, (I) and (II.2) of Article 43 of the Bylaws.

**Paragraph 6** – Holding the IPO mentioned in the main paragraph of Article 43 of the Bylaws will not exclude the possibility of another Company shareholder or, as the case may be, the Company itself from formulating a competing IPO pursuant to the applicable regulations.

**Paragraph 7** – The shareholder or person shall be obligated to respond to any requests or demands from the CVM formulated on the basis of the applicable legislation concerning the IPO, within the maximum deadlines stipulated in the applicable regulations.

**Paragraph 8** - In the event the shareholder or person fails to comply with the obligations imposed by this article, including with regard to meeting the maximum deadlines (i) for holding or requesting registration of the IPO; or (ii) for responding to any requests or demands from the CVM or fulfilment of the obligations provided for in Article 52 of the Bylaws, the Company's Board of Directors will convene an Extraordinary Shareholders' Meeting at which the shareholder or person will not be able to vote, to resolve on the suspension of the exercise of the rights of the shareholder or person who has failed to comply with any obligation imposed by this Article, as per Article 120 of Brazilian Corporate Law, without prejudice to the shareholder or person being liable for any damages or losses caused to the other shareholders arising from non-compliance with the obligations imposed by this Article.

**Paragraph 9 –** Any shareholder or person acquiring or becoming the owner of other rights, including usufruct or trust, to the Company's shares in an amount equal to or exceeding twenty per cent (20%) of the Company's total shares, will be equally obligated, within a maximum term of sixty (60) days from the date of said acquisition or the event that resulted in ownership of the rights in an amount equal to or exceeding twenty per cent (20%) of the Company's total shares, to undertake or request registration, as the case may be, of an IPO in the terms described in this Article.

**Paragraph 10 –** The obligations shown in Article 254-A of Brazilian Corporate Law and Article 42 of the Bylaws do not exclude compliance by the shareholder or person with the obligations shown in Article 43 of the Bylaws, with the exception of the provisions of Articles 50 and 51 of the Bylaws.

**Paragraph 11 –** The provisions of this Article do not apply in cases where a person becomes a holder of more than 20% (twenty per cent) of the Company's total shares arising from: (i) legal succession, on the condition that the shareholder divests the surplus shares within 60 (sixty) days from the material event; (ii) the merger of another company into our Company; (iii) the incorporation of the shares of another company by our Company; or (iv) subscription of our Company's shares under a single primary issuance approved at a meeting of the Company's shareholders convened by our Board of Directors and whose proposed capital increase has determined the stipulation of the share issue price based on the economic value obtained from an economic and financial valuation report on the Company undertaken by a specialized company with proven experience in valuing publicly quoted companies.

**Paragraph 12 –** The calculation of the 20% (twenty per cent) of the Company's total shares described in the main paragraph of Article 43 of the Bylaws will not factor in the involuntary increases in equity holdings resulting from cancellation of treasury shares or from the reduction in our Company's capital stock following the cancellation of shares.

**Paragraph 13 –** In case the CVM regulations applicable to the IPO provided for in this Article set forth the adoption of a calculation criterion for setting the acquisition price of each Company share in the IPO, resulting in a higher acquisition price than that provided for in Paragraph 2 of Article 43 of the Bylaws, when the IPO provided for in this Article actually takes place, the price that shall prevail is the acquisition price calculated under the terms of CVM regulations.

**Paragraph 14** – Any change that limits the right of the shareholders to undertake the IPO provided for in this Article, or the exclusion of Article 43 of the Bylaws, will obligate shareholders who have voted in favor of that change of exclusion in the resolutions of the shareholders' meeting to undertake the IPO provided for in this Article, with due regard for the provisions in Paragraph 3 of Article 10 of the Bylaws.

**Article 44 –** the public offering for the acquisition of shares to be undertaken by the Controlling Shareholder or by the Company to cancel the Company's registration as a publicly quoted company shall be at fair price in accordance with the applicable legal and regulatory rules.

## 18.2 - Description of any statutory rules that limit the right to vote of significant shareholders or that oblige them to make a public offering

**Article 45** – Voluntary delisting from Novo Mercado may occur (i) irrespective of undertaking the public offering for the acquisition of shares in the event of a waiver approved in a meeting of the Company's shareholders, pursuant to article 12, x of these Bylaws, or (ii) where such waiver is not forthcoming, if preceded by a public offering for the acquisition of shares that abides by the procedures provided for in the regulations of the CVM on public offerings for the acquisition of shares to cancel registrations of publicly quoted companies, and the following requisites:

**(i)** the offering price must be fair, and it is therefore possible to request a new valuation of the Company in the manner set out in Article 4 – A of Brazilian Corporate Law; and
**(ii)** shareholders with more than 1/3 (one-third) of the shares in free float shall accept the public offering for the acquisition of shares or expressly agree to delist from the segment without selling the shares.

**Paragraph 1 -** For the purpose of article 45, shares in free float are only those shares whose shareholders expressly agree to delist from Novo Mercado or who qualify for the auction of the public offering for the acquisition of shares as per the regulations of the CVM applicable to public offerings for the acquisition of publicly quoted companies to cancel registrations.
**Paragraph 2 –** If the quorum mentioned in the paragraph above is reached: (i) the party accepting the public offering for the acquisition of shares may not be subjected to pro-rating when divesting their equity holding, with due regard for the waiver procedures of the limits provided for in the CVM regulations applicable to public offerings for the acquisition of shares, and (ii) the offering party shall be obligated to acquire the remaining shares in free float for the term of 1 (one) month from the date the auction is held, at the final price of the public offering for acquisition of shares restated up to the actual date of payment in accordance with the call notice and prevailing regulations, which shall occur within a maximum of 15 (fifteen days) from the date on which the shareholder exercises the entitlement.

**Article 46 –** In the event of no Controlling Shareholder, if it is decided that the Company is to delist from Novo Mercado so that the securities it has issued can then be registered for trading outside Novo Mercado, or by virtue of a corporate reorganization operation in which the securities of the company resulting from this reorganization are not admitted for trading on Novo Mercado within 120 (one hundred and twenty) days from the date of the shareholders' meeting that approved that operation, the delisting will be conditional on holding a public offering for acquisition of shares on the same conditions provided for in article 45 above.

**Paragraph 1** – That same shareholders' meeting shall define those responsible for undertaking the public offering for acquisition of shares who, present at the meeting, shall expressly accept the obligation to undertake the offering.

**Paragraph 2 –** Where there is no definition of those responsible for undertaking the public offering for acquisition of shares in the event of a corporate reorganization operation in which the securities of the company resulting for this reorganization are not admitted for trading on Novo Mercado, it will be the responsibility of the shareholders who voted in favor of the corporate reorganization to undertake that offering.
**Paragraph 3** – The public offering for acquisition of shares for the purposes of this article shall abide by the procedures for public offerings for cancellation of registrations.
**Article 47 –** In the event there is no Controlling Shareholder and B3 determines the suspension of trading in the Company's securities on Novo Mercado on account of non-compliance with obligations contained in the Regulations of Novo Mercado, the Chairman of the Board of Directors shall convene within 2 (two) days from said ruling, considering only those days when the newspapers habitually used by the Company circulate, an extraordinary shareholders' meeting to replace the entire Board of Directors.

**Paragraph 1 –** If the Extraordinary Shareholders' Meeting referred to in the main paragraph of Article 47 is not convened by the Chairman of the Board of Directors within the established deadline, it may be convened by any shareholder of the Company.

**Paragraph 2 –** The new Board of Directors elected at the Extraordinary Shareholders' Meeting mentioned in the main paragraph and in Paragraph 1 of Article 47 of the Bylaws shall put right the non-compliance with the obligations contained in the Regulations of Novo Mercado in as short a space of time as possible, or within a new deadline granted by B3 for that purpose, whichever is shorter.

**Article 48 –** The Company's delisting from Novo Mercado due to non-compliance with the obligations stipulated in the Regulations of Novo Mercado is conditional on undertaking a public offering for acquisition of shares in accordance with Article 45 of the Bylaws, with due regard for the applicable legal and regulatory rules.

**Paragraph 1 -** The Controlling Shareholder shall undertake the public offering for acquisition of shares provided for in the main paragraph of this article.

