

TOTVS S.A.

Financial Statements for the fiscal year ended
December 31, 2021

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Management Report and Comments on the Company's Performance

Dear shareholders,

In compliance with the legal provisions, TOTVS S.A., the Brazilian leader in the development and sales of management software, productivity and collaboration platforms, consulting, and related services in Brazil, hereby submits the Management Report and the corresponding Financial Statements, together with the audit report issued by the independent auditors, for the years ended December 31, 2021 and 2020, prepared in accordance with accounting practices adopted in Brazil.

MESSAGE FROM THE BOARD

When we decided to stop and reflect on the meaning of the year 2021 for the world, at first, the most obvious conclusion would be to say that it was exactly the same thing as 2020, that nothing had changed, and that the COVID-19 health crisis continued to rule over the global spotlight, again. It is an undeniable fact that the challenges surrounding the global COVID pandemic have remained and have expanded as we have seen new variants emerge, but we have gone much further: amidst uncertainties and so many priceless losses, we have tested our capacity for resilience as never before and we watched the infinite ability of human beings and organizations to reinvent themselves and adapt faced with a period as adverse as the one we are currently experiencing.

The legacy is positive: we have fully adapted to this new reality. We are adaptable. With science and technology, we created vaccines; we challenged the limits of logistics by distributing them globally; we changed the work dynamics to a hybrid and flexible model; we called on the world to take a new look at the global challenges at COP26, among many other adjustments that had to be made. We didn't stop at any time; rather, we worked hard and responded quickly to it all.

For TOTVS, entrepreneurship and digitalization are must-have ingredients of this journey. All TOTVERs are nonconformists and don't get used to less than what they're actually capable of delivering. It is not just a striking motto; rather, it is something that permeates our culture and was translated into our daily attitudes and deliveries of that period: we turned the 3D ecosystem into reality (3 Dimensions - Management, Business Performance, and Techfin); we created disruptive alliances such as the partnership with B3; we structured innovative investment models through the Corporate Venture Capital as a Service mechanism. In common with these and many other achievements, we have the "technology" factor, which is the most genuine thing we have.

As to ESG (Environmental, Social, and Governance), our performance was marked by significant progress, driven by implementing the ESG Policy guidelines. About the E pillar, we developed the first inventory of GHG emissions - Greenhouse Gas - from TOTVS operations as an important step in our environmental agenda. As to the S pillar, we continued strengthening our relations with the community by creating partnerships with the government and society to promote training to achieve skilled labor; we contributed to the employability of many young people through the Social Opportunity Institute (IOS); we continued promoting our Diversity and Inclusion Program; and we structured the flexible work model to be implemented after the pandemic, besides the planning and feasibility of other health and safety measures, as part of TOTVS'S contribution to achieve SDGs 4, 5, and 8, respectively. About the G pillar, we renewed our business' ESG materiality matrix by engaging our stakeholders, and reinforced our commitment to the highest level of ethics and transparency in business relationships, with emphasis on the approval of the Audit Committee's Charter and its conversion into a Statutory Audit Committee, besides the approval of the new Data Privacy and Indemnity Policies for the Management members.

Eventually, to top it all off, we bid farewell to 2021 by celebrating our 15th anniversary of IPO at B3. From the first unicorn to the largest technology company in Brazil, our 40-year trajectory has always been marked by hard work, overcoming and determination, and when we had to look back, it was to better understand the present and shape the future. We made the right choices and the best decisions at every moment in the face of

each challenge. We rejuvenated, made progress on this journey, and all this was achieved alongside our clients, partners, TOTVERS and our investors who believed in our legacy and invested in us, in our strategy, in our vision of the future.

It is this energy that has been our daily fuel, which moves us and drives us towards business disruption, transformation of the value chains of the segments in which we operate, and increase in our clients' results. To keep moving forward, in this next cycle we will have the challenge of local elections, which could be marked by strong polarization or a potential emergence of a third way; time will tell. Whatever the path, it will be important to be open as a country to carry out the tax, administrative, and labor reforms that we so desperately need. They will be critical for Brazil's competitiveness in the global gear and to generate high value-added jobs, in a scenario of intense competition and demand for science and workforce.

TOTVS remains firm in its purpose, democratizing technology in everyday life as an element of social and economic transformation and supporting its ecosystem to conquer the future. Despite all challenges TOTVS delivers with mastery the defined purposes for 2021. Congratulations to all participants of our Ecosystem.

Now focus on 2022.

Laércio Cosentino, Chairman of the Board

MESSAGE FROM THE CEO

Another year comes to an end and the progress of vaccination, which has already immunized approximately 80% of the Brazilian population, allowed us to close 2021 within the gradual process of resuming face-to-face activities, while holding health measures and the concern for life as a top priority in our work. For that reason, I would like to express my gratitude to all TOTVERS, their families, and our partners for continuing to face and overcome this challenging period. I also want to wish you a 2022 filled with success, achievements, and good health.

At TOTVS, we delivered another fantastic year of achievements and progress. Our 3D ecosystem (3 Dimensions: Management, Business Performance, and Techfin) is a consolidated reality, where our clients access a broad portfolio that goes far beyond ERP, boosting acceleration of the digitalization journey. We are definitely changing the rules of the game in the business management software market.

We built new and powerful engines that multiply our addressable market by more than 7 times, accelerate the development of new models, build Company value, and increase its competitive advantages. Two of them, Techfin and Business Performance, after less than 3 years into the journey, have shown their potential and already represent over 13% of Total Revenue in 2021.

When we combine SaaS results in Management, Business Performance, and Techfin, these engines closed 2021 representing over 40% of Total Revenue and approximately 70% of year-on-year growth. These results are historical, financial, and operational record-breaking achievements.

In the Management dimension, Recurring Revenue gained speed throughout the year, including in the last quarter. We ended Q4'21 under impressive 24% organic growth compared with Q4'20 and 18% above 2020, representing over 80% of Total Net Revenue in all quarters. This result was due to the focus on SaaS, which grew by over 30%, and on Cloudification, which grew by 48% in 2021. Moreover, 2021 was the third year in a row of double-digit growth, with 30% of SaaS contracting from new names, despite the undisputed leadership in the ERP market, reinforcing that this is an immature and expanding market.

In Business Performance, with the acquisition of RD Station, which is the main market player here in Brazil, we took a decisive step in structuring this dimension, which ended 2021 at a hefty pace, representing 6%

of Company Revenue, with emphasis on Recurring Revenue reporting 45% year-on-year organic growth. This is a dimension with great potential for generating value that we will continue to invest heavily in, under a broad strategy of expanding digital commerce exponentially, with an asset-light model that drives GMV and take-rate growth.

In Techfin, once again proving the robustness of the business model, we broke consecutive credit production records, ending the year at R\$9.8 billion, a 48% growth over 2020, without circumventing lending discipline, reflected in the low levels of delinquency throughout the year. There is still much more to come. Our primary goal is to revolutionize the offer of financial services, making us the Financial Platform for the Small and Medium Businesses, expanding our portfolio with more competitive customized products, streamlining access to financial services through integrated solutions based on Big Data.

These advances position TOTVS at a new moment: of strong accelerated growth, with a healthy EBITDA Margin, resulting in a 13 percentage point increase to the Rule of 40, which reached 48% in 2021. This balance between accelerated growth and high margin is unique in the Brazilian technology market and ideal for facing any of the most challenging scenarios, like what we have seen in recent years here in Brazil. Further proof that TOTVS is a distinguished company with a unique ability for transformation. This indicator will also help us flexibly manage and balance the combination of business dimensions at different times and terms of office, benefiting a young, ambitious, and creative culture. We are and will be on the move, seeking to find innovative ways to generate and unlock value.

The creation of Dimensa was one practical example, which now stands on dedicated resources, more focus, and autonomy, in addition to B3, in the purpose of becoming the leading B2B technology option for the financial sector. Another example is the so-called Corporate Venture Capital as a service, a new concept run by an independent external manager that has allowed us to create an investment mechanism aimed at startups with significant innovative and high growth potential.

Our “Sales Machine” continued with record deliveries of net organic ARR growth, totaling R\$629 million in 2021, 60% of which came from Volume, meaning, new clientes signings, added to cross and up-sell to the clients base. Such impressive results show our pricing power in a period of high inflation. This commercial success that stems from a combination of factors: (i) NPS - Net Promoter Score – at record-breaking levels; (ii) churn reductions; (iii) TOTVS brand rejuvenation; (iv) an expanded solutions portfolio; (v) cloud migration process, reducing the total cost of clientes assets; and (vi) advanced productivity and efficiency of commercial structure, which concluded an important process in consolidating our franchises, a critical move for new investments, more sophistication and structure for the three-dimensional strategy journey.

As a final point, I emphasize our Follow-on, conducted at the right time and combined with our solid operating cash flow, expands our M&A execution capacity, putting us in a position to capture opportunities. By preserving our discipline, we believe it is only a matter of time before the corrected value of the listed and long-duration equity is reflected on private assets, making room for new M&A transactions.

ESG is the underlying premise of our business in which we continue engaging TOTVERS. We renewed the materiality process by listening to our stakeholders. As a result, in the E pillar, we encourage the debate on expanding the dissemination of data about greenhouse gas emissions, as a next important step, in addition to the environmental indicators and practices we have already reported in our Integrated Report. In the S pillar, our Engagement Survey showed that 94% of TOTVERS are satisfied with the autonomy and 95% believe in the future of TOTVS, thus sustaining our high eNPS (Employee Net Promoter Score) thresholds. In the G pillar, we underscore the launch of our Data Privacy Policy.

Also worth noting are the various recognition awards achieved in 2021: (i) TOTVS was ranked as one of the top 100 companies with the best reputation in Brazil by the Corporate Reputation Business Monitor

(Merco); (ii) for the second year in a row, GPTW ranking of the best technology companies to work for and consequent admission into the B3 GPTW Index; (iii) recognition of our Diversity & Inclusion Program by the São Paulo Municipal Seal of Human Rights and Diversity; (iv) the Institutional Investor Ranking; and (v) the Infomoney "Best of the 2021 Stock Exchange" Award. Furthermore, TOTVS is among the top ESG portfolio technology recommendations at BTG, JP Morgan, Santander, and XP.

In 2022, we will remain focused on our journey of growth and transformation. We have consistently seen companies rushing into new technologies, seeking to expand and recover investments in order to speed up the digitalization process. Accordingly, the search for a strong partner, capable of solving most problems and allowing you to maintain core business focus, becomes even more relevant, especially among small and medium businesses. We see TOTVS as a major beneficiary in this scenario.

The future is interconnected and interdependent, which is why we go on making progress and investing to continuously be the partner our clients know they can count on. The partner that will deliver the contracted value proposition and help clients improve their results. In other words, we will increasingly become the "Trusted Advisor" for our clients. We know the path is not that simple; it requires size, investment, structure, sophistication, and M&A capacity. Combined attributes only belonging to TOTVS!

This is what we exist for: to improve business results; always believing in a Brazil that makes it happen!

Dennis Herszkowicz, CEO

ECONOMIC SCENARIO

The year 2021, which is the second year of the global Coronavirus pandemic, was marked by the advance of vaccination around the world. Brazil ended the year with approximately 80% of its target population vaccinated with both doses, a performance considered positive for the South America region and above the average of developed countries such as the United States and the European Union as a whole. With the emergence of new variants, even if new waves of contagion are observed, the expectation is that there will not be the same proportion of serious cases as at the beginning of the pandemic.

With the progress in vaccination, there was also a stimulus for the safe reopening of activities in the economy, with an increase in mobility and consumption of goods and services, which also resulted in greater security by companies to resume their hiring and operations in flexible working models.

From a sectoral perspective, it is worth emphasizing the postponement to 2023 of the payroll tax relief, an important economic measure for international competitiveness that benefits 17 sectors of the economy, including ITC (Information Technology and Communication), an intensive macro sector in highly specialized labor and the generation of high value-added jobs, which employs more than 1.5 million workers, has a demand for 797,000 new talents in technology by 2025, and whose professionals' compensation is about 3 times higher than the national average, according to Brasscom. Advances in infrastructure were also made with the approval of legislation to strengthen the implementation of the 5G technology throughout Brazil, which will expand connectivity and digital inclusion and will benefit the segments of telephony, education, health, agribusiness, among others.

Another relevant signal for the market was the approval of Law 14,195 for the Modernization of the Local Business Environment, which aims to reduce bureaucracy, simplify the opening of companies, facilitate foreign trade, increasing Brazil's competitiveness to attract investments and develop new business.

As for economic indicators, analysts' projections predict a growth of around 4.5% in GDP, after revisions by the positive results of the service sector in Q4'21, close to the level of 5% estimated for developed economies. The IGP-M rate closed the year at 17.78%, while the IPCA rate closed the year with an accumulated increase of 10.06%, the highest aggregate annual inflation since 2015. In terms of monetary policy, the Selic rate has begun the year at 2% and closed at 9.25%. In exchange terms, the dollar started the year at R\$5.19 and ended the year

at R\$5.58. According to the International Monetary Fund (IMF), this set of indicators suggests a need for short-term attention, but expectations related to long-term inflation are anchored, which may point out that the monetary policies being applied in the region can contribute positively to put inflation back on track, after price pressure and consumption power erosion triggered by the pandemic. In this sense, the Provisional Measure approved by the Federal Government stands out, which granted emergency financial aid as a protection measure for over 50 million beneficiaries in a vulnerable situation in the face of this unprecedented health crisis.

For 2022, it is observed that some trends are here to stay, as a reflection of the learning and legacy of the pandemic. It has been provoking profound cultural, behavioral, and economic changes in society. There was a strong increase in the habit of online shopping, as the world has become used to consuming and relating in a digital way, with people increasingly valuing brands and companies that invest in good online portals, with an efficient channel for conversation with their customers. Here we can see the importance of companies to have a multichannel strategy. Another trend worth mentioning is the constant search for innovation and the need for alternative ways to unlock business value, through new partnerships that help them adapt to these new business models and relationships. It is also expected that aspects of mental health, quality of life and productivity at work, and the intensification of debates and actions around ESG themes are combined.

As a country, Brazil's political-economic gravitational center in 2022 will be around the presidential elections, with potential scenarios of polarization or the emergence of a 3rd way that could change the initially expected paths. Projections point to economic stagnation, with interest rates and electoral uncertainty holding back consumption and investments, and a more conservative Central Bank to put inflation at the center of the target, putting its autonomy to the test. On the international agenda, topics such as climate change and the environmental agenda, tackling inequality in the post-pandemic period, digital transformation, and digitalization of economies will be highlighted.

CONSOLIDATED FINANCIAL AND OPERATING PERFORMANCE

Consolidated Result (in R\$ thousand)	2021	2020	Δ
Net Revenue	3,258,863	2,596,077	25.5%
Management Revenue	2,818,001	2,464,625	14.3%
Business Performance Revenue	159,311	2,029	>999%
Techfin Revenue	281,551	129,423	117.5%
Consolidated Contribution Margin	1,716,117	1,344,169	27.7%
Management Contribution Margin	1,509,253	1,265,899	19.2%
Biz Performance Contribution Margin	78,806	1,849	>999%
Techfin Contribution Margin	128,058	76,421	67.6%
% Consolidated Contribution Margin	52.7%	51.8%	90 bp
% Management Contribution Margin	53.6%	51.4%	220 bp
% Biz Performance Contribution Margin	49.5%	91.1%	-4160 bp
% Techfin Contribution Margin	45.5%	59.0%	-1350 bp
Sales and Marketing Expenses	(601,160)	(474,373)	26.7%
Adjusted G&A Expenses and Others	(332,475)	(279,786)	18.8%
Equity Pickup	(526)	(294)	78.9%
Adjusted EBITDA	781,956	589,716	32.6%
Adjusted EBITDA Margin	24.0%	22.7%	130 bp

Net Revenue

Consolidated Net Revenues grew 26% in 2021 compared to 2020, reaching R\$3.3 billion with the following highlights: (i) Management Recurring Revenue accelerated, growing 18% year over year in 2021, driven by both the increase in Volume (new signings) and the pricing power of the Company's recurring model; (ii) the consolidation of RD Station as of June 2021, as a definitive step in building the Business Performance dimension; and (iii) Techfin Credit Production of nearly R\$10 billion.

Adjusted EBITDA

In the year-to-date view, the 130 basis points growth in Adjusted EBITDA Margin is mainly explained by: (i) 220 basis points growth of the % Management Contribution Margin, due to the growth of Gross Margin and reduction of the Provision for Expected Credit Loss; and (ii) the dilution of General and Administrative and Other, both due to revenue growth and efficiency increase, and the 28% reduction of the Provision for Contingencies. It is worth pointing out that this gain in margin was possible even with the increase in the representativity of the Business Performance and Techfin dimensions, which have different moments and mandates, focused mainly on accelerated revenue growth, in addition to the cycle of Selic rate increase that also generates a temporary impact on the Techfin margin.

Management dimension Results

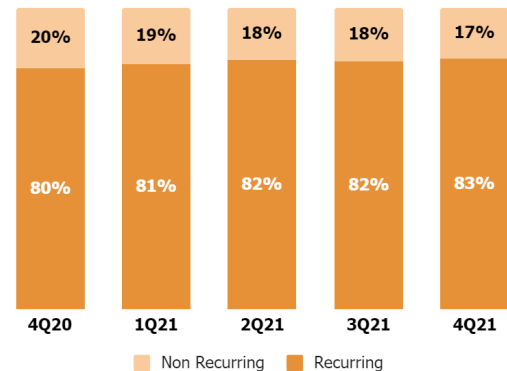
The Management dimension is, to a large extent, composed by the vision previously known as “Technology Results” until 1Q21, excluding the solutions that became part of the Business Performance dimension and Techfin's new products.

Management Result (in R\$ thousand)	2021	2020	Δ
Net Revenue	2,818,001	2,464,625	14.3%
Recurring	2,313,665	1,952,574	18.5%
Non Recurring	504,336	512,051	(1.5%)
License	210,832	221,329	(4.7%)
Services	293,504	290,722	1.0%
Costs	(800,109)	(734,468)	8.9%
Gross Profit	2,017,892	1,730,157	16.6%
Gross Margin	71.6%	70.2%	140 bp
Research and Development	(490,227)	(425,262)	15.3%
Provision for Expected Credit Losses	(18,412)	(38,996)	(52.8%)
Management Contribution Margin	1,509,253	1,265,899	19.2%
% Management Contribution Margin	53.6%	51.4%	220 bp

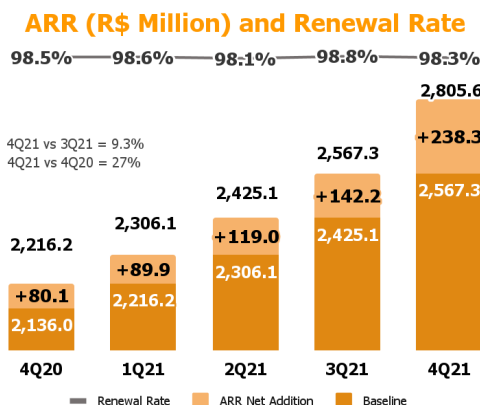
Net Revenue

Management Net Revenue continued to accelerate, closing the year 14% above 2020, driven by organic Recurring Revenue growth of 18% over the same period.

Net Revenue



Recurring Revenue



Organic Recurring Revenue growth of 18% reached, in 2021, the highest level since 2012. A new record organic net addition of ARR (Annual Recurring Revenue) was also set at R\$238.3 million in 4Q21, 3 times higher than the net addition of 4Q20. As a result, Management ARR exceeded R\$2.8 billion and grew 27% over 4Q20 and 9.3% over 3Q21.

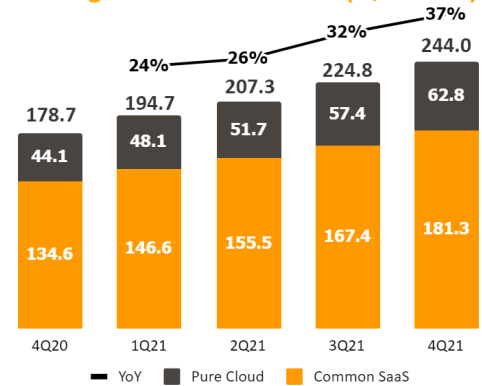
This expressive growth of ARR was possible, mainly, by the evolution of Sales **Volume**, composed of new signings, which was responsible for approximately 63% of the year's addition, and the remaining 37% was due to the **Price** effect, resulting from contractual readjustments.

The increase in **Volume** reflects a combination of factors, such as: (i) management software market in expansion and far from maturity, demonstrated by sales to new SaaS customers, which represented approximately 30% of the total; (ii) NPS at record level, determinant for new sales; (iii) evolution in productivity and commercial efficiency, particularly in

franchises; (iv) rejuvenation of the TOTVS brand; (v) expansion of the solutions portfolio; and (vi) migration to the cloud, which reduces the total cost of ownership for the customer.

These factors caused new SaaS signings to grow 30% in 2021, when compared to 2020, with emphasis on new Cloud signings that grew 48% in the same period. This performance, together with the Company's ability to readjust prices (Pricing Power) and the maintenance of low levels of churn, demonstrated by the renewal rate running at over 98% in the year, made the SaaS Management Revenue grow 30% in the year and, as seen in the chart to the right.

Management SaaS Revenue (R\$ Million)



Non-Recurring Revenue

License Revenue reduced 4.7% in 2021, when compared to 2020, mainly due to the strong acceleration in signings and recurring SaaS revenue that generate a natural and healthy deceleration in license revenue.

Additionally, non-recurring Service Revenues have grown year over year below inflation, as result of product portfolio evolution and cloud migration, which lead to lower initial investment and clients' total cost of ownership.

Gross Margin

The Gross Management Margin reached 71.6% year-to-date, 140 basis points above of 2020. This expansion is mainly explained by: (i) expansion of the SaaS Model; (ii) modernization and digitalization of software products and services, with the Company increasingly offering products that require less deployment and customization services; (iii) advancement in product quality, with record NPS levels and, consequently, lower demand for support; and (iv) maintenance of remote deployment levels above 90%.

Research & Development

Research and Development (R&D) expenses, year-to-date, went from 21.8% over Recurring Revenue in 2020 to 21.2% in 2021. This reduction demonstrates the greater efficiency in the allocation of resources, which enabled a 12% increase in the generation of Recurring Revenue per R&D headcount in the period, even with the Company constantly investing in increasing the quality and modernization of the portfolio.

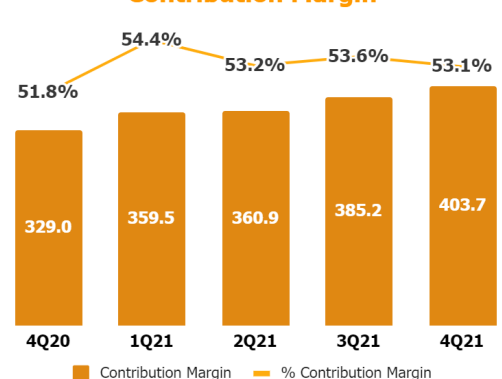
Provision for Expected Credit Losses

The Provision for Expected Credit Loss (former Allowance for Doubtful Accounts) reached 0.7% of Net Management Revenues in the year 2021, the lowest level since 2006, portraying a business based on Recurring Revenue, combined with a client base that is pulverized, diversified and more resilient than the general average of the market companies.

Management Contribution Margin

The Management Contribution Margin surpassed the R\$1.5 billion mark in 2021, while the Contribution Margin on Management Net Revenue grew year over year 220 basis points in the same period. This increase in efficiency is mainly due to the advance of Recurring Revenue and Gross Margin, as well as the reduction of Provision for Expected Credit Loss that reflects the reopening of the economy, when compared to the same period last year, due to the COVID-19 pandemic.

