TOTVS S.A.

Financial Statements

December 31, 2015 and 2014

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MANAGEMENT REPORT AND COMMENTS ON COMPANY'S PERFORMANCE

Dear Shareholders,

Pursuant to legal provisions, TOTVS S.A., the largest developer of application software, collaboration and productivity platforms, hardware and consulting services in Brazil and Latin America, submits for the appreciation of its shareholders the Management Report and corresponding Financial Statements, accompanied by the independent auditor's opinion for the fiscal years ended December 31, 2015 and 2014, prepared in accordance with the Brazilian accounting practices considering the provisions of OCPC 07 approved in 2014

MESSAGE FROM THE MANAGEMENT

In 2015, the transition from the licensing model to the software subscription model was the main driver that contributed to the net revenue growth of TOTVS. In addition to the negative impacts on profitability, which were already expected during the initial phase of this transition, the worsening economic scenario in Brazil posed additional challenges for the Company, resulting in lower net income and operating cash flow in the year.

The corporate reorganization involving Bematech in 2015 was another important step towards strengthening TOTVS' portfolio of business solutions and its transition to the subscription model. With Bematech, TOTVS became the leading solutions provider for the retail segment in Brazil by combining specialized solutions in management system, point of sale (POS), commercial automation, fiscal solutions, e-commerce, mobility, means of payment solutions and collaboration platform.

As such, we will adopt a customer-centric approach, while continuing our transition towards the subscription model and our specialization strategy in each segment, having the client as the central focus. Despite the current adversities, we continue to believe in the potential of Brazil and in technological innovation as an instrument to increase productivity and competitiveness of companies, especially small and medium businesses.

ECONOMIC SCENARIO

Global economic growth in 2015 remained modest as in previous years. Growth of emerging economies fell for the 5th consecutive year, mainly impacted by falling prices of oil and other commodities and by the slowdown in China's growth, while developed economies recovered marginally. In Latin America, the weak economic growth was led by Colombia and Peru.

As in 2014, the U.S. economy grew 2.4%. The Eurozone increased its growth rate this year, despite the currency instability resulting from divergences between Greece and Germany.

In Brazil, the economic scenario deteriorated significantly and was one of the reasons for the country being downgraded by the main global credit rating agencies. GDP fell 3.8% in the year, the steepest decline

since 1990, leading to an increase unemployment. Inflation, as measured by the IPCA index, closed the year at 10.67%, the highest annual rate since 2002, mainly driven by the fuel, electricity, food and beverage segments. The basic interest rate (Selic), which ended 2014 at 11.75%, reached 14.25% in December 2015, while the U.S. dollar spiked 48% against the Brazilian real, the highest annual increase in the last 13 years.

The year was also marked by changes in the federal government's economic team, with Nelson Barbosa taking over as Finance Minister, replacing Joaquim Levy, and Valdir Simão taking over as Planning Minister. In addition to economic instability, the country has been engulfed in a political crisis that culminated with the Congress starting the process for impeachment of the Brazilian president.

Despite the negative impacts of the political and economic crises, Brazil still remains a land of numerous business opportunities, a huge consumer market, and strong and independent institutions.

CONSOLIDATED OPERATING AND FINANCIAL PERFORMANCE

Due to the ownership restructuring between TOTVS and Bematech in 2015, in addition to the following comments, the amounts related to fiscal year 2015 are impacted by the consolidation of Bematech's results in November and December.

In 2015, net revenue totaled R$1,908,737 thousand, an increase 7.7% over 2014. This growth is due to: (i) the Company's initiatives to capture the growth of the software market, which included segmenting its business solutions by industry type, and the *fluig* platform; and (ii) the growth in recurring revenue from subscriptions.

Net revenue from license fees fell 19.7% from 2014 to 2015, mainly reflecting the reduction in sales to new and existing clients. This reduction is mainly due to the downturn in the Brazilian economy, which results in a longer time for the conversion of the pipeline into sales, and the partial migration of the sales pipeline of new clients to the subscription model.

Net revenue from services grew 8.4% in 2015, chiefly due to the growth in services not related to software implementation, especially those related to consulting.

Net revenue from subscription grew 35.1% in the year to R$140,820 thousand. This growth was driven by sales to small and medium clients, especially under the TOTVS Intera subscription model.

Net revenue from maintenance totaled R$918,556 thousand in 2015, an increase of 7.5% from 2014, mainly driven by license sales and retention of maintenance agreements, which are annually adjusted based on pre-defined inflation rates, in most cases the IGP-M index.

Net revenue from hardware totaled R$51,664 thousand in 2015 and included the sales of equipment and technical support services by Bematech.

The 8.5% decline in software costs in 2015 primarily reflects the drop in sales mentioned above in the comments on licensing fee revenue.

Cost of support increased 34.4% in the year, chiefly due to wage increases and the growth of subscription sales in the period.

Cost of services increased 11.4% in the year to reach R$507,298 thousand. This growth, which was higher than the growth in net revenue from services, was mainly the result of: (i) the lower allocation of implementation professionals on account of the slower pace of software sales, especially of licenses; (ii) additional costs with rationalization of the cost and expense structure during the second half of 2015; and (iii) wage increases resulting from collective bargaining agreements entered into during the year, which were higher than in 2014, on average, on account of higher inflation but which were not fully passed on to projects for implementation of the software sold.

Cost of hardware, which include the sales of equipment and technical support services provided by Bematech, totaled R$34,050 thousand. Note that hardware costs also include depreciation amounting to R$583 thousand.