## 18.2 - Description of any statutory rules that limit the right to vote of significant shareholders or that oblige them to make a public offering

**Paragraph 2 -** If there is no Controlling Shareholder and the delisting from Novo Mercado referred to in the main paragraph arises from the resolution of the shareholders' meeting, shareholders who have voted in favor of the resolution that implied the respective non-compliance shall undertake the public offering for acquisition of shares provided for in the main paragraph.

**Paragraph 3 -** If there is no Controlling Shareholder and the delisting from Novo Mercado referred to in the main paragraph arises from an act or fact of management, the Company's managers shall convene a general meeting of shareholders whose order of the day will be to resolve on how to put tight the non-compliance with the obligations stipulated in the Regulations of Novo Mercado or, as the case may be, to resolve on the Company's delisting from Novo Mercado.

**Paragraph 4 –** If the meeting of shareholders mentioned in Paragraph 3 above resolves on the Company's delisting from Novo Mercado, that meeting of shareholders shall designate those responsible for undertaking the public offering for acquisition of shares provided for in the main paragraph who, present at the meeting, shall expressly assume the obligation to undertake the offering.

**Article 49 –** The valuation report of the Company for determining the fair price and/or economic value, as the case may be, shall be prepared by a specialized company with proven experience and independence with regard to the power of decision of the Company, its Managers and/or its Controlling Shareholders, and the report shall also meet the requisites of Paragraph 1 of Article 8 of Brazilian Corporate Law and contain the accountability provided for in Paragraph 6 of that same Article 8.

**Sole Paragraph –** The costs of preparing the valuation report shall be borne in full by those responsible for undertaking the public offering for acquisition of shares, as the case may be, with the exception of the provisions of Paragraph 3 of Article 43 of the Bylaws.

**Article 50 –** Formulating a single IPO is possible with the aim of more than one of the purposes provided for in this Chapter VII, in the Regulations of Novo Mercado or in the regulations issued by the CVM, provided it is possible to establish compatibility among the procedures of all IPO modalities, and there is no loss to those for whom the offering is intended and the authorization of the CVM is obtained when required by the applicable legislation.

**Section 51** – The Company or the shareholders responsible for undertaking the IPO provided for in this Chapter VII, in the Regulations of Novo Mercado or in the regulations issued by the CVM may ensure it is undertaken through the intermediary of any shareholder, third party and, as the case may be, by the Company. The Company or shareholder, as the case may be, are not exempt from the obligation to undertake the IPO until this is concluded, with due regard for the applicable rules.

**Article 52 –** Any shareholder or person who has subscribed and/or acquired the Company's shares in an amount equal to or exceeding 8% (eight per cent) of the Company's total equity and who wishes to make a new acquisition of the Company's shares via the stock exchange will be obligated, before each new acquisition to notify the Company in writing of their intention to acquire more Company shares at least 3 (three) business days in advance of the expected date set for making the new acquisition of shares, with due regard at all times for the terms of the prevailing legislation, the regulations of the CVM and the regulations of B3 applicable.

## 18.3 - Description of any exceptions or suspensive clauses related to equity or political rights set forth in the Bylaws

Brazilian Corporate Law grants the meeting of shareholder right to suspend the exercise of rights by shareholders who fail to comply with obligations imposed by law or by the Company's Bylaws, such suspension ceasing immediately after that obligation has been fulfilled.

There are no statutory suspensive clauses involving equity or political rights.

## 18.4 - Trading volume and highest and lowest price quotes for securities trading

**Fiscal year 12/31/2018**

| Quarter | Security | Type | Class | Market | Administrative Entity | Financial volume traded (Reais) | Highest price quote (R$) | Lowest price quote (R$) | Average price quote (R$) |
|---|---|---|---|---|---|---|---|---|---|
| 12/31/2018 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 879,869,170 | 29.84 | 23.75 | 26.54 |
| 09/30/2018 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 709,732,443 | 31.14 | 23.80 | 27.30 |
| 06/30/2018 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 858,553,101 | 32.06 | 26.50 | 29.23 |
| 03/31/2018 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 779,167,768 | 33.65 | 28.75 | 30.75 |

**Fiscal year 12/31/2017**

| Quarter | Security | Type | Class | Market | Administrative Entity | Financial volume traded (Reais) | Highest price quote (R$) | Lowest price quote (R$) | Average price quote (R$) |
|---|---|---|---|---|---|---|---|---|---|
| 03/31/2017 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 762,716,038 | 28.63 | 23.59 | 26.29 |
| 06/30/2017 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 706,247,636 | 31.68 | 27.50 | 29.37 |
| 09/30/2017 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 560,837,243 | 32.30 | 28.73 | 30.87 |
| 12/31/2017 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 916,579,836 | 34.65 | 29.56 | 31.68 |

## 18.4- Trading volume and highest and lowest price quotes for securities trading

**Fiscal year 12/31/2016**

| Quarter | Security | Type | Class | Market | Administrative Entity | Financial volume traded (Reais) | Highest price quote (R$) | Lowest price quote (R$) | Average price quote (R$) |
|---|---|---|---|---|---|---|---|---|---|
| 03/31/2016 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 989,811,621 | 33.70 | 27.20 | 30.64 |
| 06/30/2016 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 926,182,775 | 32.86 | 26.95 | 29.14 |
| 09/30/2016 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 935,175,277 | 33.34 | 29.35 | 31.39 |
| 12/31/2016 | Shares | Common | | Stock Exchange | BM&F BOVESPA S.A. – Bolsa de Valores, Mercadorias e Futuros | 1,426,672,765 | 31.82 | 21.51 | 25.85 |

## 18.5 - Other securities issued in Brazil

| | |
|---|---|
| **Securities:** | **Debentures** |
| **Identification:** | Common Debentures - TOTVS |
| **Issuance date:** | 09/15/2017 |
| **Maturity date:** | 09/15/2020 |
| **Quantity:** | 200.000 |
| **Value:** | R$ 200,000,000.00 |
| **Debt outstanding balance:** | R$ 203,431,000.00 |
| **Restriction of circulation:** | Yes |
| **Description of restriction:** | The offer of debentures was exclusively to qualified investors, as defined per Article 9-B of CVM Instruction n° 539, of November 13, 2013, as amended, and after 90 days from the date of each subscription or acquisition by professional investors, pursuant to articles 13 and 15 of CVM Instruction 476. |
| **Convertibility:** | No |
| **Possibility of Redemption:** | Yes |
| **Hypothesis and calculation of** | TOTVS may, at its sole discretion and at any time, make an |
| **redemption value:** | offer for early redemption of the debentures for subsequent cancellation, addressed to all debenture holders without distinction, ensuring equal conditions to all debenture holders, to accept or not the early redemption of the Debentures held by them, in accordance with the terms and conditions. |
| **Characteristics of debt securities:** | |
| **Conditions for altering the rights assured by such securities** | Not applicable |
| **Other material characteristics:** | Optional Purchase: The Company may, at any time and at its sole discretion, purchase the debentures, in compliance with Article 55, Paragraph 3 of Brazilian Corporate Law and the restrictions on trading set forth in CVM Instruction 476. Any debentures purchased by the Company may be canceled, once again placed in the market or held in the Company's treasury, which must be disclosed in the management report and the financial statements of the Company.<br><br>Other characteristics of debentures, issue and offer: Other characteristics of conditions of debentures, issue and offer will be those specified in the Issue Indenture, in the Board of Director Meeting and the other documents. |

## 18.5.a - Number of Holders of Securities

| Security | Individuals | Legal Entities | Institutional Investors |
| --- | --- | --- | --- |
| Debentures | 0 | 0 | 1 |

## 18.6 - Brazilian Markets where securities are admitted for trading

The Company’s securities are admitted for trading in Brazil. The Company’s shares are specifically traded on B3 (Bolsa, Brasil, Balcão) Stock Exchange, under ticker “TOTS3”, in the category of the highest level of corporate governance, called Novo Mercado.

The Company’s debentures are traded on B3 under ticker TOTS11.

## 18.7 - Information on class and type of securities admitted for trading in foreign markets

***Justification for not filling out the box:***

There are no securities admitted for trading on foreign markets.

## 18.8 - Securities issued abroad

***Justification for not filling out the box:***

There are no securities issued abroad.

## 18.9- Public distribution offerings made by the issuer or third parties, including controlling shareholders, affiliates and subsidiaries, related to the issuer's securities

**1st Debenture Issue**

On September 15, 2017, the Company issued 200,000 simple non-convertible debentures in a single series under the firm guarantee of placement regime, with a nominal face value of R$ 1,000, making a total amount of R$ 200 million, with final maturity on September 15, 2020. As from the Date of issuance, the debentures will be entitled to remuneration equivalent to 105% of the CDI rate.