Contribution Margin



Business Performance dimension Results

The Business Performance dimension represents the portfolio of solutions focused on increasing sales, competitiveness and customer performance, through digital marketing, sales/digital commerce and CX solutions- customer experience.

Biz Performance Result (in R\$ thousand)	2021	2020	Δ
Net Revenue	159,311	2,029	>999%
Recurring	155,298	1,325	>999%
Non Recurring	4,013	704	470.0%
Costs	(44,476)	(141)	>999%
Gross Profit	114,835	1,888	>999%
Gross Margin	72.1%	93.1%	-2100 bp
Research and Development	(33,852)	-	-
Provision for Expected Credit Losses	(2,177)	(39)	>999%
Biz Performance Contribution Margin	78,806	1,849	>999%
% Biz Performance Contribution Margin	49.5%	91.1%	-4160 bp

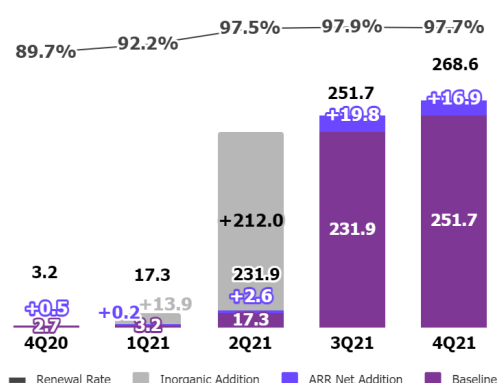
Net Revenue

The consolidation of RD Station as of June 2021, made the Business Performance Net Revenue close 2021 at R\$159 million.

ARR, as shown in the chart on the right, ended the quarter totaling R\$268.6 million, with the net addition of ARR of R\$16.9 million in 4Q21. The lower addition of ARR in 4Q21 compared to 3Q21, was due to a seasonal behavior typical of this time of year.

In RD Station, the highlight was the CRM product that has been gaining traction and representation, with customer retention, especially when combined with RD Station Premium. Additionally, CRM will be the first RD product that we will pilot using TOTVS' Sales Machine in 2022.

ARR (R\$ Million) and Renewal Rate



Gross Margin

The Business Performance Gross Margin closed the year at 72.1%, above the Gross Margin of the Management dimension, demonstrating the scalability of the SaaS model that requires little implementation service, even with the cloud cost being proportionally more representative, especially at this early stage of maturity of the dimension and its market.

Research & Development

Research and Development (R&D) expenses, as a percentage of the dimension's Net Revenue, ended 2021 at 21%. The strong growth of this dimension may require eventual acceleration of investments, aiming to increase TOTVS' competitive advantage and seize the opportunity of a market with low penetration.

Provision for Expected Credit Losses

The Provision for Expected Credit Loss of Business Performance ended the year representing 1.4% of the Net Revenue of the dimension. It is worth mentioning that RD is already following TOTVS' provisioning policies and continues to improve its internal processes, aiming to increase the assertiveness of this provision.

Business Performance Contribution Margin

The 2021 Business Performance Contribution Margin was 49.5%, below the 2020 Margin due to the consolidation of Tail Target as of January 2021 and RD Station as of June 2021 which changed the revenue, cost and expense structure of the dimension.

Techfin Dimension Results

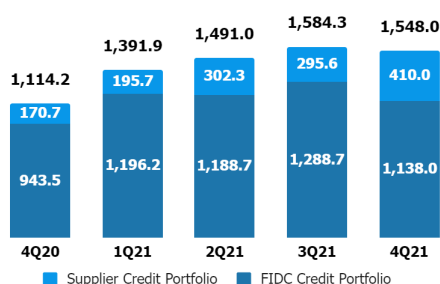
The Techfin dimension aims to simplify, expand and provide greater accessibility to B2B financial services to TOTVS' SMB clients. It includes Supplier's business and the new products (Antecipa, Consignado, Paine Financeiro, EduConnectPAY, Mais Negócios, Mais Prazo and Pagamento Instantâneo) and we continue working to increase the portfolio. Thus, we have started to consolidate all Techfin efforts in this section. This means that we have 2 operations in different moments of development: Supplier, with almost 2 decades of life, solid growth and profitability; and the New Techfin Products with total focus on investment in building a complete portfolio and a customer base, for further search for revenue and profitability.

Techfin Results (in R\$ thousand)	2021	2020	Δ
Techfin Revenue	281,551	129,423	117.5%
Funding Cost	(90,149)	(31,232)	188.6%
Net Funding Revenue	191,402	98,191	94.9%
Operational Costs	(23,539)	(10,863)	116.7%
Gross Profit	167,863	87,328	92.2%
Research and Development	(24,159)	(6,086)	297.0%
Provision for Expected Credit Losses	(15,646)	(4,821)	224.5%
Techfin Contribution Margin	128,058	76,421	67.6%
% Techfin Contribution Margin	45.5%	59.0%	-1350 bp

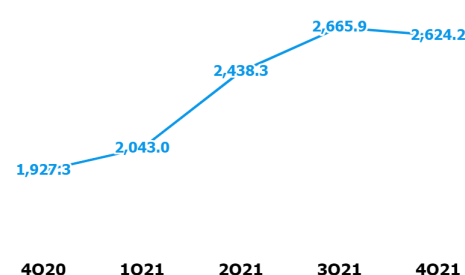
Techfin Revenue

Supplier's credit production reached R\$9.8 billion in 2021, growing 48% year over year. The total 2021 credit portfolio also grew, reaching R\$1.5 billion or 49% higher than the 2020 portfolio. The higher representativity of the Supplier's portfolio, compared to the FIDC's portfolio, in 4Q21 was due to the optimization of the operation's cash, with a reduction in the FIDC's equity and in the Supplier's cash level. It is important to emphasize that the portfolio held in Supplier has a high level of insurance coverage, risk profile similar to the credits assigned to the FIDC and, consequently, does not represent additional risk to that of the subordinated quotas of the FIDC held by Supplier.

Supplier Credit Portfolio (R\$ MN)



Supplier Credit Production (R\$ MN)



held in Supplier has a high level of insurance coverage, risk profile similar to the credits assigned to the FIDC and, consequently, does not represent additional risk to that of the subordinated quotas of the FIDC held by Supplier.

Techfin Revenue grew 118% year-over-year mainly due to the following factors: (i) Supplier Consolidation in May 2020, resulting in a 2021 comparison with 4 additional months of this expense; and (ii) Selic rate increase in the period.

Net Funding Cost Revenue

In the year 2021, the 95% growth of Net Funding Revenue, below the 118% growth of Techfin Revenue, was due to the combination of the following elements: (i) increase in funding cost due to successive increases in the Selic rate (which started 2021 at 2% and ended the year at 9.25%); (ii) natural delay in passing on the increase in funding cost, due to the average maturity of the portfolio; and (iii) excess in the Cash position, especially between 2Q21 and 3Q21.

Operating Costs

Techfin's Operating Costs grew 117% in the year, a similar growth as Techfin's Revenue, mainly explained by: (i) Supplier Consolidation in May 2020; and (ii) increase in Techfin's product support team.

Research and Development

The growth of 297% in Techfin's Research and Development (R&D) expense when compared to 2020 is mainly explained by: (i) the consolidation of Supplier in May 2020; and (ii) the expansion of investments to execute the strategy to develop the solutions of this business dimension.

Provision for Expected Credit Losses

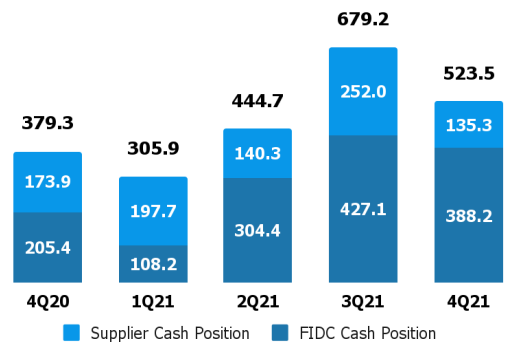
The Provision for Expected Credit Loss (formerly PCLD or PDD) went from 0.10% of Credit Production in 2020 to 0.16% in 2021, mainly explained by the Company's more conservative posture between 2Q20 and 4Q20, at the beginning of the pandemic. This metric is gradually converging to historical levels (between 0.20% and 0.25%).

Supplier's infringement above 90 days, as seen in the chart to the right, ended the quarter at 0.8% and 70% below Brazil's average, again demonstrating the discipline in granting credit and the resilience of the business model.

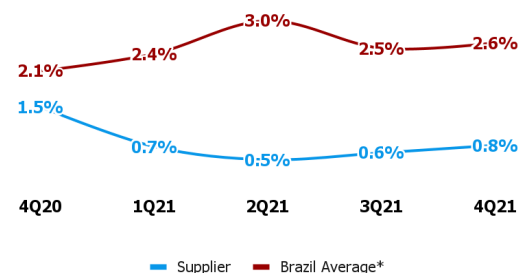
Techfin Contribution Margin

Techfin's Contribution Margin ended the year 1,350 basis points below 2020, explained by: (i) higher investment in R&D, as part of the size strategy; (ii) the normalization of the Provision for Expected Credit Loss; and (iii) the increase in the Funding Cost as a reflection of the Selic Rate increase in the period.

Supplier Cash Position



Delinquency Rate (% , above 90 days)



*Source: Banco Central do Brasil (www.bcb.gov.br/estatisticas/estatisticasmonetariascredito) > tabelas.xls > Tabela 27 > MFME

Other Operating Expenses

In R\$ thousand	2021	2020	Δ
Sales and Marketing Expenses	(601,160)	(474,373)	26.7%
<i>% of Net Total Revenue</i>	<i>-18.4%</i>	<i>-18.3%</i>	<i>-10 bp</i>
Adjusted G&A Expenses and others	(332,475)	(279,786)	18.8%
<i>% of Net Total Revenue</i>	<i>-10.2%</i>	<i>-10.8%</i>	<i>60 bp</i>
G&A Expenses and others	(340,799)	(271,377)	25.6%
General and Administrative Expenses	(321,185)	(255,865)	25.5%
Provision for Contingencies	(31,911)	(44,125)	(27.7%)
Other Net Revenues	12,297	28,613	(57.0%)
Extraordinary Items	8,324	(8,409)	(199.0%)
Extraordinary Layoffs Costs	-	1,779	(100.0%)
Earn-out Adjustment at Fair Value	18,109	(25,526)	(170.9%)
Earns in Investment Sale	(1,156)	-	-
Expenses with M&A Transactions	10,567	15,338	(31.1%)
Tax Credit	(19,196)	-	-
Equity Pickup	(526)	(294)	78.9%

Sales and Marketing Expenses

Sales and Marketing Expenses over Net Revenue increased from 18.3% in 2020 to 18.4% in 2021 due to: (i) consolidation of the RD Station results, which showed a representativeness of this line over Revenue of 31% and (ii) the growth of marketing expenses by the greater containment of these expenses in 2020 during the COVID-19 pandemic.

General and Administrative and Others Expenses

The General and Administrative Expenses, disregarding the extraordinary impacts of expenses with M&A transactions, ended 2021 representing 9.5% over Net Revenues against 9.3% presented in 2020, explained, mainly, by the consolidation of the results of RD Station where this representativeness was 16%.

The expense with the Provision for Contingencies ended 2021 at R\$31.9 million, 28% below that of 2020 and 44% below that of 2019, as a result of the reduction of new demands, especially labor ones.

The Other Net Operating Revenues line was impacted in 2021 by: (i) R\$18.1 million of Earn-Out Adjustment to fair value that counted with the complement of the value of Supplier and Tail Target, as well as the reversal of Consinco and Wealth System; (ii) the gain on the write-off of assets of R\$1.2 million related to the sale of customer portfolios within the franchise consolidation process; and (iii) the revenue from tax credit.

Below EBITDA Results

Depreciation and Amortization Expenses

In R\$ thousand	2021	2020	Δ
Depreciation	(112,214)	(99,477)	12.8%
Amortization	(148,906)	(105,110)	41.7%
Depreciation and Amortization	(261,120)	(204,587)	27.6%

In 2021, the 28% growth of Depreciation and Amortization Expenses is mainly associated with the beginning of amortization of intangible assets from the acquisitions of Wealth Systems, Supplier, Tail and RD Station.

Financial Result

In R\$ thousand	2021	2020	Δ
Financial Revenues	97,213	47,344	105.3%
Financial Expenses	(146,016)	(58,778)	148.4%
Financial Result	(48,803)	(11,434)	326.8%

The increase of the year-to-date negative Financial Result, when compared to 2020, is essentially due to the time difference between the 3rd issue of Debentures, which occurred in May/21, and the capital increase resulting from the follow-on, which resulted in a Net Debt position for approximately 4 months in the current year.

Income Tax and Social Contribution

In R\$ thousand	2021	2020	Δ
EBT	463,709	382,104	21.4%
Taxes at combined rate (34%)	(157,661)	(129,915)	21.4%
Law 11,196/05 - R&D Incentive	20,098	18,109	11.0%
Interest on Equity	44,414	32,751	35.6%
Effect of Different Taxation in Subsidiaries	(11,290)	(7,234)	56.1%
Management Bonus	(1,961)	(1,251)	56.8%
Government Subsidies	1,910	1,430	33.6%
Share Issue Expenses	13,729	-	-
Other	1,089	42	>999%
Income Tax and Social Contribution	(89,672)	(86,068)	4.2%
Current Income Tax and Social Contribution	(131,311)	(80,919)	62.3%
Deferred Income Tax and Social Contribution	41,639	(5,149)	(908.7%)
% Current Effective Tax Rate	28.3%	21.2%	710 bp
% Total Effective Tax Rate	19.3%	22.5%	-320 bp

The Effective Income Tax and Social Contribution Rate decreased in 2021 by 320 basis points when compared to 2020, associated with: (i) the effect of the deduction, for tax computation purposes, of the cost of subsequent issuance of shares; and (ii) a 36% increase in the payment of Interest on Equity.

EBITDA and Net Income Reconciliation

In R\$ thousand	2021	2020	Δ
Consolidated Net Income	374,037	294,959	26.8%
<i>Net Margin</i>	<i>11.5%</i>	<i>11.4%</i>	<i>10 bp</i>
Depreciation and Amortization	261,120	204,587	27.6%
Financial Result	48,803	11,434	326.8%
Income Tax and Social Contribution	89,672	86,068	4.2%
Net Income (Loss) from Discontinued Op.	-	1,077	(100.0%)
EBITDA	773,632	598,125	29.3%
<i>EBITDA Margin</i>	<i>23.7%</i>	<i>23.0%</i>	<i>70 bp</i>
Extraordinary Items	8,324	(8,409)	(199.0%)
Extraordinary Layoffs Costs	-	1,779	(100.0%)
Earn-out Adjustment at Fair Value	18,109	(25,526)	(170.9%)
Earns in Investment Sale	(1,156)	-	-
Expenses with M&A Transactions	10,567	15,338	(31.1%)
Tax Credit	(19,196)	-	-
Adjusted EBITDA	781,956	589,716	32.6%
<i>Adjusted EBITDA Margin</i>	<i>24.0%</i>	<i>22.7%</i>	<i>130 bp</i>

(*) EBITDA and Adjusted EBITDA are separate non-accounting (unaudited) prepared by the Company and consist of Net Income for the year, plus income taxes, financial expenses net of financial income, discontinued operations and depreciation and amortization.

The non-financial data included in this report, such as ARR, churn, renewal rate, among others, are non-accounting measures and have not been examined by our independent auditors.

SECURITIES EXCHANGE MARKET

TOTVS ended the year with a capital stock of R\$2.963 billion. The Company's capital stock at the end of 2021 was composed of 617,183,181 common shares, 84.2% of its capital stock being free-float, represented by 25.4% composed of Brazilian investors and 74.6% by foreign investors. The calculation of the outstanding shares is based on all the Company's shares, excluding the interests held by Management members and related persons, as well as treasury shares.

In 2021, TOTVS's shares (B3: TOTS3) showed stability, with a devaluation of 0.3%, while the IBOVESPA index showed devaluation of 11.9%. The average financial volume in 2021 was of R\$143.3 million/day, versus R\$156 million/day recorded in 2020.

Interest on equity for the fiscal year 2021: On July 30, 2021, the payment of interest on shareholders' equity for the first half of the fiscal year 2021 was approved, in the total amount of R\$51,193 thousand. All shareholders holding shares issued by the Company on the base date of August 04, 2021 were entitled to interest on equity. Such interest on equity was paid on October 22, 2021.

On December 22, 2021, the payment of interest on shareholders' equity for the second half of 2021 was approved, in the total amount of R\$79,050 thousand. All shareholders holding shares issued by the Company on the base date of December 28, 2021 were entitled to interest on equity. Such interest on equity will be paid May 20, 2022. The amounts of interest on equity for the fiscal year 2021 was allocated to the mandatory minimum dividend under the terms of article 39 of TOTVS's Bylaws.

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

On December 15, 2020, the payment of interest on shareholders' equity for the second half of 2020 was approved, in the total amount of R\$56,775 thousand. All shareholders holding shares issued by the Company on the base date of December 21, 2020 were entitled to interest on equity. Such interests on equity were paid on May 20, 2021. The amounts of interest on own capital for the fiscal year 2020 was allocated to the mandatory minimum dividend under the terms of article 39 of TOTVS's Bylaws.

Dividends for the 2020 fiscal year: proposed by the Board of Directors on April 20, 2021, the dividends related to the first half of the 2020 financial year totaled R\$50,960 thousand, and the shareholders holding TOTVS's shares on April 21, 2021 were entitled to the earnings thereof. Such dividends were paid on May 20, 2021.

CORPORATE GOVERNANCE

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

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

Statutory Audit Committee: it is an advisory body that provides the Board of Directors with support, and its mission is to follow up, assess, and ensure the best operationalization of processes, the management of internal and external auditors, the mechanisms and controls connected to risk management and the consistency of financial policies with strategic guidelines and the business risk profile. Currently, the Statutory Audit Committee is composed of 3 independent members, elected by the Board of Directors, and chaired by an independent member of the Board of Directors.

People and Compensation Committee: it provides the Board of Directors with advice in determining the compensation and benefits policies for directors and officers. The People and

Compensation Committee is composed of 3 independent members, elected by the Board of Directors, and chaired by an independent member of the Board of Directors.

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

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

Arbitration: under the "Novo Mercado" Regulation, and under the Company's Bylaws, the controlling shareholder, the administrators, the Company itself, and the members of the Fiscal Council (aka Supervisory Council) must undertake to resolve any and all disputes or controversies connected to or arising from the "Novo Mercado" Regulation, the "Novo Mercado" Participation Agreement, the Arbitration Clauses, in particular as to their application, validity, effectiveness, interpretation, violation and their effects, through arbitration. Any disputes regarding the sale of the Company's Control will also be settled by arbitration.

Statement by the Board of Executive Officers: pursuant to section VI of Article 25 of CVM Instruction No. 480/09, TOTVS's officers hereby represent that they have discussed, reviewed, and agreed to the opinions expressed in the opinion of the independent auditors and to the financial statements for the fiscal year ended on December 31, 2021.

RELATIONSHIP WITH INDEPENDENT AUDITORS

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

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

Services other than those related to the audit of the 2021 financial statements were provided. Fees for such services totaled R\$494.8 thousand, representing 12.41% of total external audit fees, particularly connected to Due Diligence (R\$384.8 thousand) and ISAE (International Standards for Assurance Engagements) report (R\$110.0 thousand).

ACKNOWLEDGEMENTS

We thank all those who contributed to the success of TOTVS in 2021, especially our clients, staff (TOTVERs), partners, and shareholders.



A free translation of the original report in Portuguese, as filed with the Brazilian Securities Commission (CVM), prepared in accordance with the Technical Pronouncement CPC 21 (R1) - Interim Financial Reporting and the international standard IAS 34 - Interim Financial Reporting, as issued by international Accounting Standards Board - IASB.

Independent auditors' report on the individual and consolidated financial statements

To the Shareholders and Management of TOTVS S.A.
São Paulo – SP

Opinion

We have examined the individual and consolidated financial statements of TOTVS S.A. ("the Company"), respectively referred to as Company and Consolidated, which comprise the statement of financial position as at December 31, 2021 and the statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of TOTVS S.A. as at December 31, 2021 and its individual and consolidated financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil and with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and international Standards on Auditing. Our responsibilities, under those standards, are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries, in accordance with the relevant ethical requirements established in the Brazilian Accountant's Code of Professional Ethics and in the professional standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

The key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the individual and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition - cut off

See Notes 29 to the individual and consolidated financial statements

Key audit matters	How our audit addressed this matter
The revenue of the Company and its subsidiaries includes services called recurring software and nonrecurring software. A nonrecurring software revenue from implementation and customization services, which contains specific contracts to meet the needs of each client. The performance obligation of this type of revenue is over time when it is provided, based on the hours incurred and prices practiced in the respective contracts with its clients. According to each contract, such revenues may or may not have been invoiced. Nonrecurring services occur in a high volume and rely on controls that determine the correct hours incurred, as well as ensure the correct measurement and recording of this revenue at the time the performance obligations of the contracts are satisfied. For the reasons mentioned above, we considered this matter as a significant for our audit.	Our audit procedures included, among others: i. Understanding of the design evaluation process of the relevant internal controls used by the Company and by its subsidiaries considered as significant, in the course of the audit, related to the nonrecurring software revenue recognition; ii. Tests on a sample basis of nonrecurring software revenue, in order to verify the contractual terms of the proposal of service rendered, the hours incurred in the projects and the measurement of these hours, to conclude on the adequate revenue recognition, including in relation of the correct period of competence (cut-off); iii. Assessment of whether the disclosures in individual and consolidated financial statements include all relevant information, particularly in relation to the Company's accounting policies for recognition of revenue. Based on the audit evidence obtained through above-summarized audit procedures, we consider acceptable the nonrecurring software revenue, as well as related disclosures, in the context of the individual and consolidated financial statements taken as a whole for the year ended December 31, 2021.

Business combination	
See Notes 4.1 to the individual and consolidated financial statements	
Key audit matters	How our audit addressed this matter
During 2021, the direct subsidiary TOTVS Large Enterprise Tecnologia S.A. acquired the control of the company RD Gestão e Sistemas S.A. The accounting process in the business acquisition involves relevant estimates and judgments, such as determining the fair value of the consideration transferred, identification and measurement of assets acquired and liabilities assumed and the determination of goodwill based on future profitability expectation. Due to the complexity, judgment and relevance of the amounts involved in the acquisition accounting process, we considered this matter as significant for our audit.	Our audit procedures included, among others: - Obtaining and analyzing the signed contracts and evaluating the consideration transferred in the business; - With the assistance of our corporate finance specialists, we evaluated the criteria and assumptions adopted in determining the fair values of assets acquired and liabilities assumed of the company acquired, for subsequent allocation of the price acquisition. The main assumptions evaluated refer to the business growth rate, cash flow projections and the respective discount rates, and comparison of the assumptions used by the Company, when available, with data obtained from external sources, such as projected economic growth and discount rates; - Assessment of whether the disclosures in the individual and consolidated financial statements include all relevant information. Based on the audit evidence obtained through above-summarized audit procedures, we consider acceptable the business combination, as well as related disclosures, in the context of the individual and consolidated financial statements taken as a whole for the year ended December 31, 2021.

