TOTVS S.A.

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

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MANAGEMENT REPORT AND COMMENTS ON THE COMPANY'S PERFORMANCE

Dear Shareholders,

In compliance with applicable laws, TOTVS S.A., the leading developer and seller of management software, productivity and collaboration platforms, as well as consulting and related services in Brazil, hereby submits to its shareholders the Management Report and corresponding Financial Statements, accompanied by the independent auditor's report, for the fiscal years ended December 31, 2019 and 2018, prepared in accordance with the accounting practices adopted in Brazil.

MESSAGE FROM THE BOARD

Expectations around a new government and its proposed liberal agenda gave rise to bright prospects for the Brazilian economy early in the year. Even though some forecasts did not materialize as expected, 2019 represented a period of significant advances for Brazil's economic recovery.

For TOTVS, 2019 was marked by the successful CEO succession process, the consolidation of a new cycle of growth and the implementation of TOTVS' new strategic pillars and guidelines. We work incessantly to achieve increasingly solid and consistent results and to continue driving our clients' operations, helping them to innovate, grow and perpetuate their businesses and to script new success stories in all corners of Brazil.

One of the pillars was the review of the M&A strategy, with the focus on identifying opportunities to create value for the Company and its shareholders. As a result, in May we held a follow-on offering of shares, raising R$1.067 billion, earmarked for new investments over the next 2 to 3 years, of which we have already allocated nearly 60% to the acquisitions of Supplier and Consinco, aimed at entering new markets and strengthening our core business.

In this same context, other points worth highlighting are the divestment of hardware operations in order to focus the attention of our teams and resources on the software operation; and the creation of the Techfin business division dedicated to the application of technology and smart use of data to simplify, expand and cheapen our clients' access to credit and other financial services.

Finally, we continue to make progress in our Governance structure, the highlights being improvements made to the Integration and Continuing Education Program and Board Evaluation Process; creation of the Integrity Program, further underlining our commitment to a more ethical and morally upright market; and the revision of corporate policies on subjects such as Risk Management and Internal Controls, Information Security, Securities Trading, Treasury Management, and Credit and Collections. These initiatives strengthen our values and their dissemination throughout the Company's production chain.

TOTVS is driven by the transforming power of technology and the simplicity to drive results. We will continue to help our clients to be increasingly efficient and competitive in their businesses, allowing them to access innovative solutions in a unique ecosystem.

We believe we are on the right path, focused on sustainable growth and business expansion. 2019 was a memorable year, but we believe that 2020 has everything in it to be even better.

Laércio Cosentino, Chairman of the Board

MESSAGE FROM THE CEO

The year 2019 marked the start of a new chapter in the story of success, pioneering spirit and leadership of TOTVS. We successfully completed the challenging succession process at one of the world's largest management software companies, preserving the legacy of the company's founder, who remains supporting the Company as the Chairman of the Board. We will keep the same premise that guided us since the very beginning: innovation, entrepreneurship and determination; relying on technology as the driver of competitiveness and productivity in the country; and working daily to offer the best solutions and increasingly more digital experiences to our clients.

The balance sheet for the period was positive. We had another year of revenue growth, driven by the acceleration of initiatives that were in progress throughout 2018, fueled by the establishment of new fronts and strategic guidelines.

We divested the hardware operations, returning our focus exclusively on software; we gave priority to products that generate recurring revenue and to keeping an eye on new business opportunities, we implemented changes in the commercial structure, such as improving relations with franchises and making adjustments to sales incentives for recurring and non-recurring solutions.

As a result, Recurring Revenue registered double-digit growth in all quarters, closing the year at over R$1.7 billion, corresponding to more than 75% of Total Net Revenue and an organic growth of 11.8% from 2018. This performance as well as high Renewal Rates – close to 99% per quarter – and increased client satisfaction are the pillars of our business model.

Total Net Revenue ended the year at R$2.3 billion, up 8.1% from the previous year. This acceleration, coupled with the scalability that the software business provides and disciplined cost and expense management, led to a 35% growth in EBITDA, equivalent to an increase of 420 basis points(1) in Adjusted EBITDA Margin, which ended 2019 at 20.6%(1). This performance underscores the revenue growth trend and the consolidation of EBITDA Margin expansion.

Together with the improved operational and financial performance, the success of the follow-on offering in May enabled us to launch a new investment cycle, both in the *core* business of management systems and in new growth avenues. The organic creation of our Techfin team, the acquisition of Supplier and the joint venture with VTEX were the initial steps in this direction towards building an ecosystem aimed at expanding our portfolio and advancing further in the value chain of our clients. Towards the close of the year, we took an important step towards strengthening our position in the Retail segment, especially in the Supermarket vertical, with the acquisition of Consinco.

We could experience and share this positive moment while meeting our clients at the return - after a 4-year gap - of TOTVS Universe, in an event that had more than 4,500 participants per day, 60 exhibitors, 200 hours of scheduled events, 250 activities and renowned technology professionals.

In the same vein, in response to renewed interest at TOTVS, our IR department and other executives held numerous meetings with investors and shareholders during the whole of last year and 2020 begins with the return of our Investor Day, which will be held on February 17 at our head office in São Paulo.

Our inclusion in the Ibovespa index early this year made TOTVS the first technology company to figure in Brazil's most important stock market index. This achievement reflects TOTVS' leadership and the recognition of the moment that we are going through, thanks to our strategy, operational execution and corporate governance.

(1) Excluding the effect of IFRS 16, Adjusted EBITDA Margin is 18.7% (+230 bps vs. 2018)

We have been working constantly to strengthen our employer brand, fully knowing that attracting and retaining talent are the key ingredients to build a solid company. The findings of our annual engagement survey showed us that we are on the right path, with 89% of TOTVERS feeling very proud to work at TOTVS and 92% believing in the Company's potential for success. This is reflected in the hashtag created by TOTVS after TOTVS Universe: #thegiantisback.

For 2020, we have the challenge of continuing to build an ecosystem of solutions covering 3 dimensions: (i) Management – with our portfolio of open, connected and customizable ERP, HR and Verticals solutions and platforms; (ii) Techfin - expanding, simplifying and cheapening access to credit and other financial services; and (iii) Business Performance – building a portfolio that helps our clients to sell more and better. Artificial Intelligence, machine learning and cloud are the tools for us to implement this strategy of opening new markets and advancing further in the value chain of our clients.

Lastly, the launch of a new campaign is recovering our media presence and repositioning ourselves vis-à-vis all our stakeholders. "TOTVS BELIEVES IN A BRAZIL THAT GETS THINGS DONE" is much more than a motto. We are very proud of all that we have built so far and of our legacy for society, supporting the growth of thousands of businesses and entrepreneurs nationwide through technologies that simplify the business world, going far beyond ERP. We want to show our genuine commitment and strength in democratizing access to cutting-edge technology to companies of all sizes and segments, helping them to succeed and overcome their challenges and to drive the nation's sustainable growth.

That is the force that drives us: Believing in a Brazil that GETS THINGS DONE and which that innovates and produces, being an important business partner for our thousands of clients.

Dennis Herszkowicz, CEO

ECONOMIC SCENARIO

Global economic performance slowed down due to the high volatility of international financial markets and was marked by intense episodes of instability, especially in the US-China trade war, street protests in Chile and Ecuador, ouster of the president in Bolivia and the return of Kirchnerism in Argentina.

In Brazil, these external factors adversely affected the exchange rate, with the US dollar reaching its peak in the last 10 years and the Brazilian real depreciating sharply. There were expectations that, with the approval of the oil mega-auction and the review of agreements held by Petrobrás related to transfer of exploration rights for consideration, there would be an influx of capital that would ease the pressure on the Brazilian real. However, the auction did not attract much foreign capital and Petrobrás acquired most of the lots.

On the economic front, Brazil's GDP should grow once again at a modest pace (forecast: 1.2%), but maintaining the positive historical trend since 2016. Regarding inflation, the IGP-M index registered sharp monthly variation during the year to close with an increase of 7.3%, while the IPCA index stood at 4.31%, 0.56 percentage points above the 3.75% posted in 2018. As for monetary policy, the Selic rate started the year at 6.5% and was cut four times to end the year at an all-time low of 4.5%.

This scenario boosted the huge demand for floating-rate investments, which had a positive impact on the capital markets, with Ibovespa breaking a series of historical records in 2019 to reach 115,000 points, representing a year-on-year increase of 31.6%. According to data from the UN Conference on Trade and

Development (UNCTAD), Brazil was the 4th most popular destination for foreign investments in the year, receiving US$75 billion in 2019, compared to US$60 billion in 2018, up 26% in the period.

In Brazil, the period was marked by the first year of the Bolsonaro government, which, despite lacking a stable base in the parliament, managed to approve matters of importance to for the country, such as the pension reform, which is expected to save around R$855 billion over 10 years, almost twice that was forecast by the reform bill presented by the Temer government.

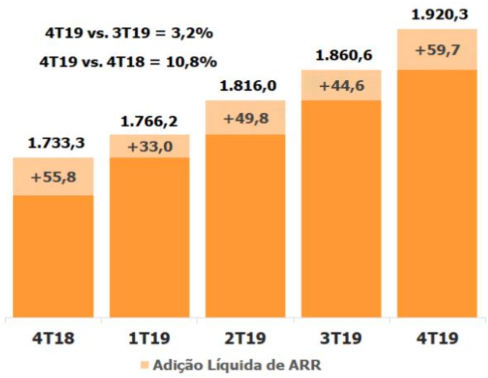
There was another important signal to the market through the Provisional Presidential Measure (MP) on Economic Freedom, which loosened labor regulations, created the electronic work card and cut down the red tape in the issue of licenses and permits; and the Green and Yellow MP which, even though still underway in the Congress, is already in force and aims to create around 4 million jobs by 2022 and reduce the high unemployment rate among youth. These measures were announced in order to spur economic growth and reduce unemployment, which closed 2019 at 11.9% - still high but already on a downward path.

These actions, coupled with the drop in delinquency rates, high domestic market consumption potential, better interest rates and inflation under control should continue to encourage the return of investments and strengthen the pace of hiring in the country. Finally, the current scenario is positive and there are bright prospects for Brazil's economic growth. Simplification, reduction of bureaucracy, as well as driving efficiency and entrepreneurship must be the elements that continue to guide Brazil on its path of new growth cycles.

CONSOLIDATED OPERATING AND FINANCIAL PERFORMANCE

Net Revenue – in the annual comparison, Net Revenue continued the growth trend, expanding 8.1% between 2018 and 2019. This growth was mainly driven by the double-digit growth in Recurring Revenues in all the quarters in 2019, accounting for 75.3% of the year's Net Revenue. This growth, however, was slowed down by the decline in Non-recurring Revenues, of 7.1% in 4Q19 and 2.0% in 2019.

Recurring Revenue – the higher pace of sales to both existing and new clients, coupled with the inflation adjustments and maintenance of the Customer Renewal level above 98% throughout 2019, led Recurring Revenue growth to be above double-digits in all quarters of 2019, closing the year up 11.8% from 2018. Annual Recurring Revenue (ARR) proves this growth, with net addition of R$59.7 million, increasing from R$1.860 billion to R$1.920 billion in the period.



Taxa de Renovação				
4T18	1T19	2T19	3T19	4T19
98,6%	98,1%	98,7%	98,9%	98,3%

Non-Recurring Revenues – License Revenues grew 20.4% compared to 2018, stemming from the higher sales volume since the start of the year. Despite this performance of License Revenue, Non-Recurring Revenues decline both in relation to 4Q18 and 2018, due to the decrease in Non-Recurring Services Revenue throughout the year. This decrease in non-recurring services in the year is mainly due to the higher share of franchises in sales volume and the increase in sales volume of solutions with lower demand for services, especially those sold in the subscription and cloud models. We believe that these reductions also reflect an effort to make TOTVS solutions lighter and more accessible to customers.Par

Costs - Comparing 2019 with 2018, the increase in Net Revenue and maintenance of cost levels led Gross Margin to grow 240 basis points to 67.4%.

Research & Development – this line mainly reflects the greater efficiency in R&D investments and higher investments in 2018 related to changes in tax laws during the period. This gain from the efficient allocation of investments can be noted in the annual comparison, with such expenses falling from 18.1% of Net Revenue in 2018 to 17.4% in 2019. This decrease is even more significant when the following are considered: (i) higher provision for bonus due to the achievement of the year's targets; (ii) higher provision for the share-based Long-Term Incentive Plan (ILP); (iii) the establishment of the Techfin team.

Selling and Marketing Expenses – Comparing 2019 with 2018, the growth in this line's share of Revenue was just 30 basis points, corresponding to 18.6% of Net Revenue, mainly due to: (i) the increase in sales volume through franchises; (ii) the extraordinary impact of R$2.1 million on expenses with terminations due to the adjustment of the sales team, despite the higher provision for ILP in the year.

Allowance for Doubtful Accounts - In the annual comparison, it declined 23.1% from 2018, reaching 1.2% of the Revenue. Such declines in this provision are due to the reduction in the churn rate and the overall delinquency levels in our client base, which can also be partly attributed to the increased share of recurrent revenues in the Company's Revenue.

General and Administrative Expenses and Provision for Contingencies – In 2019, as a percentage of Revenue, these expenses declined by 40 basis points compared to 2018, adversely affected by: (i) expenses of R$2 million with M&As in the period; (ii) R$1.6 million with extraordinary expenses related to layoffs; (iii) the increase in the provision for bonus; and (iv) the provision for granting shares in 2Q19 as per the Long-Term Incentive Plan (ILP).

Other Operating Income (Expenses) – this line was affected in 2019 by the reversal of the earn-out provision of R$3.7 million, related to the acquisition of equity interest in RJ Participações and the positive effect of R$11.7 million by the sale of CiaShop to VTex.

RESULT AFTER EBITDA

Depreciation and Amortization Expenses – depreciation expenses increased 84.0% from 2018, mainly due to the adoption of IFRS 16 in the period. Amortization expenses, on the other hand, fell in the year-on-year comparison due to the end of the amortization of assets obtained from the acquisitions made in previous years.

Financial Result – the Financial Result in 2019 was mainly impacted by: (i) the increase in Financial Income derived from the investment of the proceeds from the follow-on offering and cash flow generation; and (ii) the reduction in gross debt, partially offset by financial expenses resulting from the adoption of IFRS 16 on rent agreements held by the Company.

Income Tax and Social Contribution - In the annual comparison, the higher Interest on Equity, coupled with expenses with share issue, led to a total decline of 380 basis points in relation to 2018.

Adjusted Net Income - Comparing 2019 with 2018, the growth in EBITDA, linked to the decrease in negative financial result and the drop in the Effective Rate, even while negatively affected by Depreciation and Amortization, resulted in an 83.9% growth in Adjusted Net Income.