For further information on the debenture issue see section 18.5 of this reference form.

## 18.10 - Use of proceeds of public offerings and any deviations

**a) how the proceeds of the offering were allocated**

The proceeds from the 1st public debenture issue were fully used for working capital, investments within the scope of the issuer's business purpose and/or pre-payment of debts.

**(b) whether there were any significant deviations between the actual allocation of the proceeds and the proposed allocations disclosed in the prospectuses of the respective distribution**

Not applicable, since the proceeds were used in accordance with the investment proposal.

**(c) in the event of any deviations, the reasons for those deviations**

Not applicable, since the proceeds were used in accordance with the investment proposal.

## 18.11 - Description of public offerings for acquisitions held by the issuer and for shares issued by third parties

The Company has made no public offerings for acquisitions.

## 18.12 – Other material information

- **Restricted Offering of Shares**

At the meeting of the Company's Board of Directors on May 9, 2019, approval was given to make a public offering of primary distribution, with restricted efforts, of the Company's book-entry registered commonshares with no par value, free and clear of any lien or encumbrance.

At the meeting of the Company's Board of Directors on May 22, 2019, the Board of Directors approved setting the price per share at R$39.50 ("Price per Share"), resulting in a total amount of R$1,066,500,000.00.

It was decided that of the Price per Share of R$39.50: (i) R$12.64 be allocated to the capital stock, making a total of R$341,280,000.00; with (ii) the balance of R$26.86 per share allocated to creating the capital reserve in accordance with article 182, paragraph 1, letter "a" of Brazilian Corporate Law, in a total amount of R$725,220,000.00.

Given the increase in the capital stock, within the context of the Offering, upon issue of 27,000,000 new book-entry registered common shares, with no par value, free and clear of any lien or encumbrance ("Shares"), this number, which includes Additional Shares (as defined below), our capital stock rose from R$1,041,228,564.43, divided into 165,637,727 common shares, all registered, book-entry and with no par value, to R$1,382,508,564.43, divided into 192,637,727 common shares, all registered, book-entry and with no par value

**Offering**

The Offering is taking place in the Federative Republic of Brazil ("Brazil"), on the non–organized over-the-counter market pursuant to Law 6.385 of December 7, 1976, as amended ("The Securities Market Law"), CVM Instruction 476, the currently prevailing ANBIMA Code of Regulations and Best Practices for Public Offerings of Distribution and Acquisition of Securities, ("ANBIMA Code") and other applicable legal provisions, including the Listing Regulations of the Novo Mercado segment of B3 S.A. – Brasil, Bolsa, Balcão ("B3") and ("Regulations of Novo Mercado", and Official Circular 087/2014 DP, issued by the B3 on November 28, 2014, ("Official Circular B3 087/2014 DP") under the coordination of Banco BTG Pactual S.A. ("Lead Underwriter"), Banco Morgan Stanley S.A. ("Morgan Stanley"), Banco J.P. Morgan S.A. ("J.P. Morgan", and, together with the Lead Underwriter and Morgan Stanley, "Underwriters"), pursuant to the Offering distribution agreement entered into between the Company and the Underwriters ("Distribution Agreement ") ("Offering").

Simultaneously, within the scope of the Offering, efforts were made to place the Shares overseas by BTG Pactual US Capital LLC, Morgan Stanley & Co. LLC and J.P. Morgan Securities LLC ("International Placement Agents"), under the terms of the "Placement Facilitation Agreement" between the Company and the International Placement Agents ("International Placement Agreement") for Foreign Investors (as defined in the Material Fact of the Offering).

No partial distribution was approved or took place within the scope of the Offering.

**Additional Shares**

To the number of Shares initially offered, at the Company's discretion, in mutual agreement with the Underwriters, 7,000,000 of the Company's common shares were added on the same conditions and at the same price as the Shares initially offered ("Additional Shares "). The Additional Shares will be the subject of a firm guarantee of settlement by the Underwriters.

**Exclusion of the Preemptive Right and Grant of Priority Right**

Within the scope of the Offering, the shares (including the Additional Shares) will be issued by us with the exclusion of the preemptive rights of our current shareholders, pursuant to article 172, sub-section I of Brazilian Corporate Law, and article 9 of our bylaws, and said issuance will only take place within the authorized capital limit provided for in our bylaws.

Pursuant to article 9-A of CVM Instruction 476, to ensure the participation of the Company's current shareholders in the Offering, priority was granted to holders of our Company's common shares (a) at the close of May 9, 2019, after closure of the market ("First Cut-Off Date"), according to the custody position (i) and the Central Asset Depositary of B3 ("Central Depositary"), and (ii) at Itaú Corretora de Valores S.A., the institution responsible for the bookkeeping of the Company's shares ("Bookkeeping Institution ") ("Shareholders"); and (b) at the close of May 17, 2019, after closure of the market ("Second Cut-Off Date"), according to the custody positions (i) at the Central Depositary; and (ii) at the Bookkeeping Institution, with due regard for the Proportional Subscription Limit and provided they remain holders of our Company's common shares on the Second Cut-Off Date for subscribing up to the total shares (bearing in mind the Additional Shares) to be placed through the Offering, in proportion to their respective holdings in the Company's capital stock on the Second Cut-Off Date, in accordance with the terms and procedure provided

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for in the Material Fact of the Offering ("Priority Offering").

**Price per Share**

The Price per Share was fixed after concluding the procedure for collecting investment intentions undertaken exclusively with Institutional Investors, in Brazil, by the Underwriters, and abroad by the International Placement Agents, using as a parameter: (i) the price of the Company's common shares on B3; and (ii) the indications of interest on account of the quality and quantity of the demand (by volume and price) for the Shares collated from Institutional Investors ("Bookbuilding Procedure"), and approved by the Company's Board of Directors.

The Price per Share is not indicative of the prices that will prevail in the market following conclusion of the Offering.

Pursuant to article 170, paragraph 1, sub-section III of Brazilian Corporate Law, the choice of criterion for determining the Price per Share is justified by the fact that the Price per Share was ascertained according to the Bookbuilding Procedure undertaken, which reflects the amount by which the Institutional Investors submitted their investment intentions within the context of the Offering and the quotation of the Company's common shares on B3, and, therefore, not causing any unjustified dilution of the Company's shareholders.

The Bookbuilding Procedure factored in the demands of the investors according to the distribution plan previously agreed between the Company and the Underwriters under the Distribution Agreement, and which were in accordance with the Company's objectives in undertaking the Offering.

The Shareholders who participated exclusively in the Priority Offering did not participate in the Bookbuilding Procedure and, therefore, did not participate in setting the Price per Share.

Within the scope of the Institutional Offering, there could have been, but was not accepted, participation by Institutional Investors under the terms of article 55 of CVM Instruction 400, dated December 29, 2003, as amended ("CVM Instruction 400"), and article 1, sub-section VI of CVM Instruction 505, dated September 27, 2011, as amended, Connected Persons, in the Price per Share fixing process through their participation in the Bookbuilding Procedure up to the maximum limit of 20% of the Shares initially offered (without considering the Additional Shares). As there was excess demand of one-third of the number of shares initially offered (without factoring in the Additional Shares), it was forbidden to place shares with institutional investors who are Connected Persons within the scope of the institutional offering, and the investment intentions by institutional investors who are Connected Persons were automatically cancelled.

The participation in the Bookbuilding procedure of institutional investors who are Connected Persons, could have had an adverse impact on the formation of the price per share, while investment in our shares by those related party institutional investors could trigger a reduction in the liquidity of our common shares on the secondary market.

The investments by those mentioned in article 48 of CVM Instruction 400 for hedging derivative transactions with, third parties, where the Company's shares are the benchmark (including total return swap transactions) are permitted under article 48 of CVM Instruction 400 and investments undertaken by Connected Persons will not be considered, provided those third parties
(i) are not Connected Persons, and (ii) that they qualify within the other exceptions provided for in article 48, sub-section II of CVM Instruction 400.