Research and development expenses increased 13.6% in 2015, due to (ii) additional costs with rationalization of the cost and expense structure during the second half of 2015; and (ii) wage increases on account of collective bargaining agreements during the year.

Advertising expenses increased by 18.9% in 2015, totaling R$49,281 thousand. This increase is mainly due to the reduction in advertising and marketing expenses in 2014 on account of the Soccer World Cup in Brazil.

Selling expenses totaled R$152,230 thousand in the year, up 15.6%, while commission expenses totaled R$155,981 thousand, up 0.6%. The sum of these expenses as a percentage of total net revenue remained unchanged. These expenses are directly related to the sales mix between own branches and franchises, and to the net revenue mix, due to the different levels of commissions among the revenue lines.

General and administrative (G&A) expenses increased by 63.7% in 2015 to R$187,277 thousand. This increase is chiefly due to the addition of R$59,022 thousand to the provision for legal contingencies made in the fourth quarter of 2015. This change in the estimated provision for legal contingencies is due to the continuous monitoring and risk control by TOTVS, which during 2015 entailed: (i) the substitution of the main legal advisors conducting the civil and labor lawsuits to obtain greater consistency and efficiency in the way proceedings are monitored and solved; (ii) the review of the quantification of expected losses related to the proceedings; and (iii) the review of past outcomes of lawsuits and the circumstances surrounding the new proceedings in which the Company is the defendant. It is important to note that this provision does not affect cash immediately and, even with the provisions booked, TOTVS will continue to take all applicable measures to defend its rights in the lawsuits in question.

Management fees decreased 9.9% between 2014 and 2015, and was mainly influenced by the the provision for bonus for executives related to the achievement of financial and individual targets in the period.

Depreciation and amortization totaled R$103,077 thousand in 2015, compared to R$88,928 thousand in 2014, increasing by 15.9%, mainly due to: (i) purchase price allocation of the acquisition price of Virtual Age in 2Q15, when there was an extraordinary impact of R$5,458 million from the 12-month accumulated amortization of their intangible assets; and (ii) the purchase price allocation of the corporate reorganization with Bematech in 4Q15, which increased depreciation and amortization expenses in November and December in the total amount of R$3,416 thousand.

Allowance for doubtful accounts totaled R$34,562 thousand in 2015, equivalent to 1.8% of net revenue, versus 1.6% in 2014. This increase in the allowance is mainly due to higher default levels seen in the market during the year.

Financial result (financial income net of financial expenses) was a positive R$26,526 thousand, resulting in growth of 101.2% in 2015. This growth primarily reflects the increase in financial income resulting from higher financial investments in the first nine months of 2015; and the addition of R$9,028 thousand to the provision for premium due to non-conversion of debentures.

Income tax and social contribution decreased 38.6% in 2015, totaling R$59,888 thousand. This decline, which was steeper than the drop in earnings before income tax and social contribution, is due to the lower effective tax rate, mainly resulting from the combination of: (i) the 29.3% drop in earnings before income tax and social contribution; (ii) the 126.8% increase in the effect of differentiated taxation at the subsidiaries; (iii) the 46.5% increase in the interest no equity; and (iv) the 3.9% increase in the incentive to research and development.

Net income decreased 25.8% in 2015, mainly due to the combination of: (i) the 34.3% decline in earnings before financial effects and equity income; (ii) the 101.2% increase in financial result; and (iii) the 38.6% drop in income tax and social contribution; and (iii) the 38.6% drop in income tax and social contribution.

EBITDA(*) in 2015 totaled R$332,042 thousand, down 23.9% from 2014. EBITDA margin (% EBITDA of total net revenue) ended 2015 at 17.4%, as against 24.6% in 2014, as a result of the events described in the comments in each item.

(*) EBITDA (Earnings before interest, taxes, depreciation and amortization) is a non-accounting measure used by the Company, calculated in accordance with one of the suggestions of CVM Circular 01/2007, which consists of income before taxes and contributions, the net financial result (interest income and expenses), depreciation and amortization.

CAPITAL MARKETS

The Company ended the year with capital of R$541,374 thousand, compared to R$526,592 thousand in 2014. The increase in capital stock is due to the issue of 2,170,656 TOTVS common shares regarding the corporate reorganization with Bematech, which resulted in an increase in shareholders' equity of R$82,485 million, of which R$14,782 million was allocated to capital stock and R$67,703 million to capital reserve.

At the end of 2015, the capital stock of the Company was composed of 165,637,727 common shares, with 67.1% of free float, of which 96.2% was held by institutional investors and 92.1% by foreign investors.

Free float is calculated as the total number of Company shares, excluding shares owned by Management and related persons, Fundação Petrobras de Seguridade Social (PETROS) and BNDES Participações (BNDESPar), and those held in treasury.

In 2015, TOTVS shares (BM&FBovespa: TOTS3) depreciated 11.3%, while the Bovespa Index (IBovespa) dropped 12.7%. Average financial volume in 2015 stood at R$21 million/day, the same level of 2014.

Interest on equity for 2015: On July 27, 2015, the board of directors approved the payment of interest on equity of R$29,196 thousand to its shareholders related to the first semester of 2015, having made entitled do the benefit the shareholders of TOTVS as such on August 3, 2015. This interest on equity was paid on August 19, 2015.