Adjusted EBITDA(*) totaled R$469,742 thousand in the year, up 35.4% from 2018, as shown in the table below:

	Consolidated		
	2019	**2018**	**Change**
Net Income	**210,648**	**60,643**	**247.3%**
Equity pick-up	*248*	*517*	*-52.0%*
Income tax and social contribution	*70,111*	*46,940*	*49.4%*
Financial income (loss)	*1,177*	*40,462*	*-97.1%*
Depreciation and amortization	*147,033*	*122,291*	*20.2%*
EBITDA	**429,217**	**270,853**	**58.7%**
Extraordinary expenses with layoffs	*10,547*	-	100.0%
M&A expenses	*2,201*	-	100.0%
Provisions – Non-cash	*(3,732)*	*(6,006)*	-37.9%
Partner's software	-	*4,250*	-100.0%
Loss from discontinued operations	*43,268*	*77,092*	-43.9%
Loss (gain) on asset write-off	*(11,759)*	*824*	-1527.1%
ADJUSTED EBITDA	**469,742**	**347,013**	**35.4%**

In the annual comparison, despite the significantly higher provision for Bonus and ILP than in the same period last year, Net Revenue grew 35.4% on Adjusted EBITDA, which closed the year with EBITDA Margin of 20.6%, an increase of 420 basis points (or 230 basis points ex-IFRS 16 impact).

(*) Adjusted EBITDA is a non-accounting measure used by the Company and consists of net income from the period plus income tax, financial expenses net of financial income, and depreciation and amortization.

CAPITAL MARKETS

TOTVS ended 2019 with capital stock of R$1,382,509 thousand. At the end of 2019, the capital stock of the Company was composed of 192,637,727 common shares, with 85.0% being free float, of which 98.4% was held by institutional investors and 64.7% by foreign investors.

Free float is calculated as the total number of Company shares, excluding shares owned by Management and related persons, and treasury stock.

In 2019, TOTVS stock (B3:TOTS3) gained 137.8%, while the Bovespa Index (Ibovespa) rose 31.6%. Average financial volume in 2019 stood at R$61.7 million/day, compared to R$16.0 million/day in 2018.

Interest on equity for 2019: On August 5, 2019, the Board of Directors approved the payment of interest on equity of R$36,224 thousand to its shareholders related to the first half of 2019, for which shareholders of TOTVS on record as of August 12, 2019, were entitled to the payment. The interest on equity was paid on October 10, 2019.

On December 18, 2019, the Board of Directors approved the payment of interest on equity for the second half of 2019, totaling of R$43,857 thousand. Shareholders of TOTVS on record as of December 23, 2019, were entitled to interest on equity. The interest on equity will be paid on May 20, 2020.

The interest on equity for fiscal year 2019 was calculated towards the minimum mandatory dividend in accordance with Article 39 of the Bylaws of TOTVS.

Interest on equity for 2018: On July 25, 2018, the Board of Directors approved the payment of interest on equity of R$14,708 thousand to its shareholders related to the first half of 2018, for which shareholders of

TOTVS on record as of August 1, 2018, were entitled to the payment. The interest on equity was paid on October 3, 2018.

On December 21, 2018, the Board of Directors approved the payment of interest on equity for the second half of 2018, totaling of R$13,076 thousand. Shareholders of TOTVS on record as of December 28, 2018, were entitled to interest on equity. The interest on equity will be paid on May 9, 2019.

The interest on equity for fiscal year 2018 was calculated towards the minimum mandatory dividend in accordance with Article 39 of the Bylaws of TOTVS.

Dividends for 2018: Proposed by the Board of Directors on July 25, 2018, dividends relating to the first half of 2018 totaled R$17,997 thousand and were paid to shareholders of TOTVS on record as of August 1, 2018. The dividends were paid on October 3, 2018.

CORPORATE GOVERNANCE

Novo Mercado: TOTVS was the first Brazilian software company to join the segment that meets the highest corporate governance standards of the B3 S.A. – Brasil, Bolsa, Balcão (B3).

Management: TOTVS' Board of Directors is composed of 9 members, 8 of them independent members, in accordance with Novo Mercado regulations. The Executive Board of the Company consists of 7 officers. The list of names, positions and a brief resume of the directors and executive officers is available in the Company´s Reference Form and on its website (ri.totvs.com.br).

Audit Committee: It is an advisory body to the Board of Directors whose mission is to monitor, evaluate and ensure the best execution of processes, management of internal and external audit, risk management mechanisms and controls and the consistency of financial policies with the strategic guidelines and risk profile of the business. The committee currently has three independent members, elected by the Board of Directors, and is chaired by an independent director.

Personnel and Remuneration Committee: Assists the Board of Directors in defining the compensation and benefits policies for directors and executive officers. The Personnel and Compensation Committee has three independent members, elected by the Board of Directors, and is chaired by an independent director.

Governance and Nomination Committee: Formed by three members of the Board of Directors, two of whom are independent, its key responsibilities include promoting improvements in the Company's corporate governance, evaluating the adoption of best practices and selecting and nominating members of the Board of Directors.

Strategy Committee: composed of five members of the Board of Directors, four of whom are independent, its main duties are to analyze and discuss issues that make the construction of the Future Vision, the Strategic Planning feasible and to evaluate the real capacity of delivery of the same by the Company.

Arbitration: According to Novo Mercado Regulations and the Bylaws of the Company , the controlling shareholder, managers, the Company and Audit Board members should undertake to settle all and any dispute or controversy arising from or relating to Novo Mercado Regulations, the Novo Mercado Adhesion Agreement, Arbitration Clauses, especially, regarding its application, validity, effectiveness, interpretation, breach and their effects, through arbitration. Disputes regarding the sale of the Company's control shall also be resolved through arbitration.

Management Statement: In accordance with subparagraph VI, Article 25 of CVM Instruction 480/09, the executive officers of TOTVS hereby declare that they discussed, reviewed and agreed with the opinions expressed in the independent auditors' report and the financial statements for the fiscal year ended December 31, 2019.

RELATIONSHIP WITH INDEPENDENT AUDITORS

The Company's policy on engaging services not related to external audit by independent auditors is grounded on the principles that preserve their autonomy. These principles consist of internationally accepted standards, namely: (a) auditors must not audit their own work; (b) auditors must not exercise management functions at their clients; and (c) auditors must not create conflicts of interest with their clients.

Procedures adopted by the Company pursuant to item III, article 2 of CVM Instruction 381/03: The Company and its subsidiaries adopt as a formal procedure, before contracting professional services other than those related to external audit, to consult the independent auditors to ensure that the provision of these services does not affect the independence and objectivity required for the performance of independent audit services, as well as obtaining approval from their Audit Committee. In addition, formal declarations are requested from the auditors regarding their autonomy in executing services not related to audit.

Other services were provided in addition to those related to the audit of the financial statements in 2019, mainly connected to the follow-on offering in May 2019. The fees for these services totaled R$1,661 thousand and corresponded to 52.0% of total fees related to external audit.

ACKNOWLEDGEMENTS

We thank all those who contributed to the success of TOTVS in 2019, especially our clients, employees, partners and shareholders.

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

INDEPENDENT AUDITOR'S REPORT ON THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders, Board of Directors and Officers
TOTVS S.A.
São Paulo, SP

Opinion

We have audited the individual and consolidated financial statements of TOTVS S.A. ("Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2019 and the statements of profit or loss, of comprehensive income, of changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of TOTVS S.A. as at December 31, 2019, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants the professional standards issued by the Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current 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. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the individual and consolidated financial statements" section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Revenue recognition

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

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

<u>How our audit addressed this matter</u>

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

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

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

Based on the results of the audit procedures performed, including the additional procedures designed and applied in view of the deficiency in the above-mentioned controls, which are consistent with management's assessment, we consider that the criteria for revenue recognition and measurement, as well as the respective disclosures in the explanatory notes, are acceptable in the context of the overall financial statements.

Goodwill impairment analysis

The Company has a balance of goodwill in the statement of financial position as at December 31, 2019 of R$622,331 thousand in the consolidated (Note 16 to the financial statements). The Company performed a goodwill impairment test for each cash-generating unit to check whether its recoverable amount was lower than its carrying amount.

This test is performed based on the business plan and cash flow projections approved by the Board of Directors. The assumptions used in this procedure are disclosed in Note 16.2.

The monitoring of this matter was deemed significant to our audit, since the process of evaluating the recoverability of goodwill is complex and involves a high degree of subjectivity, and it is based on various assumptions, among them: revenue, cost and operating expenses, discount rate and perpetuity growth rates. These assumptions may be materially affected by the market conditions or future economic scenarios of Brazil that may not be confirmed in the future.

How our audit addressed this matter

Our audit procedures included, among others:

- Evaluation of the criteria used to identify and measure the recoverable amount of the entity's cash-generating units;
- Analysis of internal and external information that could indicate significant impairment of the assets;
- With the assistance of our corporate finance experts, we evaluated the key assumptions adopted in the discounted cash flows used by management, including expectations of revenue growth, costs and expenses, discount rate and profit margins as well as sensitivity analysis;
- Involvement of most experienced audit professionals in defining the test strategy, evaluating the audit supporting documentation and supervising the audit procedures performed;
- We compared the budgets of the entity prepared and approved in the prior year with their actual amounts calculated in order to evaluate the historical accuracy of the budgeting process;
- In addition, we compared the recoverable amount calculated based on the discounted cash flows, per cash-generating unit, with their respective accounting balances and we assessed the adequacy of the disclosures made in the financial statements.

Based on the audit procedures performed in the goodwill impairment test, which are consistent with management's assessment, we consider that the impairment criteria and assumptions adopted by management, as well as the respective disclosures in Note 16, are acceptable in the context of the overall financial statements.

Other matters

Statements of value added

The individual and consolidated statements of value added for year ended December 31, 2019, prepared under the responsibility of Company management, and presented as supplementary information for purposes of IFRS, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined byNBC TG 09 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

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

Management is responsible for such other information, which comprise the Management Report.

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

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

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

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

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

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

Auditor's responsibilities for the audit of the individual and consolidated financial statements

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

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.

- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtained 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 scope and timing of the planned audit procedures and significant audit findings, including deficiencies in internal control that we may have identified during our audit.

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

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

São Paulo, February 10, 2020

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

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

AUDIT COMMITTEE'S REPORT

In accordance with its Charter approved by the Board of Directors on March 11, 2019, the Audit Committee is entrusted with conducting and managing internal and external audit, the mechanisms and controls related to risk management and the alignment of financial policies with the strategic guidelines and risk profile of the business, as well as ensuring the quality and integrity of the Company's financial statements, making recommendations to Management regarding the approval of financial reports and any actions to improve internal controls and reduce risks.

The Committee met ordinarily ten times and extraordinarily twice during 2019 and, at the meeting held on February 5, 2020, discussed and analyzed the financial statements for December 31, 2019. All the members attended all the meetings.

The topics and matters discussed for recommendations to the Board and Board of Executive Officers included: (i) Independent Audit (renewal of audit services agreement; key conclusions in quarterly reviews and opinion on financial statements for 2019; weaknesses, deficiencies and recommendations for improvement pointed out in the internal controls report; preliminary and final results for issue of the ISAE 3402/2019 report); (ii) Internal Audit (risk matrix and audit schedule for the 2019/2020 cycle; audit reports issued for own units and franchises); (iii) Internal Controls, Corporate Risk Management, Compliance and Ombudsman for Clients (mapping of processes, key controls and indicators; management of priority risks; improvement of general information technology controls; access profiles and segregation of functions; client experience project; monitoring of agile methodology in the Company; services management project (PSA); action plans of the integrity program; adoption of compliance policies and practices by managers and employees; results of the Net Promoter Score survey); (iv) Financial management, Provisions and Indicators (credit analysis policy, collection procedures and estimates of allowance for loan losses; financial management of software business and sale of hardware operations in Brazil and in the international market; compliance with CVM Resolution 594/2009; main lawsuits and management's judgment on possible outcomes; evolution of the controls environment in the legal department; annual impairment tests; recoverability of deferred tax assets; assessment of topics discussed by the Tax Affairs Commissions; recommendation of approval by the Board of Directors of quarterly and annual financial statements; proposals of interest on equity and dividends; notices, material facts and results presentations; initiatives and operations involving mergers and acquisitions, holding of Debentureholders Meeting and merger of wholly-owned subsidiaries; and primary public offering with restricted efforts of shares issued by the Company); and (v) Corporate Governance (update of Reference Form; crisis management plan; recommendation of approval by the Board of Directors and dissemination of corporate policies; activities of the Ethics and Conduct Commission, evaluation of complaints received through the channel, investigations conducted and measures taken; change in the Code of Ethics and Conduct; impacts of the General Data Protection Law and monitoring of actions and measures taken by the Company; management and aspects of governance of the franchise network; and related-party transactions).

Annual Financial Statements of 2019:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal responsibilities and powers, pursuant to the Charter of the Audit Committee, examined and analyzed the financial statements, as well as the preliminary report from independent auditors and the annual report from Management for the fiscal year ended December 31, 2019 ("Annual Financial Statements for 2019") and, considering the information provided by Management of the Company and by Ernst & Young Auditores Independentes S.S., as well as the proposed allocation of the earnings from fiscal year 2019, unanimously concluded that these adequately reflect, in all relevant aspects, the equity and financial position of the Company and its subsidiaries, and recommended that the Board of Directors of the Company approve said documents and submit them to the Annual Shareholders Meeting, in accordance with the Brazilian Corporations Law.

São Paulo, February 5, 2020

Gilberto Mifano
Coordinator of the Audit Committee and member of the Board of Directors

Mauro Rodrigues da Cunha
Member of the Audit Committee and the Board of Directors

Paulo Sergio Caputo
Member of the Audit Committee and the Board of Directors

(A free translation of the original in Portuguese)

TOTVS S.A.