Pursuant to CVM Instruction 530, dated November 22, 2012, the subscription of Shares is prohibited in the case of investors who have shorted the Company's common shares on the date for fixing the Price per Share and in the five trading sessions that preceded it, and all Reservation Orders in the Priority Offering and the investment intentions of those investors are automatically canceled, and any amounts deposited are returned by the custody agent of by the Underwriters, as the case may be, with no interest, monetary restatement or reimbursement of costs incurred, and deducting, as the case may be, amounts referring to taxes levied within three business days from the date of disclosure of the cancellation. Short selling are those sales by investors not in possession of our Company's common shares or whose ownership is the result of a loan or other agreement with an equivalent effect. In addition, short selling and acquisition of our Company's common shares are considered transactions by one and the same investor in their own name or through any vehicle whose investment decision is subject to their influence. Investment funds whose investment decisions are taken by the same manager will not be considered a single investor for the purposes of the provisions in this paragraph, provided the transactions qualify within the investment policies of each fund. The prohibition provided for in this paragraph does not apply in the following cases: (i) transactions undertaken by legal entities engaged in the activities as market makers for our Company's common shares, as defined in specific regulations; and (ii) transactions subsequently covered by acquiring in the market the total number of our Company's common shares corresponding to the uncovered position by, at the most, two trading sessions prior to the fixing date of the Price per Share.

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**Institutional Offering**

After complying with the Priority Right within the scope of the Priority Offering, the Shares (bearing in mind the remaining Additional Shares were allocated to the public through (i) professional investors, as per article 9-A of CVM Instruction 539, dated November 13, 2013, as amended, resident and domiciled or with their principal place of business in Brazil and who, in addition, vouch in writing for their status as a professional investor under their own instrument ("Professional Investors"), limited to a maximum of 75 Professional Investors, and the subscription of Shares limited to a maximum of 50 Professional Investors in accordance with article 3 of CVM Instruction 476; and (iii) Foreign Investors (the Professional Investors and Foreign Investors, together, "Institutional Investors"), through the Underwriters and the International Placement Agents ("Institutional Offering").

We give below the following information referring to the Offering:

**Costs of the Offering**

The commissions and expenses of the Offering, including lawyers', consultants' and auditors' fees and advertising will be paid solely by us.

The table below shows the commissions and expenses of the Offering:

| Costs | Total Cost (R$) | % in Relation to the Total Amount of the Offering(1) | Cost per Share (R$) | % in relation to the Price per Share (1) |
|---|---|---|---|---|
| **Commissions of the offering** | **21.330.000,00** | **2,00%** | **0,79** | **2,00%** |
| Underwriting Commission | 3.199.500,00 | 0,30% | 0,12 | 0,30% |
| Placement Commission | 9.598.500,00 | 0,90% | 0,36 | 0,90% |
| Firm Guarantee of Settlement Commission | 3.199.500,00 | 0,30% | 0,12 | 0,30% |
| Incentive commission: | 5.332.500,00 | 0,50% | 0,20 | 0,50% |
| **Expenses of the offering(2)** | **7.795.791,45** | **0,73%** | **0,29** | **0,73%** |
| Taxes and Other Withholdings | 2.278.190,37 | 0,21% | 0,08 | 0,21% |
| Registration of the Offering by ANBIMA (3) | 43.011,95 | 0,00% | 0,00 | 0,00% |
| Costs of B3 | 436.989,13 | 0,04% | 0,02 | 0,04% |
| Lawyers and Consultants | 2.087.600,00 | 0,20% | 0,08 | 0,20% |
| Independent Auditor | 1.450.000,00 | 0,14% | 0,05 | 0,14% |
| Others (4) | 1.500.000,00 | 0,14% | 0,06 | 0,14% |
| **Total Commissions and Expenses of the Offering** | **29.125.791,45** | **2,73%** | **1,08** | **2,73%** |

(1) The amounts and percentages shown reflect adjustments from rounding and, therefore, the totals shown may not correspond to the arithmetical sum of the figures preceding them.
(2) Estimated expenses.
(3) The Offering will be registered with ANBIMA, in accordance with section 1, paragraph 3 of the ANBIMA Code.
(4) Costs with advertising, roadshow presentations and others.

In addition to the compensation provided for above, nothing more will be contracted or paid to the Underwriters, directly or indirectly, on the strength of or arising from the Distribution Agreement.

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**Use of Proceeds**

Bearing in mind the Price per Share, the net proceeds from the Offering, after deducting fees and expenses, will be R$1.037 million. For detailed information about commissions and expenses of the Offering, see section “Cost of the Offering” above.

We intend to invest the total net proceeds from the Offering in potential acquisitions of companies that can contribute to our strategy of strengthening our core business and expansion into new markets, and any net proceeds left over will be used to strengthen the Company’s capital.

Our pipeline of potential acquisition targets (with more than ten targets identified) is constantly updated, bearing in mind the dynamism of the information technology market. The targets are evaluated to see if they fit the Company’s strategy, the availability of assets for negotiation and whether the estimated amount is compatible with the levels prevailing in the market, and on this date, the estimate value per transaction is in the range of R$25 million to R$800 million. For further details about our acquisition strategies see section ”7.1. Description of the Core Business of the Issuer and its Subsidiaries” of this reference form.

On this date, no position has yet been defined as to which companies will be acquired by the Company, nor how long it will take for those potential negotiations to be concluded.

The allocation of the proceeds from the Offering will be influenced by the future conditions of the markets in which the Company operates, as well as by the investment opportunities identified by the Company, in addition to factors that cannot be foreseen. Until the investments described above take place, in the regular course of the Company’s business, the proceeds raised in the Offering may be channeled to financial investments which the Company’s management believes are within its investment policy, aiming to preserve the Company’s capital and investments with a high liquidity profile, such as government debt securities and financial investments in fixed income contracted with or issued by tier one financial institutions, which may include the Lead underwriters.

The allocation of the proceeds described above is based on analyses, estimates and current outlook on future events and trends. Changes in market conditions and the timing of the allocation of the proceeds may force the Company to review the allocation of the net proceeds from the Offering when it actually takes place, in the Company’s best interest. Allocation of the proceeds raised from the Offering depends on various factors that the Company cannot guarantee will come to pass, including the behavior of the market in which the Company operates, the ability to continue with the Company’s regular activities and to develop new projects.

If the proceeds from the Offering are not sufficient to finance the allocation of resources described above, the Company may seek additional resources, including from financial institutions by raising loans or direct financing, making offerings of debt securities on local and international markets or even by holding another public offering of Company shares. The method for obtaining these resources will be defined by the Company at the time when the respective funding is raised, also depending on market conditions.

For information about the impact of the net proceeds raised by the Company from the Offering on its equity condition see the section "Capitalization" below.

**Capitalization**

The following table shows the Company’s consolidated (current and non-current) loans and financing, debentures and obligations for acquisition of investments, its shareholders’ equity and capitalization, indicating:

- the actual situation on March 31, 2019;
- the position adjusted to take into account the net proceeds from the Offering, of R$1,037,374 thousand, based on the Price per Share, and after deducting commissions and expenses owed within the scope of the Offering, of R$29,126 thousand.

For further information see sections "3. Selected Financial Data ", "10. Management’s Comments " and "18. Securities" of this reference form.

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The information below referring to the "Actual" column was taken from the Company's consolidated quarterly information contained in the quarterly information form (ITR) referring to the quarter ended March 31, 2019. The investor should read the table below together with sections "3. Selected Financial Data " and "10. Management's Comments" of this reference form, as well as with our consolidated Quarterly Information.

| | As of March 31, 2019 | |
|---|---|---|
| | **Actual** | **Adjusted for the Offering[(2)]** |
| | *(in thousands of R$)* | |
| Loans and financing, debentures and obligations for acquisition of investments (current)............................................................ | 314.345 | 314.345 |
| Loans and financing, debentures and obligations for acquisition of investments (non-current) | 420.349 | 420.349 |
| **Gross debt (1)..........................................................** | **734.694** | **734.694** |
| **Total shareholders' equity....................................** | **1.307.010** | **2.344.384** |
| **Total capitalization (3)..............................................** | **2.041.704** | **3.079.078** |

(1) Gross debt corresponds to current and non-current loans, financing, debentures and obligations for acquisition of investments.
(2) Adjusted to take into account the net proceeds from the Offering, of R$1,037,374 thousand, and after deducting commissions and expenses owed within the scope of the Offering, of R$29,126 thousand.
(3) Total Capitalization is the sum total of gross debt and net equity on the date shown.

Except as described above, there have been no material changes in the Company's capitalization since March 31, 2019.