On December 18, 2015, the board of directors approved the payment of interest on equity of of R$31,319 thousand to its shareholders related to the second semester of 2015, having made entitled do the benefit the shareholders of TOTVS as such on December 21, 2015. This interest on equity was paid on January 13, 2016.

The payment regarding the fiscal year of 2015 and was imputed to the minimum mandatory dividend in accordance with Article 34 of TOTVS' Bylaws

Interest on equity for 2014: On December 18, 2014, , the board of directors approved the payment of interest on equity of R$19,526 thousand for the second semester of 2014, having made entitled do the benefit the shareholders of TOTVS as such on December 22, 2014. This interest on equity was paid on January 14, 2015.

The payment is for the second half of 2014 and the amount was calculated towards the minimum mandatory dividend in accordance with Article 34 of the Bylaws of TOTVS.

Dividends for 2014: proposed by the Board of Directors on January 26, 2015, and approved at the Ordinary General Meeting on March 30, 2015, totaled R$124,368 thousand, to shareholders of TOTVS as of February 27, 2015. The dividends were paid on April 15, 2015.

CORPORATE GOVERNANCE

Novo Mercado: TOTVS was the first Brazilian software company to join the segment that meets the highest corporate governance standards of the São Paulo Stock Exchange (BM&FBovespa).

Board of Directors: TOTVS' Board of Directors is composed of 8 members, of which 7 of them external and independent members, in accordance with Novo Mercado regulations. 15 officers compose the Executive Board. The list containing the names, position and a brief resume of the Board members and Executive Officers is available on the Company´s Reference Form, in http://ir.totvs.com.

Audit Committee: It is an advisory body to support the Board of Directors, and its mission is to monitor, evaluate and ensure the best operation of processes, management of internal and external audit mechanisms and controls related to risk management and consistency of financial policies with the strategic guidelines and business risk profile. Currently, the Audit Committee is composed of 3 independent external members elected by the Board of Directors, chaired by an independent member of the Board of Directors.

Remuneration Committee: assists the Board in setting compensation policies and benefits for directors, officers and participants. Important to highlight that the company currently has 3 members, of which 2 are independent, and is chaired by an independent member of the Board of Directors.

Arbitration: according to Novo Mercado Regulations and the Company's Bylaws, the controlling shareholder, administrators, the Company itself and the Fiscal Council 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 solved through arbitration.

Management Statement: in accordance with subparagraphs V and VI, Article 25 - CVM Instruction 480/09, the officers of TOTVS declare that they discussed, reviewed and agreed with the views expressed in the independent auditors' report and financial statements for the fiscal year ended on December 31, 2015 .

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 hiring independent auditors for professionals services not related to external audit, ensuring that the execution of these other services does not affect their autonomy and objectivity necessary for the performance of independent audit services, and obtaining the approval of their Audit Committee. In addition, formal statements are requested from the auditors regarding their autonomy in the execution of services not related to audit.

Other services were provided in addition to those related to the audit of financial statements in 2015. The fees for these services totaled R$354,420 thousand and corresponded to 40.7% of total fees related to external audit.

ACKNOWLEDGEMENTS

We thank all those who contributed to the success of TOTVS in 2015, especially our clients, employees, partners and shareholders.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the Board of Directors and Shareholders
TOTVS S.A.

We have audited the accompanying financial statements of TOTVS S.A. ("Parent Company"), which comprise the balance sheet as at December 31, 2015 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of TOTVS S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2015 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of TOTVS S.A. as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TOTVS S.A. and its subsidiaries as at December 31, 2015, and their financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Other matters

Supplementary information – statements of value added

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2015, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS purposes. These statements were subject to the same audit procedures described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, March 15, 2016.

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Marco Aurélio de Castro e Melo
Contador CRC 1SP153070/O-3

TOTVS S.A.

Balance sheets as at December 31, 2015 and 2014

(In thousands of reais)

	Parent Company		Consolidated	
Assets	**2015**	**2014**	**2015**	**2014**
Current assets	**731,220**	**1,038,751**	**1,157,673**	**1,156,160**
Cash and cash equivalents (Note 5)	314,405	659,236	426,415	697,901
Marketable securities (Note 17)	17,488	10,415	75,213	35,169
Trade accounts receivable (Note 6)	401,750	400,829	565,002	448,360
Allowance for doubtful accounts (Note 6)	(56,551)	(53,652)	(75,860)	(58,864)
Stocks (Nota 7)	-	-	44,407	-
Taxes recoverable (Note 8)	27,673	473	81,284	6,336
Other assets	26,455	21,450	41,212	27,258
Non-current assets	**1,630,795**	**1,015,821**	**1,504,402**	**987,706**
Marketable securities (Note 17)	28,780	38,416	39,534	70,680
Trade accounts receivable (Note 6)	38,676	39,411	40,953	40,828
Receivables from related parties (Note 10)	3,622	1,345	-	-
Taxes recoverable (Note 8)	-	-	17,881	-
Deferred income and social contribution taxes (Note 9)	16,954	22,044	63,507	57,525
Financial assets at fair value (Note 4)	-	-	68,044	46,934
Judicial deposits (Note 18)	31,688	21,811	43,407	22,420
Other assets	10,405	12,481	18,466	18,112
Investments (Note 11)	1,001,473	392,211	-	-
Property, plant and equipment (Note 12)	86,235	66,724	113,598	79,121
Intangible assets (Note 13)	412,962	421,378	1,099,012	652,086
Total assets	**2,362,015**	**2,054,572**	**2,662,075**	**2,143,866**