Statement of financial position as at December 31, 2019 and 2018

(In thousands of reais)

	Parent Company		Consolidated	
Assets	**2019**	**2018**	**2019**	**2018**
Current assets	**1,440,458**	**576,321**	**2,004,275**	**1,020,134**
Cash and cash equivalents (Note 7)	1,106,888	228,571	1,538,156	452,799
Marketable securities (Note 21)	23,217	23,477	25,278	44,909
Trade accounts receivable (Note 8)	332,554	337,186	453,118	504,056
Provision for expected credit losses (Note 8)	(79,712)	(88,515)	(102,123)	(118,518)
Inventories (Note 9)	-	-	-	41,531
Taxes recoverable (Note 10)	20,893	23,314	29,662	38,817
Other assets (Note 13)	36,618	52,288	60,184	56,540
Noncurrent assets	**1,962,475**	**1,621,436**	**1,531,652**	**1,371,143**
Marketable securities (Note 21)	-	-	1,987	5,334
Trade accounts receivable (Note 8)	29,695	18,723	31,627	19,890
Receivables from related parties (Note 12)	12	3,956	-	-
Taxes recoverable (Note 10)	-	-	-	236
Deferred income and social contribution taxes (Note 11.2)	50,330	45,845	100,380	125,124
Financial assets (Note 6.2)	-	-	71,955	69,171
Judicial deposits (Note 22)	48,642	51,171	65,059	65,965
Other assets (Note13)	56,919	20,931	57,395	26,340
Investments (Note 14)	1,039,918	920,317	3,120	3,129
Property, plant and equipment (Note 15)	370,339	177,858	389,432	198,826
Intangible assets (Note 16)	366,620	382,635	810,697	857,128
Total assets	**3,402,933**	**2,197,757**	**3,535,927**	**2,391,277**

	Parent Company		Consolidated	
Liabilities and equity	**2019**	**2018**	**2019**	**2018**
Current liabilities	**608,254**	**549,151**	**705,552**	**709,612**
Payroll and labor obligations (Note 17)	144,399	125,943	193,472	174,874
Trade accounts payable	50,772	71,343	63,821	113,907
Taxes payable (Note 18)	40,192	32,577	55,203	47,466
Commissions payable	40,405	35,721	46,035	43,166
Dividends payable (Note 24)	44,579	13,737	44,579	13,902
Loans and debts (Note 19)	44,322	155,278	55,623	166,154
Debentures (Note 20)	202,973	77,319	202,973	77,319
Liabilities from acquisition of investments (Note 21)	30,493	30,752	32,554	59,597
Other liabilities	10,119	6,481	11,292	13,227
Noncurrent liabilities	**317,465**	**361,564**	**351,966**	**393,445**
Loans and debts (Note 19	185,786	28,914	192,080	35,317
Debentures (Note 20)	-	199,869	-	199,869
Payables to related parties (Note 12)	-	24	-	-
Provision for contingencies related to legal proceedings (Note 22)	116,061	117,780	131,521	127,792
Liabilities from acquisition of investments (Note 21)	-	-	10,758	15,464
Other liabilities	15,618	14,977	17,607	15,003
Equity (Note 23)	**2,477,214**	**1,287,042**	**2,478,409**	**1,288,220**
Capital	1,382,509	1,041,229	1,382,509	1,041,229
Treasury shares	(62,531)	(70,026)	(62,531)	(70,026)
Capital reserves	875,979	169,907	875,979	169,907
Other comprehensive income	22,051	20,704	22,051	20,704
Income reserve	234,389	125,228	234,389	125,228
Proposed dividends	24,817	-	24,817	-
Noncontrolling interests	**-**	**-**	**1,195**	**1,178**
Total liabilities and equity	**3,402,933**	**2,197,757**	**3,535,927**	**2,391,277**

The accompanying notes are an integral part of these financial statements.

TOTVS S.A.
Statements of profit or loss
Years ended December 31, 2019 and 2018
(In thousands of reais, except by the earnings per share)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Software revenue	1,630,722	1,558,113	2,282,124	2,111,160
Cost of software	(549,991)	(555,505)	(743,855)	(739,210)
Gross profit	**1,080,731**	**1,002,608**	**1,538,269**	**1,371,950**
Operating income (expenses)				
Research and development	(273,155)	(276,150)	(397,824)	(382,078)
Selling and marketing expenses	(330,128)	(301,406)	(423,997)	(386,150)
General and administrative expenses	(198,966)	(197,365)	(239,791)	(228,165)
Depreciation and amortization (Notes 15 and 16)	(118,346)	(93,774)	(147,033)	(122,291)
Provision for expected credit losses (Note 8)	(19,066)	(24,226)	(28,434)	(36,992)
Other net operating income (expenses)	18,709	9,040	24,262	9,381
Income before financial effects and equity pickup	**159,779**	**118,727**	**325,452**	**225,655**
Finance income (Note 30)	55,881	25,218	69,312	37,895
Finance expenses (Note 30)	(58,423)	(67,930)	(70,489)	(78,357)
Equity pick-up (Note 14)	104,718	65,501	(248)	(517)
Income before income tax and social contribution	**261,955**	**141,516**	**324,037**	**184,676**
Income tax and social contribution - current	(15,357)	(3,180)	(54,628)	(41,978)
Income tax and social contribution - deferred	6,466	(1,696)	(15,483)	(4,963)
Total of Income tax and social contribution (Note 11)	**(8,891)**	**(4,876)**	**(70,111)**	**(46,941)**
Net income from continuing operations	**253,064**	**136,640**	**253,916**	**137,735**
Net loss from discontinued operations	**(43,268)**	**(77,092)**	**(43,268)**	**(77,092)**
Net income for the year	**209,796**	**59,548**	**210,648**	**60,643**
Net income attributable to controlling shareholders	**209,796**	**59,548**	**209,796**	**59,548**
Net income attributable to non-controlling interest	**-**	**-**	**852**	**1,095**
Basic earnings per thousand shares (in Reais)	1.1605	0.3644	1.1605	0.3644
Diluted earnings per thousand shares (in Reais)	1.1504	0.3614	1.1504	0.3614

The accompanying notes are an integral part of these financial statements.

TOTVS S.A.
Statements of comprehensive income
Years ended December 31, 2019 and 2018
(In thousands of Reais)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Net income for the year	**209,796**	**59,548**	**210,648**	**60,643**
Cumulative adjustment for currency exchange	2,291	18,976	2,291	18,976
Actuarial loss	(944)	-	(944)	-
Other comprehensive income	**1,347**	**18,976**	**1,347**	**18,976**
Comprehensive income for the year	**211,143**	**78,524**	**211,995**	**79,619**
Net income for the year attributable to controlling shareholders	-	-	211,143	78,524
Attributable to non-controlling interest	-	-	852	1,095

The accompanying notes are an integral part of these financial statements.

TOTVS S.A.

(A free translation of the original in Portuguese)

Statements of changes in equity

Years ended December 31, 2019 and 2018

(In thousands of reais)

		Capital Reserves		Profits Reserves								
	Capital	Premium on acquisition from non-controlling	Capital	Legal	Retained profits	Treasury shares	Other comprehensive income	Retained earnings	Proposed additional dividend	Equity	Non-controlling interests	Consolidated equity
Balance at December 31, 2017	**989,841**	**(25,518)**	**190,597**	**84,019**	**86,780**	**(71,495)**	**1,728**	**-**	**5,442**	**1,261,394**	**183**	**1,261,557**
Capital transactions with partners												
Capital increase	51,388	-	-	-	(51,388)	-	-	-	-	-	373	373
Stock option plan	-	-	6,297	-	-	-	-	-	-	6,297	-	6,297
Dividends of previous year	-	-	-	-	-	-	-	-	(5,442)	(5,442)	(294)	(5,736)
Dividends	-	-	-	-	-	-	-	(17,978)	-	(17,978)	(164)	(18,142)
Interest on equity	-	-	-	-	-	-	-	(27,785)	-	(27,785)	-	(27,785)
Treasury shares	-	-	(1,469)	-	-	1,469	-	-	-	-	-	-
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Opening balance CPC 47 / CPC 48	-	-	-	-	-	-	-	(7,968)	-	(7,968)	(15)	(7,983)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**18,976**	**59,548**	**-**	**70,524**	**1,078**	**71,636**
Net income for the year	-	-	-	-	-	-	-	59,548	-	59,548	1,095	60,643
Cumulative adjustment for currency exchange	-	-	-	-	-	-	18,976	-	-	18,976	-	18,976
Reserves set up	-	**-**	**-**	**2,977**	**2,840**	**-**	**-**	**(5,817)**	-	-	**-**	-
Balance at December 31, 2018	**1,041,229**	**(25,518)**	**195,425**	**86,996**	**38,232**	**(70,026)**	**20,704**	**-**	**-**	**1,287,042**	**1,178**	**1,288,220**
Capital transactions with partners												
Capital increase	341,280	-	696,278	-	-	-	-	-	-	1,037,558	-	1,037,558
Stock option plan	-	-	13,504	-	-	-	-	-	-	13,504	-	13,504
Dividends of previous year	-	-	-	-	-	-	-	-	-	-	(494)	(494)
Dividends	-	-	-	-	-	-	-	(24,817)	24,817	-	(354)	(354)
Interest on equity	-	-	-	-	-	-	-	(80,081)	-	(80,081)	-	(80,081)
Treasury shares	-	-	(3,710)	-	-	7,495	-	-	-	3,785	-	3,785
Opening balance CPC 06 (R2)	-	-	-	-	-	-	-	4,263	-	4,263	13	4,276
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1,347**	**209,796**	**-**	**211,143**	**852**	**211,995**
Net income for the year	-	-	-	-	-	-	-	209,796	-	209,796	852	210,648
Cumulative adjustment for currency exchange	-	-	-	-	-	-	2,291	-	-	2,291	-	2,291
Actuarial loss	-	-	-	-	-	-	(944)	-	-	(944)	-	(944)
Reserves set up	**-**	**-**	**-**	**10,490**	**98,671**	**-**	**-**	**(109,161)**	**-**	**-**	**-**	-
Balance at December 31, 2019	**1,382,509**	**(25,518)**	**901,497**	**97,486**	**136,903**	**(62,531)**	**22,051**	**-**	**24,817**	**2,477,214**	**1,195**	**2,478,409**

The accompanying notes are an integral part of these financial statements.

TOTVS S.A.
Statement of cash flow
Years ended December 31, 2019 and 2018
(In thousands of Reais)

	Parent Company		Consolidated	
	2019	2018	2019	2018
Cash flow from operating activities				
Profit before income and social contribution taxes	**261,955**	**141,516**	**324,027**	**184,676**
Adjustments for:				
Depreciation and amortization (Notes 15 and 16)	118,346	93,774	147,033	122,291
Share-based payments (Note 25)	13,504	6,297	13,504	6,297
Losses (gains) on disposal of fixed assets	(12,403)	(1,245)	(14,917)	(843)
Provision for expected credit losses (Note 8)	19,066	24,226	28,434	36,992
Equity pickup (Note 14)	(104,718)	(65,501)	248	517
Provision for contingencies (Note 22)	47,752	47,591	56,679	50,294
Provision for (reversal of) other obligations and others	(365)	(8,527)	(3,732)	(8,238)
Interest and monetary variations and exchange variations differences, net	52,654	59,117	54,939	58,656
Changes in operating assets and liabilities:				
Trade accounts receivable	(34,209)	20,183	(62,052)	(24,544)
Taxes recoverable	2,616	28,867	2,859	26,312
Judicial deposits	2,095	(1,113)	879	(3,634)
Other assets	(5,304)	(7,816)	(3,944)	3,632
Labor and social security obligations	17,512	11,531	24,480	37,715
Suppliers	(8,415)	10,592	(6,415)	12,532
Commissions payable	4,684	(857)	5,469	1,883
Taxes payable	2,490	11,208	(1,168)	6,255
Other accounts payable	(59,626)	(49,437)	(60,306)	(37,382)
Change in assets and liabilities from discontinued operations	-	-	-	12,864
Cash flow provided by operations	**317,634**	**320,406**	**506,017**	**486,285**
Interest paid	(115,564)	(38,261)	(116,841)	(39,688)
Income tax and social contributions paid	(8,440)	(2,629)	(43,877)	(28,759)
Net cash from operating activities	**193,630**	**279,516**	**345,299**	**417,838**
Cash flow from investing activities				
Capital increase in subsidiaries and associated companies (Note 14)	(127,523)	(39,129)	-	(2,467)
Dividends received	66,033	15,481	-	-
Purchases of intangible assets (Note 16)	(27,334)	(22,661)	(27,390)	(22,838)
Acquisition of capital interest	-	-	(5,433)	(12,550)
Value receveid from sale of investments, net of cash	4,928	-	25,677	-
Value of sales of fixed assets	2,186	3,035	3,258	3,441
Purchases of property, plant and equipment (Note 15)	(30,983)	(56,447)	(32,993)	(59,630)
Net cash used in investing activities	**(112,693)**	**(99,721)**	**(36,881)**	**(94,044)**
Cash flow from financing activities				
Payment of principal on loans and debt	(142,037)	(169,505)	(152,889)	(180,705)
Payment of finance lease	(56,607)	(25,908)	(61,617)	(25,973)
Issue of debentures and new loans and debt	1,037,558	-	1,037,558	-
Receivables from related companies	3,920	(10,639)	-	-
Dividends and interest on equity paid	(49,239)	(51,092)	(49,898)	(51,486)
Treasury shares, net	3,785	-	3,785	-
Net cash used in financing activities	**797,380**	**(257,144)**	**776,939**	**(258,164)**
Increase (decrease) in cash and cash equivalents	**878,317**	**(77,349)**	**1,085,357**	**65,630**
Cash and cash equivalents at beginning of year	228,571	305,920	452,799	387,169
Cash and cash equivalents at the end of the year	1,106,888	228,571	1,538,156	452,799

The accompanying notes are an integral part of these financial statements.

TOTVS S.A.
Statement of Value Added
Years ended December 31, 2019 and 2018
(In thousands of Reais)

	Parent Company		Consolidated	
	2019	2018	2019	2018
1 – REVENUES	**1,838,681**	**1,741,498**	**2,562,504**	**2,345,906**
1.1 Sales of goods, products and services	1,840,723	1,756,824	2,566,950	2,375,273
1.2 Other revenue	17,024	8,900	23,988	7,625
1.3 Provision for expected credit losses – recording	(19,066)	(24,226)	(28,434)	(36,992)
2 - RAW MATERIALS ACQUIRED FROM THIRD-PARTIES (includes ICMS and IPI taxes)	**(654,198)**	**(650,948)**	**(799,831)**	**(790,877)**
2.1 Cost of goods and services sold	(92,950)	(79,814)	(102,741)	(92,792)
2.2 Materials, energy, outsourced services and other	(517,980)	(494,042)	(653,822)	(620,993)
2.3 Results from discontinued operations	(43,268)	(77,092)	(43,268)	(77,092)
3 - GROSS VALUE ADDED (1-2)	**1,184,483**	**1,090,550**	**1,762,673**	**1,555,029**
4 - DEPRECIATION AND AMORTIZATION	**(118,346)**	**(93,774)**	**(147,033)**	**(122,291)**
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)	**1,066,137**	**996,776**	**1,615,640**	**1,432,738**
6 - VALUE ADDED RECEIVED THROUGH TRANSFERS	**160,599**	**90,719**	**69,064**	**37,378**
6.1 Equity pick-up	104,718	65,501	(248)	(517)
6.2 Finance income	55,881	25,218	69,312	37,895
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	**1,226,736**	**1,087,495**	**1,684,704**	**1,470,116**
8 - VALUE ADDED DISTRIBUTION	**1,226,736**	**1,087,495**	**1,684,704**	**1,470,116**
8.1 Personnel	704,374	685,813	992,180	927,346
8.1.1 Direct Compensation	570,362	552,655	810,449	758,777
8.1.2 Benefits	83,432	83,399	112,446	104,543
8.1.3 FGTS (Unemployment fund)	50,580	49,759	69,285	64,026
8.2 Taxes and contributions	252,897	238,525	409,421	360,788
8.2.1 Federal	202,395	191,198	337,110	295,642
8.2.2 State	33	29	1,372	1,262
8.2.3 Local	50,469	47,298	70,939	63,884
8.3 Interest and rent	59,669	103,609	72,455	121,339
8.3.1 Interest	58,423	67,930	70,490	78,357
8.3.2 Rents	1,246	35,679	1,965	42,982
8.4 Equity remuneration	209,796	59,548	210,648	60,643
8.4.1 Interest on equity	80,081	27,785	80,081	27,785
8.4.2 Dividends	24,817	17,978	24,817	17,978
8.4.3 Retained profit / loss for the year	104,898	13,785	104,898	13,785
8.4.4 Non-controlling interest in retained profits	-	-	852	1,095

The accompanying notes are an integral part of these financial statements.