Impairment of Goodwill

See Notes 15.2 to the individual and consolidated financial statements

Key audit matters	How our audit addressed this matter
The individual and consolidated financial statements for the year ended December 31, 2021 include goodwill from business combination, whose realization is supported by future profitability expectation, according to the business plan prepared by the Company. For the annual assessment of the recoverability of such assets, the Company evaluates the probability of occurrence of future earnings and assumptions and judgments used in determining the estimates of future earnings of cash generating units, which include revenue growth, discount rate, inflation rate, among others. Due to the relevance and degree of judgment involved in the process of determining the Company's estimates of future profitability, inherent to the process of determining the estimates of future cash flows, we considered this matter as significant for our audit.	Our audit procedures included, among others: i. Understanding of the preparation and review of business plan process, budgets and impairment analysis of cash generating units where goodwill was recognized available by the Company; ii. Evaluation of reasonability for the determination of cash generating units (CGU) for impairment test; iii. With the assistance of our corporate finance specialists, for the CGUs of technology and credit products, considered to be of greater risk, we evaluated the criteria and assumptions adopted by the Company, especially those related to business growth rates, cash flow projections and the respective discount rates, and comparison of the assumptions used by the Company, when available, with data obtained from external sources, such as projected economic growth and discount rates; (iv) Assessment of whether the disclosures in the individual and consolidated financial statements include all relevant information. Based on the audit procedures performed to impairment test of the goodwill of CGUs and on the results obtained, we consider them acceptable, in the context of the individual and consolidated financial statements as a whole.

Other matters - Statements of value added

Statements of added value

The individual and consolidated statements of value added (DVA) for the year ended December 31, 2021, prepared under responsibility of Company's management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures performed with the audit of Company's financial statements. In order to form our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in CPC 09 Technical Pronouncement - Statement of Value Added. In our opinion, these statements of value added have been fairly prepared, in all material respects, in accordance with the criteria defined in the Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

Financial statements for prior periods audited by other independent auditors

The individual and consolidated statement of financial position as of December 31, 2020 and the individual and consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows and the related notes for the year then ended, presented as corresponding figures in the individual and consolidated financial statements for the current year, were previously audited by other independent auditors, who issued an unqualified opinion dated February 07, 2022. The related amounts for the individual and consolidated statements of value added for the year ended December 31, 2020 were submitted to the same audit procedures by those independent auditors and, based on their audit, they issued an unqualified opinion.

Other information accompanying individual and consolidated financial statements and the auditors' report

Management is responsible for the other information comprising the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is, materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with Accounting Practices Adopted in Brazil and with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and its subsidiaries' financial reporting process.

Auditors' Responsibilities for the Audit of the Individual and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assess the risks of material misstatement in the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 15, 2022

KPMG Auditores Independentes Ltda.
CRC 2SP014428/O-6

Original report in Portuguese signed by

Wagner Petelin
Accountant CRC 1SP142133/O-7

TOTVS S.A.
Individual and Consolidated Statement of Financial Position
For the year ended December 31, 2021 and 2020
(In thousands of reais)

Assets	Note	Individual		Consolidated		Liabilities and equity	Note	Individual		Consolidated	
		2021	2020	2021	2020			2021	2020	2021	2020
Current assets		2,152,589	883,338	5,486,233	2,831,973	Current liabilities		872,267	410,979	3,319,550	2,040,031
Cash and cash equivalents	6	1,743,262	527,955	2,871,072	1,027,733	Labor liabilities	16	173,233	136,350	289,289	211,603
Financial investments	7	-	-	388,154	179,308	Trade and other payables		75,693	79,205	112,579	99,305
Escrow account	21	8,618	8,301	9,341	10,012	Taxes and contributions liabilities	17	45,842	40,023	96,790	74,558
Trade and other receivables	8	268,656	267,801	1,983,710	1,497,229	Commissions payable		46,792	44,467	59,635	53,795
Recoverable taxes	9	47,212	23,592	90,482	38,092	Dividends payable	25	80,153	57,687	80,153	57,687
Other assets	12	84,841	55,689	143,474	79,599	Loans, financing and lease liabilities	18	39,637	37,651	156,306	146,806
						Debentures	19	385,988	-	385,988	-
Non-current assets		4,707,594	2,433,974	4,458,792	2,314,433	Accounts payable from acquisition of subsidiaries	21	8,707	8,389	153,839	44,781
Escrow account	21	-	-	35,427	1,116	Business partners payable	20	-	-	520,118	328,817
Trade and other receivables	8	53,268	57,327	64,943	64,012	Senior shares and mezzanine obligations	23	-	-	1,372,726	1,011,087
Receivables from related parties	11	2,205	-	-	-	Other liabilities		16,222	7,207	92,127	11,592
Investments at fair value	5.2	-	-	99,621	92,770						
Deferred tax assets	10	62,729	44,244	144,622	100,535	Non-current liabilities		1,754,987	302,167	2,139,467	502,209
Judicial deposits	22	25,951	38,721	29,658	43,972	Loans, financing and lease liabilities	18	142,910	166,897	179,308	178,244
Other assets	12	83,098	47,948	90,335	57,928	Debentures	19	1,123,138	-	1,123,138	-
						Provision for contingencies	22	90,782	108,106	107,646	125,818
Equity-accounted investees	13	3,730,332	1,533,262	3,075	3,476	Accounts payable from acquisition of subsidiaries	21	-	-	311,575	163,419
Property, plant and equipment	14	319,685	333,002	404,869	364,447	Call option of non-controlling interests	4.2	366,194	-	366,194	-
Intangible assets and goodwill	15	430,326	379,470	3,586,242	1,586,177	Other liabilities		31,963	27,164	51,606	34,728
						Shareholders' equity	24	4,232,929	2,604,166	4,486,008	2,604,166
						Share Capital		2,962,585	1,382,509	2,962,585	1,382,509
						Capital reserves		864,868	894,824	864,868	894,824
						Treasury shares		(133,195)	(148,537)	(133,195)	(148,537)
						Profit Reserve		483,214	432,829	483,214	432,829
						Carrying value adjustments		55,457	42,541	55,457	42,541
						Non-controlling interests		-	-	253,079	-
Total assets		6,860,183	3,317,312	9,945,025	5,146,406	Total shareholders' equity and liabilities		6,860,183	3,317,312	9,945,025	5,146,406

The accompanying notes are an integral part of the individual and consolidated financial statements.

(A free translation of the original in Portuguese)

TOTVS S.A.

Individual and Consolidated Statements of Profit or Loss

For the year ended December 31, 2021 and 2020

(In thousands of reais, except for earnings per share)

	Note	Individual		Consolidated	
		2021	2020	2021	2020
Software revenue		1,950,960	1,748,979	2,980,427	2,467,959
Credit products		-	-	278,436	128,118
Net revenue	29	1,950,960	1,748,979	3,258,863	2,596,077
Cost of software	30	(646,417)	(610,033)	(923,786)	(804,192)
Cost of credit products	30	-	-	(109,065)	(41,934)
Gross profit		1,304,543	1,138,946	2,226,012	1,749,951
Operating income (expenses)					
Research and development expenses	30	(370,018)	(305,355)	(585,472)	(462,176)
Selling and marketing expenses	30	(451,136)	(399,651)	(659,667)	(538,667)
Administrative expenses	30	(254,090)	(238,942)	(480,132)	(383,889)
Other operating income (expenses)	30	20,531	3,733	12,297	28,613
Operating profit		249,830	198,731	513,038	393,832
Finance income	31	55,893	28,721	97,213	47,344
Finance expenses	31	(102,616)	(35,686)	(146,016)	(58,778)
Share of profit/ (loss) of equity-accounted investees	13	162,963	125,873	(526)	(294)
Profit before income and social contribution taxes		366,070	317,639	463,709	382,104
Income tax and social contribution - current		(15,553)	(15,017)	(131,311)	(80,919)
Income tax and social contribution - deferred		17,974	(6,586)	41,639	(5,149)
Total of Income tax and social contribution taxes	10	2,421	(21,603)	(89,672)	(86,068)
Profit from continuing operations		368,491	296,036	374,037	296,036
Loss from discontinued operations		-	(1,077)	-	(1,077)
Profit for the year		368,491	294,959	374,037	294,959
Profit attributable to owners of the Company		368,491	294,959	368,491	294,959
Profit attributable to non-controlling		-	-	5,546	-
Basic earnings per thousand shares (in Reais)	28	0.63561	0.51915	0.63561	0.51915
Diluted earnings per thousand shares (in Reais)	28	0.62704	0.51304	0.62704	0.51304

The accompanying notes are an integral part of the individual and consolidated financial statements.

(A free translation of the original in Portuguese)

TOTVS S.A.

Individual and Consolidated Statements of Comprehensive Income

For the year ended December 31, 2021 and 2020

(In thousands of Reals)

	Individual		Consolidated	
	2021	2020	2021	2020
Profit for the year	368,491	294,959	374,037	294,959
Items that are or may be reclassified subsequently to profit or loss				
Foreign operations - foreign currency translation adjustments	13,909	20,515	13,909	20,515
Items that will not be reclassified to profit or loss				
Post-employment benefit	(993)	(25)	(993)	(25)
Other comprehensive income	12,916	20,490	12,916	20,490
Total comprehensive income for the year, net of tax	381,407	315,449	386,953	315,449
Total comprehensive income attributable to:				
Owners of the Company	381,407	315,449	381,407	315,449
Non-controlling interests	-	-	5,546	-

The accompanying notes are an integral part of the individual and consolidated financial statements.

TOTVS S.A.
Individual and Consolidated Statements of Changes in Shareholders' Equity
For the year ended December 31, 2021 and 2020
(In thousands of reais)

	Capital Reserve				Profit reserve				Carrying value adjustments			
	Capital	Treasury shares	Transaction between shareholders	Capital Reserve	Legal Reserve	Profit Reserve	Proposed dividends	Retained earnings	Other comprehensive income	Total Equity	Non-controlling interests	Total shareholders' equity
Balance at January 1, 2021	1,382,509	(148,537)	(24,323)	919,147	112,234	269,635	50,960	-	42,541	2,604,166	-	2,604,166
Capital transactions with shareholders	1,580,076	15,342	-	(29,956)	-	(136,903)	(50,960)	(130,243)	-	1,247,356	247,533	1,494,889
Capital increase	1,580,076	-	-	-	-	(136,903)	-	-	-	1,443,173	-	1,443,173
Share-based compensation plan	-	-	-	34,613	-	-	-	-	-	34,613	-	34,613
Disposal of treasury shares	-	15,342	-	(15,342)	-	-	-	-	-	-	-	-
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	247,533	247,533
Share issue expenses	-	-	-	(40,379)	-	-	-	-	-	(40,379)	-	(40,379)
Distribution of dividends	-	-	-	-	-	-	(50,960)	-	-	(50,960)	-	(50,960)
Interest on shareholders' equity	-	-	-	-	-	-	-	(130,243)	-	(130,243)	-	(130,243)
Call option of non-controlling interests	-	-	-	(361,388)	-	-	-	-	-	(361,388)	-	(361,388)
Dilution of interest	-	-	-	352,540	-	-	-	-	-	352,540	-	352,540
Total comprehensive income	-	-	-	-	-	-	-	368,491	12,916	381,407	5,546	386,953
Profit for the year	-	-	-	-	-	-	-	368,491	-	368,491	5,546	374,037
Cumulative adjustment for currency exchange	-	-	-	-	-	-	-	-	13,909	13,909	-	13,909
Post-employment benefit	-	-	-	-	-	-	-	-	(993)	(993)	-	(993)
Appropriation of retained earnings	-	-	-	-	18,425	219,823	-	(238,248)	-	-	-	-
Balance at December 31, 2021	2,962,585	(133,195)	(24,323)	889,191	130,659	352,555	-	-	55,457	4,232,929	253,079	4,486,008

The accompanying notes are an integral part of the individual and consolidated financial statements.

	Capital Reserve				Profit reserve			Carrying value adjustments				
	Capital	Treasury shares	Transaction between shareholders	Capital Reserve	Legal Reserve	Profit Reserve	Proposed dividends	Retained earnings	Other comprehensive income	Total Equity	Non-controlling interests	Total shareholders' equity
Balance at January 1, 2020	1,382,509	(62,531)	(25,518)	901,497	97,486	136,903	24,817	-	22,051	2,477,214	1,195	2,478,409
Capital transactions with shareholders	-	(86,006)	1,195	17,650	-	-	(24,817)	(96,519)	-	(188,497)	(1,195)	(189,692)
Share-based compensation plan	-	-	-	24,650	-	-	-	-	-	24,650	-	24,650
Disposal of treasury shares on a share-based payment	-	8,728	-	(7,000)	-	-	-	-	-	1,728	-	1,728
Purchases of treasury shares	-	(94,734)	-	-	-	-	-	-	-	(94,734)	-	(94,734)
Distribution of dividends	-	-	-	-	-	-	(24,817)	-	-	(24,817)	-	(24,817)
Interest on shareholders' equity	-	-	-	-	-	-	-	(96,519)	-	(96,519)	-	(96,519)
Acquisitions of non-controlling interests	-	-	1,195	-	-	-	-	-	-	1,195	(1,195)	-
Total comprehensive income	-	-	-	-	-	-	-	294,959	20,490	315,449	-	315,449
Profit for the year	-	-	-	-	-	-	-	294,959	-	294,959	-	294,959
Cumulative adjustment for currency exchange	-	-	-	-	-	-	-	-	20,515	20,515	-	20,515
Post-employment benefit	-	-	-	-	-	-	-	-	(25)	(25)	-	(25)
Appropriation of retained earnings	-	-	-	-	14,748	132,732	50,960	(198,440)	-	-	-	-
Balance at December 31, 2020	1,382,509	(148,537)	(24,323)	919,147	112,234	269,635	50,960	-	42,541	2,604,166	-	2,604,166

The accompanying notes are an integral part of the individual and consolidated financial statements.

(A free translation of the original in Portuguese)

TOTVS S.A.
Individual and Consolidated Statement of Cash Flows
For the year ended December 31, 2021 and 2020
(In thousands of Reais)

		Individual		Consolidated	
	Note	2021	2020	2021	2020
Cash flow from operating activities					
Profit before income and social taxes for the period from continuing operations		366,070	317,639	463,709	382,104
Adjustments for:					
Depreciation and amortization	14/15	134,845	124,758	261,120	204,587
Share-based payments transactions	26	34,613	24,650	34,613	24,650
Losses on disposal of fixed assets and investments		(703)	(2,480)	9,452	(2,245)
Impairment loss on trade and other receivables	8	14,395	26,115	36,235	43,856
Share of profit/ (losses) of equity-accounted investees	13	(162,963)	(125,873)	526	294
Provision for contingencies, net of reversals	22	28,267	34,892	31,911	44,125
Reversal of provision net of additional provisions on other obligations and others		-	(2,072)	17,542	(27,532)
Senior shares and mezzanine remuneration (FIDC)		-	-	78,394	25,852
Interest and monetary variations and exchange variations differences, net		94,648	25,607	145,349	39,288
		509,172	423,236	1,078,851	734,979
Changes in operating assets and liabilities					
Trade and other receivables		(7,737)	(68,706)	(496,034)	(397,408)
Recoverable taxes		(23,567)	(2,699)	(47,100)	4,011
Judicial deposits		11,825	10,933	13,414	22,294
Other assets		(36,600)	2,410	(43,042)	(35,866)
Labor liabilities		35,223	(7,287)	6,797	(497)
Trade and other payables		(3,601)	28,433	(27,108)	29,326
Commissions payable		2,325	4,062	3,188	6,786
Taxes and contributions payable		17,362	(3,194)	2,588	3,221
Business partners payable		-	-	191,301	151,616
Other liabilities		(43,033)	(40,884)	(58,909)	(55,185)
Cash generated from operating activities		461,369	346,304	623,946	463,277
Interest paid		(61,151)	(19,128)	(67,477)	(21,638)
Tax paid		(43,236)	(11,992)	(131,947)	(69,897)
Net cash from operating activities		356,982	315,184	424,522	371,742
Cash flow used in investing activities					
Capital increase in subsidiaries/ associates	13.2	(1,723,196)	(426,347)	-	-
Dividends received		53,902	62,000	-	-
Acquisition of property, plant and equipment	14	(62,182)	(29,174)	(94,692)	(32,067)
Acquisition of intangible assets	15	(78,596)	(50,405)	(81,498)	(52,973)
Merged companies		730	-	-	-
Franchises loan		(47,664)	-	(47,664)	-
Acquisitions of subsidiaries, net of cash acquired		-	-	(1,705,031)	(329,016)
Payments from acquisitions of subsidiaries		-	(7,121)	(34,062)	(7,121)
Proceeds from sale of subsidiaries, net of cash		5,469	5,000	5,469	19,695
Proceeds from sale of property, plant and equipment		3,677	2,922	4,357	3,490
Financial investments		-	-	(193,766)	42,231
Net cash used in investing activities		(1,847,860)	(443,125)	(2,146,887)	(355,761)
Cash flow generated by/ (used in) financing activities					
Payment of principal of loans and financing		-	-	(4,157)	(174,858)
Payment of principal of debentures		-	(400,000)	-	(400,000)
Payment of principal of lease liabilities		(40,139)	(46,694)	(46,906)	(54,624)
Proceeds from debentures, loans and financing		1,489,369	196,924	1,489,369	296,924
Application (redemption) of senior and mezzanine shares		-	-	268,165	7,388
Capital increase, net of expenses		1,402,794	-	1,402,794	-
Investment from non-controlling interest		-	-	600,073	-
Receivables from related companies		(2,205)	12	-	-
Dividends and interest on shareholders' equity paid		(143,634)	(108,228)	(143,634)	(108,228)
Treasury shares, net		-	(93,006)	-	(93,006)
Net cash generated by/ (used in) financing activities		2,706,185	(450,992)	3,565,704	(526,404)
Net Increase (decrease) in cash and cash equivalents		1,215,307	(578,933)	1,843,339	(510,423)
Cash and cash equivalents at beginning of the year		527,955	1,106,888	1,027,733	1,538,156
Cash and cash equivalents at the end of the year		1,743,262	527,955	2,871,072	1,027,733

The accompanying notes are an integral part of the individual and consolidated financial statements.

TOTVS S.A.
Individual and Consolidated Statements of Value Added
For the year ended December 31, 2021 and 2020
(In thousands of Reais)

	Individual		Consolidated	
	2021	2020	2021	2020
1 – REVENUES	2,207,700	1,949,194	3,615,267	2,892,056
1.1 Sales of goods, products and services	2,201,562	1,971,993	3,639,205	2,907,938
1.2 Other revenue	20,533	3,316	12,297	27,974
1.3 Impairment loss on trade and other receivables (recording)	(14,395)	(26,115)	(36,235)	(43,856)
2 - RAW MATERIALS ACQUIRED FROM THIRD-PARTIES (includes ICMS and IPI taxes)	(646,859)	(619,578)	(1,000,145)	(813,338)
2.1 Cost of goods and services sold	(115,777)	(108,301)	(235,463)	(158,369)
2.2 Materials, energy, outsourced services and other	(531,082)	(510,200)	(764,682)	(653,892)
2.3 Results from discontinued operations	-	(1,077)	-	(1,077)
3 - GROSS VALUE ADDED (1+2)	1,560,841	1,329,616	2,615,122	2,078,718
4 - DEPRECIATION AND AMORTIZATION	(134,845)	(124,758)	(261,120)	(204,587)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3+4)	1,425,996	1,204,858	2,354,002	1,874,131
6 - VALUE ADDED RECEIVED THROUGH TRANSFERS	218,856	154,594	96,687	47,050
6.1 Share of profit/ (losses) of equity-accounted investees	162,963	125,873	(526)	(294)
6.2 Finance income	55,893	28,721	97,213	47,344
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	1,644,852	1,359,452	2,450,689	1,921,181
8 - VALUE ADDED DISTRIBUTION	1,644,852	1,359,452	2,450,689	1,921,181
8.1 Personnel	882,174	749,827	1,377,030	1,106,293
8.1.1 Direct Compensation	741,915	621,166	1,163,428	919,351
8.1.2 Benefits	89,501	82,488	136,342	120,744
8.1.3 FGTS (Unemployment fund)	50,758	46,173	77,260	66,198
8.2 Taxes and contributions	290,368	277,936	551,401	458,841
8.2.1 Federal	230,455	224,940	459,102	382,350
8.2.2 State	40	44	2,244	1,757
8.2.3 Local	59,873	52,952	90,055	74,734
8.3 Interest and rent	103,819	36,730	148,221	61,088
8.3.1 Interest	102,616	35,686	146,016	58,778
8.3.2 Rents	1,203	1,044	2,205	2,310
8.4 Equity remuneration	368,491	294,959	374,037	294,959
8.4.1 Interest on shareholders' equity	130,243	96,519	130,243	96,519
8.4.2 Dividends	-	50,960	-	50,960
8.4.3 Retained profit for the year	238,248	147,480	238,248	147,480
8.4.4 Non-controlling interest in retained profits	-	-	5,546	-

The accompanying notes are an integral part of the individual and consolidated financial statements.

TOTVS S.A.

Notes to the Individual and Consolidated Financial Statements

(In thousands of Reais, unless otherwise stated)

1. The Company and its operations

1.1 Reporting entity

TOTVS S.A. ("TOTVS", "Company" or "Individual") is a publicly held corporation headquartered at Av. Braz Leme, 1.000, in the city and state of São Paulo, whose shares are traded on the Novo Mercado of B3 S.A. – Brasil, Bolsa, Balcão ("B3").

1.2 Operations

The Company's business purpose is to provide business solutions for companies of all sizes, through the development and sale of management software, productivity platforms, collaboration, and data intelligence, digital marketing as well as the provision of implementation, consulting, advisory, maintenance services, e-commerce and mobility. The solutions developed by the Company and its subsidiaries are segmented by the diverse economy industry, resulting in greater importance of these solutions for our clients' business.

The Company, through its subsidiary Supplier Participações S.A. ("Supplier"), provides financial services, issuance and credit card management business, including credit analysis and intermediation of financing requests in its businesses. Supplier holds subordinated shares and senior shares of a securitization fund known as Fundo de Investimento em Direitos Creditórios ("Supplier FIDC"), which purchases, sales and securitizes own or third-party credit rights. The investment in FIDC has been included in Company's consolidated financial statements.

1.3 Impacts of the COVID-19 pandemic

The Company and its subsidiaries keep monitoring the impacts of the COVID-19 pandemic and have been taking the same preventive and mitigating measures adopted in 2020 in line with the guidelines set forth by health authorities regarding the safety of its employees (TOTVERS) and the continuity of its operations.

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

In addition, the Company and its subsidiaries adopted the hybrid work model and are studying, together with the Crisis Committee, the resumption of TOTVERS in the 1st quarter of 2022.

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

Impact analyses on individual and consolidated financial statements

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

- (i) **Assessment of the impairment loss and other receivables:** The Company and its subsidiaries assess the variables that make up the methodology for measuring estimated losses, through the projected rolling of each portfolio range, capturing the estimated reflexes in default and credit recovery for the following months. The Company and its subsidiaries do not observe any significant changes in relation to the Financial Statements for the years ended December 31, 2021 and 2020. Management continues monitoring the economic scenario and assessing any possible impacts on the measurement of estimated losses.
- (ii) **Impairment testing of intangible assets with an indefinite useful live:** The Company and its subsidiaries assessed the recoverability of its assets through an impairment analysis of cash-generating units and did not detect the need for a provision for loss in its financial statements for the year ended December 31, 2021 and 2020.
- (iii) **Recoverability of deferred taxes:** Recoverability of deferred tax assets is reviewed annually or when the availability of future taxable profits for the recovery of the asset, in total or in part, is not probable. In the management view, the current scenario impacted by COVID-19 pandemic did not affect projections of future taxable income and allows recoverability of credits for next years.