	Parent Company		Consolidated	
Liabilities and equity	**2015**	**2014**	**2015**	**2014**
Current liabilities	**475,288**	**317,060**	**658,683**	**379,611**
Payroll and labor obligations (Note 14)	99,190	95,757	133,152	111,397
Trade accounts payable	37,311	28,546	86,932	35,479
Loans and financing (Note 15)	168,643	24,798	177,514	25,314
Taxes payable	11,293	11,791	18,923	13,739
Commissions payable	52,172	56,131	56,579	58,571
Dividends payable (Note 20)	32,428	47,071	32,885	47,071
Liabilities from acquisition of investments (Note 17)	24,492	18,417	82,220	51,499
Debentures (Note 16)	49,473	33,834	61,915	33,834
Other liabilities	286	715	8,563	2,707
Non-current liabilities	**649,041**	**621,138**	**765,660**	**646,193**
Loans and financing (Note 15)	466,532	457,176	500,795	457,176
Debentures (Note 16)	49,429	79,020	82,371	79,020
Provision for losses on investments (Note 11)	584	294	-	938
Payables to related parties (Note 10)	15,023	13,216	-	-
Provision for contingencies related to legal proceedings (Note 18)	70,392	10,854	90,507	12,518
Liabilities from acquisition of investments (Note 17)	47,065	60,046	88,272	88,983
Other liabilities	16	532	3,715	7,558
Equity (Note 19)	**1,237,686**	**1,116,374**	**1,237,732**	**1,118,062**
Capital	541,374	526,592	541,374	526,592
Treasury shares	(71,012)	(52,212)	(71,012)	(52,212)
Capital reserves	159,213	92,493	159,213	92,493
Other comprehensive income results	21,329	29	21,329	29
Retained profit reserve	520,203	451,768	520,203	451,768
Proposed additional dividend	66,579	97,704	66,579	97,704
Non-controlling interests	-	**-**	**46**	**1,688**
Total liabilities and equity	**2,362,015**	**2,054,572**	**2,662,075**	**2,143,866**

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

(A free translation of the original in Portuguese)

TOTVS S.A.

Statement of income

Years ended December 31, 2015 and 2014

(In thousands of reais, except by the earnings per share)

	Parent Company		Consolidated	
	2015	2014 (Reclassified note 2.2)	2015	2014 (Reclassified note 2.2)
Licensing fees	198,511	249,414	239,979	298,949
Services	444,480	427,987	557,718	514,572
Subscriptions	86,113	79,456	140,820	104,228
Maintenance	828,741	784,582	918,556	854,698
Hardware	-	-	51,664	-
Net revenue from services and sales (Note 28)	**1,557,845**	**1,541,439**	**1,908,737**	**1,772,447**
Cost of software	(69,527)	(71,316)	(75,399)	(82,443)
Cost of services	(388,881)	(376,956)	(507,298)	(455,256)
Cost of support	(83,974)	(63,402)	(89,722)	(66,764)
Cost of hardware	-	-	(34,050)	-
Gross profit	**1,015,463**	**1,029,765**	**1,202,268**	**1,167,984**
Operating income (expenses)				
Research and development	(224,041)	(209,853)	(267,013)	(235,086)
Advertising expenses	(38,243)	(35,316)	(49,281)	(41,439)
Selling expenses	(106,515)	(97,697)	(152,230)	(131,741)
Commissions (Note 27)	(138,075)	(142,175)	(155,981)	(154,986)
General and administrative expenses	(156,588)	(90,324)	(187,277)	(114,376)
Management fees (Note 10)	(19,280)	(19,639)	(23,476)	(26,049)
Depreciation and amortization (Notes 12 and 13)	(70,894)	(69,249)	(103,077)	(88,928)
Allowances for doubtful accounts (Note 6)	(30,192)	(24,297)	(34,562)	(27,565)
Other net operating income (expenses)	(5,853)	844	(988)	(155)
Income before financial effects and equity pickup	**225,782**	**342,059**	**228,383**	**347,659**
Financial income (Note 24)	97,627	62,062	121,165	71,008
Financial expenses (Note 24)	(82,107)	(47,756)	(94,639)	(57,826)
Equity pick-up (Note 11)	(4,628)	(1,497)	(75)	(583)
Income before income tax and social contribution	**236,674**	**354,868**	**254,834**	**360,258**
Income tax and social contribution current	(47,025)	(88,122)	(69,250)	(96,957)
Income tax and social contribution deferred	5,088	(3,786)	9,362	(503)
Total of Income tax and social contribution	(41,145)	(91,908)	(59,888)	(97,460)
Net income for the year	**159,529**	**262,960**	**194,946**	**262,798**
Net income attributable to the owners of company	**159,529**	**262,960**	**159,529**	**262,960**
Net income attributable to non-controlling interest	**-**	**-**	**(583)**	**(162)**
Basic earnings per thousand shares (in Reais)	1.20	1.61	1.20	1.61
Diluted earnings per thousand shares (in Reais)	1.19	1.59	1.19	1.59

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

TOTVS S.A.