**Dilution**

*Shareholders opting not to participate in the Offering or exercise their Priority Right by subscribing a lower number of shares than their Proportional Subscription Limit, as well as investors who participate in the Offering will see their investment immediately diluted.*

As of March 31, 2019, our shareholders' equity was R$1,307,010,000.00 and the equity value of our common share on the same date was R$7.99. This equity value represents the total book value of our shareholders' equity, divided by the total number of common shares issued by us, on March 31, 2019, excluding treasury shares, which is the same on the date of the Material Fact of the Offering.

After considering the allocation of the Shares [, at the Price per Share and after deducting estimated commissions and expenses of the Offering, the Company's shareholders' equity as of March 31, 2019 would have been R$2,344 million, representing a price of R$12.30 for each of our common shares. This would have meant an immediate increase in our shareholders' equity per common share of R$4.31 for existing shareholders, and an immediate dilution of our shareholders' equity per common share of 68.87% for new investors and shareholders subscribing shares within the scope of the Offering. This dilution represents the difference between the Price per Share and the book value per common share immediately after the Offering. For further information about distribution commissions and expenses of the Offering see "Cost of the Offering" above.

The following table shows the dilution per share, based on our shareholders' equity as of March 31, 2019 and bearing in mind the impacts of undertaking the Offering:

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| | After the Offering |
|---|---|
| | *(in R$, except for percentages)* |
| Price per Share | 39,50 |
| Equity value per share as of March 31, 2019 (1) | 7.99 |
| Equity value per share as of March 31, 2019 adjusted to reflect the Offering(1) | 12,30 |
| Increase in equity value per share on March 31, 2019 for current shareholders | 4.31 |
| Dilution of equity value per share for new investors(2) | 27,20 |
| **Percentage of immediate dilution resulting from the Offering(3)** | **68,87%** |

(1) Equity value per share, without considering treasury shares.
(2) For the purposes hereof, dilution represents the difference between the Price per Share payable by the investors and the net equity value per common share immediately after conclusion of the Offering.
(3) The percentage of dilution to new investors is obtained by dividing the dilution to new investors by the share price.

The share price payable by the investors within the context of the Offering bears no relation to the equity value of our shares, and will be set by using as a parameter the investment intentions manifested by institutional investors, bearing in mind the quality of the demand (by volume and price), within the scope of the bookbuilding procedure.

***Stock Option Plans***
Our Company current has two on-going share-based compensation plans: the second plan, approved at the extraordinary shareholders' meeting on November 29, 2012 ("Plan 2"), and the third plan, approved at an extraordinary shareholders' meeting on December 15, 2015 ("Plan 3", jointly with Plan 2, "Plans").

*Plan 2*

Within the scope of Plan 2, the managers and employees of the Company and its direct and indirect subsidiaries who are members of its Executive Committee, hold positions of Officers or Executive Managers or are employees of the Company and its Subsidiaries who, at the discretion of our Board of Directors, have stood out for the significant contribution to the Company's performance, or whose hiring or retention is of vital importance to the proper fulfillment of the Company's plans and strategies are eligible to participate in Plan 2.

Plan 2 is managed by our Board of Directors, who enjoy the private remit of deliberating on the issuance of the subject shares of Plan 2, and it is also incumbent on it to take all necessary and appropriate measures for interpreting, detailing and applying the general rules and guidelines of the plan.

The total number of shares intended for Plan 2 cannot exceed, the plan approval date, 2.5% of our capital stock within a period of four years (from the date of approval of Plan 2 by a meeting of our shareholders). On the date of the Material Fact of the Offering, the number of outstanding options represented 88,087. Each option will represent one of our common shares.

There currently outstanding options from the 12th, 13th and 14th grants under Plan 2.

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| | After the Offering |
|---|---|
| | *(in R$, except for percentages)* |
| Number of shares from the 12th grant.................................... | 73.225 |
| Exercise price of the options from the 12th grant.................................... | 35,60 |
| Number of shares from the 13th grant.................................... | 1.686 |
| Exercise price of the options from the 13th grant.................................... | 0,00 |
| Number of shares from the 14th grant.................................... | 13.176 |
| Exercise price of the options from the 14th grant.................................... | 35,60 |
| Number of outstanding shares after the vesting period within the scope of Plan 2 ............................................................................................................ | 88.087 |
| Price per Share.................................................................................................... | 39,50 |
| Equity value per share as of March 31, 2019 (1) | 7,99 |
| Equity value per share as of March 31, 2019, adjusted for the Offering and the shares from Plan 2.............................................. | 12,31 |
| Increase in equity value per share attributable to the shareholders, taking into account the Offering (1)(2) and the shares from Plan 2 | 4,32 |
| Dilution of the equity value per share for Institutional Investors and Shareholders acquiring Shares within the scope of the Offering(2) .................................................................................................... | 27,19 |
| Percentage dilution for Institutional Investors and Shareholders who acquire Shares within the scope of the Offering(3)........................................... | 68,84% |

(1) Equity value per share, without considering treasury shares.
(2) For the purposes hereof, dilution represents the difference between the Price per Share payable by the investors and the net equity value per common share immediately after conclusion of the Offering.
(3) The percentage of dilution to new investors is obtained by dividing the dilution to new investors by the share price.

**Plan 3**

Plan 3 involves restricted stock, thus treasury shares or those acquired by the Company for that purpose will be used, with due regard for the applicable regulations. Therefore, there is dilution institutional investors from the Offering or Shareholders in relation to Plan 3.

For more information about the Plans see section "13. Management compensation" of our reference form.

**Premium for non-conversion of the Debentures of 2008**

On August 19, 2008, the shareholders approved the raising of R$200.0 million by issuing up to 100,000 (units), represented by securities certificates of deposits consisting of two series of debentures from the Company's first private issuance, non-detachable, namely one convertible debenture from the first series and one convertible debenture from the second series. The total amount of principal and interest was fully paid in 2016.

The premium for non-conversion of the debentures from the first series is adjusted by the IPC-A, plus 8.0% per annum, while in the second series, it is adjusted by the TJLP plus 5.0% per annum.

The non-conversion premium will be paid by August 19, 2019. The non-conversion premium may be paid in our common shares or in cash, at the sole discretion of the debenture holders, factoring in for that purpose the average weighted price by volume of our shares traded in the 30 trading sessions on B3 preceding the payment date.

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The following shows the dilution arising from the Non-Conversion Premium, which may result in additional dilutions for current shareholders and new investors, as per the following table (sic):

| | After the Offering |
|---|---|
| Conversion premium price as of March 31, 2019 | *(in R$, except for percentages)* |
| ............................................................................................................. | 36.34 |
| Balance of the non-conversion premium as of March 31, 2019 | 75,891,000 |
| Number of Shares after the Offering, excluding treasury shares.......... | 190,652,376 |
| Number of Shares to be issued arising from the conversion of the entire non-conversion premium...................................................... | 2.088.360 |
| Price per Share............................................................................................... | 39.50 |
| Equity value per share as of March 31, 2019 (1) | 7.99 |
| Equity value per share as of March 31, 2019, adjusted for the Offering and bearing in mind conversion of the entire non-conversion premium | 12.56 |
| Increase in equity value per share attributable to the current shareholders, taking into account the Offering and the conversion of the entire non-conversion premium…………………….. 4,57 | |
| Increase in the equity value per share for new investors and shareholders subscribing shares within the scope of the Offering(2)................ | 26.94 |
| Percentage dilution for new investors and Shareholders subscribing Shares within the scope of the Offering(3)........................................... | 68.21% |

(1) Equity value per share, without considering treasury shares.
(2) For the purposes hereof, dilution represents the difference between the Price per Share payable by the investors and the net equity value per common share immediately after conclusion of the Offering.
(3) The percentage of dilution to new investors is obtained by dividing the dilution to new investors by the share price.

For further information about the non-conversion premium of the debentures of 2008 see section "10.1(f)" of this reference form.

**History of the Share Issue Price**

Over the last five years, we have mad eth following capital increases:

| Date | Nature of the transaction | Number of Shares | Price per share |
|---|---|---|---|
| | | | *(R$)* |
| 09/03/2015 | Merger | 2,170,656 | R$38.00 |

For further information about our Company's capital increases see section "17.2. Capital Increases" of this reference form.

For further information about the Offering, see the Material Fact of the Offering published on the websites of the CVM, B3 and our IR site.