In addition to the items highlighted above, the Company and its subsidiaries have been closely monitoring liquidity and credit risks as mentioned in note 5.6.

2. Basis of accounting

2.1. Statement of compliance

The individual and consolidated financial statements were prepared and is presented in accordance with the accounting practices adopted in Brazil, which comprise the rules issued by the Brazilian Securities and Exchange Commission (CVM), and Brazil's Financial Accounting Standards Board (CPC) pronouncements, guidance and interpretations, which are in conformity with the standards and procedures of the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). All significant information in the individual and consolidated financial statements, and solely such information, is disclosed and corresponds to that used by Company Management.

The financial statements presented in this document were approved at the Board of Directors' Meeting held on February 15, 2022, after a recommendation by the Audit Committee and Fiscal Council at a meeting held on February 14, 2022.

2.2. Basis of preparation

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

All amounts presented in this individual and consolidated financial statements are expressed in thousands of reais, unless otherwise indicated.

Moreover, the Company considered the guidelines issued under Accounting Guidance OCPC07 when preparing its financial statements.

2.3. Consolidation basis

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2021. Control is achieved when the Company and its subsidiaries are exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

Joint operations are accounted for in the financial statements to represent the Company's contractual rights and obligations. Accordingly, assets, liabilities, revenues and expenses related to their interests in joint operation are accounted for individually in the consolidated financial statements.

Profit or loss and each component of Other Comprehensive Income - OCI are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling

interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Company's accounting policies. All intercompany assets and liabilities, shareholders' equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Non-controlling interests (NCI)

Non-controlling interests are measured, by the Company and its subsidiaries, initially at their proportionate share of the acquirer's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the entity loses control over a subsidiary, the Company and its subsidiaries derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

Corporate Names	Head office	Interest	Main activity	% Interest	
				2021	2020
Soluções em Software e Serviços TTS Ltda. ("TTS")	BRA	Direct	Software operation	100.00%	100.00%
TOTVS Tecnologia em Software de Gestão Ltda. ("TOTVS Tecnologia")	BRA	Direct	Software operation	100.00%	100.00%
TOTVS Hospitality Ltda. ("TOTVS Hospitality")	BRA	Direct	Software operation	74.20%	74.20%
VT Comércio Digital S.A. ("VT Comércio")	BRA	Direct	Software operation	50.00%	50.00%
TOTVS Argentina S.A. ("TOTVS Argentina")	ARG	Direct	Software operation	100.00%	100.00%
TOTVS México S.A. ("TOTVS México")	MEX	Direct	Software operation	100.00%	100.00%
TOTVS Incorporation ("TOTVS Inc.")	EUA	Direct	Software operation	100.00%	100.00%
TOTVS Large Enterprise Tecnologia S.A. ("TOTVS Large")	BRA	Direct	Software operation	100.00%	100.00%
Dimensa S.A. (antiga TFS Soluções em Software Ltda.) ("Dimensa") (vii)	BRA	Direct	Software operation	62.50%	100.00%
CM Soluciones – Argentina ("CMNet Argentina")	ARG	Direct	Software operation	100.00%	100.00%
TOTVS Serviços de Desenvolvimento e Consultoria em Tecnologia da Informação Ltda. ("Eleve")	BRA	Direct	Software operation	100.00%	100.00%
Katrina Participações S.A. ("Katrina")	BRA	Direct	Software operation	100.00%	100.00%
Neolog Consultoria e Sistemas S.A. ("Neolog") (i)	BRA	Direct	Software operation	-	100.00%
Datasul S.A. de CV. ("Datasul México") (ii)	MEX	Direct	Software operation	100.00%	100.00%
TOTVS Corporation ("TOTVS BVI") (ii)	BVI	Direct	Software operation	100.00%	100.00%
Datasul Argentina S.A. ("Datasul Argentina") (ii)	ARG	Direct	Software operation	100.00%	100.00%
TOTVS Renda Fixa Crédito Privado Fundo de Investimento em Cotas de Fundos de Investimento ("Fundo Restrito")	BRA	Direct	Restricted Investment Fund	100.00%	-
RD Gestão e Sistemas S.A. ("RD Station") (iii)	BRA	Indirect	Software operation	92.04%	-
TOTVS Reservas Ltda. ("TOTVS Reservas")	BRA	Indirect	Software operation	100.00%	100.00%
CMNet Participações S.A. ("CMNet Participações")	BRA	Indirect	Holding - Participation in other companies	100.00%	100.00%

TOTVS Hospitality Techonology Portugal Lda. ("CMNet Portugal")	PRT	Indirect	Software operation	100.00%	100.00%
CM Soluciones – Chile ("CMNet Chile")	CHL	Indirect	Software operation	100.00%	100.00%
RJ Participações S.A. ("RJ Participações")	BRA	Indirect	Holding - Participation in other companies	80.00%	80.00%
R.J. Consultores en Sistemas de Información S.C. ("RJ México")	MEX	Indirect	Software operation	80.00%	80.00%
R.J. Consultores e Informática Ltda. ("RJ Consultores")	BRA	Indirect	Software operation	80.00%	80.00%
Consinco S.A. ("Consinco")	BRA	Indirect	Software operation	100.00%	100.00%
Wealth Systems Informática Ltda. ("WS")	BRA	Indirect	Software operation	100.00%	100.00%
Supplier Participações S.A. ("Supplier")	BRA	Indirect	Financial Services and Credit Operations	88.75%	88.75%
Supplier Administradora de Cartão de Crédito S.A. ("Supplier Administradora")	BRA	Indirect	Financial Services and Credit Operations	88.75%	88.75%
Tail Target Tecnologia de Informação Ltda. ("Tail")	BRA	Indirect	Software operation	100.00%	100.00%
National Platform, LLC ("National Platform")	RUS	Indirect (Associate)	Software operation	19.00%	19.00%
RD Station Colômbia SAS ("RD Colômbia") (iii)	COL	Indirect	Software operation	92.04%	-
TOTVS Hospitality Ltda. ("TOTVS Hospitality")	BRA	Indirect	Software operation	25.80%	25.80%
TOTVS Colômbia SAS ("TOTVS Colômbia") (iv)	COL	Indirect	Software operation	100.00%	-
Supplier Investimentos Ltda. ("Supplier Investimentos") (i)	BRA	Indirect	Financial Services and Credit Operations	-	100.00%
DTS Consulting Partner, SA de CV ("Partner") (ii)	MEX	Indirect	Software operation	100.00%	100.00%
Bematech Ásia Co.Ltd. ("Bematech Ásia") (v)	TWN	Indirect	Software operation	-	100.00%
Bematech Argentina S.A. ("Bematech Argentina") (ii)	ARG	Indirect	Software operation	100.00%	100.00%
CMNet Espanha ("CMNet Espanha") (v)	ESP	Indirect	Software operation	-	100.00%
Cartão de compra Supplier Fundo de Investimento em Direitos Creditórios ("Supplier FIDC") (vi)	BRA	Indirect	Financial Services and Credit Operations	-	-

(i) Incorporated companies as mentioned in note 4.3.

(ii) Dormant companies that will be closed.

(iii) Company acquired in 2021 as mentioned in note 4.1.

(iv) Company created to concentrate the software operations in Colombia.

(v) Company discontinued.

(vi) The consolidated financial statements include the Supplier FIDC, since the Company acquired subordinated quotas, which maintain most of the Fund's risk and rewards.

(vii) On October 01, 2021, was approved the non-controlling interest sale of 37.5% for B3 as mentioned in note 4.1.

Comparing the consolidated profit or loss between 2021 and 2020, the acquisition dates of each subsidiary must be considered. Thus, the consolidated financial statements as of December 31, 2020 does not include the profit or loss of subsidiaries Tail and RD, which were included in the consolidated financial statements as from the date of their acquisition.

2.4. Significant accounting practices

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

a) Changes in comparative information and restatement of the Financial Statements as at December 31, 2020

During 2021, the Company identified the need to change the criteria for presenting depreciation and amortization expenses, as well as the impairment loss on trade and other receivables in accordance with CPC 26/IAS1. This change aims to adjust the items described above by function in the statement of Profit or Loss.

In accordance with CPC 23/IAS 8, the Company restated the individual and consolidated Financial Statements for the years ended December 31, 2020, 2019 and 2018.

b) Functional currency and presentation currency

These Financial Statements are presented in Reais, which is the functional currency of the Company and its subsidiaries domiciled in Brazil, the same currency used in the preparation and presentation of the individual and consolidated financial statements. All balances have been rounded to the nearest thousand, unless otherwise indicated.

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

c) Fair value measurement

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

Fair value measurement is based on the assumption that the transaction to sell the asset or transfer the liabilities will take place: (i) in the main market for the asset or liability; or (ii) In the absence of a main market, in the most advantageous market for the asset or the liability. The main or most advantageous market must be accessible by the Company.

The measurement of the fair value of a non-financial asset takes into account the market participant's ability to generate economic benefits by using the asset to its best possible use or by selling it to another market participant who would use the asset to its best use.

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

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities recognized at fair value in the financial statements on a recurring basis, the Company and its subsidiaries determine whether transfers have occurred between levels of the hierarchy, reassessing the categorization in the end of each reporting period.

d) Financial Instruments

(i) Financial assets

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the business model of the Company and its subsidiaries for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company and its subsidiaries have applied the practical expedient, the Company and its subsidiaries initially measure a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company and its subsidiaries have applied the practical expedient are measured at the transaction price as disclosed in note 8.

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

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

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

Subsequent measurement

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

- Financial assets at amortized cost (debt instruments); and
- Financial assets at fair value through profit or loss.

Financial assets at amortized cost

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. The financial assets of the Company and its subsidiaries at amortized cost includes cash and cash equivalents and bank accounts, escrow account, trade and other receivables, franchises loan and receivables from investments disposed of included in other current financial assets (note 12).

Financial assets at fair value through profit or loss

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

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

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

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

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

Impairment

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

- Disclosures for significant assumptions – note 3; and
- Trade receivables – note 8.

The Company and its subsidiaries recognize an impairment loss on trade and other receivables for all debt instruments not held at fair value through profit or loss. Impairment loss on trade and other receivables are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company and its subsidiaries expect to receive,

discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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

ii) Financial liabilities

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

Subsequent measurement

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

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

Financial liabilities at amortized cost

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

Amortized cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss. This category usually applies to loans and financing, debentures and leases granted and taken out, subject to interest. For more information see notes 18 and 19.

Financial liabilities at fair value through profit or loss

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

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in CPC 48 / IFRS 9 are satisfied. The Company and its subsidiaries have designated some accounts payable from acquisition of subsidiaries (see note 21) as at fair value through profit or loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of

a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

iii) Offsetting of financial instruments

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

e) Provision for impairment of assets

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

Goodwill paid for expected future profitability is tested annually for impairment or when circumstances indicate a loss due to the depreciation of its book value (see note 15.2).

f) Leases

The Company and its subsidiaries apply a single approach for recognition and measurement of all leases, except for short-term leases and low-value assets. On the initial date of the lease, the lessee recognizes the lease liabilities measured at present value of the payments to be made over the term of the lease and the right-of-use assets representing the right to use the underlying asset.

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

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

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

The Company and its subsidiaries's lease liabilities are included in Loans, financing and lease liabilities (see Note 18).

g) Adjustment to present value of assets and liabilities

Long-term monetary assets and liabilities are monetarily restated and therefore adjusted to their present value. The adjustment to present value of short-term monetary assets and liabilities is calculated, and only recorded, if it is considered relevant in relation to the financial statements taken as a whole. Based on the analysis made and management's best estimates, the Company and its subsidiaries concluded that the adjustment to present value of current monetary assets and liabilities is immaterial in relation to the financial statements taken as a whole and, therefore, did not record any adjustments.

h) Intangible assets and Goodwill

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

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

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

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

Business combination and goodwill

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

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

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

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

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

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

Research and development

Research and development costs are recognized in the profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Company and its subsidiaries intend to and have sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. After initial recognition, capitalized development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

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

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

The activity of the Company and its subsidiaries presuppose continuous development, and in this context, projects are being developed, mostly focused on the three business dimensions of the Company and its subsidiaries: Management, Techfin and Business Performance.

i) Revenues and expenses

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

Recurring software revenue

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

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

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

Non-recurring software revenue

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

(i) Revenue from software licensing fee is recognized at the point in time when all risks and rewards inherent in the license are transferred to the customer, upon software delivery, and the amount can be reliably measured and its likely that economic benefits will be generated for the Company and its subsidiaries.

(ii) Revenues from implementation and customization services represent a performance obligation distinct from other services, billed separately and recognized over time as costs are incurred in relation to the total expected costs, realized according to the performance schedule and when there is a valid expectation of receipt from the customer. Billed revenues that do not meet the recognition criteria are not included in the respective revenue accounts and accounts receivable. Revenue from advisory and training services is recognized as the services are provided.

Credit products revenue

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

Costs and expenses

Software costs consist mainly by salaries of consulting, support personnel, and includes costs of acquisition of databases and the price of licenses paid to third parties for resold software, as well depreciation and amortization of assets related to the software costs.

Expenses with research and development incurred by the software development area, related to new software versions and upgrades of existing software, that do not meet the capitalization criteria, are recognized as expenses, for the year in which they are incurred and stated separately from selling costs, administrative expenses and other expenses in the operating expenses's group.

j) Taxation

Sales taxes

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

- Contribution tax on Gross Revenue for Social Integration Program (PIS) 0.65% and 1.65%;
- Contribution tax on Gross Revenue for Social Security Financing (COFINS) 3.0% and 7.6%;
- Service Tax (ISS) between 2% and 5%;
- Pension Contribution on Gross Income (CPRB) of 4.5%; and
- State value-added tax (ICMS) between 4% and 12%.

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

Income and social contribution taxes – current and deferred

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

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

k) Hyperinflationary economy in Argentina

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

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

The effects of hyperinflation resulting from changes in the general purchasing power from January 1, 2021 and 2020, were reported in the statements of profit or loss in a specific account for hyperinflation adjustment, in financial income (expenses). The effect in net losses for the year ended December 31, 2021 was R\$4.080 (R\$930 net profit as of December 31, 2020).

l) Share-based compensation plan

Executives, the chairman of the Board of Directors and some employees of the Company and its subsidiaries receive compensation in the form of share-based payments, whereby employees render services in exchange for equity instruments (equity-settled transactions). The compensation expense of share-based payments to employees is based on the fair value of the award at the grant date using an appropriate valuation model, further details of which are given in note 26.

Compensation expense is recognized as expenses with employee benefits together with the corresponding increase in equity (in capital reserves), over the period in which the service is rendered and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognized for equity-settled transactions at each reporting date until the

vesting date reflects the extent to which the vesting period has expired and the best estimate of the Company and its subsidiaries on the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for the period represents the changes in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. When awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

m) New standards in effect from January 1, 2021

Following we present revisions and amendments in certain standards, for annual periods beginning on January 01 , 2021, which do not have significant impact in the Financial Statements from the Company and its subsidiaries:

- Amendments in CPC 11, CPC 40 (R1), CPC 48, CPC 06 (R2), e CPC 38 - Interest rate benchmark reform - Phase 2: The amendment comprises the interest rate benchmark replacement for an alternative interest rate. For CPCs 48 and 38, the interest rate benchmark reform changes the basis for determination of contractual cash flows from the protection relation. For CPC 06 (R2) changes the leases due to change of the basis for determination of future payments.
- Amendments in CPC 06 (R2): COVID-19-Related Rent Concessions, in contracts whose payment go before June 30, 2021: The amendment provides rent concession on the change of lease contract, to the record the benefit related as a direct consequence of the COVID-19 pandemic.

As a practical expedient, a lessee may opt in not to assess whether a COVID-19-related benefit provided by the lessor is a modification of the lease. The Company and its subsidiaries negotiated the postponement of payments that did not impact the lease liability and occasional discounts that did not constitute a change of the contract with an immaterial impact on the result.

The Company and its subsidiaries have decided to not early adopt any other standard, interpretation or amendment that has been issued, but not yet in force.

n) New standards, amendments and interpretations to standards issued but not yet in force

The standards, amendments and interpretations of standards issued, but not yet in force until the issue of these financial statements, in which the Company and its subsidiaries do not expect significant impacts in the application of these amendments or do not apply, are shown below:

- Review of Standard nº 19/ 2021;
- Amendments to IAS 1- Classification of Liabilities as Current or Non-current;
- Amendments to IAS 12 (CPC 32) – Income taxes;
- Amendments to IAS 8 (CPC 23) - Definition of Accounting Estimates;
- Amendments to IAS 1 (CPC 26 (R1)) - Disclosure of Accounting Policies;
- IFRS 17/ CPC 50 – Insurance Contracts.

There are no other standards, amendments and interpretations for standards issued but not effective, in Management's opinion, may have a significant impact on the profit or loss or equity disclosed by the Company and its subsidiaries.

3. Significant accounting judgments, estimates and assumptions

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

3.1 Judgments

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

(i) Revenue recognition: Judgements in identifying the performance obligations for sales of software, which include licensing fees, monthly software services and implementation/customization services, that can have significant effects while recognizing revenue from contracts with customers. The Company and its subsidiaries have concluded that such performance obligations are distinct as they are sold separately. The implementation and customization services are offered by other suppliers.

(ii) Lease term: The Company and its subsidiaries determine the lease term as the non-cancelable contractual term, together with the periods included in a possible option for renewal as this renewal is assessed as reasonably likely to occur and with periods covered by a contract rescission option as it can also be determined as reasonably likely to occur.

3.2 Estimates and assumptions

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

(i) **Impairment loss on trade and other receivables** - the Company and its subsidiaries use a provision matrix based on the historical loss rates observed by the Company and its subsidiaries to calculate the impairment loss on trade and other receivables. The evaluation of the correlation

between the observed historical loss rates, the projected economic conditions and the expected credit losses represents a significant estimate. The volume of impairment loss on trade and other receivables is sensitive to changes in the predicted economic conditions and circumstances. The Company and its subsidiaries' historical experience of credit loss and the projection of economic conditions may also not represent the customer's real situation in the future. Information on expected credit losses on accounts receivables is described in Note 8.

(ii) Recoverable amount of tangible and intangible assets, including goodwill – an impairment loss exists when the book value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher between the net fair value of selling expenses and the value in use. The main assumptions used to determine the recoverable amount of cash-generating units, including sensitivity analysis, are detailed in Note 15.2.

(iii) Fair value measurement of financial instruments – when the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. Contingent consideration, resulting from business combinations, is measured at fair value on the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently revalued at fair value at each reporting date. The fair value is based on the discounted cash flow. The main assumptions consider the probability of reaching each objective and the discount factor (see Note 21 for more disclosures).

(iv) Deferred taxes – Deferred tax assets are recognized for all tax losses not used to the extent that it is probable that there is taxable income available to allow the use of said losses. Significant judgment from Management is required to determine the value of the deferred tax asset that may be recognized, based on the probable period and level of future taxable income, coupled with future tax planning strategies. For more details, see Note 10.3.

(v) Provision for contingencies – the evaluation of probability of loss includes assessing the available evidence, hierarchy of laws, available case law, the most recent court rulings and their relevance in the legal system, as well as the opinion of external counsel. Provisions are reviewed and adjusted to account for changes in circumstances, such as applicable limitation periods, conclusion of tax audits or additional exposures identified based on new matters or court rulings. Further details in Note 22.

(vi) Non-recurrent revenue – the recognition of revenue from software implementation and customization services requires the use of estimates to project the total costs required to comply with the contractual performance obligation with the client. The Company and its subsidiaries periodically reassess these estimates and re-plan the contractual margins whenever necessary.

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

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

4. Corporate changes

4.1 Business combinations

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

A. RD Station

On March 9, 2021, the Company entered into a share and purchase agreement for the acquisition of shares corresponding to 92% of the Share Capital of RD Gestão e Sistemas S.A. ("RD"), through its subsidiary TOTVS Large, with a transaction amount of R\$1,864,593. RD Station is a leader in the digital marketing automation software market and is part of the Company's Business Performance strategy.

The closing of this transaction depended on the approval of the Brazilian competition authorities (CADE), which took place on April 14, 2021 and on the verification of other usual conditions for this type of business. The transaction was completed on May 31, 2021.

Additionally, the transaction also provides for put and call options of the remaining shares of the capital of RD that can be exercised between April and June of 2024. The exercise price of the options will be measured based on multiples applied by RD's performance on December 31, 2023. Considering that the put and call options of additional interests issued in favor of non-controlling interest was agreed upon in conjunction with the business combination, the fair value of the put and call option was recognized and recorded under "Accounts payable from acquisition of subsidiaries".

Below is a summary of the fair value at the acquisition date of the transferred consideration after price adjustment.

<i>In thousands of reais</i>	Note	
Cash payment		1,829,713
Amount withheld	<u>20</u>	34,228
Contingent consideration	<u>20</u>	205,554
Price adjustment		652
Total of consideration		<u>2,070,147</u>

Acquisition Cash Flow Analysis

Cash payment	1,829,713
Amount withheld	34,228
Net cash acquired from the subsidiary	<u>(158,910)</u>
Acquisition net cash flow	<u>1,705,031</u>

B. Tail Target acquisition

On December 19, 2020, the Company through its subsidiary TOTVS Large, acquired 100% of the Share Capital of Tail Target Tecnologia de Informação Ltda., which provide of a data intelligence

platform that supply insights to customers through real time monitoring of the behavior of a wide audience on the internet in order to optimize its customers 'sales.

The Tail purchase price was R\$32,000, of which payments being distributed as follows: (i) R\$ 7,800 was paid in cash; (ii) R\$3,506 referring to installments retained to comply with conditions established in the contract after the price adjustment; and (iii) R\$ 20,000 to be paid upon reaching the targets established for Tail related to the years 2021 and 2022, whose fair value on the acquisition date was R\$ 11,600.

C. Identifiable intangible assets acquired and Goodwill

The following is the information related to identified assets acquired and preliminary liabilities assumed at fair value, goodwill and cost of the interest held that affected the consolidated financial statements position as at December 31, 2021:

Preliminary fair value	Tail	RD	TOTAL
<i>At acquisitions date</i>	<i>12/19/2020</i>	<i>05/31/2021</i>	
Current assets	2,735	202,809	205,544
Cash and cash equivalents	679	158,910	159,589
Trade and other receivables	1,836	27,613	29,449
Other current assets	220	16,286	16,506
Non-current assets	11,458	372,056	383,514
Deferred tax	259	-	259
Property, plant and equipment	1,384	33,396	34,780
Software	5,917	188,434	194,351
Client portfolio	1,395	91,293	92,688
Brand	-	44,417	44,417
Non-compete	2,503	14,516	17,019
Current liabilities	2,970	123,925	126,895
Labor liabilities	586	19,888	20,474
Other liabilities	2,384	104,037	106,421
Non-current liabilities	1,433	110,745	112,178
Net assets and liabilities	9,790	340,195	349,985
Cash payment	7,800	1,830,365	1,838,165
Long-term portion (i)	15,106	239,782	254,888
Goodwill	13,116	1,729,952	1,743,068

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

The RD Station assets acquired and liabilities assumed at fair value presented above. So, if new information obtained within a period of one year from the acquisition date about facts and circumstances that existed on the acquisition date and indicate adjustments to these amounts, or any provision that existed at the acquisition date, the acquisition accounting will be revised.

The goodwill of R\$1,743,068 comprises the value of future economic benefits of synergies arising from the acquisition and align with the strategy of the Company and its subsidiaries and are allocated to the Business Performance segment.

Contingent considerations were recorded at fair value on the acquisition date and are presented in note 21.