Statements of comprehensive income
Years ended December 31, 2015 and 2014

(In thousands of Reais)

	Parent Company	
	2015	**2014**
Net income for the year	**159,529**	**262,960**
Cumulative adjustment for currency exchange	32,272	2,650
Deferred income tax	(10,972)	(901)
Cumulative adjustement for currency exchange, net of tax effects	21,300	1,749
Comprehensive income for the year	**216,829**	**264,709**

	Consolidated	
	2015	**2014**
Net income for the year	**194,946**	**262,798**
Cumulative adjustment for currency exchange	32,272	2,650
Deferred income tax	(10,972)	(901)
Cumulative adjustement for currency exchange, net of taxes effects	21,300	1,749
Comprehensive income for the year	**216,246**	**264,547**
Net income for the year attributable to controlling shareholders	216,829	264,709
Attributable to non-controlling interest	(583)	(162)

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 shareholders´ equity

Years ended December 31, 2015 and 2014

(In thousands of reais)

			Capital Reserves									
	Capital	Premium on purchase from non-controlling	Of Capital	Legal	Profit retention	Share Treasury	Other Comprehensive Income	Retained earnings	Proposed additional dividend	Equity	Non-Controlling	Consolidated Equity
Balance at December 31, 2013	**526,592**	**(25,518)**	**123,845**	**48,813**	**305,657**	**(12,960)**	**(1,720)**	**-**	**102,912**	**1,067,621**	**2,217**	**1,069,838**
Capital transactions with partners												
Stock option plan	-	-	5,557	-	-	-	-	-	-	5,557	-	5,557
Dividends	-	-	-	-	-	-	-	(26,663)	(102,912)	(129,575)	(715)	(130,290)
Proposed Additional Dividend	-	-	-	-	-	-	-	(97,704)	97,704	-	-	-
Interest on capital – distributed	-	-	-	-	-	-	-	(41,295)	-	(41,295)	-	(41,295)
Treasury shares	-	-	(11,391)	-	-	(39,252)	-	-	-	(50,643)	-	(50,643)
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	348	348
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**1,749**	**262,960**	**-**	**264,709**	**(162)**	**264,547**
Net income for the year	-	-	-	-	-	-	-	262,960	-	262,960	(162)	262,798
Other comprehensive income												
Cumulative adjustement for currency exchange	-	-	-	-	-	-	1,749	-	-	1,749	-	1,749
Reserves set up	**-**	**-**	**-**	**13,148**	**84,150**	**-**	**-**	**(97,298)**	**-**	**-**	**-**	**-**
Balance at December 31, 2014	**526,592**	**(25,518)**	**118,011**	**61,961**	**389,807**	**(52,212)**	**29**	**-**	**97,704**	**1,116,374**	**1,688**	**1,118,062**
Capital transactions with partners												
Share issue	14,782	-	67,703	-	-	-	-	-	-	82,485	-	82,485
Stock option plan	-	-	3,992	-	-	-	-	-	-	3,992	-	3,992
Dividends	-	-	-	-	-	-	-	-	(97,704)	(97,704)	(339)	(98,043)
Proposed additional dividend	-	-	-	-	-	-	-	(66,579)	66,579	-	-	-
Interest on capital – distributed	-	-	-	-	-	-	-	(60,515)	-	(60,515)	-	(60,515)
Treasury shares	-	-	(4,975)	-	-	(18,800)	-	-	-	(23,775)	-	(23,775)
Acquisitions of non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,021)	(1,021)
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	301	301
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**21,300**	**105,529**	**-**	**216,829**	**(583)**	**216,246**
Net income for the year	-	-	-	-	-	-	-	195,529	-	195,529	(583)	194,946
Other comprehensive income												
Cumulative adjustement for currency exchange	-	-	-	-	-	-	21,300	-	-	21,300	-	21,300
Reserves set up	**-**	**-**	**-**	**9,776**	**58,659**	**-**	**-**	**(68,435)**	**-**	**-**	-	**-**
Balance at December 31, 2015	**541,374**	**(25,518)**	**184,731**	**71,737**	**448,466**	**(71,012)**	**21,329**	**-**	**66,579**	**1,237,686**	**46**	**1,237,732**

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

TOTVS S.A.
Statement of cash flow
Years ended December 31, 2015 and 2014

(In thousands of Reais)