1. The Company and its operations

a) General Information

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

b) Operations

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

Through its subsidiaries, the Company also had until 2019, hardware manufacturing and sale activities, combining specialized solutions for system management, point of sale (POS), commercial automation and tax solutions. With the objective of maintaining its strategic focus on the software business, the Company decided to sold these subsidiaries which were concluded in the fourth quarter of 2019.

2. Basis of preparation and presentation of the financial statements

2.1. Compliance statement

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

2.2. Basis of preparation and presentation

The Financial Statements presented in this document were approved at the Board of Directors' Meeting held on February 10, 2020, after a recommendation by the Audit Committee at a meeting held on February 5, 2020.

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 period.

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

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

2.3. Consolidation basis

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

Direct interest:

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

Indirect Interest:

Corporate Name	Head office	Name used	Investor	Note	% Interest 2019	% Interest 2018
DTS Consulting Partner, SA de CV	MEX	Partner	TOTVS México		100.00	100.00
Webstrategie Software Ltda.	BRA	Webstrategie	TTS	(v)	-	100.00
TOTVS Reservas Ltda. (previously Kerina)	BRA	TOTVS Reservas	TOTVS Hospitality		100.00	100.00
Bematech Hardware Ltda.	BRA	Bematech Hardware	TOTVS Large	(vi)	-	100.00
Bematech Ásia Co.Ltd.	TWN	Bematech Ásia	TOTVS Large		100.00	100.00
Bematech Argentina S.A.	ARG	Bematech Argentina	TOTVS Large		100.00	100.00
Bematech International Corp.	EUA	BIC	TOTVS Large	(vi)	-	100.00
Logic Controls, Inc	EUA	Logic Controls	BIC	(vi)	-	100.00
FICE - Bematech Foshan Shunde Ltd.	CHN	FICE	Logic Controls, Inc	(vi)	-	100.00
CMNet Participações S.A.	BRA	CMNet Participações	TOTVS Large		100.00	100.00
CM Soluciones – Argentina	ARG	CMNet Argentina	CMNet Participações		100.00	100.00
CMDIR - Soluções Informática, Lda - Portugal	PRT	CMNet Portugal	CMNet Participações		100.00	100.00

CM Soluciones – Chile	CHL	CMNet Chile	CMNet Participações	100.00	100.00
CMNet España	ESP	CMNet Espanha	CMDIR - Soluções	100.00	100.00
RJ Participações S.A.	BRA	RJ Participações	TOTVS Large	100.00	100.00
R.J. Consultores en Sistemas de Información S.C.	MEX	RJ México	RJ Participações	100.00	100.00
R.J. Consultores e Informática Ltda.	BRA	RJ Consultores	RJ Participações	100.00	100.00
TOTVS Hospitality Ltda.	BRA	TOTVS Hospitality	TOTVS Large	25.80	25.80
National Computer Corporation (associate)	RUS	JV Russia	TOTVS México	19.00	19.00

(i) On July 31, 2019, subsidiary TOTVS Serviços was merged into subsidiary TOTVS Large Enterprise Company with net assets of R$46,906. The net assets were valued by experts who issued a valuation report on June 30, 2019. Any changes in the net assets after the reporting date until the effective merger date were absorbed by TOTVS Large.

(ii) On July 31,2019, The Company announced a conclusion of the contractual conditions between TOTVS and Companhia Brasileira de Tecnologia para E-commerce (VTEX) for the creation of VT Comércio Digital SA., a company in which TOTVS and VTEX hold each 50% interest in its capital for the purposes of joint operation. See note 5.

(iii) Company sold as of July 31, 2019 as mentioned in Note 5.

(iv) Company created to segregate some groups´operations which is inoperative as of December 31, 2019.

(v) Company shutdown on July 18, 2019.

(vi) Companies related the hardware operation that were sold during 2019 as mentioned in Note 5.

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

All intercompany balances and transactions were eliminated in consolidation.

The results of subsidiaries merged during the fiscal year ended December 31, 2019 and 2018 are included in the statements of profit or loss since the date of their merger. The results of disposed operations in 2019 are presented in the “Net loss from discontinued operations” in the both year, 2019 and 2018, for better comparability.

2.4. Summary of significant accounting practices

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

a) Translation of balances denominated in foreign currency

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

Regarding subsidiaries located abroad considered independent by the Management as they have administrative, financial and operating autonomy, their assets and liabilities are translated into Brazilian real at the foreign exchange rate on statement of financial postionclosing 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.

b) Fair value measurement

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

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

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

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

- Level 1 – Market prices quoted (without adjustments) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques for which the lowest-level information that is significant for measuring the fair value is directly or indirectly observable;
- Level 3 – Valuation techniques for which the lowest-level information that is significant for measuring the fair value is not available.

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

c) Financial Instruments

The Company and its subsidiaries recognize their financial assets and liabilities at fair value upon initial recognition, except for receivables which are measured at the transaction price, and subsequently measured at amortized cost or fair value through profit or loss, based on the business model used to manage their assets and the characteristics of contractual cash flows of the financial asset.

Classification

The Company and its subsidiaries classify their financial assets based on the business model for managing their financial assets, pursuant to the changes introduced by CPC 48/IFRS 9, measured at amortized cost and at fair value through profit or loss as follows:

(i) Amortized cost

These represent financial assets and liabilities for which the Company's business model is to hold the financial assets for receiving contractual cash flows and which, exclusively, constitute payments of principal and interest on the principal amount outstanding. The financial assets at amortized cost are subsequently measured using the effective tax rate method and are subject to impairment. Profits and losses are recognized in the result when the asset is written off, modified or is impaired. In this category, the Company mainly includes "Accounts receivable from customers and other receivables" and "Cash and Cash Equivalents", as well as "Trade Accounts Payable and other accounts payable".

(ii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. TOTVS maintains investments in companies whose share of the interest is held indirectly through venture capital organizations and which are measured at fair value through profit or loss.

d) Accounts receivable from customers

Accounts receivable from customers are shown at their net realizable value, and accounts receivable from foreign customers are restated using the exchange rates in force at the date of the Financial Statements. Accounts receivable maturing after one year are discounted to present value.

Accounts receivable are recognized at nominal value and deducted from the allowance for doubtful accounts, which is set up based on the history of losses by maturity range, which the Company deems sufficient to cover any losses.

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 16.1).

f) Leases

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

The right-of-use assets are measured at cost, deducting any accumulated depreciation and impairment losses, and adjusted for any new remeasurement of lease liabilities and are depreciated on a straight-line basis, over the term of the lease and the useful life of the assets.

g) Adjustment to present value of assets and liabilities

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

h) Revenues and expenses

The Company and its subsidiaries earn software revenue, made up of licensing and monthly software services, revenue from services that includes implementation, customization and consulting, and revenue from hardware. Revenues are presented net of taxes, returns, allowances and discounts, when applicable. Revenues are recognized in an amount that reflects the consideration that the Company expects to be entitled to in exchange for the transfer of goods or services to a customer.

Revenue related to software is recognized in accordance with the following criteria:

(i) Licensing fee, which is recognized at a given moment when all risks and rewards inherent in the license are transferred to the buyer through software delivery and when the amount can be measured reliably, as well as it is probable that economic benefits be generated for the benefit of the Company.

(ii) Recurring software, whereas revenue is recognized over time during the availability of the service, over the terms of the agreements with customers.

(iii) Revenue from services represents performance obligations different from other services and is billed separately and recognized over time as the services are performed pursuant to the execution schedule and when there is a valid expectation to receive from customers. Billed revenue that does not meet the recognition criteria is not included in the balances of respective revenue account and accounts receivable.

The Company uses the following definitions for revenue segregation: (i) recurring software revenues that comprise software subscription, technical support and technical evolution; and (ii) non-recurring software revenues that include revenue from licensing fee, and implementation and customization services.

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

Expenses with research and development incurred by the software development area, related to new software versions and upgrades of existing software are registered as expenses for the year in which they are incurred and are stated separately from selling costs, in operating expenses.

i) Taxation

Sales taxes

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

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

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

Income and social contribution taxes – current and deferred

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

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

j) Hyperinflationary economy in Argentina

Since July 2018, Argentina has been considered a hyperinflationary economy and pursuant to IAS 29 / CPC 42, non-monetary assets and liabilities, equity items and the financial statements for subsidiaries in Argentina, whose functional currency is the Argentine Peso, are being restated for the change in the general purchasing power of the functional currency, applying the Consumer Price Index (IPC) of the local market.

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

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

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

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

CPC 00 (R2) – Conceptual Framework for Financial Reporting – this revision introduces new concepts on the presentation, measurement and disclosure, updated the definition of assets and liabilities, as well as the criteria for recognition and derecognition of assets and liabilities in the financial statements.

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

l) New standards, amendments and interpretations of standards in effect as from January 1, 2019

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

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

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

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

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

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

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

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

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

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

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

Consolidated	2019
Cash flow from operations	32,786
Cash flow from financing activities	(32,786)

IFRIC 23 / ICPC 22 – Uncertainty over income tax treatment; this interpretation clarifies how to apply the recognition and measurement requirements of CPC 32 whenever there is uncertainty over the treatment of income tax. In these circumstances, the entity must recognize and measure its current or deferred tax assets or liabilities, applying the requirements of CPC 32 / IAS 12 based on taxable income (tax loss), tax bases, unused tax losses, unused tax credits, and tax rates, determined based on this interpretation. This interpretation came into effect on January 1, 2019 and, even considering that the Company operates in a complex tax environment, management concluded that tax authorities are likely to accept it and, therefore, did not foresee any impact of its adoption on the financial statements.

There are no other standards, amendments and interpretations for standards issued and effective from January 01, 2019, in Management's opinion, may have a significant impact on the P&L or equity disclosed by the Company.

3. Significant accounting judgments, estimates and assumptions

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

3.1 Judgments

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

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

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

3.2 Estimates and assumptions

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

(i) **Provision for expected credit losses for accounts receivables -** the Company and its subsidiaries use a provision matrix based on the historical loss rates observed by the group to calculate the expected credit loss. 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 expected credit losses 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 16.2.

(iii) **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 11.3.

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

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

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

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

4. Business combination and acquisition of non-controlling equity interest

The Company uses the acquisition method to book business combinations. The Company recognizes the no controlling interest in the company acquired both at its fair value and in proportion to the no controlling interest in the fair value of the acquired company's net assets. The fair value of identifiable assets acquired are measured and recognized on the acquisition date. The methods and assumptions used for fair value measurements are based on cash flow discounted to its present value and replacement cost. The amount of assets not identifiable from business combinations are booked as goodwill based on technical studies of future profitability.

Following are the acquisitions made in the fiscal years ended December 31, 2019 and 2018:

(i) On December 27, 2019, the Company, through its subsidiary TTS, announced the acquisition of 100% of the capital stock of Consinco S.A., which provides management systems for the supermarkets and wholesaler vertical in the Brazilian market, for R$197,000, including an additional R$55,000, subject to the achievement of targets established for Consinco for fiscal years 2020 and 2021, in addition to the fulfillment of other conditions. The closing of the transaction depends on the implementation of certain conditions precedent established in the contract and did not consolidate the financial statements of the transaction since it did not acquire controlling interest in Consinco.

(ii) On October 28, 2019, the Company, through its subsidiary TOTVS Tecnologia em Software, announced the acquisition of 88.8% of the capital stock of Supplier Participações S.A., a company focused on offering B2B credit between clients and suppliers, for R$455,200, subject to certain price adjustments. The transaction was approved by Brazil's antitrust authority CADE in December 2019, although the closing of the transaction depends on the implementation of the Fintech platform model and, therefore, did not consolidate the financial statements of Supplier since control of the entity had not been acquired by the reporting date.

(iii) On August 1, 2018, subsidiary TFS acquired and merged Passlack, a company focusing on development and support for the Financial Services segment, for R$8,200. The net assets of Passlack were merged pursuant to the Valuation Report on the net assets, approved at a partners' meeting together with the agreement and rationale for merger.

(iv) On May 9, 2018, subsidiary TOTVS Large exercised an option to purchase 20% of the capital stock of RJ Participações. The amount attributed to this acquisition was R$9,880, of which R$4,350 were paid on the date of exercise of the option while the rest is provisioned for payment in 2019. In addition, the call and put option for the remaining 20% interest was postponed to 2021, to be measured based on the performance metrics in 2020. Since the initial agreement for the acquisition of RJ Participações already provided for call and put options for the remaining interest, the Company consolidates 100% of its results and maintains an estimate of the payment in the "Obligations for acquisition of investments" liability.

5. Shutdown companies and discontinued operation

Over the course of fiscal year 2019, the Company and its subsidiaries divested some of their operations, as follows:

Ciashop - On May 9, 2019, the Company entered into an agreement to sell 70.47% interest in the capital stock of Ciashop to VTEX S.A. for R$21,175. The transaction was concluded on July 31, 2019, after approval from Brazil's antitrust authority, CADE, which announced its approval on June 14, 2019. The net gain from the sale of Ciashop was recorded under "Other operating income and expenses" in the statement of profit or loss.

Hardware Operation – In order to broaden the Company's strategic focus on the software operation, Management decided to divest the hardware operations as follows:

On October 24, 2019, the Company announced the conclusion of the sale of the hardware operation in Brazil to ELGIN S.A. through equity interest in the subsidiary Bematech Hardware Ltda. for R$25,000, which is subject to be determined by the parties under the terms established in the contract.

On November 6,2019 was concluded the sale of the Bematech International Corporation (BIC) to Reason Capital Group LLC, according to contract signed on July 2, 2019 for US$4.4 million, equivalent to R$17,528, after certain adjustments under the agreement, of which US$1.5 million, equivalent to R$5,988, were retained as guarantee and will be released by November 5, 2022.

The result from the sale of the hardware operation in Brazil generated a net loss of R$44,956 recorded under "Net loss from discontinued operations".