The acquired companies were included in the Business Performance segment in line with the TOTVS group's strategy and contributed with a net consolidated revenue from services and sales of R\$154,328 and net profit of R\$1,196 for the year ended December 31, 2021, after each acquisition date mentioned above. If the acquisition of RD Station had taken place on January 01, 2021, the consolidated net revenue from services and sales would have been R\$219,742 and net losses would have been R\$79,089.

The transaction cost involving the acquisitions of these companies for the year ended December 31, 2021 was R\$7,668, recognized in profit or loss as administrative expenses.

4.2. Partnership between TOTVS and B3

On October 1, 2021, the Company concluded the agreement for the subscription by B3 SA – Brasil, Bolsa, Balcão (“B3”), of a minority stake representing 37.5% of the total shares of Dimensa SA (“Dimensa”), after the fulfillment of all conditions precedent for the amount of R\$600,073 (after price adjustments).

With this agreement, TOTVS holds 62.5% interest in the share capital of Dimensa and the transaction generated a gain of R\$352,540 recorded in shareholders' equity from individuals.

The transaction also has call options by B3, between the 3rd and 6th year of the company, subject to possible events. The fair value of the option on the transaction date was R\$361,388 and the call option of non-controlling interest was recognized as capital reserve in accordance with CPC 39/IAS 32. The balance of the call option of non-controlling interest as of December 31, 2021 is R\$366,194.

4.3. Merged companies

For the year ended December 31, 2021, the Company and its subsidiaries incorporated the net assets at book value as follows:

Statement of financial position	Supplier Investimentos	Neolog
<i>Date base</i>	<i>10/31/2020</i>	<i>01/31/2021</i>
Current assets	757	5,237
Cash and cash equivalents	17	1,462
Trade and other receivables	-	3,643
Other current assets	740	132
Non-current assets	24,230	587
Other non-current assets	24,230	60
Property, plant and equipment	-	496
Intangible assets	-	31
Total assets	24,987	5,824
Current and non-current liabilities	-	3,325
Merged net assets	24,987	2,499

On January 1, 2021, subsidiary Supplier Investimentos Ltda. was merged with TOTVS Tecnologia em Software Ltda., with net assets amounting to R\$24,987. The net assets were valued by experts who issued a valuation report on October 31, 2020 and any changes in the net assets after the base date of the valuation report until the effective merger date were absorbed by TOTVS Tecnologia em Software Ltda..

On May 1, 2021, subsidiary Neolog was merged by TOTVS S.A. with net assets amounting to R\$2,499. The net assets were valued by experts who issued a valuation report on January 31, 2021 and any changes in the net assets after the base date of the valuation report until the effective merger date were absorbed by TOTVS S.A..

5. Financial instruments and sensitivity analysis of financial assets and liabilities

The Company and its subsidiaries evaluated their financial assets and liabilities based on market values using the information available and the appropriate valuation methodologies.

5.1. Financial instruments by category

The table below compares the financial instruments of the Company and its subsidiaries by class, as presented in the individual and consolidated financial statements:

	Fair Value through profit or loss		Amortized cost	
	2021	2020	2021	2020
Consolidated				
Cash and cash equivalents (Note 6)	2,852,173	-	18,899	1,027,733
Financial investments (Note 7)	388,154	-	-	179,308
Escrow account (Note 21)	-	-	44,768	11,128
Trade and other receivables (Note 8)	-	-	2,048,653	1,561,241
Franchises loan (Note 12)	-	-	67,122	17,721
Receivables for investments sold (Note 12)	-	-	14,454	19,348
Investments at fair value (Note 5.2)	99,621	92,770	-	-
Financial Instruments assets	3,339,948	92,770	2,193,896	2,816,479
Loans, financing (Note 18) (i)	-	-	103,740	101,525
Debentures (Note 19)	-	-	1,509,126	-
Trade and other payables (ii)	-	-	252,367	285,345
Business partners payable (Note 20)	-	-	520,118	328,817
Accounts payable from acquisition of subsidiaries (Note 21)	420,557	182,740	44,857	25,460
Senior shares and mezzanine obligations (Note 23)	-	-	1,372,726	1,011,087
Call option of non-controlling interests (iii)	366,194	-	-	-
Other liabilities	-	-	13,579	16,142
Financial liabilities	786,751	182,740	3,816,513	1,768,376

(i) Leases are not included in accordance CPC 06(R1).

(ii) Includes "Trade and other payables", "Commissions payable" and "dividends payable".

(iii) Represents the call option as a result of the transaction involving B3, as mentioned in note 4.2.

The fair value of financial assets and liabilities is included in the amount for which the instrument could be exchanged in a transaction between willing parties rather than in a forced sale or settlement. The methods and assumptions below were used to estimate fair value:

- Escrow accounts, trade and other receivables, trade and other payables and other short-term liabilities approximate their respective carrying amounts mainly due to the short-term maturities of these instruments.
- Financial assets at fair value not traded in an active market are estimated using a valuation technique, such as discounted cash flow or multiple revenues, considering the reasonableness of the range of values indicated thereby.
- Loans, financing and debentures are initially recognized at fair value, net of costs incurred in the transaction and are subsequently stated at amortized cost. The Company and its subsidiaries use the risk-free discounted cash flow methodology to calculate the fair value of loans, financing and debentures.
- Accounts payable from acquisition of subsidiaries, includes contingent payments relating to business combinations and their fair value is estimated based on the performance of operations applied to the multiples defined in the contract.
- Liabilities for obligations with senior and mezzanine shares refer to other Supplier FIDC shareholders and are stated at amortized cost.

The amounts recognized in the statement of financial position regarding trade and other receivables, trade and other accounts payables, franchises loan and other payables, dividends payable at amortized cost, do not significantly differ from their fair values.

5.2. Investments at fair value

The investments made by the Company, through the subsidiary TOTVS Inc., have medium-term strategy, with output planned for when the expected financial returns are achieved, and are recognized as financial instruments.

These investments are private companies which do not have a quoted market price in an active market. The fair value of these investments is measured by commonly used market valuation techniques, such as discounted cash flows or multiples, considering the reasonableness of the estimated range of values. The fair value measurement is the mid-point within the range that best represents the respective fair value. Additionally, these investments include an investment in GoodData in preferred shares, subject to preemptive right of subscription.

These investments as of December 31, 2021 were R\$99,621 (R\$92,770 as of December 31, 2020).

5.3. Sensitivity analysis of financial assets and liabilities

The financial instruments of the Company and its subsidiaries are represented by trade and other receivables, trade and other payables, loans and financing and debentures, which are recorded at cost plus income or charges incurred or at fair value, where applicable, as at December 31, 2021 and December 31, 2020.

The main risks related to the operations of the Company and its subsidiaries are linked to the variation of Brazilian Interbank Deposit Floating Rate (CDI).

a) Financial assets

In order to check the sensitivity of the index in the short-term investments to which the Company and its subsidiaries were exposed to risk in interest rate movement as of December 31, 2021, three different scenarios were defined. Based on projections disclosed by financial institutions, the average rate for CDI is 9.15% p.a., which was defined as a probable scenario (scenario I). Based thereon, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each of these scenarios the “gross finance income” was estimated, with taxes on investment returns not included. The reference date for the portfolio was December 31, 2021, with a one-year projection to check the sensitivity of CDI to each scenario.

Operation	Balances at 2021	Risk	Probable Scenario I	Scenario (II)	Scenario (III)
		Reduction			
Consolidated financial investments	3,240,327	CDI	9.15%	6.86%	4.58%
Estimated finance income			296,490	222,286	148,407

b) Financial liabilities

To evaluate the sensitivity of the indexes to which the Company and its subsidiaries are exposed when estimating the debts as at December 31, 2021, three different scenarios were created. Based on CDI rates in force on this date, the most probable scenario (scenario I) was determined for 2021 and, from this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each scenario, the gross financial expense was calculated, without the related tax impacts and the maturity flow of each contract scheduled for 2021. The reference date used for the debts was December 31, 2021, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances at 2021	Risk	Probable Scenario I	Scenario (II)	Scenario (III)
		Increase			
Loans and financing (Note 18) (i)	103,740	CDI	9.15%	11.44%	13.73%
Debentures (Note 19)	1,509,126		9.492	11,868	14,244
			138,085	172,644	207,203
Estimated finance expense			147,577	184,512	221,447

(i) Leases are not include

5.4. Changes in liabilities from financing activities

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

The following is a breakdown of liabilities arising from financing activities for the year ended on December 31, 2021 and 2020:

Consolidated	2020	Cash flow from financing activities			Non-cash items				2021
		Principal	Interest paid	Additions	Addition/ (Write off)	Interest incurred	Acquisition of subsidiary	Others (i)	
Loans and financing (Note 18) (ii)	101,525	(4,157)	(10)	-	-	6,382	-	-	103,740
Leases (Note 18)	223,525	(46,906)	(16,421)	-	36,822	11,309	23,545	-	231,874
Debentures (Note 19)	-	-	(51,046)	1,489,369	-	68,437	-	2,366	1,509,126
Dividends payable (Note 25)	57,687	(143,634)	-	-	181,203	-	-	(15,103)	80,153
Senior shares and mezzanine obligations (Note 23)	1,011,087	268,165	-	-	-	93,474	-	-	1,372,726
Total	1,393,824	73,468	(67,477)	1,489,369	218,025	179,602	23,545	(12,737)	3,297,619

Consolidated	2019	Cash flow from financing activities			Non-cash items				2020
		Principal	Interest paid	Additions	Addition/ (Write off)	Interest incurred	Acquisition of subsidiaries	Others (i)	
Loans and financing (Note 18) (ii)	6,363	(174,858)	(1,665)	100,000	-	1,180	170,505	-	101,525
Leases (Note 18)	241,340	(54,624)	(12,198)	-	29,267	14,660	5,080	-	223,525
Debentures (Note 19)	202,973	(400,000)	(7,775)	196,924	-	7,878	-	-	-
Dividends payable (Note 25)	44,579	(108,228)	-	-	-	-	-	121,336	57,687
Senior shares and mezzanine obligations (Note 23)	-	7,388	-	-	-	25,852	975,768	2,079	1,011,087
Total	495,255	(730,322)	(21,638)	296,924	29,267	49,570	1,151,353	123,415	1,393,824

- (i) Refers to advance withholding income tax on senior shares and mezzanine remuneration of Supplier FIDC and proposed dividends for 2020.
- (ii) Corresponds to the sum of "Working capital" and "Guaranteed accounts and others", detailed in note 18.

5.5. Financial risk management

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

a. Liquidity Risk

The Company's and its subsidiaries' liquidity and cash flow are monitored daily by Company Management areas to ensure the generation of cash from operating activities and early fundraising, whenever necessary. The Company and its subsidiaries do not observed until the present date and do not expect to have a significant impact on liquidity and cash flow resulting from the COVID-19 pandemic and reinforces its commitment to resource management in order to maintain its schedule of commitments, not giving rise to liquidity risks for the Company and its subsidiaries.

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

	Consolidated		
	Less than one year (i)	Between one and two years (i)	Between two and five years (i)
As at December 31, 2021			
Trade and other payables	112,579	-	-
Loans and financing	167,114	115,875	81,856
Accounts payable from acquisition of subsidiaries	168,222	74,224	255,142
Debentures	392,391	1,125,000	-
Business partners payable	520,118	-	-
Senior shares and mezzanine obligations (ii)	1,372,726	-	-
Finance liabilities	-	-	366,194
Other liabilities	8,933	4,646	-
As at December 31, 2020			
Trade and other payables	99,305	-	-
Loans and financing	156,539	93,312	106,099
Accounts payable from acquisition of subsidiaries	44,781	114,622	68,226
Business partners payable	328,817	-	-
Senior shares and mezzanine obligations (ii)	1,011,087	-	-
Other liabilities	5,540	10,602	-

(i) As the amounts included in the table are the undiscounted cash flows, these amounts will not be reconcilable with the amounts disclosed in the balance sheet for loans, debentures and other obligations.

(ii) The senior shares and mezzanine obligations are within the one-year flow, but the shares do not have an expiration date.

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

b. Credit risk

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

Regarding the credit risk associated with financial institutions, the Company and its subsidiaries distribute this exposure among financial institutions. Financial investments must be made in institutions whose risk rating is equal to or greater than the Sovereign Risk (Brazil Risk) assigned by the rating agencies Standard & Poor's, Moody's or Fitch, and in the case of investment in investment funds, the referred classification will be replaced by the classification "Investment Grade", attributed by ANBIMA. The amount allocated to each institution, except federal government bonds, cannot exceed 30% of the total balances in current accounts plus financial investments, and also not correspond more than 5% of the equity of the financial institution.

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

For the trade and other receivables from software operation of the Company, has a very diversified customer portfolio with low concentration level and establishes an estimate of the provision for losses that represents its estimate of losses incurred in relation to trade and other receivables. The

main component of this allowance is specific and related to significant individual risks.

The risk assessment structure of the subsidiary Supplier's credit product portfolio is based on statistical methodologies of Application and Behavior Scoring, in addition to the use of risk mitigating instruments, such as credit insurance and intervention. In addition, the Supplier Administradora subsidiary seeks to prevent possible risks from the credit portfolio through the provision of monitoring reports, risk committee, actions to readjust credit limits, portfolio monitoring and improvements in the registration system. Potential credit losses are mitigated, when necessary, through the following guarantees: insurance, issuer's guarantees, as long as approved by the credit card committee. The assessment of the efficiency of these instruments is considered sufficient to cover any significant losses. It should be noted that portfolio turnover is fast with an average term of 55 days (52 days as of December 31, 2020), or when they are sold in the short term.

In addition, due to the COVID-19 pandemic, the Company and its subsidiaries closely monitor the behavior and active management of the default in its customer portfolio through policies related to the sale of services and software licenses. No significant impacts are expected, in addition the provision for losses presented in note 8.

c. Market risk

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

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

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

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

The Company and its subsidiaries ensure that its net exposure is maintained at an acceptable level in accordance with the policies and limits defined by Management and is monitoring the possible impacts of the COVID-19 pandemic in each of these companies. In the year ended in December 31, 2021 and 2020, the balance of assets exceeds the negative balances exposed, as follows:

Company	2021					Currency
	Trade and other payables	Cash and cash equivalents	Trade and other receivables	Other assets (i)	Net exposure	
RJ Consultores México	(23)	1,632	1,317	-	2,926	Peso (MXN)
CMNet Participações	(123)	462	129	-	468	Peso (CLP) and EUR
CMNet Argentina	(30)	729	254	-	953	ARS
TOTVS S.A.	(4,107)	-	-	-	(4,107)	USD
TOTVS Large	-	-	-	8,370	8,370	USD
TOTVS México	(1,755)	2,494	7,534	-	8,273	Peso (MXN)
TOTVS Argentina	(1,892)	7,530	12,230	-	17,868	Peso (ARS)
TOTVS Incorporation	(438)	801	535	99,621	100,519	USD
RD Colômbia	(18)	1,450	-	-	1,432	Peso (COP)
Total	(8,386)	15,098	21,999	107,991	136,702	

- (i) The amount of R\$8,370 refers to receivable for the hardware operation sold in 2019. The amount of R\$99,621 refers to financial investments as described in note 5.2.

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

d. Derivatives

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

5.6. Capital management

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

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

The Company and its subsidiaries compose the net debt structure includes loans, financing and debentures, and senior shares and mezzanine obligations, less financial investments of Supplier FIDC, and cash and cash equivalents.

	Individual		Consolidated	
	2021	2020	2021	2020
Loans, financing and lease liabilities (Note 18)	182,547	204,548	335,614	325,050
Debentures (Note 19)	1,509,126	-	1,509,126	-
Senior shares and Mezzanine obligations (Note 23)	-	-	1,372,726	1,011,087
(-) Cash and cash equivalents (Note 6) (ii)	(1,743,262)	(527,955)	(2,871,072)	(1,027,733)
(-) Financial investments (Note 7) (i)	-	-	(388,154)	(179,308)
Net (cash) debt	(51,589)	(323,407)	(41,760)	129,096
Shareholders' equity	4,232,929	2,604,166	4,232,929	2,604,166
Non-controlling interests	-	-	253,079	-
Shareholders' equity and net debt	4,181,340	2,280,759	4,444,248	2,733,262

- (i) Represent financial investments in investment funds and national treasury bills for restricted use of Supplier FIDC and are not available to the Company and its subsidiaries.
- (ii) Increase of cash and cash equivalent due to fundraising under the public offering of primary distribution for common shares issue (Note 24).

6. Cash and cash equivalents

Cash and cash equivalents are maintained for meeting short-term cash requirements and for strategic investment or other purposes of the Company and its subsidiaries, and are redeemable within 90 days from the date of the respective transaction and subject to a minimal risk of change of value.

	Individual		Consolidated	
	2021	2020	2021	2020
Cash and banks	352	326	18,899	18,564
Cash equivalents	1,742,910	527,629	2,852,173	1,009,169
Investment fund	1,653,990	302,674	2,594,683	454,145
CDB	88,920	224,955	252,359	555,024
Others	-	-	5,131	-
	1,743,262	527,955	2,871,072	1,027,733

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

The Company and its subsidiaries concentrate its investments in an exclusive investment fund. The fund is composed of investment fund shares whose portfolio is made up of highly-liquid fixed-income assets. The eligible assets in the portfolio structure are mainly government debt securities, which present low credit risk and volatility. The investments of the Company and its subsidiaries are substantially remunerated by reference to the CDI variation, which averaged 111.2% of the CDI for the year ended on December 31, 2021 (94.9% as of December 31, 2020).

The following is the breakdown of the exclusive investment fund portfolio:

	2021	2020
Itaú Wealth Master	37.06%	99.99%
Itaú Verso A	33.91%	-
CP Diferenciado	23.53%	-
Itaú RF CP Diferenciado IQ	5.5%	-
Cash and accounts payable/ receivable	-	0.01%

7. Financial investments

The following amounts refer to investment funds and financial government bonds redeemable of Supplier FIDC exclusive use.

	Consolidated	
	2021	2020
Government bonds	9,539	9,671
Investment funds (i)	378,615	169,637
Total	388,154	179,308

(i) Investment funds shares pegged to DI.

8. Trade and other receivables

Consolidated trade and other receivables in the domestic and foreign market are as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Domestic market	380,541	381,459	553,940	526,083
Foreign market	1,167	766	11,962	5,801
Trade of domestic and foreign market	381,708	382,225	565,902	531,884
Credit rights (i)	-	-	1,641,861	1,165,602
Total trade and other receivables and credit rights	381,708	382,225	2,207,763	1,697,486
(-) Impairment loss on trade and other receivables	(59,784)	(57,097)	(159,110)	(136,245)
Total trade and other receivables	321,924	325,128	2,048,653	1,561,241
Current assets	268,656	267,801	1,983,710	1,497,229
Non-current assets (ii)	53,268	57,327	64,943	64,012

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

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

	Individual		Consolidated	
	2021	2020	2021	2020
Opening Balance	57,097	79,712	136,245	102,123
Additional allowance	14,395	26,115	36,235	43,856
(Write-off) due to use	(11,708)	(48,730)	(15,462)	(66,921)
Acquisition of subsidiaries	-	-	2,092	57,187
Ending balance	59,784	57,097	159,110	136,245

8.1. Aging list of domestic and foreign market

Aging list of amounts trade and other receivables at December 31, 2021 and 2020, are as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Falling due	279,178	266,158	407,924	368,815
Unbilled	24,854	30,481	47,377	47,467
Overdue				
1 to 30 days	10,788	11,081	17,309	18,662
31 to 60 days	4,000	5,015	7,187	8,330
61 to 90 days	2,083	5,009	3,610	7,142
91 to 180 days	5,818	8,556	9,704	15,868
181 to 360 days	10,328	12,425	16,467	16,098
More than 360 days	44,659	43,500	56,324	49,502
Gross trade and other receivables	381,708	382,225	565,902	531,884
(-) Impairment loss on trade and other receivables (i)	(59,784)	(57,097)	(83,383)	(76,228)
Net trade and other receivables	321,924	325,128	482,519	455,656

(i) The impairment loss on trade and other receivables is net of the write-off due to loss recorded against trade and other receivables for R\$11,708 for Individual and R\$15,462 for consolidated.

Management believes that the risk related to technology trade and other receivables in general is mitigated by the fact that the customer portfolio of the Company and its subsidiaries are diluted in quantity and also throughout various operating segments. In general, the Company and its subsidiaries do not require any guarantee on installment sales.

8.2. Composition of credit rights by maturity

The following are the credit rights balance from credit product:

	Consolidated	
	2021	2020
Credit rights receivable	1,641,861	1,165,602
(-) Impairment loss on trade and other receivables	(75,727)	(60,017)
Net credit rights	1,566,134	1,105,585

The aging list from credit rights from credit product as December 31, 2021 and 2020:

	Consolidated	
	2021	2020
Falling due	1,548,212	1,099,155
Overdue		
1 to 30 days	17,448	5,432
31 to 60 days	3,933	1,482
61 to 90 days	2,874	855
91 to 180 days	5,270	2,116
181 to 360 days	6,874	11,611
More than 360 days	57,250	44,951
Gross trade and other receivables	1,641,861	1,165,602
(-) Impairment loss on trade and other receivables	(75,727)	(60,017)
Total	1,566,134	1,105,585

As at December 31, 2021, approximately 44% (46% in December 31, 2020) of the portfolio's contracts are insured by policies that cover an average of 90% (90% in December 31, 2020) of the outstanding balance of operations.

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

9. Recoverable taxes

The amounts of recoverable taxes for the year ended on December 31, 2021 and 2020 are as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Income tax to offset (i)	23,716	14,511	50,311	25,249
Social contribution tax to offset (i)	13,623	9,081	25,707	11,555
Other (ii)	9,873	-	14,464	1,288
	47,212	23,592	90,482	38,092

(i) Refers to withholding income and social contribution tax credits in the current year and income and social contribution tax credits to offset from previous years, as well as payments of estimated taxes in the current year.

(ii) Constitution of Social security credits with estimated realization in the short term.

10. Income taxes

Current and deferred income and social contribution taxes were recorded pursuant to the current rates in force. Deferred income and social contribution taxes are calculated on income and social contribution tax losses carryforwards, respectively, as well as temporary differences.

10.1. Reconciliation of income tax expenses

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

	Individual		Consolidated	
	2021	2020	2021	2020
Income before taxes	366,070	317,639	463,709	382,104
Income and social contribution taxes at combined nominal rate of 34%	(124,464)	(107,997)	(157,661)	(129,915)
Adjustments for the statement of effective rate				
Share of profit/ (losses) of equity-accounted investees	58,418	46,035	-	-
Law No. 11196/05 (Incentive for research and development)	11,258	10,133	20,098	18,109
Interest on shareholders' equity	44,283	32,816	44,414	32,751
Effect of subsidiaries subject to special rates	-	-	(11,290)	(7,234)
Funding cost	13,729	-	13,729	-
Participation of administrators	(1,715)	(1,217)	(1,961)	(1,251)
Workers' Meal Program (PAT)	280	270	1,910	1,430
Other	632	(1,643)	1,089	42
Income and social contribution tax expense	2,421	(21,603)	(89,672)	(86,068)
Current income taxes	(15,553)	(15,017)	(131,311)	(80,919)
Deferred income taxes	17,974	(6,586)	41,639	(5,149)
Effective rate	-0.7%	6.8%	19.3%	22.5%

10.2. Breakdown of deferred income taxes

	Individual		Consolidated	
	2021	2020	2021	2020
Income tax losses	-	-	34,396	50,689
Deriving from temporary differences:				
Difference between tax and accounting bases of goodwill	4,184	7,988	16,135	23,442
Tax benefit from goodwill amortization	(104,927)	(100,709)	(163,635)	(157,518)
Intangible asset allocation	(2,471)	(4,042)	(8,727)	(11,277)
Intangible asset allocation – after Law No. 12973	22,954	20,385	67,172	38,139
Provision for commissions	18,129	17,365	21,544	19,371
Deferred income or revenues	12,422	6,748	19,585	12,686
Impairment loss on trade and other receivables	20,327	19,413	27,383	24,167
Provision for contingencies and other obligations	30,866	36,756	36,642	42,470
Provision for trade and other payables	14,947	15,202	19,617	18,139
Provision for share-based payments	25,950	15,532	28,912	16,590
Present value adjustment	890	567	13,256	4,501
Participation in profits and results	9,135	6,868	13,294	11,693
Other	10,323	2,171	19,048	7,154
Net deferred income and social contribution taxes	62,729	44,244	144,622	100,246
Deferred tax assets	62,729	44,244	144,622	100,535
Deferred tax liabilities	-	-	-	289

Net deferred income taxes of the Company and its subsidiaries are presented under non-current assets or non-current liabilities by legal entities.