	Parent Company		Consolidated	
	2015	2014	2015	2014
Cash flow from operating activities				
Profit before taxation income and social contribution	236,674	354,868	254,834	360,258
Adjustments for:				
Depreciation and amortization (Notes 12 and 13)	70,894	69,249	103,660	88,928
Stock option plan (Note 21)	3,992	5,557	3,992	5,557
Losses (gains) on disposal of fixed assets	2,474	474	(1,980)	2,501
Allowance for doubtful accounts (Note 6)	30,192	24,297	34,562	27,565
Equity pick up (Note 11)	4,628	1,497	75	583
Provision for contingencies and legal obligations	59,538	3,671	56,833	5,213
Provision (reversal) others obligations	(1,388)	-	(6,388)	-
Interest and monetary and exchange variations, net	31,598	29,223	42,331	25,053
Changes in operating assets and liabilities:				
Trade accounts receivable	(24,261)	(65,736)	(42,110)	(65,270)
Other assets	29,379	(1,714)	20,559	(298)
Judicial deposits	(9,877)	(7,195)	(9,046)	(7,804)
Labor and social security liabilities	1,965	12,363	(2,837)	10,839
Taxes recoverable	(26,258)	1,003	(37,886)	1,369
Suppliers	8,662	1,007	10,377	1,308
Commission payable	(3,959)	(278)	(2,816)	239
Taxes payable	(27,648)	(47,831)	(40,327)	(55,880)
Other accounts payable	(944)	100	8,811	(4,447)
Cash flow provided by operations	**385,661**	**380,555**	**392,644**	**395,714**
Interest paid	(46,163)	(22,229)	(46,828)	(22,229)
Income tax and social contributions paid	(20,237)	(39,562)	(32,649)	(41,440)
Net cash provided by operating activities	**319,261**	**318,764**	**313,167**	**332,045**
Cash flow provided by investment activities				
Capital increase in subsidiaries (Note 11)	(67,726)	(72,894)	-	-
Dividends received	15,027	600	-	-
Purchases of intangible assets (Note 13)	(41,039)	(6,978)	(43,199)	(7,320)
Acquisitions of subsidiaries, net of cash obtained in the acquistions	(502,755)	(60,007)	(423,329)	(91,911)
Cash and cash equivalents of merged subsidiaries	48,562	-	-	-
Value of sales of fixed assets	1,448	780	845	881
Purchases of property, plant and equipment (Note 12)	(42,042)	(25,613)	(47,524)	(31,227)
Purchases of investments measured at fair value	-	-	6,088	(3,194)
Net cash used in investment activities	**(588,525)**	**(164,112)**	**(507,119)**	**(132,771)**
Cash flow from financing activities				
Payment of principal on loans and financing	(27,512)	(51,226)	(27,452)	(52,861)
Payment of principal on debentures	(32,002)	-	(33,908)	-
New loans and financing	181,055	227,078	181,858	227,078
Receivables from related companies	(470)	28,300	-	-
Dividends and interest on capital paid	(172,863)	(155,810)	(174,257)	(158,009)
Treasury shares, net	(23,775)	(50,644)	(23,775)	(50,644)
Net cash used in financing activities	**(75,567)**	**(2,302)**	**(77,534)**	**(34,436)**
Increase (decrease) in cash and cash equivalents	**(344,831)**	**152,350**	**(271,486)**	**164,838**
Cash and cash equivalents at beginning of year	659,236	506,886	697,901	533,063
Cash and cash equivalents at the end of the year	314,405	659,236	426,415	697,901

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

TOTVS S.A.
Statement of Value Added
Years ended December 31, 2015 and 2014

(In thousands of Reais)

	Parent Company		Consolidated	
	2015	2014	2015	2014
1 – REVENUES	**1,674,463**	**1,662,509**	**2,062,599**	**1,908,375**
1.1 Sales of goods, products and services	1,710,507	1,685,964	2,094,744	1,934,472
1.2 Other revenue	(5,852)	842	2,417	1,468
1.3 Allowance for doubtful accounts – recording	(30,192)	(24,297)	(34,562)	(27,565)
2 - RAW MATERIALS ACQUIRED FROM THIRD-PARTIES (includes ICMS and IPI taxes)	(584,860)	(509,225)	(726,476)	(583,765)
2.1 Cost of goods and services sold	(69,527)	(69,955)	(113,220)	(81,684)
2.2 Materials, energy, outsourced services and other	(515,333)	(439,270)	(613,256)	(502,081)
3 - GROSS VALUE ADDED (1-2)	**1,089,603**	**1,153,284**	**1,336,123**	**1,324,610**
4 - DEPRECIATION AND AMORTIZATION	(70,894)	(69,249)	(103,660)	(88,928)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)	**1,018,709**	**1,084,035**	**1,232,463**	**1,235,682**
6 - VALUE ADDED RECEIVED THROUGH TRANSFERS	**92,999**	**60,565**	**121,090**	**70,425**
6.1 Equity pick-up	(4,628)	(1,497)	(75)	(583)
6.2 Financial income	97,627	62,062	121,165	71,008
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	**1,111,708**	**1,144,600**	**1,353,553**	**1,306,107**
8 - VALUE ADDED DISTRIBUTION	**1,111,708**	**1,144,600**	**1,353,553**	**1,306,107**
8.1 Personnel	586,644	543,970	742,803	659,122
8.1.1 Direct Compensation	472,671	445,596	602,430	540,505
8.1.2 Benefits	68,195	59,849	84,904	73,727
8.1.3 FGTS (worker's severance fund)	45,778	38,525	55,469	44,890
8.2 Taxes and contributions	224,193	265,696	289,384	295,841
8.2.1 Federal	182,790	224,907	209,980	248,589
8.2.2 State	5	160	25,661	899
8.2.3 Municipals	41,398	40,629	53,743	46,353
8.3 Interest and rent	105,342	71,974	126,420	88,346
8.3.1 Interest	82,107	47,756	94,586	57,826
8.3.2 Rents	23,235	24,218	31,963	30,520
8.3.3 Others	-	-	(129)	-
8.4 Remuneration of equity capital	195,529	262,960	194,946	262,798
8.4.1 Interest on capital	60,515	41,295	60,515	41,295
8.4.2 Dividends paid or credited to shareholders	66,579	124,367	66,579	124,367
8.4.3 Retained profit / loss for the year	68,435	97,298	68,435	97,298
8.4.4 Minority interest in retained earnings	-	-	(583)	(162)

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

TOTVS S.A.
Notes to the financial statements
Years ended December 31, 2015 and 2014
(In thousands of Reais)

1. Operations

TOTVS S.A. ("TOTVS", or "Company") is a publicly held corporation, headquartered at Av. Braz Leme, 1631 – 2nd floor, in the city and state of São Paulo, whose shares are traded on the Novo Mercado of BM&FBOVESPA - Securities, Commodities and Futures Exchange.