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

Following are the losses for the nine-month period ended December 31, 2019 and 2018:

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

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

	Consolidated	
Comprehensive loss from discontinued operations	**2019**	**2018**
Net loss for the period	(43,268)	(77,092)
Cumulative translation adjustments	1,006	10,795
Comprehensive income from the period	**(42,262)**	**66,295**

Net cash flows incurred by Bematech Hardware are as follows:

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

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

6.1. Analysis of financial instruments

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

	Fair Value through profit or loss		Assets measured at amortized cost		Financial liabilities measured at cost	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Cash and cash equivalents (Note 7)	-	-	1,538,156	452,799	-	-
Investment guarantees (Note 21)	-	-	27,265	50,243	-	-
Accounts receivable, net (Note 8)	-	-	382,622	405,428	-	-
Investments at fair value	71,955	69,171	-	-	-	-
Financial Instruments receivable	**71,955**	**69,171**	**1,948,043**	**908,470**	**-**	**-**
Loans and debt (Note 19)	-	-	-	-	247,703	201,471
Debentures and non-conversion premium	-	-	-	-	202,973	277,188
Accounts payable and suppliers	-	-	-	-	209,638	218,441
Obligation for acquisition of investments	8,772	24,729	-	-	34,540	50,332
Financial liabilities	**8,772**	**24,729**	**-**	**-**	**694,854**	**747,432**

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

- Investment guarantees, trade accounts receivable, trade accounts payable and other short-term liabilities approximate their respective book values 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 the range of values shown indicated thereby.

- Loans and debt and debentures are recognized initially at fair value, net of costs incurred in the transaction and are subsequently stated at amortized cost.

6.2. Financial assets

Investments in startups made by the Company have a medium-term strategy in which the exit is planned for the moment when the expected financial returns are achieved and, therefore, are recognized as financial instruments. The value of these investments at December 31, 2019 was R$71,955 (R$69,171 at December 31, 2018).

6.3. Measurement of fair value

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

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

	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets						
Financial investments (Note 7)	-	1,526,057	-	-	407,874	-
Financial assets (Note 6.2)	-	-	71,955	-	-	69,171
Financial Liabilities						
Loans and debt (Note 19)	-	247,703	-	-	201,471	-
Debentures and Premium due to non-conversion (Note 20)	-	202,973	-	-	203,431	73,757

There were no transfers between Levels 1, 2 and 3 in the year.

6.4. *Changes in the liabilities of financing activities*

Liabilities arising from financing activities are liabilities for which cash flows were or will be future cash flows classified in the statement of cash flows as cash flows from financing activities. The following is a breakdown of liabilities arising from financing activities:

		Cash flow from financing activities		Non-cash items			
	2018	Principal	Interest paid	New Leases	Interest incurred	Others (i)	2019
Loans and debts (Note 19)	159,282	(152,889)	(5,233)	-	5,203	-	6,363
Lease (Note 19)	42,189	(61,617)	(15,406)	260,057	16,115	2	241,340
Debentures (Note 20)	277,188	-	(96,202)	-	21,987	-	202,973
Dividends payable and others (Note 24)	13,902	(49,898)	-	-	-	80,575	44,579
Total	**492,561**	**(264,404)**	**(116,841)**	**260,057**	**43,305**	**80,577**	**495,255**

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

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

6.5. *Sensitivity analysis of financial assets and liabilities*

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

The main risks related to the Company's operations are linked to the variation in:

(i) Brazilian Interbank Deposit Rate (CDI) for financial investments and debentures issued in 2017;

(ii) Long-Term Interest Rate (TJLP) for financing from the Brazilian Social and Economic Development Bank (BNDES) and for debentures issued in previous years.

a) Financial assets

Investments at fair value through profit or loss relate to startups privately held and which do not have quoted prices in an active market. The fair values of these investments are measured by a valuation technique or multiple valuation techniques employed by the market, such as discounted cash flow or multiple revenues, considering the reasonableness of the range of values shown by them. The fair value measurement is the point within that range that best represents the fair value in the circumstances. Additionally, the biggest investment – GoodData - refers to preferred shares, which have preference in case of liquidation.

To check the sensitivity of indexes for the financial investments that the Company was exposed to at December 31, 2019, three different scenarios were created. Based on the forecast by financial institutions, the average CDI is 4.40% p.a. and was defined as the probable scenario (scenario I). From this rate, we calculated variations of 25% (scenario II) and 50% (scenario III).

For each of these scenarios the "gross financial revenue" was estimated, without including taxes on investment yields. The reference date for the portfolio was December 31, 2019, with a one-year projection to check the sensitivity of CDI to each scenario.

Operation	**Balances in 2019**	**Risk**	**Probable Scenario (I)**	**Scenario (II)**	**Scenario (III)**
Financial investments	R$ 1,526,057	Reduction CDI (a)	4.40%	3.30%	2.20%
Finance income			**R$ 67,147**	**R$ 50,360**	**R$ 33,573**

(a) Interbank Deposit Certificate

b) Financial liabilities

To check the sensitivity of the indexes to which the Company is exposed when estimating the debts as at December 31, 2018, three different scenarios were created. Based on TJLP and the CDI rates in force at December 31, 2019, the most probable scenario (scenario I) was determined for 2019 and, from this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each scenario, the gross financial expense was calculated, not considering the tax and the maturity flow for each agreement scheduled for 2019. The reference date used for the debts and debentures was December 31, 2019, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	**Balances in 2019**	**Risk**	**Probable Scenario (I)**	**Scenario (II)**	**Scenario (III)**
Debts – Consolidated BNDES	R$ 4,120	**Increase** TJLP (b)	5.57%	6.96%	8.36%
Estimated Financial expense			**R$ 229**	**R$ 287**	**R$ 344**
Consolidated debentures	R$ 202,973	**Increase** CDI	4.40%	5.50%	6.60%
Estimated Financial expense			**R$ 8,931**	**R$ 11,164**	**R$ 13,396**

(b) Long-term Interest Rate

6.6. Financial risk management

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

a. Liquidity Risk

The Company's and its subsidiaries' liquidity and cash flow controls are monitored on a daily basis by the Company's management to ensure that cash flow from operations and funding, when necessary, are sufficient to meet their cash commitment schedule, not generating liquidity risks for the Company and its subsidiaries.

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

	Consolidated		
	Less than one year (i)	**Between one and two years (i)**	**Between two and five years (i)**
As at December 31, 2019			
Trade accounts payable	63,821	-	-
Loans and debts	66,667	86,089	134,382
Debentures	202,973	-	-
Liabilities from investment acquisition	32,554	8,772	1,986
Other liabilities	11,292	17,607	-
As at December 31, 2018			
Trade accounts payable	113,907	-	-
Loans and debts	171,559	42,690	-
Debentures	78,704	213,310	-
Liabilities from investment acquisition	59,597	10,130	5,334
Other liabilities	13,227	15,003	-

(i) As the amounts included in the table represent undiscounted cash flows, these amounts will not be reconciled to the amounts reported in the statement of financial position for loans, derivative financial instruments, trade accounts payable and other obligations.

b. Credit risk

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

Regarding the credit risk associated with financial institutions, the Company and its subsidiaries distribute this exposure among financial institutions. Financial investments must be made in institutions whose risk rating is equal to or lower than the Sovereign Risk (Brazil Risk) assigned by the rating agencies Standard & Poor's, Moody's or Fitch. The amount allocated to each institution cannot exceed 30% of the total balances in current accounts plus financial investments, and also not correspond more than 5% of the equity of the financial institution.

The credit risk related to services rendered and sale of licenses and hardware is minimized by strict control of the customer base and active delinquency management through clear policies on the sale of services and sale of software.

c. Market risk

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

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

Certain subsidiaries have international operations and are exposed to exchange risk arising from exposures in some currencies, such as the U.S. dollar (USD), Argentinean peso (ARS), Mexican peso (MXN), Chilean peso (CLP) and the Russian ruble. The Company ensures that its net exposure is maintained at an acceptable level in accordance with the policies and limits defined by the Management.

Below are the balances of each group company, showing a consolidated positive net exposure, since the exchange gains exceed exchange losses for the fiscal years ended December 31, 2019 and 2018:

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

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

d. <u>Investments at fair value through profit or loss</u>

Investments at fair value through profit or loss consist of startup companies, as described in Note 6.2.

Startup companies could fail or not be able to raise additional funds when needed, or may receive lower ratings than in previous investments. These events could cause our investments to become impaired. In addition, market volatility could negatively affect our ability to realize our investments through liquidity events such as initial public offerings, mergers, and private sales.

e. <u>Derivatives</u>

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

6.7. Capital management

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

TOTVS controls its capital structure by adjusting and adapting to current economic conditions. To maintain this structure, the Company may pay dividends, repurchase shares, take out new loans, issue debentures and promissory notes. The Company's net debt structure includes loans and debentures, less cash and cash equivalents.

	Parent Company		Consolidated	
	2019	2018	2019	2018
Loans and debts and lease	230,108	184,192	247,703	201,471
Debentures	202,973	277,188	202,973	277,188
Liabilities due to acquisitions of investments	30,493	30,752	43,312	75,061
(-) Cash and cash equivalents	(1,106,888)	(228,571)	(1,538,156)	(452,799)
(-) Investment guarantees	(23,217)	(23,477)	(27,265)	(50,243)
Net debt	**(666,531)**	**240,084**	**(1,071,433)**	**50,678**
Equity	2,477,214	1,287,042	2,478,409	1,288,220
Equity and debt	**1,810,683**	**1,527,126**	**1,406,976**	**1,338,898**

7. Cash and cash equivalents

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Cash	323	10,571	12,099	44,925
Cash equivalents	**1,106,565**	**218,000**	**1,526,057**	**407,874**
Investment funds	927,178	-	1,330,500	-
CDB	148,586	125,058	162,826	181,980
Repurchase agreements	30,801	92,942	32,731	225,894
	1,106,888	**228,571**	**1,538,156**	**452,799**

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

On 2019, the Company began to concentrate its investments in an investment fund for TOTVS and its subsidiaries. The fund is composed of investment fund shares whose portfolio is comprised of fixed-income assets and immediate liquidity. The eligible assets in the portfolio composition structure are mainly government debt securities, which present low credit risk and volatility. The Company investments are remunerated substantially, by reference to the CDI variation, which monthly averaged 96.7% of the CDI for the period ended December 31, 2019 (99.22% as of December 31, 2018).

8. Trade accounts receivable

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Domestic market	360,858	355,384	478,035	508,394
Foreign market	1,391	525	6,710	15,552
Gross trade accounts receivable	**362,249**	**355,909**	**484,745**	**523,946**
(-) Provision for expected credit losses	(79,712)	(88,515)	(102,123)	(118,518)
Net trade accounts receivable	**282,537**	**267,394**	**382,622**	**405,428**
Current assets	252,842	248,671	350,995	385,538
Noncurrent assets (a)	29,695	18,723	31,627	19,890

(a) Long-term accounts receivables refer basically to the sale of software license, software implementation and customization services, and are presented net of adjustment to present value.

Below is the aging list of receivables, net of provision of expected credit losses at December 31, 2019 and 2018:

	Parent Company		Consolidated	
	2019	2018	2019	2018
Falling due	226,681	189,294	297,354	310,953
Unbilled	32,666	57,464	49,238	73,627
Overdue				
1 to 30 days	10,869	9,636	16,909	15,566
31 to 60 days	4,946	5,561	8,548	9,729
61 to 90 days	5,075	4,549	7,661	6,852
91 to 180 days	9,809	9,578	15,239	14,378
181 to 360 days	15,594	14,943	22,288	21,327
more than 360 days	56,609	64,884	67,508	71,514
Gross trade accounts receivable	**362,249**	**355,909**	**484,745**	**523,946**
(-) Provision for expected credit losses	(79,712)	(88,515)	(102,123)	(118,518)
Net accounts receivable	**282,537**	**267,394**	**382,622**	**405,428**

Changes in the provision of expected credit losses are as follows:

	Parent Company		Consolidated	
	2019	2018	2019	2018
Balance at beginning of the year	**88,515**	**73,469**	**118,518**	**89,032**
Opening balance of IFRS9/CPC48	-	5,864	-	10,968
Write-off due to company sale	-	-	(10,947)	6,372
Additional provision in the year	19,066	24,226	28,434	36,992
Amounts written off of the provision	(27,869)	(15,044)	(33,882)	(24,846)
Balance at end of fiscal year	**79,712**	**88,515**	**102,123**	**118,518**

Management believes that the risk related to trade accounts receivable in general is minimized by the fact that the Company's customer portfolio is diluted. At December 31, 2018, an exception was the distributor of Bematech Hardware which cumulatively accounted for 5.5% of net accounts receivable in the consolidated statements. As at September 30, 2019 the assets of the hardware operation were classified as held for sale. In general, the Company does not require any guarantee on installment sales.

9. Inventories

The inventory breakdown of R$ 41,531 as of December 31, 2018 is represented exclusively by the subsidiary Bematech Hardware, an operation disposed in the year ended December 31, 2019.

10. Taxes recoverable

The breakdown of taxes recoverable for the fiscal year ended December 31, 2019 and 2018 is as follows:

	Parent Company		Consolidated	
	2019	2018	2019	2018
State Goods and Services Tax (ICMS) (a)	-	-	-	6,284
Income tax to offset (b)	11,526	10,805	17,581	18,172
Social contribution tax to offset (b)	9,367	12,490	11,170	13,764
Other	-	19	911	833
	20,893	**23,314**	**29,662**	**39,053**
Current	20,893	23,314	29,662	38,817
Noncurrent	-	-	-	236

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

11. Income taxes

11.1. Reconciliation of income and social contribution tax expenses

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Income before taxes	**261,955**	**141,516**	**324,027**	**184,676**
Income and social contribution taxes at combined nominal rate of 34%	(89,065)	(48,115)	(110,169)	(62,790)
Adjustments for the statement of effective rate				
Equity pick-up	39,417	26,952	(84)	43
Law No. 11.196/05 (Incentive for research and development) (a)	6,973	9,154	12,420	12,839
Interest on equity	26,619	9,447	27,228	9,889
Effect of subsidiaries subject to special rates	-	-	(11,934)	(7,162)
Share issue costs	9,840	-	9,840	-
Management stake	(1,732)	(1,075)	(1,732)	(1,089)
Workers' Meal Program	244	50	887	676
Other	(1,187)	(1,289)	3,433	653
Income tax and social contribution expense	**(8,891)**	**(4,876)**	**(70,111)**	**(46,941)**
Current income tax and social contribution	(15,357)	(3,180)	(54,628)	(41,978)
Deferred income tax and social contribution	6,466	(1,696)	(15,483)	(4,963)
Effective rate	**3.4%**	**3.4%**	**21.6%**	**25.4%**

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

11.2. Breakdown of deferred income and social contribution taxes

	Parent Company		Consolidated	
	2019	2018	2019	2018
Income and social contribution tax loss carry forward	-	-	63,563	71,620
Deriving from temporary differences:				
Difference between tax base and book value from goodwill	12,102	21,308	30,502	43,531
Amortization of tax benefit	(96,145)	(86,828)	(145,736)	(132,612)
Intangible asset allocation	(5,708)	(13,491)	(12,073)	(20,835)
Allocation of intangible assets – after Law nº 12.973	17,147	13,334	17,147	13,334
Provision for commissions	14,789	12,426	16,566	14,099
Advance income or revenues	9,211	5,253	10,336	9,705
Allowance for doubtful accounts	27,102	30,095	32,474	36,285
Provision for contingencies and other liabilities	39,461	40,045	44,717	43,447
Provision for trade accounts payable	9,610	7,902	12,432	10,396
Provision for impairment	-	-	-	14,760
Provision for share-based payments	8,530	5,550	8,898	5,720
Present value adjustment	3,055	2,766	5,142	4,803
Other	11,176	7,485	16,412	10,871
Net deferred income and social contribution tax	**50,330**	**45,845**	**100,380**	**125,124**

The net deferred income tax and social contribution of the Company and its subsidiaries are presented under noncurrent assets.