- **<u>Supplement to section 18.1 - capital reimbursement</u>**

Right of reimbursement prevails in the following cases:

Liquidation of the Company
If the Company is liquidated, the shareholders are entitled to receive the sums referring to capital reimbursement in proportion to their equity holdings, after payment of all the Company's obligations. Holders of common shares are entitled to participate in the Company's future capital increases, in proportion to their equity holdings, but they are not obligated to subscribe shares in these capital increases.

Right to Withdraw
Any of the Company's shareholders dissenting with certain resolutions at the meeting of shareholders may withdraw from it through reimbursement of the value of their shares based on the equity value.

According to Brazilian Corporate Law, the right to withdraw may be exercised if one of the following events, among others, occurs:

- Company spin-off (with due regard for the provisions below);
- reduction in the Company's mandatory dividend;

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- change in the Company's business purpose;
- merger or consolidation of the Company with another company; and
- Company's participation in a group of companies, as defined in Brazilian Corporate Law.

Brazilian Corporate Law also stipulates that a spin-off of the Company will result in the right to withdraw in cases where it causes:

- a change in the corporate purpose, except when the equity is spun off into a company whose core activity coincides with that arising from the Company's business purpose.
- The reduction in the Company's mandatory dividend; or
- Company's participation in a group of companies, as defined in the Brazilian Corporate Law.

In cases of a merger or consolidation of the Company or, moreover, its participation in a group of companies, the Company's shareholders will not have the right to withdraw where their shares (i) enjoy liquidity, that is, they are part of the BOVESPA general index or the index of any other stock exchange, as defined by CVM, and (ii) they have dispersal where the controlling shareholder, the company parent company or other companies under common control hold fewer than half the shares of the subject share type or class of the right to withdraw.

The right to withdraw must be exercised within 30 days from publication of the minutes of the shareholders' meeting that resolves on the subject matter resulting in that right. Furthermore, the Company is entitled to reconsider any resolution that has resulted in the right to withdraw in the 10 days following the expiry of the deadline for exercising that right, if it understands that payment of the reimburse price of the shares to dissentient shareholders would put its financial stability at risk.

Where right to withdraw is exercised, the shareholders will be entitled to receive the book value of their shares based on the latest balance sheet approved by the meeting of shareholders. If, however, the resolution that resulted in the right to withdraw has occurred more than 60 days after the date of the latest approved balance sheet, the shareholder may request the raising of a special balance sheet on a date no less than 60 days prior to the resolution, to have the value of their shares assessed. In this case, the Company must immediately pay 80% of the reimbursement amount calculated based on the latest balance sheet approved by its shareholders, and the remaining balance within 120 days from the date of resolution by the meeting of shareholders.

- **Supplement to section 18.1 - conditions for amending the rights assured by those securities**

Right to dividends: Since the Company participates in the Novo Mercado segment and, therefore, only has one type of share (common), the only way to alter the mandatory minimum dividend mentioned in section 18.1(a) is by amending the Company's statutes, by convening an Extraordinary Shareholders' Meeting pursuant to article 135 of Brazilian Corporate Law. The quorum for approving subject matters appreciated at Extraordinary Shareholders' Meetings will be defined in the manner of article 136 of Brazilian Corporate Law, with approval required from shareholders representing at least half of the shares. It is important to mention that the reduction in the mandatory dividend is a situation that could trigger the exercise of the right to withdraw by the dissentient shareholder, as stated in article 137 of Brazilian Corporate Law.

Voting rights: Each share entitles its holder to a vote at all resolutions in meetings of shareholders. According to the Regulations of Novo Mercado, the Company may not issue shares with no voting rights or with restricted voting rights.

Right to reimbursement: According to Brazilian Corporate Law, shares can be redeemed if the Company's shareholders so determine in an extraordinary shareholders' meeting, and this must be approved by shareholders representing at least half of the shares affected.

- **Supplement to section 18.1 – right to participation in public offerings for divestment of control**

In case of direct or indirect divestment, against payment, of control of the Company, even if through successive transactions, this shall be contracted under a suspensive or resolutory condition that the part acquiring control undertakes to make a public offering for acquisition of the shares ("IPO") of the other shareholders, with due regard for the conditions and deadlines provided for in the prevailing legislation and in the Regulations of Novo Mercado, to assure them of equal treatment to the party divesting the control; (iv) in the case of acquisition of the Company's shares in an amount equal to or exceeding 20% of its capital stock, by any shareholder, right of divestment of their shares for a price no less than the greater of: (a) 125% of the highest quotation attained by the Company's shares during the 120-month period preceding the IPO on any stock exchange where the Company's shares are traded; (b) 125% of the highest price paid by the Acquiring Shareholder, at any timefor a share or batch of the Company's shares; (c) the economic value ascertained in a valuation report in the manner of the Bylaws. Furthermore, a review may be requested of the IPO price by shareholders representing at least 10% of the capital stock, pursuant to the Company's Bylaws. These obligations do not apply to shareholders who on the date of publication of the Announcement of Commencement are already holders of 20% or more of the total shares of the Company and its successors, applying exclusively to investors who acquired shares and became shareholders of the Company after the effective date on which the Company joined and was listed on Novo Mercado. The 20% highlighted here applies where a person becomes a Company shareholder of more than 20% of its total

## 18.12 – Other material information

shares arising from (1) legal succession, on the condition that the shareholder divests the surplus shares within 60 days from the material event; (2) the merger of another company into our Company, (3) the acquisition of the shares of another company by our Company; or (4) the subscription of our Company's shares under a single primary issuance approved at a general meeting of the Company's shareholders convened by its Board of Directors, and where the proposed capital increase has determined the fixing of the issuance price of the shares based on the economic value obtained from an economic and financial valuation report of the Company carried out by a specialized company with proven experience in evaluating publicly-held companies. Lastly, the calculation of the 20% of the Company's total shares will not take into account either the involuntary increases in equity holdings resulting from the cancelation of treasury shares, or the reduction in the Company's capital stock from the cancellation of the shares; (v) if any investor acquires 20% or more of the Company's capital stock through the acquisition of shares within the scope of the Offering, the other shareholders will be entitled to sell their shares to that investor in a public offering for acquisition of shares to be undertaken according to the provisions of section (iv) above, with the proviso, however, that the Offering procedure will in no way limit an investor's ability to acquire shares that make them a holder of 20% or more of the Company's capital stock.

## 19.1 - Information on the issuer's share buy-back plans

| Date of resolution | Buy-back period. | Reserves and earnings available (Reais) | Type | Class | Amount expected (Units) | % rel. free float | Qty. acquired approved (Units) | PMP | Price quote factor | % acquired |
|---|---|---|---|---|---|---|---|---|---|---|
| Other charac. | | | | | | | | | | |
| 09/28/2015 | 09/29/2015 to 09/28/2016 | 451,767,949.57 | Common | | 1,600,000 | 1.200000 | 143,500 | 28.10 | R$ per unit | 8.968750 |
| Objective: to maximize the creation of shareholder value, whereby the shares may be used to service the exercise of call options de shares within the scope of the Company's Share-based Incentive Plan, as well as the exercise of the right to acquisition of shares under any Company share-based incentive plan, while the shares may also be held in treasury, cancelled and/or subsequently divested.<br>Financial institutions in the role of intermediaries: BTG PACTUAL CTVM S.A. with its main offices at Avenida Brigadeiro Faria Lima, no. 3477, 11º andar, São Paulo/SP, CEP 04538-133; ITAÚ CV S.A. with its main offices at Avenida Brigadeiro Faria Lima, no. 3500, 3º andar, São Paulo/SP, CEP 04538-132; BRASIL PLURAL CCTVM S.A. with its main offices at Rua Surubim, no. 373, Térreo, conjuntos 01-parte e 02, São Paulo/SP, CEP 04571-050; SANTANDER CCVM S.A. with its main offices at Avenida Presidente Juscelino Kubitschek, no. 2041 and 2235 - parte, 24º andar, São Paulo/SP, CEP 04543-011; and MORGAN STANLEY CTVM S.A. with its main offices at Avenida Brigadeiro Faria Lima, no. 3600, 6º andar, São Paulo/SP, CEP 04538-132. The base date to which the profit reserves refer is June 30, 2015. | | | | | | | | | | |
| 02/27/2015 | 03/02/2015 to 03/01/2016 | 549,472,126.66 | Common | | 1,600,000 | 1.200000 | 1,600,000 | 30.55 | R$ per unit | 100.000000 |
| Objective: to maximize the creation of shareholder value, whereby the shares may be used to service the exercise of call options de shares within the scope of the Company's Share-based Incentive Plan, and they may also be held in treasury, canceled and/or subsequently divested. Financial institutions in the role of intermediaries: BTG PACTUAL CTVM S.A. with its main offices at Avenida Faria Lima, no. 3477, 11º andar, São Paulo/SP, CEP 04538-133; ITAÚ CV S.A. with its main offices at Avenida Faria Lima, no. 3400, 10º andar, São Paulo/SP, CEP 04538-132; CREDIT SUISSE (BRASIL) S.A. CORRETORA DE TÍTULOS E VALORES MOBILIÁRIOS with its main offices at Rua Leopoldo Couto de Magalhães Jr., 700 – 10º andar (parte) e 12º e 14º andares, CEP 04542-000; SANTANDER CCVM S.A. with its main offices at Avenida Presidente Juscelino Kubitschek, no. 2041 e 2235 – parte, 24º andar, São Paulo/SP, CEP 04543-011; and MORGAN STANLEY CTVM S.A. with its main offices at Avenida Faria Lima, no. 3.600, 6º andar, São Paulo/SP, CEP 04538-132. The base date to which the profit reserves refer is December 31, 2014. | | | | | | | | | | |