Changes in deferred income taxes are as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Opening Balance	44,244	50,330	100,246	100,380
Expense in statement of profit or loss	17,974	(6,586)	41,639	(5,149)
Acquisitions of subsidiary	-	-	-	6,017
Other	511	500	2,737	(1,002)
Ending balance	62,729	44,244	144,622	100,246

10.3. Estimated realization of deferred taxes

The deductible temporary differences and income and social contribution tax loss carry forward do not expire in accordance with current tax legislation. Deferred tax assets were recognized in relation to these items, as it is probable that future taxable profits will be available so that the Company and its subsidiaries can use the related benefits. The use of income and social contribution tax loss carry forward is limited to 30% of the taxable profit for the year in which it will be used. According to the estimates of the Company and its subsidiaries, future taxable profits allow the realization of the deferred tax asset existing on December 31, 2021.

11. Related party balances and transactions

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

11.1. Trade and other receivables and payable to subsidiaries and associates companies

As of December 31, 2021 and 2020, the main balances of assets, liabilities, revenues and costs are as follows:

Company	2021					2020			
	Trade and other receivables	Other Assets (iii)	Trade and other payables	Revenues	Costs	Trade and other receivables	Trade and other payables	Revenues	Costs
Wealth Systems (i)	48	-	13	2,358	94	-	195	121	2,879
Supplier (ii)	-	265	195	1,782	3,434	8	-	48	-
RD Station	-	-	-	334	70	-	-	-	-
Consinco	-	197	-	2,504	442	-	-	-	-
Tail	-	-	-	147	291	-	-	-	-
Dimensa	-	1,743	-	4,345	3,798	-	-	-	-
Neolog (ii)	-	-	-	-	-	-	1,794	-	1,337
Total	48	2,205	208	11,470	8,129	8	1,989	169	4,216

- (i) Refers to partnership contract between Wealth Systems and TOTVS for the sale of CRM ("Customer Relationship Management") solutions.
- (ii) Refers to partnership contract between Supplier and TOTVS for the sale of Techfin solutions and software license.
- (iii) Refers to share-based compensation plans.

11.2. Transactions or relationships with shareholders and key Management personnel

The Company and its subsidiaries maintain property lease agreements with companies, in which some of the shareholders are key management members and also hold TOTVS shares, directly or indirectly. The amount paid as lease and condominium fees to related parties recognized for the year ended December 31, 2021 was R\$1,348 (R\$1,238 as of December 31, 2020). All lease agreements with related parties are subject to adjustments by reference to the IGP-M inflation rate, every 12 months.

The Company has software license agreements and commercial partnerships with GoodData, which on December 31, 2021 represented the amount of R\$6,715 (R\$8,737 as of December 31, 2020). Through its subsidiary TOTVS Inc., the Company holds a minority interest in GoodData's capital, as well as a representative on the board. This investment was classified at fair value through profit or loss according to note 5.2.

The Company focuses its strategic social investment on the Instituto da Oportunidade Social (IOS), being the main sponsor of the Institute. Also, the Institute has the support of other partner companies and government partnerships. The amount of sponsorship in the year ended December 31, 2021 was R\$7,328 (R\$5,176 as of December 31, 2020), all of which with monetary resources.

Some of the Company's shareholders and key management personnel directly or indirectly hold 14.29% of the Company's shares as of December 31, 2021 (15.15% as of December 31, 2020). The indirect interest is held through LC-EH Empreendimentos e Participações S.A..

The Company and its subsidiaries also incurred small expenses and income during the year with related parties, where the total amount of expenses was R\$92 and income of R\$135.

11.3. Key management personal compensation

Expenses related to the Company's Managers and statutory officers' compensation are summarized as follows:

	Individual and Consolidated	
	2021	2020
Management compensation		
Salaries, fees and payroll charges	12,700	12,028
Direct and Indirect benefits (i)	2,053	1,768
Variable bonus	5,044	3,579
Share-based payments	23,991	17,164
Total	43,788	34,539

(i) Includes depreciation expense for vehicles on loan by some Management members.

12. Other assets

Breakdown of other assets at December 31, 2021 and 2020 are follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Prepaid expenses (i)	78,800	44,798	87,845	47,509
Franchises loan (ii)	67,022	16,510	67,122	16,610
Advances to employees	14,355	11,852	21,430	15,321
Advances to suppliers	817	232	4,520	838
Negotiation and intermediation – Supplier FIDC	-	-	32,694	33,694
Dividends receivable	-	17,510	-	-
Receivables from investments disposed of (iii)	6,084	11,553	14,454	19,348
Other assets	861	1,182	5,744	4,207
Total	167,939	103,637	233,809	137,527
Current assets	84,841	55,689	143,474	79,599
Non-current assets	83,098	47,948	90,335	57,928

- (i) Includes the amounts of taxes paid and renewals of contracts with suppliers referring to expenses that will be incurred during next years.
- (ii) Most franchise loans are adjusted monthly by Interbank Deposit Certificate (CDI) or Extended National Consumer Price Index (IPCA).
- (iii) Includes amounts receivable for the sale of Ciashop and hardware operation in 2019.

13. Equity-accounted investees

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

13.1. Equity-accounted investees in subsidiaries

	Individual		Consolidated	
	2021	2020	2021	2020
Equity-accounted investees in subsidiaries and associates	3,689,623	1,468,156	3,075	3,476
Appreciation of assets	40,709	65,106	-	-
	3,730,332	1,533,262	3,075	3,476

13.2. Equity-accounted investees changes

Changes in equity-accounted investees for the year ended December 31, 2021 and 2020 were as follows:

	2020	Additions / (reductions)	Dividends (iii)	Equity pick-up			Foreign exchange/ Inflation (i)	Corporate changes	2021
				Equity pick-up	Amortization of PPA	Total			
TOTVS Large (ii)	529,693	1,681,702	(11,323)	62,327	(8,855)	53,472	3,745	-	2,257,289
TOTVS Tecnologia	543,645	441	(15,098)	57,328	-	57,328	-	-	586,316
TTS	269,254	60	(3,323)	28,795	-	28,795	-	-	294,786
TOTVS Inc.	92,246	16,937	-	(15,827)	-	(15,827)	6,762	-	100,118
Neolog	17,885	-	(89)	1,350	-	1,350	-	(19,146)	-
TOTVS Hospitality	28,888	-	-	8,778	-	8,778	-	-	37,666
VT Digital	704	-	(408)	3,166	-	3,166	-	-	3,462
TOTVS México	6,323	10,048	-	(8,063)	-	(8,063)	73	-	8,381
TOTVS Argentina	12,006	1,346	-	880	-	880	2,853	-	17,085
Dimensa	31,064	11,144	(6,058)	33,107	-	33,107	-	352,540	421,797
Eleve	373	406	(93)	1,547	-	1,547	-	-	2,233
CMNet Argentina	1,116	1,112	-	(1,570)	-	(1,570)	476	-	1,134
NCC	65	-	-	-	-	-	-	-	65
Total	1,533,262	1,723,196	(36,392)	171,818	(8,855)	162,963	13,909	333,394	3,730,332

(i) Includes the inflation adjustments of Argentine subsidiaries.

(ii) Capital contribution for the acquisition of RD Station as mentioned in note 4.1

(iii) The dividends received are presented in the Statements of Cash Flow, on Cash Flow of investing, net of the due balance, note 12.

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

13.3. Direct subsidiaries information

Summarized financial statements of subsidiaries as at December 31, 2021

	Assets	Liabilities	Equity	Net revenue	Profit or loss of the year
TOTVS Large (i)	2,678,735	462,155	2,216,580	425,323	62,327
TOTVS Tecnologia	2,821,519	2,235,203	586,316	458,834	57,328
TTS	347,188	52,402	294,786	124,355	28,795
TOTVS Inc.	105,170	5,052	100,118	1,325	(15,827)
Neolog	-	-	-	3,139	1,350
TOTVS Hospitality	49,959	12,293	37,666	45,089	8,778
VT Digital	3,949	487	3,462	4,624	3,166
TOTVS México	16,103	7,722	8,381	26,132	(8,063)
TOTVS Argentina	28,580	11,495	17,085	55,001	880
Dimensa	717,140	42,264	674,876	147,056	38,653
Eleve	4,198	1,965	2,233	8,832	1,547
CMNet Argentina	2,046	912	1,134	2,905	(1,570)
NCC	-	-	65	-	-

Summarized financial statements of subsidiaries as at December 31, 2020

	Assets	Liabilities	Equity	Net revenue	Profit or loss of the year
TOTVS Large (i)	552,428	72,300	480,128	188,633	47,670
TOTVS Tecnologia	696,139	152,494	543,645	143,624	63,570
TTS	324,056	54,802	269,254	20,752	13,992
TOTVS Inc.	98,845	6,598	92,247	597	(20,540)
Neolog	5,572	3,227	2,345	9,220	357
TOTVS Hospitality	52,049	13,113	38,936	51,233	6,548
VT Digital	903	198	705	1,095	430
TOTVS México	15,313	8,991	6,322	20,316	(8,521)
TOTVS Argentina	19,594	7,589	12,005	48,051	7,104
Dimensa	59,956	28,893	31,063	121,637	25,232
Eleve	881	508	373	698	373
NCC	-	-	65	-	-

- (i) Goodwill from acquired TOTVS Large is demonstrated in the Investment composition in the Individual. The difference between the profit and loss of the acquire and equity pick-up balance refers to the amortization of intangible assets allocated in determining the fair value of assets.

14. Property, plant and equipment

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

	Individual							Total
	Computers and electronic equipment	Vehicles	Furniture and fixtures	Facilities machinery and equipment	Leasehold improvements	Rights of use (i)	Other	
Cost								
Balance in 2019	193,667	10,764	25,853	26,826	90,120	236,972	9,873	594,075
Additions	21,514	3,680	1,286	352	3,816	21,134	1,005	52,787
Transfers	(6,841)	(682)	-	9	492	7,656	(3,113)	(2,479)
Write-offs	(12,150)	(2,205)	(528)	(356)	(36)	(1,343)	(26)	(16,644)
Balance in 2020	196,190	11,557	26,611	26,831	94,392	264,419	7,739	627,739
Additions	53,995	5,075	727	110	805	29,172	1,470	91,354
Merged company	823	35	127	11	224	787	5	2,012
Write-offs	(6,001)	(4,450)	(402)	(25)	-	(12,461)	(611)	(23,950)
Balance in 2021	245,007	12,217	27,063	26,927	95,421	281,917	8,603	697,155
Depreciation								
Balance in 2019	(120,454)	(4,286)	(14,013)	(14,955)	(31,407)	(32,075)	(6,546)	(223,736)
Depreciation for the year	(27,418)	(3,664)	(3,138)	(3,061)	(10,790)	(37,951)	(1,183)	(87,205)
Transfers	606	-	-	-	(1,466)	(606)	1,466	-
Write-offs	12,016	2,032	516	325	-	1,289	26	16,204
Balance in 2020	(135,250)	(5,918)	(16,635)	(17,691)	(43,663)	(69,343)	(6,237)	(294,737)
Depreciation for the year	(27,919)	(4,084)	(2,987)	(2,684)	(10,835)	(42,428)	(1,082)	(92,019)
Merged company	(678)	(35)	(59)	(5)	(224)	(599)	(3)	(1,603)
Write-offs	5,490	3,730	235	25	-	809	600	10,889
Balance in 2021	(158,357)	(6,307)	(19,446)	(20,355)	(54,722)	(111,561)	(6,722)	(377,470)
Residual value								
Balance in 2021	86,650	5,910	7,617	6,572	40,699	170,356	1,881	319,685
Balance in 2020	60,940	5,639	9,976	9,140	50,729	195,076	1,502	333,002
Average annual depreciation rate	20% a 25%	33%	10% a 25%	6.7% a 25%	10% a 33%	10% a 33%	20%	

Consolidated								
	Computers and electronic equipment	Vehicles	Furniture and fixtures	Facilities machinery and equipment	Leasehold improvements	Rights of use (i)	Other	Total
Cost								
Balance in 2019	209,160	11,895	29,759	28,206	99,866	251,996	10,539	641,421
Additions	23,255	4,127	1,464	382	4,154	30,274	1,163	64,819
Additions due to business combination	8,564	258	1,886	2,177	939	6,975	460	21,259
Transfers	(6,842)	(702)	110	8	577	7,656	(3,288)	(2,481)
Write-offs	(13,849)	(2,639)	(645)	(577)	(43)	(6,446)	(42)	(24,241)
Exchange variation (ii)	234	147	75	74	301	1,310	9	2,150
Balance in 2020	220,522	13,086	32,649	30,270	105,794	291,765	8,841	702,927
Additions	63,771	7,387	1,197	922	8,796	36,822	12,619	131,514
Additions due to business combination	5,515	-	2,420	2,097	9,633	32,907	(1)	52,571
Transfers	(384)	(190)	-	(4)	-	-	(539)	(1,117)
Exchange variation (ii)	765	42	169	28	357	373	8	1,742
Write-offs	(7,227)	(4,720)	(923)	(274)	(65)	(2,485)	(10,932)	(26,626)
Balance in 2021	282,962	15,605	35,512	33,039	124,515	359,382	9,996	861,011
Depreciation								
Balance in 2019	(131,820)	(4,836)	(16,721)	(15,890)	(40,340)	(36,536)	(5,846)	(251,989)
Depreciation for the year	(30,251)	(3,984)	(3,599)	(3,407)	(11,857)	(45,026)	(1,354)	(99,478)
Additions due to business combination	(4,820)	(67)	(767)	(801)	(215)	(2,408)	(174)	(9,252)
Transfers	606	-	-	-	(298)	(606)	298	-
Write-offs	13,408	2,324	539	478	2	5,202	40	21,993
Exchange variation (ii)	44	10	(7)	(83)	(265)	570	(23)	246
Balance in 2020	(152,833)	(6,553)	(20,555)	(19,703)	(52,973)	(78,804)	(7,059)	(338,480)
Depreciation for the year	(32,107)	(4,722)	(3,595)	(3,177)	(12,699)	(54,604)	(1,308)	(112,212)
Additions due to business combination	(3,412)	-	(977)	(556)	(3,771)	(10,460)	1	(19,175)
Transfers	726	190	-	-	-	-	201	1,117
Exchange variation (ii)	(413)	86	(131)	(29)	(389)	(62)	(2)	(940)
Write-offs	6,864	3,677	637	262	14	1,638	456	13,548
Balance in 2021	(181,175)	(7,322)	(24,621)	(23,203)	(69,818)	(142,292)	(7,711)	(456,142)
Residual value								
Balance in 2021	101,787	8,283	10,891	9,836	54,697	217,090	2,285	404,869
Balance in 2020	67,689	6,533	12,094	10,567	52,821	212,961	1,782	364,447
Average annual depreciation rate	20% a 25%	33% 10% a 25%	6.7% a 25%	10% a 33%	10% a 33%	20%		

- (i) The Company and its subsidiaries applied exceptions to the standard for short-term and low value contracts, recorded in lease expenses in the amount of R\$1,203 (R\$1,044 as of December 31, 2020) in Individual and R\$2,205 (R\$2,310 as of December 31, 2020) in Consolidated as of December 31, 2021.
- (ii) Includes the inflation adjustments of Argentine subsidiaries.

Annually, the Company and its subsidiaries evaluate indicators that may impact the estimated useful lives of its assets and there were no changes for the years ended December 31, 2021 and 2020.

Breakdown of right of use and lease liabilities for the year ended December 31, 2021 and 2020 are as follows:

	Consolidated			
	Right to use real estate	Right of use computers and equipments	Total assets	Lease liabilities
Balance in 2019	215,460	7,050	222,510	241,340
Additions	22,037	8,237	30,274	29,267
Additions due to business combination	4,567	-	4,567	5,080
Write-offs	(1,232)	(12)	(1,244)	-
Amortization	(41,401)	(3,625)	(45,026)	-
Interest incurred and exchange variation	1,880	-	1,880	14,660
Interest paid	-	-	-	(12,198)
Principal paid	-	-	-	(54,624)
Balance in 2020	201,311	11,650	212,961	223,525
Contract Remeasurement (i)	33,623	3,199	36,822	36,822
Write-offs	(835)	(12)	(847)	-
Additions due to business combination	22,447	-	22,447	23,545
Transfers	(200)	200	-	-
Amortization	(49,098)	(5,506)	(54,604)	-
Interest incurred and exchange variation	297	14	311	11,309
Interest paid	-	-	-	(16,421)
Principal paid	-	-	-	(46,906)
Balance in 2021	207,545	9,545	217,090	231,874

(i) Represents the annual update of the leases applied to the right of use real estate according to the indexes established in contracts.

15. Intangible assets and Goodwill

Intangible assets and changes in balances are as follows:

	Individual					
	Software	Trademarks & patents	Customer portfolio	R&D (i)	Other (ii)	Goodwill
Cost						
Balance in 2019	350,049	60,998	216,368	-	18,627	280,308
Additions	27,306	-	3,883	16,735	-	-
Transfers	9,468	2,151	166	-	123	-
Balance in 2020	386,823	63,149	220,417	16,735	18,750	280,308
Additions	27,316	-	28,763	22,517	-	-
Merged company	8,103	1	4,226	259	1,036	12,565
Write-offs	(48)	-	(1,348)	(72)	-	-
Balance in 2021	422,194	63,150	252,058	39,439	19,786	292,873
Amortization						
Balance in 2019	(283,634)	(45,874)	(211,595)	-	(18,627)	-
Amortization for the year	(30,587)	(4,201)	(2,655)	(110)	-	-
Transfers	(6,989)	(2,151)	(166)	-	(123)	-
Balance in 2020	(321,210)	(52,226)	(214,416)	(110)	(18,750)	-
Amortization for the year	(29,265)	(4,201)	(4,792)	(4,568)	-	-
Merged company	(8,098)	(1)	(1,251)	-	(1,036)	-
Write-offs	1	-	749	-	-	-
Balance in 2021	(358,572)	(56,428)	(219,710)	(4,678)	(19,786)	-
Residual value						
Balance in 2021	63,622	6,722	32,348	34,761	-	292,873
Balance in 2020	65,613	10,923	6,001	16,625	-	280,308
Average annual amortization rates	10% a 20%	6.7% a 8%	10% a 12.5%	20% a 50%	10% a 50%	

	Consolidated						Total
	Software	Trademarks & patents	Customer portfolio	R&D (i)	Other (ii)	Goodwill	
Cost							
Balance in 2019	389,795	83,279	364,118	13,890	49,725	665,942	1,566,749
Additions	27,652	-	3,883	18,959	-	-	50,494
Additions due to business combination	159,792	44,528	116,244	-	32,437	479,889	832,890
Transfers	2,479	-	-	535	(535)	-	2,479
Exchange variation (iii)	140	-	-	-	-	-	140
Balance in 2020	579,858	127,807	484,245	33,384	81,627	1,145,831	2,452,752
Additions	27,690	-	30,482	23,319	7	-	81,498
Additions due to business combination	189,955	44,417	91,323	60	14,516	1,729,952	2,070,223
Write-offs	(48)	-	(1,348)	(72)	-	(12)	(1,480)
Transfers	738	-	-	-	-	(43,611)	(42,873)
Exchange variation (iii)	70	-	-	-	7	-	77
Others (iv)	-	-	-	-	-	(446)	(446)
Balance in 2021	798,263	172,224	604,702	56,691	96,157	2,831,714	4,559,751
Amortization							
Balance in 2019	(322,441)	(59,232)	(272,716)	(8,472)	(49,580)	(43,611)	(756,052)
Amortization for the year	(55,197)	(19,107)	(21,475)	(1,484)	(7,846)	-	(105,109)
Additions due to business combination	(5,339)	-	-	-	-	-	(5,339)
Transfers	-	-	-	(535)	535	-	-
Exchange variation (iii)	(78)	-	-	-	3	-	(75)
Balance in 2020	(383,055)	(78,339)	(294,191)	(10,491)	(56,888)	(43,611)	(866,575)
Amortization for the year	(71,824)	(27,743)	(31,801)	(6,457)	(11,083)	-	(148,908)
Additions due to business combination	(1,521)	-	(30)	(60)	-	-	(1,611)
Transfers	(738)	-	-	-	-	43,611	42,873
Exchange variation (iii)	(36)	-	(1)	-	-	-	(37)
Write-offs	-	-	749	-	-	-	749
Balance in 2021	(457,174)	(106,082)	(325,274)	(17,008)	(67,971)	-	(973,509)
Residual value							
Balance in 2021	341,089	66,142	279,428	39,683	28,186	2,831,714	3,586,242
Balance in 2020	196,803	49,468	190,054	22,893	24,739	1,102,220	1,586,177
Average annual amortization rates	10% a 20%	6.7% a 8%	10% a 12.5%	20% a 50%	10% a 50%		

- (i) The development capitalization totaled R\$22,517 in the individual and R\$23,319 in the consolidated during the year ended December 31, 2021, that majority are related to the strategic plan of the Company and its subsidiaries. R&D amortization starts when development is completed and the asset is available for use or sale, being the cost value on December 31, 2021 of R\$13,962 in the individual and R\$16,227 in the consolidated.
- (ii) Includes primarily non-compete rights arising from the purchase price allocation from business combinations.
- (iii) Includes the inflation adjustments of Argentine subsidiaries.
- (iv) Purchase price adjustment, as defined in the contract, with impact on goodwill during the measurement period.

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

15.1. Changes in goodwill

The breakdown of goodwill as of December 31, 2021 and 2020 are as follows:

	2019	Additions	2020	Business combination	2021
RD Station (i)	-	-	-	1,729,952	1,729,952
TOTVS Large (ii)	220,298	-	220,298	-	220,298
Consinco	-	160,436	160,436	-	160,436
Supplier	-	288,558	288,558	-	288,558
RM	90,992	-	90,992	-	90,992
W&D	64,070	-	64,070	-	64,070
Virtual Age	46,497	-	46,497	-	46,497
RMS	35,740	-	35,740	-	35,740
SRC	33,688	-	33,688	-	33,688
Datasul	30,084	-	30,084	-	30,084
WS	-	17,334	17,334	-	17,334
Gens FDES	16,340	-	16,340	-	16,340
Seventeen	15,463	-	15,463	-	15,463
TOTVS Agroindústria	13,128	-	13,128	-	13,128
Neolog	12,565	-	12,565	-	12,565
Tail (iii)	-	13,561	13,561	(446)	13,115
BCS	11,821	-	11,821	-	11,821
Outros (iv)	31,645	-	31,645	(12)	31,633
Total	622,331	479,889	1,102,220	1,729,494	2,831,714

(i) Acquisition of RD as mentioned in note 4.1

(ii) Goodwill arising from the acquisition of the software operation of TOTVS Large (formerly Bematech S.A.)