Below is the description of deferred income tax and social contribution:

	Parent Company		Consolidated	
	2019	2018	2019	2018
At January 1	**45,845**	**44,889**	**125,124**	**104,715**
Expense in statement of profit or loss	6,466	(1,696)	(15,483)	(4,963)
Tax related to other comprehensive income	-	890	-	890
Opening balance of IFRS16/CPC 06(R2) and IFRS15/CPC 47 and IFRS9/CPC 48	(1,980)	1,765	(2,203)	3,466
Write-off due to company sale	-	-	(7,060)	20,885
Other	(1)	(3)	2	131
At December 31, 2019	**50,330**	**45,845**	**100,380**	**125,124**

11.3. Estimated realization of deferred taxes

Based on projections of taxable income from future years approved by the Board of Directors, the Company expects to recover tax credits recorded in noncurrent assets in the following years:

	Parent Company	Consolidated
2020	79,960	97,220
2021	14,571	53,032
2022	14,581	37,591
2023	10,350	22,839
2024	9,865	18,286
2025 onwards	17,148	17,148
	146,475	**246,116**
Tax benefit of goodwill (a)	(96,145)	(145,736)
Deferred tax assets, net	**50,330**	**100,380**

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

In the year ended December 31, 2019, no material event occurred that indicates a limitation on the full recovery of deferred taxes recognized within 10 years.

12. Related-party balances and transactions

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

12.1. Credits and liabilities with subsidiaries and associate companies

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

	Parent Company			
	2019		2018	
	Asset	Liability	Asset	Liability
Ciashop (i)	-	-	2,484	-
TOTVS Serviços (ii)	-	-	1,472	-
Others	12	-	-	24
Total	**12**	**-**	**3,956**	**24**

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

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

The amounts in accounts payable and receivable among subsidiaries refer to short-term current account transactions, without remuneration. There were no relevant transactions that passed through the results between the group’s companies.

12.2. Transactions or relationships with shareholders and key management personnel

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

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

These Company shareholders and officers directly or indirectly hold 15.04% of the Company’s shares at December 31, 2019 (17.6% at December 31, 2017), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company still incurred expenses and revenues of small value over the year with related parties where the total amount of expenditures was R$409 and receipts in the amount of R$183.

12.3. Management fees

Expenses related to fees of managing officers of the Company and subsidiaries are summarized below:

	Parent Company	
	2019	2018
Salaries, fees and payroll charges (i)	12,035	14,106
Direct and Indirect benefits	943	1,123
Variable bonus (ii)	5,334	3,161
Share-based payments	8,573	3,725
	26,885	**22,115**

(i) Includes payment of non-competition agreement for terminated employees.
(ii) Includes the estimated provision for the 2019 discretionary bonus that will be realized upon achievement of individual performance targets.

Some management are also entitled to vehicles that are replaced every 3 years. The depreciation expenses of vehicles granted to management for the period ended December 31, 2019 was R$669 (R$590 as of December 30, 2018).

13. Other assets

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Prepaid expenses	40,038	38,515	41,072	41,863
Franchises loan	24,703	17,668	24,703	21,689
Advances to employees	8,366	7,444	8,862	8,431
Advances to suppliers	678	1,331	1,053	1,535
Dividends receivable	-	2,174	-	-
Receivables for investments sold (i)	16,716	2,531	37,619	3,234
Other assets	3,036	3,556	4,270	6,128
	93,537	**73,219**	**117,579**	**82,880**
Current assets	36,618	52,288	60,184	56,540
Noncurrent assets	56,919	20,931	57,395	26,340

(i) Includes the amount receivable for the sale of Ciashop as mentioned in Note 5.

14. Investments

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

	Summarized financial statements of affiliate companies and subsidiaries as at December 31, 2019					Equity pick-up (parent Company) for years ended:		Balance of investments as of:	
	Assets	Liabilities	Net Equity	Gross profit	Profit or loss	2019	2018	2019	2018
TOTVS Large (i)	484,106	52,640	431,466	143,644	(5,577)	24,816	(2,370)	490,215	493,626
TOTVS Tecnologia	151,978	18,724	133,254	147,401	44,529	44,529	26,487	133,254	143,487
TTS	268,362	4,103	264,259	28,279	9,052	9,052	7,670	264,259	75,188
TOTVS Serviços	-	-	-	117,406	27,310	27,310	29,699	-	49,055
TOTVS Inc.	76,759	4,093	72,666	352	(21,299)	(21,299)	(16,318)	72,666	72,030
Neolog (i)	4,805	1,817	2,988	13,414	2,162	(523)	(1,070)	17,677	18,920
TOTVS Hospitality	43,415	11,027	32,388	57,763	7,895	5,858	2,439	24,030	17,876
VT Digital	320	46	274	69	54	54	137	274	5,132
Ciashop	-	-	-	5,790	(42)	(29)	(855)	-	5,323
TOTVS México	10,436	6,982	3,454	24,066	(9,395)	(9,395)	(7,894)	3,454	4,571
TOTVS Argentina	11,289	7,576	3,713	35,040	(1,322)	(1,322)	3,399	3,713	5,027
TFS	48,894	18,582	30,312	122,527	25,667	25,667	24,235	30,311	30,017
Datasul Argentina	-	-	-	-	-	-	(58)	-	-
NCC	-	-	-	-	-	-	-	65	65
						104,718	**65,501**	**1,039,918**	**920,317**

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

The following table shows changes in investment accounts in the fiscal years ended December 31, 2019 and 2018:

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

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

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

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

15. Property, plant and equipment

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

Parent Company

	Computers	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improvements	Right of use (i)	Others	Total Property, plant and equipment
Cost								
Balance in 2017	153,344	9,428	21,572	25,980	73,082	-	7,037	290,443
Additions	34,242	5,289	940	704	17,886	-	2,829	61,890
Transfers	2,131	107	555	(162)	(4,606)	-	1,273	(702)
Write-offs	(5,621)	(4,623)	(190)	(119)	(263)	-	(6)	(10,822)
Balance in 2018	**184,096**	**10,201**	**22,877**	**26,403**	**86,099**	**-**	**11,133**	**340,809**
Opening balance CPC 06/IFRS16	-	-	-	-	-	217,111	-	217,111
Additions	26,225	4,597	3,612	443	3,589	19,861	173	58,500
Transfers	(3,191)	199	329	-	4,065	-	(1,402)	-
Write-offs	(13,463)	(4,233)	(965)	(20)	(3,633)	-	(31)	(22,345)
Balance in 2019	**193,667**	**10,764**	**25,853**	**26,826**	**90,120**	**236,972**	**9,873**	**594,075**
Depreciation								
Balance in 2017	(86,177)	(3,885)	(8,875)	(8,667)	(16,162)	-	(2,843)	(126,609)
Depreciation in the year	(25,582)	(3,417)	(2,985)	(3,210)	(8,622)	-	(1,530)	(45,346)
Transfers	29	-	(30)	(24)	-	-	(1)	(26)
Write-offs	5,465	3,336	107	60	56	-	6	9,030
Balance in 2018	**(106,265)**	**(3,966)**	**(11,783)**	**(11,841)**	**(24,728)**	**-**	**(4,368)**	**(162,951)**
Depreciation in the year	(27,107)	(3,388)	(3,082)	(3,127)	(10,358)	(32,075)	(2,192)	(81,329)
Transfers	-	-	(60)	-	60	-	-	-
Write-offs	12,918	3,068	912	13	3,619	-	14	20,544
Balance in 2019	**(120,454)**	**(4,286)**	**(14,013)**	**(14,955)**	**(31,407)**	**(32,075)**	**(6,546)**	**(223,736)**
Residual value								
Balance in 2019	**73,213**	**6,478**	**11,840**	**11,871**	**58,713**	**204,897**	**3,327**	**370,339**
Balance in 2018	**77,831**	**6,235**	**11,094**	**14,562**	**61,371**	**-**	**6,765**	**177,858**
Average annual depreciation rate	**20% to 25%**	**33%**	**10% to 25%**	**6,7% to 25%**	**10% to 33%**	**10% to 33%**	**20%**	**-**

Consolidated

	Computers	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improvements	Right of use (i)	Others	Total Property, plant and equipment
Cost								
Balance in 2017	165,289	11,205	25,024	39,548	81,577	-	7,619	330,262
Additions	37,691	5,832	1,777	1,816	22,294	-	3,169	72,579
Transfers	7,615	238	3,096	(6,495)	(2,164)	-	1,128	3,418
Write-offs	(7,192)	(4,660)	(1,393)	(717)	(1,120)	-	14	(15,068)
Foreign Exchange	1,138	141	357	225	413	-	(3)	2,271
Balance in 2018	**204,541**	**12,756**	**28,861**	**34,377**	**101,000**	**-**	**11,927**	**393,462**
Opening balance CPC 06/IFRS16	-	-	-	-	-	236,820	-	236,820
Additions	27,353	5,256	3,774	459	3,589	25,453	218	66,102
Transfers	(2,712)	199	376	(504)	4,065	-	(1,382)	42
Write-offs	(16,940)	(5,607)	(1,868)	(611)	(4,405)	(4,172)	(52)	(33,655)
Write-offs due to company sale	(3,162)	(763)	(1,427)	(5,519)	(4,479)	(5,645)	(173)	(21,168)
Foreign Exchange	80	54	43	4	96	(460)	1	(182)
Balance in 2019	**209,160**	**11,895**	**29,759**	**28,206**	**99,866**	**251,996**	**10,539**	**641,421**
Depreciation								
Balance in 2017	(94,352)	(4,923)	(11,265)	(11,789)	(22,876)	-	(3,035)	(148,240)
Depreciation in the year	(28,122)	(3,821)	(3,550)	(5,320)	(11,044)	-	(982)	(52,839)
Transfers	(4,015)	54	(969)	(26)	788	-	20	(4,148)
Write-offs	7,099	3,444	1,089	476	411	-	(46)	12,473
Foreign Exchange	(1,047)	(96)	(300)	(45)	(396)	-	2	(1,882)
Balance in 2018	**(120,437)**	**(5,342)**	**(14,995)**	**(16,704)**	**(33,117)**	**-**	**(4,041)**	**(194,636)**
Depreciation in the year	(28,977)	(4,293)	(3,447)	(3,261)	(11,906)	(37,572)	(1,875)	(91,331)
Transfers	(452)	-	(94)	460	60	-	(16)	(42)
Write-offs	16,077	4,685	1,444	472	4,264	855	33	27,830
Write-offs due to company sale	1,985	107	396	3,147	440	-	52	6,127
Foreign Exchange	(16)	7	(25)	(4)	(81)	181	1	63
Balance in 2019	**(131,820)**	**(4,836)**	**(16,721)**	**(15,890)**	**(40,340)**	**(36,536)**	**(5,846)**	**(251,989)**
Residual value								
Balance in 2019	**77,340**	**7,059**	**13,038**	**12,316**	**59,526**	**215,460**	**4,693**	**389,432**
Balance in 2018	**84,104**	**7,414**	**13,866**	**17,673**	**67,883**	**-**	**7,886**	**198,826**
Average annual depreciation rate	**20% to 25%**	**20% to 33%**	**10% to 25%**	**6,7% to 25%**	**10% to 33%**	**10% to 33%**	**20%**	**-**

(i) Line “Additions” includes the annual restatement of rental applied to the right of use according to the index established in the agreement. The Company applied exceptions to the standard for short-term and low value contracts, recorded in rental expense in the amount of R$1,246 and R$1,965 in the Parent Company and Consolidated, respectively as of December 31, 2019.

The Company annually evaluates indicators that may impact the estimated useful lives of its assets and there were no changes for the years ended December 31, 2019 and 2018.

16. Intangible assets

Intangible assets acquired separately are measured at cost at the time of their initial recognition, and the cost of intangible assets acquired in a business combination corresponds to the fair value on the date of acquisition. Intangible assets and changes in this account are as follows:

Parent Company

	Software	Trademarks & patents	Customer portfolio	Other (i)	Goodwill	Total Intangible assets
Cost or valuation						
Balance in 2017	324,854	63,149	212,980	18,750	280,308	900,041
Additions	14,006	-	-	-	-	14,006
Transfers	730	-	-	-	-	730
Balance in 2018	**339,590**	**63,149**	**212,980**	**18,750**	**280,308**	**914,777**
Additions	17,448	-	3,554	-	-	21,002
Write-offs	(6,989)	(2,151)	(166)	(123)	-	(9,429)
Balance in 2019	**350,049**	**60,998**	**216,368**	**18,627**	**280,308**	**926,350**
Amortization						
Balance in 2017	(225,134)	(39,623)	(200,446)	(18,511)	-	(483,714)
Amortization in the year	(33,614)	(4,202)	(10,373)	(239)	-	(48,428)
Balance in 2018	**(258,748)**	**(43,825)**	**(210,819)**	**(18,750)**	**-**	**(532,142)**
Amortization in the year	(31,875)	(4,200)	(942)	-	-	(37,017)
Write-offs	6,989	2,151	166	123	-	9,429
Balance in 2019	**(283,634)**	**(45,874)**	**(211,595)**	**(18,627)**	**-**	**(559,730)**
Residual value						
Balance in 2019	**66,415**	**15,124**	**4,773**	**-**	**280,308**	**366,620**
Balance in 2018	**80,842**	**19,324**	**2,161**	**-**	**280,308**	**382,635**
Average annual amortization rates	**10% to 20%**	**6,7% to 8%**	**10% to 12,5%**	**10% to 50%**		