## 19.2 - Variation in securities held in treasury

### Period, March 31, 2019

### Shares

| Type of share | Preferred share class | Description of the securities | Price quote factor |
|---|---|---|---|
| Common | | | |

| Variation | Volume (Units) | Weighted average acquisition/divestment price (Reais) |
|---|---|---|
| Opening Volume | 2,186,091 | |
| Volume acquired | 0 | 0.00 |
| Volume divested | 161,088 | 35.68 |
| Volume cancelled | 0 | |
| Closing volume | 2,025,003 | |

| | |
|---|---|
| Ratio of securities in free float | 0.000000% |

### Year December 31, 2018

### Shares

| Type of share | Preferred share class | Description of the securities | Price quote factor |
|---|---|---|---|
| Common | | | |

| Movement | Volume (Units) | Weighted average acquisition/divestment price (Reais) |
|---|---|---|
| Opening Volume | 2,231,967 | |
| Volume acquired | 0 | 0.00 |
| Volume divested | 45,876 | 27.84 |
| Volume canceled | 0 | |
| Closing volume | 2,186,091 | |

| | |
|---|---|
| Ratio of securities in free float | 0.000000% |

## 19.2 - Variation in securities held in treasury

### Year December 31, 2017

### Shares

| Type of share | Preferred share class | Description of the securities | Price quote factor |
|---|---|---|---|
| Common | | | |

| Movement | Volume (Units) | Weighted average acquisition/divestment price (Reais) |
|---|---|---|
| Opening Volume | 2,292,775 | |
| Volume acquired | 0 | 0.00 |
| Volume divested | 60,808 | 30.10 |
| Volume canceled | 0 | |
| Closing volume | 2,231,967 | |

### Year December 31, 2016

### Shares

| Type of share | Preferred share class | Description of the securities | Price quote factor |
|---|---|---|---|
| Common | | | |

| Movement | Volume (Units) | Weighted average acquisition/divestment price (Reais) |
|---|---|---|
| Opening Volume | 2,199,275 | |
| Volume acquired | 143,500 | 28.10 |
| Volume divested | 50,000 | 28.30 |
| Volume canceled | 0 | |
| Closing volume | 2,292,775 | |

| | |
|---|---|
| Ratio of securities in free float | 0.000000% |

## 19.3 - Other material information – buy-backs/treasury

The company has not used financial instruments for purposes other than hedging involving the evolution of the share prices, including with regard to transactions associated with instruments such as “Total Equity Return Swaps”, or similar transactions.

Further to section 19.2, we give below the table of variation in treasury shares from January 1, 2019 to April 18, 2019, when we held the Company’s General and Extraordinary Shareholders’ Meetings.

| Type of Share | Class Common share | |
|---|---|---|
| **Common** | | |
| **Variation** | **Quantity (Units)** | **Weighted average acquisition/disposal price** |
| **Opening balance** | 2,186,091 | |
| **Acquisition** | 0 | |
| **Divestment** | 168,333 | 35.15 |
| **Cancellation** | 0 | |
| **Closing balance** | 2,017,758 | |
| **Ratio of securities in free float** | 0.000000% | |

## 20.1 - Information on the securities trading policy

| | |
|---|---|
| **Approval date** | **10/24/2016** |
| **Body responsible for the approval** | Board of Directors |
| **Position and/or function** | Controlling shareholders (or shareholders with less than 50% (fifty per cent) of the capital stock with Controlling Power, as well as the shareholder group which is not a signatory to the voting agreement and which is not under common control and does not represent a common interest, who exercise Controlling Power), members of the Board of Directors, the Fiscal Council and any other bodies with technical or consultative function created under statutory provisions, officers, managers and employees of the Company, its subsidiaries and/or those under common control and their respective controlling shareholders, members of the management and entities with technical or consultative functions, service providers and other Company professionals with access to Material Information, in addition to other the Company considers necessary or convenient. |

**Principal features and locations of consultation**

The purpose of the Trading Policy is to establish the rules to be followed by Connected Persons and by the Company, with the aim of transparent and orderly trading of the Company's securities, thus avoiding the improper use of Material Information. The Company's trading policy was drawn up in accordance with CVM Instruction 358/2002 and is available (i) on the Company's investor relations website (http://ri.totvs.com.br); and (ii) on the website of the CVM (www.cmv.gov.br).

## 20.1 - Information on the securities trading policy

| | |
|---|---|
| **Lock-up periods and description of the oversight procedures** | Under CVM Instruction 358/2002, it is forbidden to trade the Company's securities pending disclosure of a material act or fact, in the following cases:<br>(i) by direct or indirect controlling shareholders, officers and members of the board of directors, during an on-going acquisition or divestment of Company shares by the Company itself, its subsidiaries, affiliates or other company under common control, or where an option or mandate has been granted for the same purpose, on dates when the Company itself is trading its own shares;<br>(ii) by the Company and/or by Connected Persons pending any Material Act or Fact about the Company's business not disclosed to the market, of which they are aware;<br>(iii) by the Company and/or by Connected Persons, whenever there is an intention to undertake a merger, total or partial spin-off, consolidation, transformation or material corporate restructuring, and in the context of a public offering for the distribution of Securities and within the limits of article 48 of CVM Instruction 400/2003, until publication of the announcement of the closure of distribution involving the Company's securities.<br><br>Connected Persons and the Company may not trade the Company's securities: (a) in the period of 15 (fifteen) calendar days preceding the closure of each subject quarter for disclosure of the quarterly (ITR) and annual (DFP) information as required by the CVM, until such disclosures have been made; and (b) between the date of the resolution by the competent body to increase the capital stock, distribute dividends and pay interest on own capital, and the publication of the respective call notices or announcements.<br><br>The same ban applies to those with knowledge of Material Information not disclosed to the market, especially those with business, professional or relationships of trust with company, such as independent auditors, securities analysts, consultants and institutions comprising the distribution system, those on whom it is incumbent to check the disclosure of information before trading securities issued by the Company or pegged to them.<br><br>Connected Persons who have shared Material Information with those mentioned above must be certain that they are aware of these prohibitions.<br><br>Connected Persons who leave the Company prior to disclosure of Material Information originating during their time in management may not trade the Company's securities: (i) for the period of 6 (six) months following their departure; or (ii) until disclosure by the Company of the Material Information to the market.<br><br>If there has been any arrangement or agreement seeking to transfer the respective shareholder control, or if any options or mandates have been granted for the same purpose, and if the intention exists to move for a merger, total or partial spin-off, consolidation, transformation or corporate restructuring, and for as long as the transaction is not made public through the publication of a material fact, the Company's Board of Directors may not resolve on the acquisition or divestment of its own shares.<br><br>The prohibitions on trading the Company's securities will cease to apply once the Company discloses the applicable Material Information to the market. However, these prohibitions will remain in place even after disclosure of the Material Information, in case any trading of securities by Connected Persons might interfere, to the detriment of the Company or its shareholders, with the act or fact associated with the Material Information. |

## 20.2 - Other material information

The rules of the Trading Policy also apply in cases where trading by Connected Persons involves their own direct and/or indirect benefit by using, for example: (i) a company they control, directly or indirectly; (ii) third parties with whom a management or trust agreement is in place; (iii) proxies or agents; (iv) spouses from whom they are not legally separated, companions and any dependents included in the respective annual income tax returns.