(iii) Purchase price adjustment, as defined in the contract, with impact on goodwill during the measurement period.

(iv) Write-off of goodwill due to M2S.

15.2. Impairment of assets analysis

The Cash Generated Units (CGU) from TOTVS' Group are defined from the business vision which the Management has under its business, considering the companies acquisitions over the year.

On December 31, 2021, the CGUs are defined as follows:

CGU Technology - Software operation that comprehends TOTVS and its subsidiaries TOTVS Large Enterprise, Soluções em Software e Serviços TTS, TOTVS Hospitality, Dimensa, TOTVS Tecnologia and International Market operation (MI), composed by TOTVS Argentina and Mexico. In addition to operations acquired in 2020 of Consinco and WS, which software operations with costs synergies of backoffice and sales areas; and

CGU Credit Products - Supplier - comprehends Supplier business which involves, in addition to origination, the assumption of some credit risk level and/or definition and/or the application of credit policies, as "Supplier Card", "Antecipa" and "Mais Prazo", for example. This CGU also consolidates the earned results from subordinated quota from Supplier FIDC, in which Supplier currently grants originated credits.

In addition, in 2021, we have company acquisitions - Tail Target and RD Station - which were threatened as distincts CGU because they have separated cash governance (cash flow) from other companies of the Group.

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

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

The main premise used in the estimate of value in use and sensitivity for the CGU Technology and Credit Products are:

- **Gross margins** – revenues were projected between 2022 and 2026, considering the growth of the customer bases and business plans of the two Cash Generating Units, while costs and expenses were projected based on the Company's historical performance of operations. An increase or decrease of 1 p.p. in gross margin projection for each cash generating unit would result in a recoverable amount higher than the book value.
- **Discount rate** – represents the assessment of risks in the current market, specific to each cash generating unit, considering the value of money over time and the individual risks of related assets that were not incorporated into the premise included in the cash flow model. Calculation of the discount rate is based on the specific circumstances of each CGU. Estimated future cash flows were discounted at a nominal rate of 10.6% p.a. (pre-tax) for CGU Technology and 12.3% p.a. (pre-tax) for CGU Credit Products - Supplier. An increase or decrease of 1 p.p. in the discount rate for each cash-generating unit would result in a recoverable amount higher than the book value.
- **Perpetuity** – the growth rates used to extrapolate the projections at December 31, 2021, in addition to the five-year period ranged from 3.10% to 5.10%. An increase or decrease of 0.5 p.p. in the perpetuity rate for each cash-generating unit would result in a recoverable amount higher than the book value.

The key-premise were based on historical performance from CGUs and reasonable macroeconomic premise, and on financial market projections, documented and approved by the Management of the Company and its subsidiaries.

The annual impairment test of intangible assets and goodwill of the Company and its subsidiaries did not result in any provision for loss, since the estimated recoverable amount of each cash generating unit was higher than the net book value on December 31, 2021 and 2020.

16. Labor liabilities

On December 31, 2021 and 2020 the balances of salaries and charges payable are broken down as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Labor liabilities:				
Salaries payable	32,503	22,556	57,772	35,787
Vacation payable	73,732	61,770	119,135	93,201
Profit sharing and bonus	29,167	22,263	51,351	38,202
Withholding Income Tax (IRRF) payable	18,096	14,284	30,087	20,591
Actuarial liabilities due to health care plan and retirement benefits (i)	4,559	2,786	4,559	2,786
Other	2,581	1,821	4,462	3,966
	160,638	125,480	267,366	194,533
Payroll liabilities				
FGTS (Unemployment Compensation Fund) payable	6,044	5,082	9,698	7,305
INSS (Social Security Tax) payable	6,551	5,788	12,225	9,765
	12,595	10,870	21,923	17,070
Total	173,233	136,350	289,289	211,603

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

17. Taxes and contributions liabilities

On December 31, 2021 and 2020 the balances of taxes and contributions liabilities are broken down as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Federal Social Security Tax on Gross Revenue (CPRB)	16,560	14,857	23,279	19,948
Service Tax (ISS) payable	6,066	5,187	9,106	7,722
PIS and COFINS payable	22,583	18,197	30,907	23,875
IRPJ and CSLL payable	-	-	31,132	19,355
Withholding IR and CSLL	1,048	932	3,653	3,272
Other taxes	(415)	850	1,390	4,363
Total	45,842	40,023	99,467	78,535
Current liabilities	45,842	40,023	96,790	74,558
Non-current liabilities (i)	-	-	2,677	3,977

- (i) Non-current liabilities correspond to installment payment of federal taxes of the acquired.

18. Loans, financing and lease liabilities

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

The loan and financing transactions are as follows:

	Annual financial charges	Individual		Consolidated	
		2021	2020	2021	2020
Leases	2.00% to 15.25% p.a. (i)	182,547	204,548	231,874	223,525
Working capital (ii)	CDI + 1.9% p.a.	-	-	103,740	100,740
Secured accounts and other		-	-	-	785
		182,547	204,548	335,614	325,050
Current liabilities		39,637	37,651	156,306	146,806
Non-current liabilities		142,910	166,897	179,308	178,244

- (i) Rates for the lease of real property right of use range from 2.00% to 14.63% (nominal interest rate) and 7.82% to 15.25% for the lease of the right to use electronic equipment.
- (ii) The working capital loan of the subsidiary Supplier Administradora had an early maturity clause in the event of default, bankruptcy or protest of a security with a value above R\$10,000, besides other conditions under the agreement.

Amounts recorded in non-current liabilities as at December 31, 2021 and 2020 have the following maturity schedule:

	Individual		Consolidated	
	2021	2020	2021	2020
2022	-	36,810	-	41,761
2023	39,260	33,440	53,185	37,895
2024	37,127	32,512	49,109	33,751
2025	33,896	31,734	41,494	32,067
2026 onwards	32,627	32,401	35,520	32,770
Non-current liabilities	142,910	166,897	179,308	178,244

Below is the breakdown of loans and financing as of December 31, 2021 and 2020:

	Individual		Consolidated	
	2021	2020	2021	2020
Opening balance	204,548	230,108	325,050	247,703
Additions from right of use leases	29,172	21,134	36,822	29,267
Additions from loans and financing	-	-	-	100,000
Addition due to business combination	-	-	23,545	175,585
Additions of merger	195	-	-	-
Interest incurred	9,681	11,353	17,691	15,840
Write-offs of right-of-use leases	(10,805)	-	-	-
Interest amortization	(10,105)	(11,353)	(16,431)	(13,863)
Principal amortization	(40,139)	(46,694)	(51,063)	(229,482)
Closing balance	182,547	204,548	335,614	325,050

a) Leases

Lease obligations are guaranteed by chattel mortgage of leased assets. The table below shows gross liabilities of finance leases as of December 31, 2021 and 2020:

	Individual		Consolidated	
	2021	2020	2021	2020
Gross lease liabilities – minimum lease payments				
Less than one year	48,101	46,824	64,115	55,014
More than one year and less than five years	153,367	154,671	191,680	166,413
More than five years	4,825	33,409	5,302	33,783
	206,293	234,904	261,097	255,210
Future financing charges on finance leases	(23,746)	(30,356)	(29,223)	(31,685)
Present value of lease liabilities	182,547	204,548	231,874	223,525
Current liabilities	39,637	37,651	52,566	45,281
Non-current liabilities	142,910	166,897	179,308	178,244

19. Debentures

19.1. Composition

At December 31, 2021, the balances were broken down as follows:

Description	Debentures	Unit Price	Annual financial charges	Maturity	Individual and Consolidated
					2021
3rd Issue of Debentures - Single Series (i)	1,500,000	1	100% do CDI + Spread 1.90%	05/21/2024	1,509,126
Total					1,509,126
Current liabilities					385,988
Non-current liabilities					1,123,138

3rd Issue of debentures: on May 21, 2021, the Company approved the 3rd issue of Simple, non-convertible, unsecured debentures, in a single series for public distribution with restricted placement efforts in the total amount of R\$1,500,000, at face value of R\$1. The Unit Face Value or the Unit Face Value leftover, as the case may be, will bear interest corresponding to 100.00% of the accumulated variation of the average daily rates of the DI Interbank Deposits – DI, plus an exponential spread equivalent to 1.90% per annual on a two hundred and fifty-two (252) Business Day basis. Interest will be amortized always on the 21st of May and November of each year, with the first payment due on November 21, 2021 and the last payment due on the due date.

19.2. Changes

	Individual and Consolidated	
	2021	2020
Opening Balance	-	202,973
Issue of debentures	1,500,000	196,924
(-) Funding costs	(10,631)	-
Interest incurred	68,437	7,878
(-) Interest amortization	(51,046)	(7,775)
(-) Principal payment	-	(400,000)
Costs and expenses amortized	2,366	-
Ending balance	1,509,126	-

The maturities of redemption in non-current liabilities are presented as follows:

	Individual and Consolidated
	2021
Maturity	
2023	373,501
2024	749,637
Non-current liabilities	1,123,138

19.3. Covenants

The debentures have redeemed in advance clauses ("covenants") normally applicable to these types of operations related to compliance with economic-financial ratios. The financial index applied to this deed derives from the coefficient of dividing the net debt by the Adjusted EBITDA, which must be equal to or less than 4 times. This indicator does not consider the debt and EBITDA of the Supplier group.

These restrictive clauses, no audited, have been complied with and do not limit the ability to conduct the normal course of operations.

20. Business partners' payables

The amount of business partner's payables refers to the amount of outstanding receivables acquired from the establishments affiliated with Supplier Administradora de Cartões de Crédito S.A. to act as a means of payment between the establishment and its customers. The rates are defined for each partner considering the risk analysis of the client's profile and the payments to these business partners related to the acquired credit rights have maturities of less than 30 days. The amount of transfers from partners on December 31, 2021 was R\$520,118 (R\$328.817 em December 31, 2020).

21. Accounts payable from acquisition of subsidiaries

Accounts payable from the acquisitions of subsidiaries refer to amounts due to the previous shareholders of the acquired companies, with payment in installments or guarantees given. These amounts are recorded in current and non-current liabilities, as follows:

	Individual					
	2021			2020		
	Contingent payments	Other amounts payable	Total	Contingent payments	Other amounts payable	Total
Datasul MG	-	5,042	5,042	-	4,824	4,824
Seventeen	-	3,253	3,253	-	3,114	3,114
Virtual Age	-	-	-	-	56	56
Other	-	412	412	-	395	395
Total	-	8,707	8,707	-	8,389	8,389
Current liabilities	-	8,707	8,707	-	8,389	8,389

	Consolidated					
	2021			2020		
	Contingent payments	Other amounts payable	Total	Contingent payments	Other amounts payable	Total
Datasul MG	-	5,042	5,042	-	4,824	4,824
Seventeen	-	3,253	3,253	-	3,114	3,114
Virtual Age	-	-	-	-	56	56
Supplier	155,547	-	155,547	117,133	-	117,133
Consinco	28,891	-	28,891	40,945	10,171	51,116
Wealth System	-	-	-	5,837	-	5,837
RD Station	212,777	35,427	248,204	-	-	-
Tail	16,368	-	16,368	11,600	4,073	15,673
RMS	-	590	590	-	1,584	1,584
RJ Participações	6,974	-	6,974	7,225	-	7,225
Other	-	545	545	-	1,638	1,638
Total	420,557	44,857	465,414	182,740	25,460	208,200
Current liabilities	138,741	15,098	153,839	34,625	10,156	44,781
Non-current liabilities	281,816	29,759	311,575	148,115	15,304	163,419

The fair value of contingent payments increased by R\$18,942, due to the performance analysis from acquired companies regarding the Business Plan initially elaborated. The fair value of contingent payments was recorded in the caption "Other operating income (expenses)" in the year ended December 31, 2021.

The installments recorded in the non-current liabilities have maturity as shown below:

Year	Consolidated	
	2021	2020
2022	-	93,778
2023	-	6,034
2024	57,815	53,319
2025	242,536	-
2026	11,224	10,288
Non-current liabilities	311,575	163,419

As of December 30, 2021 and December 31, 2020, the accounts payable from acquisition of subsidiaries had guarantees in the form of marketable securities, which consisted of CDB operations in the following amounts:

	Individual		Consolidado	
	2021	2020	2021	2020
Escrow account - current	8,618	8,301	9,341	10,012
Escrow account - non-current	-	-	35,427	1,116
Total	8,618	8,301	44,768	11,128

22. Provision for contingencies

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

In the ordinary course of their operations, the Company and its subsidiaries are parties to various legal proceedings relating to tax, social security, labor and civil matters. Provision for contingencies is set up by Management, supported by its legal counsel and analysis of judicial proceedings pending judgment, at an amount considered sufficient to cover probable losses. The provision amount reflects the best current estimate of the Company's Management and its subsidiaries.

The amount of provisions set up as at December 31, 2021 and 2020 are as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Tax	7,360	5,890	9,090	7,440
Labor	61,741	70,095	72,913	82,496
Civil	21,681	32,121	25,643	35,882
	90,782	108,106	107,646	125,818

The summary of main proceedings in progress is presented below.

Tax

The lawsuits classified as probable loss deal with recovering tax claims related to collection of credits that the Company and its subsidiaries consider undue. The amounts classified as probable losses from these lawsuits were R\$9,090, on a consolidated basis at December 31, 2021 (R\$7,440 at December 31, 2020), there being no individually significant case.

Labor

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

As of December 31, 2021, the labor claim whose restated amount is deemed individually significant was:

(i) Lawsuit filed in 2003 by a former sales executive of a company, whose controlling interest was held by Datasul prior to its merger into TOTVS. TOTVS claims that a part of the suit is illegitimate and the suit is in the enforcement phase, with restated amount in discussion, as of December 31, 2021 is R\$5,480 (R\$4,900 as of December 31, 2020).

The amounts assessed as probable losses from these lawsuits totaled R\$67,433 at December 31, 2021 (R\$77,596 at December 31, 2020), there being no individually significant case.

Civil

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

Civil lawsuit filed by a client alleging problems resulting from the product implemented, which would have caused direct and indirect damages to the customer. This process has judicial deposit reverted in payment for the opposed part in December 2021 (R\$13,425 at December 31, 2020) and remaining claims were classified as possible risk.

Amounts classified as probable losses from other lawsuits totaled R\$25,643 as of December 31, 2021 (R\$22,457 as of December 31, 2020), there being no other individually significant cases.

a) Changes in provisions

Changes in provisions for the year ended December 31, 2021 and 2020 are as follows:

	Individual			Total
	Tax	Labor	Civil	
Balances in 2019	5,797	78,848	31,416	116,061
(+) Additional provision	394	33,858	11,568	45,820
(+) Monetary adjustment	93	4,142	3,156	7,391
(-) Reversal of provision	-	(7,889)	(3,039)	(10,928)
(-) Write-off due to payment	(394)	(38,864)	(10,980)	(50,238)
Balances in 2020	5,890	70,095	32,121	108,106
(+) Additional provision	1,604	20,826	17,850	40,280
(+) Monetary adjustment	136	5,066	6,054	11,256
(-) Reversal of provision	-	(7,069)	(4,944)	(12,013)
(-) Write-off due to payment	(270)	(27,177)	(29,400)	(56,847)
Balances in 2021	7,360	61,741	21,681	90,782

	Consolidated			
	Tax	Labor	Civil	Total
Balances in 2019	7,671	87,988	35,862	131,521
(+) Additional provision	478	43,476	12,828	56,782
(+) Monetary adjustment	137	6,195	3,491	9,823
(-) Reversal of provision	(61)	(8,518)	(4,078)	(12,657)
(-) Write-off due to payment	(785)	(47,120)	(12,367)	(60,272)
(+) Business combination	-	475	51	526
(+) Exchange variation	-	-	95	95
Balances in 2020	7,440	82,496	35,882	125,818
(+) Additional provision	2,092	24,285	18,713	45,090
(+) Monetary adjustment	190	6,094	6,709	12,993
(-) Reversal of provision	-	(7,928)	(5,251)	(13,179)
(-) Write-off due to payment	(632)	(32,034)	(30,412)	(63,078)
(+) Exchange variation	-	-	2	2
Balances in 2021	9,090	72,913	25,643	107,646

The provisions reflect Management's best current estimate, and its continuous review is the result of monitoring and risk control from TOTVS. The provision is based on information, external counsel, validated by the legal of the Company and its subsidiaries, and experience acquired related to the outcomes of previous legal proceedings in which the Company and its subsidiaries were defendants.

b) Judicial deposits

Judicial deposits linked or not to the provision for contingencies, are stated below and are recorded under non-current assets:

Judicial deposits	Individual		Consolidated	
	2021	2020	2021	2020
Tax	12,421	12,091	13,065	12,697
Labor	9,980	10,835	12,127	14,669
Civil	3,550	15,795	4,466	16,606
	25,951	38,721	29,658	43,972

22.2. Contingent liabilities

The Company and its subsidiaries are parties to other lawsuits which, based on the opinion of Company Management and its legal advisors, are classified as possible losses and for which no provision has been recognized, as follows:

Nature	Individual		Consolidated	
	2021	2020	2021	2020
Tax	141,661	102,600	187,354	143,725
Labor	78,925	103,098	94,934	119,637
Civil	193,421	162,929	214,658	181,097
	414,007	368,627	496,946	444,459

The summary of main proceedings ongoing is presented as follows:

Tax

In 2013, the Company received a communication from Receita Federal informing the non-approval of requests for compensation made with a negative balance of IRPJ for the period of 2011. It was presented the impugnation alleging that the withholdings incurred by the Company compose the totality of the negative balance of the period, which is insufficient to pay the debts. The case is awaiting judgment at the first administrative level. The amount involved as of December 31, 2021 is R\$10,135 (R\$9,832 as of December 31, 2020).

In 2015, the Company received a tax enforcement notice to pay ISS tax in the period between 1996 and 2001. Embargoes were filed alleging prescription of collection and the records are awaiting the expert's report. The amount involved as of December 31, 2021 is R\$11,432 (R\$11,052 as at December 31, 2020).

In 2019, the Company regarding several tax deficiency notices requesting the payment of allegedly due amounts as tax on services (imposto sobre serviços), or ISS, on services rendered in 2014, whose likelihood of loss is assessed as possible. The defense was deemed unfavorable at first instance and the Company filed an appeal at the second administrative level, which was judged partially favorable. The Company proceeded with the discussion in the judicial sphere offering guarantee insurance. In July 2021, the expert phase began. The amount involved as of December 31, 2021 is R\$20,057 (R\$21,948 as of December 31, 2020).

In 2021, the Company received a communication from Receita Federal informing the non-approval of requests for compensation made with a negative balance of IRPJ for the period of 2015. It was presented the impugnation alleging that the withholdings incurred by the Company compose the totality of the negative balance of the period, which is insufficient to pay the debts. The case is awaiting judgment at the first administrative level. The amount involved as of December 31, 2021 is R\$16,936.

In 2021, the Company received a communication from Receita Federal informing the non-approval of requests for compensation made with a negative balance of IRPJ for the period of 2016. It was presented the impugnation alleging that the withholdings incurred by the Company compose the totality of the negative balance of the period, which is insufficient to pay the debts. The case is awaiting judgment at the first administrative level. The amount involved as of December 31, 2021 is R\$13,698.

The remaining tax cases assessed as possible losses deal with recovering debt, which the Company considers them to be undue. These cases totaled R\$115,096 as at December 31, 2021 (R\$100,893 as at December 31, 2020).

Labor

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

The labor lawsuits totaled R\$94,934 as at December 31, 2021 (R\$119,637 as at December 31, 2020), there being no individually significant cases.

Civil

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

- (i) Civil lawsuit filed by a customer alleging problems resulting from the product implemented, which would have caused material damages. The lawsuit is in initial stage of defense. The amount involved as at December 31, 2021 was R\$14,208.
- (ii) Civil lawsuit filed by a customer alleging problems resulting from the product implemented, which would have caused material damages and lost profits. The lawsuit is in appeal stage. The amount involved as at December 31, 2021 was R\$12,684 (R\$10,719 as of December 31, 2020).
- (ii) Civil lawsuit filed by a commercial representative alleging that the termination of the contract between the parties would have caused material damages and loss of profits. The process is in appeal stage. The updated amount involved as of December 31, 2021 is R\$10,193 (R\$8,648 as of December 31, 2020).

The other lawsuits totaled R\$177,573 as at December 31, 2021 (R\$168,280 as at December 31, 2020), there being no other individually significant cases.

23. Senior shares and mezzanine obligations

The liability regarding to senior shares and mezzanine represents the Supplier FIDC obligation with senior shareholders and mezzanine which are not eliminated in the Group's consolidation. On December 31, 2021 R\$1,372,726 (R\$1,011,087 on December 31, 2020).

The index used for the profitability of senior shares is CDI + 1.2% p.a., for mezzanine I shares, it is CDI + 2% p.a., and for mezzanine II shares, CDI + 4% p.a. and the remuneration for the benefit of holders of senior shares and mezzanine is recorded as cost of the operation.

Bellow, we present the changes of senior shares and mezzanine obligations on December 30, 2021 and 2020:

	<u>Consolidated</u>
Balance in 2019	-
Addition by acquisition	975,768
Applications	319,458
Redemption	(312,070)
Interest incurred	27,931
Balance in 2020	1,011,087
Applications	594,744
Redemption	(326,579)
Interest incurred	93,474
Balance in 2021	1,372,726

24. Shareholders' equity

a) Share Capital

As at December 31, 2021 the Company's share capital was composed of 617,183,181 registered common shares issued and fully paid, with no par value (577,913,181 as of December 31, 2020), as follows:

Shareholder	2021		2020	
	Shares	%	Shares	%
LC EH Participações e Empreendimentos S/A	80,282,970	13.01%	80,282,970	13.89%
Constellation Investimentos e Participações	42,914,618	6.95%	30,090,381	5.21%
GIC Private Limited	39,308,774	6.37%	28,442,062	4.92%
Canada Pension Plan	32,754,201	5.31%	15,571,007	2.69%
Laércio José de Lucena Cosentino	6,631,704	1.07%	6,376,005	1.10%
CSHG Senta Pua Fia	144,800	0.02%	144,000	0.02%
Outros	406,041,238	65.79%	406,853,170	70.41%
Outstanding shares	608,078,305	98.52%	567,759,595	98.24%
Treasury shares	9,104,876	1.48%	10,153,586	1.76%
Total in units	617,183,181	100.00%	577,913,181	100.00%

On April 20, 2021, the Company's Extraordinary Shareholders Meeting approved the capital increase of R\$136,903 through capitalization of retained earnings, without issuing new shares. The capital increased from R\$1,382,509 to R\$1,519,412, divided into 577,913,181 common shares, all registered, book-entry and without par value. On the same date, the change in the authorized capital limit from R\$2,500,000 to R\$4,000,000 in the Company's bylaws was also approved.