	Consolidated						
	Software	Trademarks & patents	Customer portfolio	R&D	Others (i)	Goodwill	Total Intangible assets
Cost or valuation							
Balance in 2017	**370,495**	**99,622**	**360,892**	**28,641**	**49,526**	**654,047**	**1,563,223**
Additions	14,621	221	-	1	-	8,378	23,221
Transfers	730	-	-	(534)	534	-	730
Write-offs	(1,236)	(5)	(162)	(1)	(212)	-	(1,616)
Exchange variation	288	994	-	-	-	6,379	7,661
Balance in 2018	**384,898**	**100,832**	**360,730**	**28,107**	**49,848**	**668,804**	**1,593,219**
Additions	17,504	-	3,554	-	-	-	21,058
Write-offs	(7,139)	(11,059)	(166)	(721)	(123)	-	(19,208)
Write-offs due to company sale	(5,482)	(6,494)	-	(13,496)	-	(2,862)	(28,334)
Exchange variation	14	-	-	-	-	-	14
Balance in 2019	**389,795**	**83,279**	**364,118**	**13,890**	**49,725**	**665,942**	**1,566,749**
Amortization							
Balance in 2017	**(254,757)**	**(54,590)**	**(240,105)**	**(3,827)**	**(48,976)**	**-**	**(602,255)**
Amortization in the year	(42,200)	(7,483)	(21,216)	(8,611)	(865)	-	(80,375)
Write-offs	1,236	5	162	1	212	-	1,616
Provision for impairment	-	(218)	-	(10,389)	-	(43,611)	(54,218)
Exchange variation	(155)	(704)	-	-	-	-	(859)
Balance in 2018	**(295,876)**	**(62,990)**	**(261,159)**	**(22,826)**	**(49,629)**	**(43,611)**	**(736,091)**
Amortization in the year	(36,032)	(5,157)	(11,723)	(2,716)	(74)	-	(55,702)
Write-offs	7,135	4,185	166	721	123	-	12,330
Write-offs due to company sale	2,338	4,730	-	16,349	-	-	23,417
Exchange variation	(6)	-	-	-	-	-	(6)
Balance in 2019	**(322,441)**	**(59,232)**	**(272,716)**	**(8,472)**	**(49,580)**	**(43,611)**	**(756,052)**
Residual value							
Balance in 2019	**67,354**	**24,047**	**91,402**	**5,418**	**145**	**622,331**	**810,697**
Balance in 2018	**89,022**	**37,842**	**99,571**	**5,281**	**219**	**625,193**	**857,128**
Average annual amortization rates	**10% to 20%**	**6,7% to 8%**	**10% to 12,5%**	**20%**	**10% to 50%**		

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

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

16.1. Goodwill and intangible assets identified in business combinations

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

	2017	Foreign exchange (i)	Addition/ Impairment	2018	Addition/ Impairment	2019
Bematech	255,927	6,379	(43,611)	218,695	1,603	220,298
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
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
BCS	11,821	-	-	11,821	-	11,821
Passlack (ii)	-	-	8,378	8,378	-	8,378
TotalBanco	6,008	-	-	6,008	-	6,008
Logo Center	5,703	-	-	5,703	-	5,703
Ciashop (iii)	4,465	-	-	4,465	(4,465)	-
Others	11,556	-	-	11,556	-	11,556
	654,047	**6,379**	**(35,233)**	**625,193**	**(2,862)**	**622,331**

(i) Foreign exchange of Goodwill recorded in a foreign subsidiary
(ii) Goodwill generated from the acquisition of Passlack, see in Note 4.
(iii) Writte-off due to company sale in July 31,2019 as mentioned in Note 5.

16.2. Test for impairment of assets

The Company assesses the recoverable book value of goodwill by employing the “value in use” concept through discounted cash flow models for cash generating units, representing the group of tangible and intangible assets used in the development and sale of different solutions to its customers. With the sale of the hardware operation and of the subsidiary Ciashop in fiscal year 2019, the Company continues its strategy of focusing on the software business and retains the following cash-generating units: TOTVS and Neolog.

Also in line with the same strategy of focusing on the software operation, the Company consolidated the CGU of International Markets (IM), which was presented separately until 2018, since this market refers to a strategic extension of the Company’s strategy following the same strategic guidelines as its core market (Brazil), adapted to the reality of each country, in addition to the fact that this operation has no allocated goodwill.

Assumptions on cash flow increase and future cash flow projections are based on the Company’s business plans, approved annually by management, as well as 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.

In keeping with the economic valuation techniques, value in use is determined over a five-year period, considering the perpetuity of assumptions and in view of the capacity of indefinite business continuity. Flow growth projections were made in nominal terms.

The main assumptions used in the value in use and sensitivity estimate are:

- Gross margins – revenues were projected between 2019 and 2023, 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 0.5 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 assumptions included in the cash flow model. Calculation of the discount rate is based on the specific circumstances of each CGU. Estimated future cash flows were discounted at a nominal rate of 11.7% p.a. (pre-tax) for each cash generating unit. 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, 2019, in addition to the five-year period ranged from 3.5% to 5.5%. An increase or decrease of 1 p.p. in the perpetuity rate for each cash-generating unit would result in a recoverable amount higher than the book value.

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

The annual impairment test of intangible assets and goodwill of the Company 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 the valuation date. In 2018, the annual impairment test for intangible assets and goodwill resulted in a provision for loss of R$87,023 at the cash-generating unit of Bematech Hardware, which was sold on October 24, 2019.

17. Payroll and labor obligations

Balances of salaries and charges payable are broken down as follows:

	Parent Company		Consolidated	
	2019	**2018**	**2019**	**2018**
Labor liabilities:				
Salaries payable	21,090	19,332	28,810	27,600
Vacation payable	55,976	58,568	76,235	81,704
Profit sharing and bonus	40,710	23,109	51,107	30,492
Withholding Income Tax (IRRF)payable	13,291	12,303	17,600	16,552
Actuarial liability due to health care plan and retirement benefits (i)	2,024	1,287	2,024	1,287
Other	1,703	1,675	4,106	2982
	134,794	**116,274**	**179,882**	**160,617**
Payroll liabilities				
FGTS (Workers 'severance pay fund) payable	4,525	4,581	6,062	6,203
INSS (Brazilian Social Security Institute) payable	5,080	5,088	7,528	8,054
	9,605	**9,669**	**13,590**	**14,257**
	144,399	**125,943**	**193,472**	**174,874**

(i) Refers to the actuarial provision for the medical assistance plan of the participants who contributed or still contribute fixed installments to the plan and who are entitled to remain in the plan after retirement.

18. Tax liabilities

As at December 31, 2019 and 2018, the balances of tax liabilities are composed as follows:

	Parent Company		Consolidated	
	2019	2018	2019	2018
Tax liabilities				
INSS payable	14,221	12,041	17,552	14,583
ISS payable	7,628	5,376	9,588	7,268
PIS and COFINS payable	15,484	12,487	18,486	15,589
IRPJ and CSLL payable	-	-	4,238	4,632
Withholding IR and CSLL	796	880	2,677	3,677
Other taxes	2,063	1,793	2,662	1,717
Total	**40,192**	**32,577**	**55,203**	**47,466**

19. Loans and debts

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 debt operations are as follows:

		Parent Company		Consolidated	
	Annual financial charges	**2019**	**2018**	**2019**	**2018**
BNDES PROSOFT	TJLP + 1.5% to 1.52% p.a.	-	129,194	3,232	137,940
BNDES PSI	3.5% to 4.0% p.a..	-	12,197	2,227	18,224
Finance lease	8.55% to 17.24% (i)	230,108	42,087	241,340	42,189
BNDES – Social	TJLP	-	714	-	714
BNDES Inovação	TJLP + 0.52% p.a..	-	-	888	2,404
Secured accounts and other		-	-	16	-
		230,108	**184,192**	**247,703**	**201,471**
Current liabilities		44,322	155,278	55,623	166,154
Noncurrent liabilities		185,786	28,914	192,080	35,317

(i) Fees for the lease of the right to use real estate vary between 8.55% to 10.16% (nominal interest rate) and 15.12% to 17.24% for the lease of the right to use electronic equipment .

The Company and its subsidiary TOTVS Large have loan and financing agreements with covenants usually applicable to these types of operations, related to the meeting of economic, financial, cash generation and other metrics. These covenants have been met and do not restrict the Company's capacity to normally conduct its operations.

Amounts recorded in noncurrent liabilities as at December 31, 2019 and 2018, have the following maturity schedule:

	Parent Company		Consolidated	
	2019	2018	2019	2018
2019	-	13,173	-	19,583
2020	-	15,741	-	15,734
2021	33,120	-	36,628	-
2022	32,032	-	33,834	-
2023 onwards	120,634	-	121,618	-
Noncurrent liabilities	**185,786**	**28,914**	**192,080**	**35,317**

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Balance at beginning of year	**184,192**	**374,074**	**201,471**	**402,556**
Opening balance of lease – IFRS 16/CPC 06(R2)	217,111	-	236,470	-
Additions	27,517	4,712	33,107	4,712
Interest incurred	19,295	25,396	21,318	26,885
Payment of interest	(19,363)	(24,577)	(20,639)	(26,004)
Payment of principal	(198,644)	(195,413)	(214,506)	(206,678)
Write-off due to company sale	-	-	(5,463)	-
Write-off right-of-use lease	-	-	(4,055)	-
Balance at end of year	**230,108**	**184,192**	**247,703**	**201,471**

a) Lease

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Gross liabilities of Finance lease – minimum lease payments				
Less than one year	55,050	13,173	60,304	13,227
More than one year and less than five years	150,524	36,203	157,011	36,262
More than five years	63,460	-	63,460	-
	269,034	**49,376**	**280,775**	**49,489**
Future financing charges in Finance leases	(38,926)	(7,289)	(39,435)	(7,300)
Present value of liabilities of Finance lease	**230,108**	**42,087**	**241,340**	**42,189**
Current liabilities	44,322	13,173	49,260	13,228
Noncurrent liabilities	185,786	28,914	192,080	28,961

20. Debentures

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

					Parent Company and Consolidated	
Issue	Debentures	Annual financial charges	Unit price		2019	2018
Single series	200,000	105.95% of CDI	1.00	(a)(i)	202,973	203,431
		Premium due to non-conversion		(c)	-	73,757
		Total			**202,973**	**277,188**
		Current liabilities			202,973	77,319
		Noncurrent liabilities			-	199,869

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

The changes in the years are shown below:

	Parent Company and Consolidated	
Debentures and premiums from non-conversions	**2019**	**2018**
Balance at beginning of year	**277,188**	**269,138**
Interest incurred	21,987	21,734
(-) Interest amortization	(13,124)	(13,684)
(-) Amortization of Premium due to non-conversion	(83,078)	-
Balance at end of year	**202,973**	**277,188**

a) Issue of Debentures

As at September 6, 2017, the Board of Directors approved the operation to raise R$200,000 through the issue of 200,000 simple, unsecured, nonconvertible debentures of the Company with face value of R$1, in a single series, which were subject to public distribution with restricted efforts.

For all legal purposes, the issue of debentures was September 15, 2017. The debentures will come due on September 15, 2020, except in the events of early maturity.

The Debentures will bear interest corresponding to 105.95% of the accumulated variation of the daily average DI (interbank) rates. Interests will be paid semiannually, with the first payment on March 15, 2018.

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

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

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

21. Liabilities due to investment acquisition

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
RMS	-	-	1,930	13,920
Virtual Age	15,187	15,293	15,187	15,293
RJ Participações	-	-	8,772	17,542
Neolog	7,187	7,187	7,187	7,187
Bematech Sistemas	-	-	-	7,256
Seventeen	3,039	2,873	3,039	2,873
Datasul MG	4,695	4,429	4,695	4,429
Ciashop	-	366	-	366
Other	385	604	2,502	6,195
Total	**30,493**	**30,752**	**43,312**	**75,061**
Current liabilities	30,493	30,752	32,554	59,597
Noncurrent liabilities	-	-	10,758	15,464

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Investment guarantees in current liabilities	23,217	23,477	25,278	44,909
Investment guarantees in noncurrent liabilities	-	-	1,987	5,334
Total	**23,217**	**23,477**	**27,265**	**50,243**

22. Provision for contingencies related to legal proceedings

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

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

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

	Parent Company		Consolidated	
	2019	2018	2019	2018
Tax	5,797	2,337	7,671	2,946
Labor	78,848	88,394	87,988	94,832
Civil	31,416	27,049	35,862	30,014
	116,061	**117,780**	**131,521**	**127,792**

The summary of main proceedings in progress is presented below.

Tax

The lawsuits classified as probable loss deal with recovering tax claims that the Company and its subsidiaries consider undue. The amounts classified as probable losses from these lawsuits were R$7,671, on a consolidated basis, at December 31, 2019 (R$2,946 at December 31, 2018).

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, 2019, the labor claims whose restated amount are deemed individually significant were:

(i) Lawsuit filed in 2000, whereby a former sales executive claims the payment of severance pay, including differences in commissions. This suit was filed against a company merged into TOTVS and had outcome in December 2019 (R$4,403 as of December 31, 2018).

(ii) Lawsuit filed in 2003 by a former sales executive of a company, whose controlling interest was held by Datasul prior to its merger into TOTVS. TOTVS claims that a part of the suit is illegitimate and the suit is in the enforcement phase. The restated amount as of December 31, 2019 is R$5,501 (R$4,224 as of December 31, 2018).

(iii) Lawsuit filed in 2015, whereby a former employee claims the payment of labor pay including salary differences. On July 10, 2019 there was an unfavorable decision that resulted in the payment for an unfavorable decision, a provision of R$1,569 remaining as of December 31, 2019 (R$3,348 as of December 31, 2018).

The amounts assessed as probable losses from these lawsuits totaled R$80,918 at December 31, 2019 (R$94,832 at December 31, 2018), there being no individually significant case.

Civil

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

Notable among the individually significant cases are:

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

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

a) Changes in provisions

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

	Parent Company			
	Tax	**Labor**	**Civil**	**Total**
Balances at December 31, 2017	**2,257**	**73,762**	**34,763**	**110,782**
(+) Additional provision	1,289	51,875	14,544	67,708
(+) Monetary restatement	539	6,789	4,091	11,419
(-) Reversal of provision not used	(490)	(16,889)	(2,738)	(20,117)
(-) Write-off due to payment	(1,258)	(27,143)	(23,611)	(52,012)
Balances at December 31, 2018	**2,337**	**88,394**	**27,049**	**117,780**
(+) Additional provision	4,795	50,110	16,575	71,480
(+) Monetary restatement	596	7,393	2,835	10,824
(-) Reversal of provision not used	(937)	(17,248)	(5,543)	(23,728)
(-) Write-off due to payment	(994)	(49,801)	(9,500)	(60,295)
Balances at December 31, 2019	**5,797**	**78,848**	**31,416**	**116,061**

	Consolidated			
	Tax	**Labor**	**Civil**	**Total**
Balances at December 31, 2017	**2,827**	**78,945**	**35,998**	**117,770**
(+) Additional provision	1,460	54,984	16,504	72,948
(+) Monetary restatement	578	7,412	4,295	12,285
(-) Reversal of provision not used	(490)	(18,718)	(3,163)	(22,371)
(-) Write-off due to payment	(1,429)	(27,791)	(23,620)	(52,840)
Balances at December 31, 2018	**2,946**	**94,832**	**30,014**	**127,792**
(+) Additional provision	6,014	57,993	18,614	82,621
(+) Monetary restatement	667	7,906	3,276	11,849
(-) Reversal of provision not used	(963)	(18,570)	(6,409)	(25,942)
(-) Write-off due to payment	(993)	(53,918)	(9,626)	(64,537)
(-) Write-off due to company sale	-	(255)	(7)	(262)
Balances at December 31, 2019	**7,671**	**87,988**	**35,862**	**131,521**

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

b) Judicial deposits

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

	Parent Company		Consolidated	
Judicial deposits	**2019**	**2018**	**2019**	**2018**
Tax	11,833	8,320	21,554	17,755
Labor	22,677	30,241	28,552	34,794
Civil	14,132	12,610	14,953	13,416
	48,642	**51,171**	**65,059**	**65,965**

22.2. Possible contingencies

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

	Parent Company		Consolidated	
Nature	**2019**	**2018**	**2019**	**2018**
Tax	109,268	118,507	137,180	154,953
Labor	77,458	151,820	90,509	160,326
Civil	255,345	295,108	271,647	315,507
	442,071	**565,435**	**499,336**	**630,786**

The summary of main proceedings ongoingis presented below.