The Investor Relations Officer may ask Accredited Brokers for the trading records of Connected Persons involving the Company's securities or pegged to them, in order to ascertain any infringements of the Trading Policy.

Connected Persons are also prohibited from using material information not yet disclosed to the market, of which they have become aware and which they must maintain confidential, capable of affording themselves or others improper advantage through trading securities on their own behalf or that of others. Even after its disclosure to the market, the Material Information must continue to be treated as if it had not been disclosed until a minimum period has elapsed for market participants to receive and process the Material Information.

The prohibitions covered in the sections on Trading Policy will not apply to either Connected Persons or the Company itself in the following situations: (i) regarding securities transactions traded by Connected Persons within the scope of the respective Individual Investment Plan previously filed with the Investor Relations Department, which shall abide by the criteria of this Trading Policy and of CVM Instruction 358/2002; and (ii) acquisitions of the Company's shares (a) held in treasury, through private trading, or (b) by means of capital increases arising from Related Parties having exercised call options according to the stock purchase plan and the share-based, long-term incentive plan approved by the meeting of shareholders.

The Connected Persons who fail to comply with any provisions of the Trading Policy agree to make reparation to the Company and/or to other Related Parties, in full and without limitation, for all losses that the Company and/or other Related Parties may incur and which arise, directly or indirectly, from that failure to comply.

Moreover, the provisions of the Trading Policy do not exempt from responsibility third parties not directly related to the Company and who have knowledge of the Material Information.

The Company has a Policy on the Disclosure of Material Information and the Preservation of Confidentiality ("Disclosure Policy"), approved at the Meeting of the Board of Directors on December 18, 2015.

The purpose of the Disclosure Policy is to set out the rules that must be obeyed by the Investor Relations Officer and other Connected Persons regarding disclosure of material information and the maintenance of confidentiality on Material Information not yet made public.

For the purposes of the Disclosure Policy, the following terms apply:

- "Connected Persons": the controlling shareholders of the Company (or shareholders of less than 50% of the capital stock with Controlling Power, as well as the shareholder group which is not a signatory to the voting agreement and which is not under common control and does not represent a common interest, who exercise Controlling Power), members of the Board of Directors, the Fiscal Council and any other bodies with technical or consultative function created under statutory provisions, officers, managers and employees of the Company, its subsidiaries and/or those under common control and their respective controlling shareholders, members of the management and entities with technical or consultative functions, service providers and other Company professionals with access to Material Information, in addition to others the Company considers necessary or convenient;

All Material Information that must be disclosed publicly is analysed beforehand by the Investor Relations Officer, the Marketing, Alliances and Business Models, Channels and Human Relations Officer, the Legal Officer and the Chief Executive of the Company to preserve the quality of the communication and ensure disclosure of precise information to the market.
In addition, the Company controls and manages identities to manage access to material information held on its management systems, document and content collaboration platforms and internal communities to prevent unrelated parties from accessing material information.

Connected Persons must keep confidential Material Information not yet disclosed to which they have access on account of the job or position they hold, until such Material Information is disclosed to the public, in addition to seeing to it that their subordinates and trusted third parties do the same.

Furthermore, Connected Persons must not discuss Material Information in public places and should deal with matters relating to Material Information with those who have a need to know the Material Information.

If any Connected Person detects that Material Information not yet disclosed to the public has escaped the Company's control, or that there have been atypical fluctuations in the quotation, price and volume of securities traded, such facts should be immediately notified to the Investor Relations Officer who, together with the Marketing, Alliances and Business Models, Channels and Human Relations Officer, the Legal Officer and the Chief Executive Officer of the Company, will analyse the best way to notify this information to the market in the precise manner.

For further details about our Disclosure Policy see section 21.2 below.

The purpose of the Disclosure Policy is to set out the rules that must be obeyed by the Investor Relations Officer and other Connected Persons regarding disclosure of material information and the maintenance of confidentiality on Material Information not yet made public.

The Company's Disclosure Policy was drawn up based on CVM Instruction 358/2002. Disclosure Policy training, followed by an appraisal (a score of 80% is required for approval) and digital signing of the Instrument of Adhesion to the Disclosure Policy, becoming Connected Persons for the purposes provided for herein, must apply to the Company's controlling shareholders (or shareholders with less than 50% - fifty per cent – of the capital stock who exercise Controlling Power, as well as the group of shareholders who are not signatories to the voting agreement and who are not under common control nor represent a common interest, who exercise Controlling Power), members of the Board of Directors, the Fiscal Council and any other entities with technical or consultative functions created by statutory provision, officers, managers and employees of the Company, subsidiaries and/or those under common control and their respective controlling shareholders, members of the management entities with technical or consultative functions who have access to the Material Information, as well as others the Company considers necessary or convenient.

In addition to those provided for in law or determined by the CVM, the Bylaws or the Company's Board of Directors, the Investor Relations Officer is responsible for:

(i) disclosing and notifying the CVM and the stock exchanges immediately after becoming aware of any material act or fact that has occurred or is related with the Company's business and which is considered Material Information;

(ii) ensuring the extensive and immediate disclosure of the Material Information simultaneously on the stock exchanges and the investor public in general.

Notification of Material Information to the CVM and the stock exchanges must take place immediately and in writing, giving a detailed description of the acts and/or facts that have occurred and indicating whenever possible, the amounts involved and other clarifications.

The Material Information must be disclosed to the public through (i) the internet page of the news portal of *Valor Econômico* newspaper (www.valor.com.br/fatosrelevantes); (ii) the Company's internet page (http://ri.totvs.com.br); (iii) the CVM system for remittance of Periodic and Occasional Information (IPE System), as optionally permitted under Brazilian Securities Commission ("CVM") Instruction 547, dated February 5, 2014 and (iv) the internet pages of the stock exchanges on which the Company's securities are admitted for trading.

Notwithstanding the disclosure of Material Information through the abovementioned communication channels, any Material Information may also be published in widely circulating newspapers habitually used by the Company, and the announcement may contain a brief description of the Material Information, provided it indicates the address on the Internet where a full description of the Material Information is available, whose content is at least identical to that sent to the CVM, the stock exchanges and other entities, as applicable.

Whenever Material Information is carried in any means of communication, including information for the press or in meetings with class entities, investors, analysts or selected audiences in Brazil or overseas, it will be disclosed simultaneously to the CVM, the stock exchanges and the investor public in general.

Any Connected Person who has knowledge of acts or facts that might be construed as Material Information should notify our Investor Relations Officer immediately in writing. Connected Persons with knowledge of Material Information shall immediately notify said Material Information directly to the CVM whenever they are certain that the disclosure of the Material Information has been overlooked.

Material Information shall, whenever possible, be disclosed prior to the start or after the closure of business on the stock exchanges; however, preferably after the close of business where the securities are traded. Where stock exchanges are not operating simultaneously, disclosure will take place abiding by the office hours of the stock exchanges located in Brazil.

One may refrain from disclosing acts and facts considered Material Information if their disclosure could put the Company's legitimate interests at risk.

The Company may decide to refer to the CVM issues involving disclosure to the public of Material Information that could put the Company's legitimate interests at risk.

Whenever Material Information not yet disclosed to the public escapes the Company's control or where an atypical oscillation is detected in the quotation, price or volume of securities traded, the Investor Relations Officer shall see to it that the Material Information is immediately disclosed to the CVM, the stock exchanges and the public.

## 21.3 - Managers in charge of implementing, maintaining, evaluating and monitoring the information disclosure policy

All material information pertaining to this section was disclosed in the previous sections.

## 21.4 - Other material information

One may refrain from disclosing acts and facts considered Material Information if their disclosure could put the Company's legitimate interests at risk.

The Company may decide to refer to the CVM issues involving disclosure to the public of Material Information that could put the Company's legitimate interests at risk.

Whenever Material Information not yet disclosed to the public escapes the Company's control or where an atypical oscillation is detected in the quotation, price or volume of securities traded, the Investor Relations Officer shall see to it that the Material Information is immediately disclosed to the CVM, the stock exchanges and the public.