On September 21, 2021, Board of Directors approved the fixed share price, under the primary public offering for common shares issue, in the amount of R\$36.75 per shares with capital increase in the total amount of R\$ 1,443,173, correspondent to the issue of 39,270,000 new common shares, registered, book-entry and without par value. Thus, the capital went from R\$1,519,412 divided to 577,913,181 common shares to R\$2,962,585, divided to 617,183,181 common shares, all registered, book-entry and without par value.

b) Capital reserves

The balance of capital reserves at December 31, 2021 and 2020 was broken down as follows:

	2021	2020
Goodwill reserve (i)	824,480	824,480
Goodwill reserve due to merger	14,330	14,330
Premium on acquisition of non-controlling interests	(24,323)	(24,323)
Debentures converted into shares	44,629	44,629
Share-based compensation plan	83,921	64,650
Share issue expenses	(69,321)	(28,942)
Dilution of interest	352,540	-
Call option of non-controlling interests	(361,388)	-
	864,868	894,824

(i) Goodwill reserve is composed by R\$31,557 regarding integralization occurred in 2005 and R\$67,703 regarding societ ry reorganization with Bematech. In 2019 had an increase of goodwill reserve of R\$725,220 regarding the amount of capital contribution destined to the capital reserve.

c) *Treasury shares*

As at December 31, 2021 and 2020, the account "Treasury Shares" had the following changes :

	Number of shares (Units)	Value (in Thousand)	Average price per share (in Reais)
Balance as at January 1, 2020 (i)	5,856,357	R\$ 62,531	R\$ 10.68
Purchased	5,100,900	R\$ 94,734	R\$ 18.57
Used	(803,671)	R\$ (8,728)	R\$ 10.86
Balance as at December 31, 2020	10,153,586	R\$ 148,537	R\$ 14.63
Used	(1,048,710)	R\$ (15,342)	R\$ 14.63
Balance as at December 31, 2021	9,104,876	R\$ 133,195	R\$ 14.63

(i) Units of adjusted treasury shares in accordance with the split of shares mentioned in Note 24 a.

During the year ended December 31, 2021, 1,048,710 treasury shares were used by the restricted share plans, which consumed R\$15,342 from capital reserve.

25. Dividends and Interest on Shareholders' Equity

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

On April 20, 2021, the General Shareholders' Meeting approved the distribution of dividends in the amount of R\$50,960 relating to net income for 2020 with payment made as from May 20, 2021.

On July 30, 2021, Board of Directors approved the distribution and payment of Interests of Shareholders' Equity in the amount of R\$51,193 regarding to net profit from the first semester of 2021 with payment made from October 22, 2021.

On December 22, 2021, Board of Directors approved the distribution and payment of Interest on Shareholders' Equity (JCP) in the amount of R\$79,050 regarding to net profit from the second semester of 2021 with payment expected from May 20, 2022.

	Individual	
	2021	2020
Net income for the year - Individual company	368,491	294,959
Accrual of legal reserve (article 193 of Law No, 6404)	(18,425)	(14,748)
Net income after legal reserve allocation	350,066	280,211
Mandatory minimum dividend – 25%	87,517	70,052
Additional dividends proposed by Management	42,726	77,427
Dividends proposed by Management	130,243	147,479
Payment:		
Interest on Shareholders' Equity	130,243	96,519
Dividends	-	50,960
	130,243	147,479
Number of outstanding shares at December 31	608,078,305	567,759,595
Dividends and Interest on Shareholders' Equity per thousand shares - in Reais	0.21	0.26

The balance of dividends and Interest on Shareholders' Equity in the statement of financial position amounted to R\$80,153 as at December 31, 2021 (R\$57,687 as of December 31, 2020).

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

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

The capital budget proposed for 2022 to be submitted to the Annual Shareholders Meeting, allocates the balance in the amount of R\$219,823 in the reserve account to retained earnings, for the following:

(No audited)	2022
Investments:	
Investments in property, plant and equipment and intangible assets	140,035
Investments in strategic projects	79,788
Total investments	219,823
Sources:	
Retained earnings reserve at December 31, 2021	219,823
Total sources	219,823

26. Share-based compensation plan

The Company and its subsidiaries measure the cost of transactions settled with shares to its employees based on the fair value of the shares on the grant date.

The Incentive Plan based on Shares of the Company and its subsidiaries established rules for certain employees and directors of TOTVS or other companies under its control so they can acquire shares of the Company through the grant of shares, thereby aligning over the medium and long

terms, interests of the beneficiaries and shareholders' interests, broaden the sense of ownership and commitment of the executives through the concept of investment and risk. The Plan is administered by the Board of Directors of the Company, which establishes grant programs annually, and according to the rules of the Code of Ethics of the Company and its subsidiaries, the managers do not participate in the decisions of the plan that directly benefit them.

The restricted shares plan, since December 2015, grants to beneficiaries three types of programs:

(i) Regular restricted shares: the eligible participants shall have the right to receive the Restricted Shares of the Regular Program at the end of the vesting period. During the vesting period of the Regular Program, participants will not be entitled to receive dividends or Interest on Shareholders' Equity in connection with the Restricted Shares.

(ii) Partner program: the eligible participants in this plan shall have the right to receive the Restricted Shares of the Partner Program at the end of the vesting period, provided the Participant has and maintains, on the date of granting of Restricted Shares on a continuous and uninterrupted basis, including on the date of delivery of the Restricted shares an amount equal to twelve (12) fixed monthly gross salaries invested in Company shares. During the vesting period of the Partner Program, participants will not be entitled to receive dividends or Interest on Shareholders' Equity in connection with the Restricted Shares.

(iii) Discretionary Bonus in Restricted Shares: This plan enables the Board, within the established limit for dilution of shares, in order to attract and retain certain key personnel of the Company and/or its subsidiaries, at its sole discretion, to use any remaining balance of Restricted Shares under this Plan for additional grants to participants.

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

Grant				Fair Value Assumptions	
Date	Plans	Number of options/shares	Fair value of shares	Expectation:	Term
				Dividends	Maturity
05/4/2018	Regular	918,555	R\$ 9.84	1.80%	3 years
05/4/2018	Partners	1,066,695	R\$ 9.84	1.80%	3 years
04/26/2019	Regular	1,891,380	R\$ 12.83	1.40%	3 years
04/26/2019	Partners	820,710	R\$ 12.83	1.40%	3 years
04/27/2020	Regular	2,091,610	R\$ 16.41	1.20%	3 years
04/27/2020	Partners	1,049,820	R\$ 16.41	1.20%	3 years
05/7/2021	Regular	1,999,900	R\$ 29.39	1.31%	3 years
05/7/2021	Partners	1,257,680	R\$ 29.39	1.31%	3 years

Changes in restricted shares are as follows:

	Individual and Consolidated		Individual and Consolidated			
	December 31, 2021		December 31, 2020			
	Restricted shares	Total equity instruments	Stock options (ii)		Restricted shares	Total equity instruments
	Number (in units)		Average price (in Reais)		Number (in units)	
Opening balance	6,981,409	6,981,409	11.87	145,665	4,902,105	5,047,770
Transactions:						
Exercised	(1,446,372)	(1,446,372)	11.87	(145,665)	(905,446)	(1,051,111)
Granted	3,257,580	3,257,580	-	-	3,141,430	3,141,430
Cancelled	(409,162)	(409,162)	-	-	(156,680)	(156,680)
Added (i)	27,999	27,999	-	-	-	-
Closing balance	8,411,454	8,411,454	-	-	6,981,409	6,981,409

- (i) Addition generated by the performance appraisal result referring to grants already granted in previous years;
(ii) The "Stock option" plan is no longer in force and was totally exercised in 2020.

The cumulative effect in the year ended December 31, 2021 was R\$34,613 (R\$24.650 as of December 31, 2020), recorded as share-based payment expenses.

RD Station has an individual share based compensation plan whose expense is recognized in the year by the rendered services was R\$3,740 regarding the acquisition period until December 31, 2021.

27. Operating Segments

The presentation of information by operating segment is consistent with the internal report provided to the main operational decision-makers of the Company and its subsidiaries. After RD Station acquisition (note 4.1), the Company and its subsidiaries consolidate their strategic position focused on the Business Performance dimension and started to present its results in three reportable segments:

Management segment: represents TOTVS software operation. This segment comprises the dimensions of management software, with ERP, HR and Vertical.

Business Performance segment: includes solutions focused on generating opportunities and converting customer sales, such as sales, digital marketing and customer experience.

Techfin segment: includes the business of providing financial services, such as technology products aimed at financial services (example "Painel Financeiro"), partnerships (example "crédito consignado"), products with assumption of some degree of credit risk and/or the definition and/or application of credit policies (examples as "Supplier Card", "Antecipa" and "Mais Prazo"). This segment also consolidates the results of the subordinated shares of the Supplier FIDC, to which Supplier currently assigns the originated credits.

The statement of profit or loss for the year ended December 31, 2021 and 2020 for these three reportable segments is as follows:

	Management		Business Performance		Techfin		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020
Statement of profit or loss								
Net revenue from services and sales	2,818,001	2,464,625	159,311	2,029	281,551	129,423	3,258,863	2,596,077
(-) Costs	(800,109)	(734,468)	(44,476)	(141)	(113,688)	(42,095)	(958,273)	(776,704)
Gross profit	2,017,892	1,730,157	114,835	1,888	167,863	87,328	2,300,590	1,819,373
(+) Research and development expenses	(490,227)	(425,262)	(33,852)	-	(24,159)	(6,086)	(548,238)	(431,348)
(+) Impairment loss on trade and other receivables	(18,412)	(38,996)	(2,177)	(39)	(15,646)	(4,821)	(36,235)	(43,856)
Margin contribution	1,509,253	1,265,899	78,806	1,849	128,058	76,421	1,716,117	1,344,169
(-) Operating expenses	-	-	-	-	-	-	(941,959)	(745,750)
(-) Depreciation and amortization	-	-	-	-	-	-	(261,120)	(204,587)
(-) Finance income (expenses) and share of losses of equity-accounted investees	-	-	-	-	-	-	(49,329)	(11,728)
(-) Income tax expenses	-	-	-	-	-	-	(89,672)	(86,068)
Profit for the year from continuing operations	-	-	-	-	-	-	374,037	296,036

The Company and its subsidiaries have disclosed information above for each reportable segment, as this information is regularly reviewed by the chief operating decision maker.

The following table conciliate the segments model presented above with the Statement of Profit or Loss:

	2021			2020		
	Consolidated segments	Conciliation	Statement of Profit or Loss	Consolidated segments	Conciliation	Statement of Profit or Loss
Statement of profit or loss						
Net revenue from services and sales	3,258,863	-	3,258,863	2,596,077	-	2,596,077
(-) Costs	(958,273)	(74,578)	(1,032,851)	(776,704)	(69,422)	(846,126)
Gross profit	2,300,590	(74,578)	2,226,012	1,819,373	(69,422)	1,749,951
(+) Research and development expenses	(548,238)	(37,234)	(585,472)	(431,348)	(30,828)	(462,176)
(+) Impairment loss on trade and other receivables (i)	(36,235)	36,235	-	(43,856)	43,856	-
Margin contribution	1,716,117	(75,577)	1,640,540	1,344,169	(56,394)	1,287,775
(-) Operating expenses	(941,959)	(185,543)	(1,127,502)	(745,750)	(148,193)	(893,943)
(-) Depreciation and amortization (i)	(261,120)	261,120	-	(204,587)	204,587	-
(-) Finance income (expenses) and share of losses of equity-accounted investees	(49,329)	-	(49,329)	(11,728)	-	(11,728)
(-) Income tax expenses	(89,672)	-	(89,672)	(86,068)	-	(86,068)
Profit for the year from continuing operations	374,037	-	374,037	296,036	-	296,036

(i) Vide note 30 for more details of Nature expenses.

28. Earnings per share

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

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

The tables below show earnings and share data used to calculate basic and diluted earnings per share:

Basic earnings per share	2021	2020
Profit or loss for the year		
Continuing operations	368,491	296,036
Discontinued operations	-	(1,077)
Profit attributable to the owners of the Company	368,491	294,959
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	579,747	568,155
Basic earnings per share (in Reais)	0.63561	0.51915
Basic earnings per share - continuing operations (in Reais)	0.63561	0.52105
Diluted earnings per share	2021	2020
Profit or loss for the year		
Continuing operations	368,491	296,036
Discontinued operations	-	(1,077)
Profit attributable to the owners of the Company	368,491	294,959
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	579,747	568,155
Weighted average number of stock options/restricted shares	7,921	6,772
Weighted average number of common shares adjusted according to dilution effect	587,668	574,927
Diluted earnings per share (in Reais)	0.62704	0.51304
Diluted earnings per share - continuing operations (in Reais)	0.62704	0.51491

There were no other transactions involving common shares or potential common shares between the reporting date and the date when these financial statements were concluded.

29. Gross sales revenue

Gross revenue and deductions used for the calculation of net revenue presented in the statement of profit and loss of the Company and its subsidiaries for the year ended December 31, 2021 and 2020 were as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Recurring software	1,845,896	1,595,092	2,788,421	2,213,744
Nonrecurring software	376,712	395,608	590,473	587,232
License fees	185,552	193,814	246,823	252,869
Nonrecurring services	191,160	201,794	343,650	334,363
Credit product	-	-	293,426	134,756
Operating revenue	2,222,608	1,990,700	3,672,320	2,935,732
Sales canceled	(21,046)	(17,716)	(33,115)	(28,346)
Sales taxes	(250,602)	(224,005)	(380,342)	(311,309)
Deductions	(271,648)	(241,721)	(413,457)	(339,655)
Total net revenue	1,950,960	1,748,979	3,258,863	2,596,077

30. Costs and expenses by nature

The Company and its subsidiaries present informations about operating expenses and costs by nature for the year ended December 31, 2021 and 2020.

Nature	Individual		Consolidated	
	2021	2020	2021	2020
Salaries, benefits and payroll charges	882,174	749,827	1,377,030	1,106,293
Outsourced services and other inputs	410,988	398,999	718,848	560,571
Commissions	211,868	184,610	253,071	207,565
Depreciation and amortization	134,845	124,758	261,120	204,587
Provision for contingencies	28,267	34,892	31,911	44,125
Impairment loss on trade and other receivables	14,395	26,115	36,235	43,856
Other	18,593	31,047	67,610	35,248
Total	1,701,130	1,550,248	2,745,825	2,202,245

Occupation	Individual		Consolidated	
	2021	2020	2021	2020
Cost of softwares	646,417	610,033	923,786	804,192
Cost of credit products	-	-	109,065	41,934
Research and Development Expenses	370,018	305,355	585,472	462,176
Selling and Marketing Expenses	451,136	399,651	659,667	538,667
Administrative Expenses	254,090	238,942	480,132	383,889
Other Operating Expenses	(20,531)	(3,733)	(12,297)	(28,613)
Total	1,701,130	1,550,248	2,745,825	2,202,245

31. Finance income and expenses

Finance income and costs incurred for the year ended December 31, 2021 and 2020 were as follows:

	Individual		Consolidated	
	2021	2020	2021	2020
Finance income				
Short-term investment yield	49,376	23,327	87,865	34,135
Interest received	4,963	3,498	5,675	4,125
Inflation adjustment gains	1,905	1,541	2,754	2,002
Adjustment to present value	1,916	1,522	2,173	1,707
Foreign exchange gains	346	125	4,708	7,672
Other finance income (i)	(2,613)	(1,292)	(5,962)	(2,297)
	55,893	28,721	97,213	47,344
Finance expenses				
Interest expense	(81,532)	(22,437)	(87,222)	(23,803)
Inflation adjustment losses	(9,400)	(7,571)	(12,598)	(11,084)
Bank expenses	(4,519)	(4,825)	(5,352)	(5,775)
Adjustment to present value of liabilities	(5,477)	(521)	(30,052)	(11,915)
Foreign exchange losses	(1,475)	(38)	(4,861)	(5,841)
Other finance expenses (ii)	(213)	(294)	(5,931)	(360)
	(102,616)	(35,686)	(146,016)	(58,778)
Net finance income (expenses)	(46,723)	(6,965)	(48,803)	(11,434)

- (i) Includes the amounts of PIS e COFINS on finance income.
(ii) Includes inflation adjustments of Argentine subsidiaries

32. Private pension plan – defined contribution

The Company and its subsidiaries offer the “TOTVS Private Pension Plan”, currently managed by Bradesco Seguros, which receives contributions from the employees and the Company and its subsidiaries, as described in the Program Membership Agreement. The contributions are segregated in:

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

The private pension expenses for the year ended December 31, 2021 was R\$7,101 (R\$3,962 as of December 31, 2020).

33. Insurance coverage

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

On December 31, 2021, the mainly insurance coverage contracted are:

Type	Insurance Company	Effective		Maximum limit of Responsibility
		From	To	
Business Comprehensive	Mitsui	July / 2021	July / 2022	R\$197,855
General Liability	Chubb Seguros	June / 2021	June / 2022	R\$8,000
Vehicles (i)	Porto Seguro	January / 2021	January / 2022	(*) FIPE
D&O Directors and Officers Liability (ii)	AIG Seguros	July / 2021	July / 2022	R\$100,000
E&O – Errors and Omissions	AIG Seguros	July / 2021	July / 2022	R\$5,000
Cyber - Comprehensive Cyber Risks	AXA	July / 2021	July / 2022	R\$3,000

(i) Market amount determined by FIPE - Fundação Instituto de Pesquisas Econômicas;

(ii) For Mexico, Argentina and United States operations, the local insurance policy is issued in each country with a coverage amount of USD1,000.

34. Subsequent events

On January 07, 2022, was celebrated the “Share Sale and Purchase Agreement and Other Covenants”, for acquisition of 100% of quotas of capital from the startup InovaMind Tech Ltda, by Dimensa S.A., in the amount of R\$23.5 million. InovaMind is an artificial intelligence startup which uses Big Data to create products and digital services for companies of all sizes. With this acquisition, Dimensa S.A. expands its offer of products and services for its customers and give another strategic step to reinforce its leadership position in the B2B technologies for finance sector and fintechs segments.

On January 31, 2022 was celebrated the “Share Sale and Purchase Agreement and Other Covenants”, for acquisition of 100% of quotas of capital from Mobile2you Ltda., by Dimensa S.A. in the amount of R\$26.9 million. Mobile2you is a mobile-house responsible for the development of custom financial apps (“Tailor-made”) for companies that desire to start the entry journey in the “fintech” market. Integrating the back-office layer, the complete experience of journey from the user, the Mobile2you delivery value to the customers offering digital financial products which generates traction to business rules of the companies.

Report from the Statutory Audit Committee

The Audit Committee ("COAUD") of TOTVS was created on May 28, 2007, being provided for in the Company's Bylaws on April 5, 2018, and on November 4, 2021 the Company's Board of Directors approved such Committee's Charter and the establishment of the Statutory Audit Committee ("CAE") that succeeded the former COAUD. Under the Company's Bylaws and the Charter of the Statutory Audit Committee, the Committee's responsibilities are to ensure the suitable operation of the internal and external audit processes and management, mechanisms and controls connected to risk management and the consistency of financial policies with strategic guidelines and the business risk profile. The CAE is also responsible for ensuring the quality, integrity, and compliance of the Company's financial statements, making recommendations to the Management regarding the approval of financial reports and any actions aimed at improving internal controls and reducing risks.

In 2021, the Committee met nineteen times, with twelve ordinary meetings and seven extraordinary meetings, and its Coordinator reported the Committee's activities and recommendations at all ordinary meetings of the Board of Directors.

The members of the CAE, Messrs. Gilberto Mifano (Coordinator and Board Member), Mauro Rodrigues da Cunha (Board Member), and Ms. Lavínia Junqueira (external member), were elected on November 4, 2021, with a term of office to be effective until the first meeting of the Board of Directors subsequent to the Company's Annual General Meeting in 2022.

Among the various subjects and topics addressed and discussed to be recommended to the Board of Directors and the Board of Executive Officers, the following ones are worth highlighting: (i) **Independent Auditors:** discussion of the service agreement for retaining external auditors, with a recommendation to replace the audit firm; planning, scope, and main conclusions reached in the quarterly financial statements, and an opinion for preparing the financial statements; discussion of any weaknesses, deficiencies, and recommendations for improvement pointed out in the Internal Controls Report, and the corresponding action plans; preview and ultimate results of the ISAE 3402/2021 report; Work Plan of the Independent Auditors; assessment of additional services provided by the independent auditors; monitoring of information on IT general controls (ITGC), access profiles, and segregation of functions; and Annual assessment of the independent auditors' performance. (ii) **Internal Auditors:** discussion of the risk matrix and the schedule of auditing work; assessment of the Internal Auditors' work reports and corrective actions on the points identified; monitoring of compliance with the schedule, the scope of hours, and results of investigations carried out; Report on the Internal Auditors' Activities in 2021; Internal Auditors' budget; Internal Auditors' annual assessment cycle; and progress made by the Internal Auditors area. (iii) **Internal Controls, Corporate Risk Management, Compliance, and Client/Customer Ombudsman:** discussions on the hierarchical and reporting structure of the Risk, Internal Controls, and Compliance area; Map of Priority Risks, ranking of impacts, and likelihood of occurrence; New cycle of Risk Management Monitoring; action plans to improve IT general controls (ITGC); Internal Controls Report of the independent auditors; Client/customer experience project; franchising indicators and results; Service management project (PSA) and its implementation in franchises; Action plans to meet the compliance program; Monitoring the adoption of compliance policies and practices; NPS survey results, economic churn indicator, and retention actions; D&O insurance renewal. (iv) **Financial Management, Allowances, and Indicators:** review and opinion on the Financial Statements; review of proposals for statement and distribution of interest on net equity and dividends; review and recommendation on the 2nd subsequent Issue of shares; monitoring of annual impairment tests and recoverability of deferred tax assets; follow-up of the allowance for doubtful accounts policy; monitoring the capitalization of investments in research and development; discussion of material facts and presentation of results to the market; follow-up of topics discussed in the Tax Affairs Committee and in the Labor Affairs Committee; follow-up and recommendations on mergers and

acquisitions initiatives and transactions, review of Due Diligence reports, appraisal and risks of these transactions under the standards set forth by the Board; follow-up of any earn-out additional payments planned for the acquired companies; recommendations on Governance requirements in M&A transactions; monitoring of the credit risk and liquidity indicators of the subsidiary Supplier, as well as the progress of FIDC; follow-up of actions connected to the COVID-19 Pandemic and the Business Continuity Plan; follow-up of the map of unmaterialized risks of civil, labor, and tax litigations; and follow-up of provisions for labor, civil, and tax contingencies. (v) **Corporate Governance:** follow-up of the Reference Form update; follow-up of questions made and answers by the Management to official letters received from agencies and regulatory bodies; review of the rules for triggering the crisis management plan; discussion of reviewing or amending corporate policies and charters; discussion of the Committee's Budget; follow-up the Ethics and Conduct Committee's activities; follow-up on the effects of the General Data Protection Law and compliance with the requirements of the Law; review of the governance aspects of the franchise network; attend Annual Shareholders' Meeting to clarify shareholders' questions; review transactions with related parties and make recommendations; and the Audit Committee's annual self-assessment cycle.

2021 Annual Financial Statements:

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

São Paulo, February 14, 2022.

Gilberto Mifano

Coordinator of the Statutory Audit Committee and member of the Board of Directors

Mauro Gentile Rodrigues da Cunha

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

Lavínia Moraes de Almeida Nogueira Junqueira

Member of the Statutory Audit Committee

Fiscal Council Report

The members of the Fiscal Council of TOTVS S.A., in the performance of their legal duties and responsibilities, examined the Management Report, the Financial Statements, and the Allocation of the Company's Net Profit for the fiscal year ended December 31, 2021 accompanied of the opinion from the independent auditors; hence, based on the analyses carried out and the clarifications provided by the Management, the Fiscal Council's opinion is that the aforementioned documents are suitable to be submitted to the Annual General Meeting for approval by the Company's shareholders.

São Paulo, February 14th, 2022.

Luiz Carlos Nannini

Member of the Fiscal Council

Luiz Gotardo Furlan

Member of the Fiscal Council

Fernando Heitor Baptista Vaccari

Member of the Fiscal Council