Tax

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

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

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

In 2012, the Company offset debts with CSLL negative balance, but offsets were fully disallowed. The attendant protest letter is pending judgment in the lower administrative court. The restated amount for this lawsuit was R$12,081 at December 31,2019 (R$11,478 at December 31, 2018).

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

In 2019, the Company received a tax deficiency notice for ISS tax underpayment in 2014, under the allegation of an error in the assignment of tax rates for the services it provides, in the amount of R$16,366, whose likelihood of loss is assessed as possible. The Company submitted its defense, which is pending judgment in the lower administrative courts. The amount as of September 30, 2019 is R$18,802.

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

The remaining tax cases assessed as possible losses deal with recovering debt, which the Company considers them to be undue. These cases totaled R$84,456 at December 31, 2019 (R$77,809 at December 31, 2018).

Labor

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

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

The other labor lawsuits totaled R$90,509 at December 31, 2019 (R$160,326 at December 31, 2018), there being no other 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) Action for damages due to information filed against agency agreement, in addition to moral and material damages. The action, which involves the updated amount of R$104,361 at December 31, 2019 (R$94,861 at December 31, 2018), is in the initial stage and was deemed as possible loss.

(ii) Action for alleged emotional distress and pecuniary damage was filed due to commercial problems with former franchisees. In March 2019, a sentence was partially favorable to TOTVS reducing the amounts possible, and the updated amount at December 31, 2019 is R$5,169 (R$16,741 as of December 31, 2018).

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

The other suits totaled R$162,117 at December 31, 2019 (R$180,012 at December 31, 2018), there being no other individually significant cases.

23. Equity

a) Capital

As at December 31, 2019, the Company's capital was composed of 192,637,727 registered common shares issued and fully paid, with no par value (165,637,727 as of December 31,2018), as follows:

	2019		2018	
Shareholders	**Shares**	**%**	**Shares**	%
LC EH Participações e Empreendimentos S/A	26,760,990	13.89%	26,760,990	16.16%
GIC Private Limited	9,728,352	5.05%	559,200	0.34%
Itaú Unibanco S.A.	9,713,045	5.04%	466,622	0.28%
Laércio José de Lucena Cosentino	2,053,890	1.07%	2,186,091	1.32%
CSHG Senta Pua Fia	45,400	0.02%	45,400	0.03%
Others	142,383,931	73.91%	133,433,333	80.56%
Outstanding shares	**190,685,608**	**98.99%**	**163,451,636**	**98.68%**
Treasury Shares	1,952,119	1.01%	2,186,091	1.32%
Total in units	**192,637,727**	**100.00%**	**165,637,727**	**100.00%**

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

On May 22, 2019, the Board of Directors approved the pricing of the primary public offering with restricted efforts which price per share was R$39.50 and the total amount of R$1,066,500. It was determined that the price per share of R$39.50 would be earmarked as follows: (i) R$12.64 earmarked for capital , in the total amount of R$341,280; and (ii) the balance, of R$26.86 per share, for capital reserve, in the total amount of R$725,220. As a result of the capital increase, 27,000,000 new subscription common shares, with no par value, were issued, and the capital stock increased from R$1,041,229, represented by 165,637,727 common shares, to R$1,382,509, represented by 192,637,727 common shares, all registered, book-entry common shares with no par value.

b) Capital reserves

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

	2019	2018
Goodwill reserve (a)	795,538	99,260
Goodwill reserve due merger	14,330	14,330
Premium on acquisition of non-controlling interest	(25,518)	(25,518)
Debentures converted into shares (fair value) (Note 20)	44,629	44,629
Stock option plan (Note 25)	47,000	37,206
	875,979	**169,907**

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

c) Treasury shares

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

	Number of shares (units)	Value (in thousand)	Average price per share (in reais)
Balance at December 31, 2017	**2,231,967**	**R$71,495**	**R$32.03**
Used	(45,876)	(R$1,469)	R$32.03
Balance at December 31, 2018	**2,186,091**	**R$70,026**	**R$32.03**
Used	(233,972)	(R$7,495)	R$32.03
Balance at December 31, 2019	**1,952,119**	**R$62,531**	**R$32.03**

In the year ended December 31, 2019, the use of 233,972 treasury shares by the stock options plan consumed R$3,785 from the capital reserve.

24. Dividends and Interest on Equity

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

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

On December 18, 2019, the Board of Directors authorized the distribution and payment of interest on equity to the Company's shareholders, in the amount of R$43,847, to be calculated towards to the mandatory minimum dividend for the year ended December 31, 2019 to be paid as of May 20, 2020.

	Parent Company	
	2019	2018
Net income for the year - Company	209,796	59,548
Accrual of legal reserve (article 193 of Law No. 6404)	(10,490)	(2,977)
Opening balance of new CPCs/IFRS	4,263	(7,968)
Net income after legal reserve allocation	**203,569**	**48,603**
Mandatory minimum dividend – 25%	50,892	14,143
Additional dividends proposed by management	54,006	31,620
Dividends proposed by management	**104,898**	**45,763**
Payment:		
Interest on equity	80,081	27,785
Dividends	24,817	17,978
	104,898	**45,763**
Number of outstanding shares at December 31	190,685,608	163,451,636
Dividends and interest on equity per thousand shares - in reais	**0.55**	**0.28**

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

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

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

The capital budget proposed for 2020 to be submitted to the Annual Shareholders Meeting, allocates the balance in the amount of R$98,671 in the reserve account to retained earnings, for the following:

Investments:	2020
Investments in property, plant and equipment's and intangible assets	75,342
Investments in strategic projects	23,329
Total investments (unaudited)	**98,671**
Sources:	
Retained earnings reserve at December 31, 2019	98,671
Total sources	**98,671**

25. Share-based compensation plan

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

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

Under the current plan grants to beneficiaries the right to restricted shares that are divided into two 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 Grace Period. During the Grace Period of the Regular Program, participants will not be entitled to receive dividends or interest on 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 Grace Period, since 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 Grace Period of the Partner Program, participants will not be entitled to receive dividends or interest on 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, in a restricted number, based on reports from the Personnel and Compensation Committee.

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			
					Expectation:			
Date	Plan	Number of options/shares	Exercise price in reais	Fair value of shares in reais	Dividends	Volatility	Free interest rate risk	Term Maturity
02.20.15	Regular	225,425	R$35.60	11.36	2.60%	29.61%	12.75%	3 years
04.02.15	Regular	33,751	R$35.60	12.12	2.60%	29.61%	13.00%	3 years
03.18.16	Discretionary	272,142	-	28.37	2.80%	-	-	3 years and 10 months
02.20.17	Regular	72,289	-	23.54	2.60%	-	-	3 years
02.20.17	Partner	148,183	-	23.54	2.60%	-	-	3 years
05.04.18	Regular	306,185	-	29.52	1.80%	-	-	3 years
05.04.18	Partner	355,565	-	29.52	1.80%	-	-	3 years
11.26.18	Discretionary	24,345	-	25.19	1.80%	-	-	6 months
11.26.18	Discretionary	24,345	-	24.94	1.80%	-	-	18 months
04.26.19	Regular	630,460	-	38.48	1.40%	-	-	3 anos
04.26.19	Partner	273,570	-	38.48	1.40%	-	-	3 anos

Changes in options in the year are shown below:

	December 31, 2019				December 31, 2018			
	Share options		Restricted shares	Total equity instruments	Share options		Restricted shares	Total equity instruments
	Average price (in reais)	Number (in units)			Average price (in reais)	Number (in units)		
Balance of options at beginning of year	**34.11**	**212,225**	**1,081,639**	**1,293,864**	**37.73**	**647,689**	**626,949**	**1,274,638**
Transactions:								
Exercised	32.18	(114,826)	(170,946)	(285,772)	2.38	(22,231)	(34,815)	(57,046)
Granted	-	-	904,030	904,030	-	-	710,440	710,440
Cancelled	-	(3,738)	(180,688)	(184,426)	35.60	(8,901)	(220,935)	(229,836)
Expired	33.29	(45,106)	-	(45,106)	41.07	(404,332)	-	(404,332)
Balance of shares at end of year	**35.60**	**48,555**	**1,634,035**	**1,682,590**	**34.11**	**212,225**	**1,081,639**	**1,293,864**

At December 31, 2019, there were 48,555 vested options, since the period of 36 months had already elapsed.

The cumulative effect in the year ended December 31, 2019 was R$13,504 (R$6,297 at December 31, 2018), recorded as share-based compensation expenses.

26. Segment information

The presentation of information by operating segment is consistent with the internal report provided to the Company's main operational decision maker, formed by Boards.

In 2018, the Company's Management evaluates the business down to two business units: software and hardware. In 2019, the hardware operation was sold according to the Company's strategy of focusing on the software business and ,consequently, started to evaluate the business in a single software segment. See Note 5.

27. Earnings per share

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

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

	2019	2018
Basic earnings per share		
Numerator		
Net income from continued operations	253,064	136,640
Net Loss from discontinued operations	(43,268)	(77,092)
Net income for the year assigned to the Company's shareholders	**209,796**	**59,548**
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	180,786	163,434
Basic earnings per share – in reais	**1.1605**	**0.3644**

	2019	2018
Diluted earnings per share		
Numerator		
Net income from continued operations	253,064	136,640
Net Loss from discontinued operations	(43,268)	(77,092)
Net income for the year assigned to the Company's shareholders	**209,796**	**59,548**
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	180,786	163,434
Weighted average number of stock options	1,589	1,320
Weighted average number of common shares adjusted according to dilution effect	182,375	164,754
Diluted earnings per share – in reais	**1.1504**	**0.3614**

28. Gross sales revenue

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

	Parent Company		Consolidated	
Gross revenue	**2019**	**2018**	**2019**	**2018**
Software				
License fees	184,207	149,706	243,614	203,198
Subscription	1,440,110	1,324,459	1,961,187	1,756,522
Service	232,779	300,303	388,234	438,930
Total	**1,857,096**	**1,774,468**	**2,593,035**	**2,398,650**
Cancellations of sales	(16,373)	(20,494)	(25,609)	(29,540)
Sales tax	(210,001)	(195,861)	(285,302)	(257,950)
Deductions	**(226,374)**	**(216,355)**	**(310,911)**	**(287,490)**
Net revenues	**1,630,722**	**1,558,113**	**2,282,124**	**2,111,160**

29. Expenses by nature

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

	Parent Company		Consolidated	
Nature	**2019**	**2018**	**2019**	**2018**
Salaries, benefits and payroll charges	704,374	685,813	992,180	927,346
Outsourced services and other inputs	401,447	382,592	523,181	506,947
Commissions	161,731	143,673	176,703	156,544
Depreciation and amortization (i)	118,346	93,774	147,033	122,291
Provision for contingencies	47,752	47,591	56,679	50,294
Rents (i)	1,246	35,679	1,965	42,982
Provision of expected losses	19,066	24,226	28,434	36,992
Other	16,981	26,038	30,497	42,109
Total	**1,470,943**	**1,439,386**	**1,956,672**	**1,885,505**

(i) "Depreciation and amortization" and "Rents" are impacted by IFRS16/CPC 06(R2). Note 2.3 (c).

30. Finance income and expenses

The finance income and expenses incurred for the years ended December 31, 2019 and 2018 were as under:

	Parent Company		Consolidated	
	2019	2018	2019	2018
Finance income				
Short-term investments yield	51,465	17,651	60,946	26,004
Interest received	4,946	5,617	5,707	6,510
Inflation adjustment gains	512	2,302	2,952	5,576
Adjustment to present value	955	1,553	1,077	1,702
Exchange gains	594	(669)	1,657	(204)
Other finance income	(2,591)	(1,236)	(3,027)	(1,693)
	55,881	**25,218**	**69,312**	**37,895**
Finance expenses				
Interest incurred	(43,600)	(49,576)	(46,276)	(52,706)
Inflation adjustment losses	(8,695)	(10,235)	(13,119)	(13,204)
Bank expenses	(4,661)	(4,662)	(6,171)	(6,038)
Adjustment to present value of liabilities	(539)	(808)	(678)	(1,663)
Exchange losses	(812)	(2,147)	(1,462)	(2,339)
Other finance expenses	(116)	(502)	(2,783)	(2,407)
	(58,423)	**(67,930)**	**(70,489)**	**(78,357)**
Net finance income (expenses)	**(2,542)**	**(42,712)**	**(1,177)**	**(40,462)**

31. Private pension plan – defined contribution

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

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

32. Insurance coverage

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

As at December 31, 2019, the main insurances coverage items taken out were:

Type	Insurance Company	Effective From	Effective To	Maximum limit of Responsibility
Business Comprehensive	Mitsui	June/2019	June/2020	R$197,855
General Liability	Chubb Seguros	May/2019	May/2020	R$8,000
Vehicles (i)	Porto Seguro	January/2019	January/2020	(*) FIPE
D&O Directors and Officers Liability (ii)	AIG Seguros	June/2019	June/2020	R$100,000
E&O – Errors and Omissions	AIG Seguros	June/2019	June/2020	R$10,000

(i) Market value determined by FIPE - Institute of Economic Research.
(ii) For operations in Mexico, Argentina and the United States, the local policy issued in each country with coverage in the amount of US$1,000.

33. Subsequent events

On January 28, 2020, the Company acquired the remaining interest of 40% of the capital of subsidiary Neolog in the amount of R$7,120. This acquisition was recorded under "Liabilities due to investiment acquisition".

On January 30,2020, by means of its it subsidiary Soluções em Software e Serviços TTS Ltda, the Company concluded the acquisition of shares of the capital of Consinco S.A. pursuant to the Quota Purchase and Sale Agreement and Other Covenants executed by and between the parties on December 27, 2019.

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