The Company's business purpose is the development and sale of management software, productivity and collaboration platform, as well as the provision of implementation, consulting, assistance and maintenance services. The solutions developed by the Company are segmented according to the diverse sectors of the economy, resulting in greater importance of the applications in our clients' business, both in back office processes or in those specific to the respective sectors. In 2015, with the corporate reorganization involving Bematech, the Company began to consolidate industrialization and sale activities of hardware, combining specialized solutions in management system, point of sale (POS), commercial automation, tax, e-commerce, mobility, payment methods solutions and the collaboration platform.

The Financial Statements presented in this document were approved at the Board of Directors' Meeting held on March 15, 2016.

Non-financial data included in this report, such as the number of clients, average ticket, market share, and other, were not audited by our independent auditors.

2. Basis of Preparation and Summary of the Main Accounting Practices

The individual and consolidated financial statements were prepared and 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 Commission ("CVM"). In addition, the consolidated financial statements are presented in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB")and show all material information strictly relating to the financial statements, which are consistent with that used by the management.

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 preparation of financial statements requires the use of certain critical accounting estimates and, more than that, the exercise of judgment by Company management in applying the accounting policies of TOTVS S.A. The areas that need a higher level of judgment and which have a greater degree of complexity, as well as the areas in which the assumptions and estimates are significant for the financial statements are: (i) Allowance for doubtful accounts, (ii) Realizable value of tangible and intangible assets,

including goodwill; (iii) Deferred taxes; and (iv) Provision for contingencies related to legal proceedings. More information on the estimates and assumptions used in the items mentioned above is provided in the respective notes.

The pronouncements or interpretations of CPCs / IFRS that came into effect from 2015 did not have any significant impact on the Company's financial statements.

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

2.1. Consolidation

The consolidated financial statements include the operations of the Company and the following subsidiaries. The percentages of the interests held by the Company on the balance sheet date are summarized below:

Direct interest:

Corporate Name	Head office	Name used		% Interest 2015	% Interest 2014
TOTVS Serviços Ltda. (former TOTVS Rio)	BRA	TOTVS Serviços		100	100
TOTVS Nordeste Software Ltda.	BRA	TOTVS Nordeste		100	100
TOTVS Brasília Software Ltda.	BRA	TOTVS Brasília		100	100
TQTVD Software Ltda.	BRA	TQTVD		100	100
TOTVS Ventures Participações Ltda.	BRA	TOTVS Ventures		100	100
TOTVS Soluções em Agroindústria S.A.	BRA	TOTVS Agroindústria	(e)	-	60
P2RX Soluções em Software S.A.	BRA	P2RX	(e)	-	60
TOTVS Argentina S.A.	ARG	TOTVS Argentina		100	100
Datasul Argentina S.A.	ARG	Datasul Argentina		100	100
TOTVS México S.A.	MEX	TOTVS México		100	100
Datasul S.A. de CV.	MEX	Datasul México		100	100
TOTVS Corporation	BVI	TOTVS Corporation		100	100
EuroTOTVS Lda.	POR	EuroTOTVS	(c)	-	100
TOTVS Incorporation	USA	TOTVS Inc.		100	100
Virtual Age Soluções em Tecnologia Ltda.	BRA	Virtual Age		100	100
Neolog Consultoria e Sistemas S.A.	BRA	Neolog	(a)	60	-
Ciashop - Soluções para Comércio Eletrônico S.A.	BRA	Ciashop		70	70
TOTVS Resultados em Outsourcing Ltda.	BRA	RO		100	100
Bematech S.A.	BRA	Bematech	(a)	100	-

Indirect Interest:

Corporate Name	Head office	Name used	Investor	Notes	% Interest 2015	% Interest 2014
DTS Consulting Partner, SA de CV	MEX	Partner	Datasul México		100	100
W&D Participações S.A.	BRA	W&D	TOTVS Brasília		100	100
PC Informática S.A.	BRA	PC Informática	W&D		100	100
uMov.me S.A.	BRA	uMov.me	TOTVS Ventures	(b)	-	20
RMS Software S.A.	BRA	RMS	TOTVS Nordeste		100	100
Webstrategie Software Ltda.	BRA	Webstrategie	RMS		100	100
Kerina Software Ltda.	BRA	Kerina	TQTVD	(d)	100	-

(a) Business combinations occurred in 2015.

(b) Divestment made in 2015.

(c) Company closed in June 2015
(d) Company established in September 2015.
(e) Companies established in 2015.

On April 2, 2015, TOTVS Ventures, a subsidiary of TOTVS S.A., sold its 20% non-controlling interest in uMov.me for R$1,600, rescinding all future investment commitments established at the time of acquisition of said interest in uMov.me.

The results of subsidiaries acquired and/or merged during the fiscal year ended December 31, 2015 and 2014 are included in the income statements since the date of their acquisition and/or merger. Hence, for the purpose of comparison of the parent company's and consolidated results between 2014 and 2015, the dates of acquisition and merger of the results of each subsidiary must be considered.

All intercompany balances and transactions were eliminated in consolidation.

2.2. Reclassification of comparable figures

With the purpose of better presenting its financial statements, as of the first quarter of 2015 the Company added new lines relating to subscriptions of software and cost of support to the statement of income, and renamed the item Cost of licensing fee to Cost of software in the financial statements. Due to these changes, revenue and cost lines disclosed in 2014 were reclassified for better comparison.

Also in 2015, due to the abovementioned changes, the Company reclassified amounts between cost of services, previously stated as cost of services and maintenance, and research and development expenses, which were reclassified for fiscal years 2014 and 2013 for better comparison. The reclassified amounts are:

	2014			2013		
Parent Company	**Balance reported**	**Reclassification**	**Balance reclassified**	**Balance reported**	**Reclassification**	**Balance reclassified**
Cost of services and maintenance	(435,054)	-	-	(381,770)	-	-
Cost of services	-	(376,956)	(376,956)	-	(317,787)	(317,787)
Cost of support	-	(63,402)	(63,402)	-	(63,983)	(63,983)
Research and development	(215,157)	5,304	(209,853)	-	-	-
Total	(650,211)	(435,054)	(650,211)		(381,770)	(381,770)

	2014			2013		
Consolidated	**Balance reported**	**Reclassification**	**Balance reclassified**	**Balance reported**	**Reclassification**	**Balance reclassified**
Cost of software	(83,123)	680	(82,443)	(74,569)	2,107	(72,462)
Cost of services and maintenance	(516,036)	-	-	(466,727)	-	-
Cost of services	-	(455,256)	(455,256)	-	(415,020)	(415,020)
Cost of support	-	(66,764)	(66,764)	-	(58,872)	(58,872)
Research and development	(240,390)	5,304	(235,086)	(213,602)	5,058	(208,544)
Total	(839,549)	(516,036)	(839,549)	(754,898)	(466,727)	(754,898)

2.3. Information by segment

Given that its activities are concentrated in developing and selling licenses to use automated systems, and providing implementation, consulting, advisory and maintenance services, the Company is organized around one single business unit. Accordingly, the Company's Management assesses the business as one single segment.

However, with the acquisition of Bematech in October 2015, the Company started to consolidate its hardware investments and results, whose assets, revenues and operating profit do not meet the minimum quantitative parameters for a reportable segment, despite being a product that differs from software.

The Company's software is designed to serve diverse segments of the economy and all the investments and results of the Company are analyzed, monitored and evaluated in an integrated manner.

2.4. Financial Instruments

2.4.1 Classification

The Company classifies financial assets upon initial recognition into the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired.

On December 31, 2015 and 2014, the Company had no financial assets classified as available for sale.

(a) Financial assets 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.

(b) Loans and receivables

The Company's loans and receivables are mainly composed of "Accounts receivable and other receivables" and "cash and cash equivalents."

2.5. 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 constituted based on the history of losses by maturity range, which the Company deems sufficient to cover any losses.

2.6. Stocks

Stocks are measured at the lowest value between cost and net realizable value. Stock costs are based on the weighted average cost principle and include expenses with the acquisition of raw material, cost of production and transformation and other costs to transport goods to their current locations and under existing conditions. In case of manufactured stocks and products in progress, the cost includes a portion of general manufacturing costs based on the normal operating capacity.

2.7. 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 value, a provision is established for the impairment, adjusting the net book value to the recoverable value.

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.

2.8. Revenues and expenses

The Company and its subsidiaries earn software license revenue, made up of licensing fees, revenue from services that includes consulting fees, revenue from support services, revenue from maintenance and revenue from subscription. With the corporate restructuring involving Bematech, the Company started to consolidate revenue from sale of products (hardware).

Revenue related to software license is recognized when all of the following are cumulatively achieved:

(i) execution of the agreement and software delivery to the client;
(ii) the amount can be measured reliably (as per the terms of the agreement);
(iii) all risks and rewards inherent to the license are transferred to the buyer;
(iv) the Company no longer holds effective control over the license;
(v) it is probable that economic benefits be generated for the benefit of the Company. License revenues resulting from subscription are recognized on a monthly basis over the terms of the agreements with customers.

Revenue from services is billed separately and recognized as the services are performed. Revenue from maintenance, comprising technological developments and technical support services (phone or Internet service for inquiries), and revenue from subscription, representing the subscription of software available to clients, are billed and recognized monthly over the terms of the agreements with customers.

Billed revenue that does not meet the recognition criteria is not included in the balances of respective revenue account and accounts receivable. The revenue is presented in the income statement at its net amount, i.e. excluding taxes.

Hardware revenue is recognized when there is reliable evidence that: (i) the risks and rewards inherent to the product were transferred to the buyer; (ii) the economic benefits will flow to the entity; and (iii) the associated costs and possible return of goods may be estimated reliably. If a discount can probably be granted and the amount can be reliably measured, the discount is deducted from revenue as sales are recognized.

The costs related to revenue from licensing fees include the costs of acquisition of databases, costs of the media in which the products are delivered, and price of licenses paid to third parties, in the case of resold software. Costs related to revenue from maintenance services consist mainly of the salaries of consulting and support personnel and other costs related to those areas.

Expenses with research and development incurred by the development (software programming and manufacturing) area, linked 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.

2.9. Taxation

Sales taxes

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

- Social Contribution on Gross Revenue for Social Integration Program (PIS) 0.65% and 1.65%;
- Social Contribution on Gross Revenue for Social Security Financing (COFINS) 3.0% and 7.6%;
- Service Tax (ISS) between 2% and 5%;
- National Social Security Institute (INSS) 2% up to November 2015 and 4.5% as of December 2015.

These charges are accounted for as sales deductions in the income statement.

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 income recognized using the accrual basis of accounting.

2.10. Government subsidy

Bematech, a subsidiary of TOTVS S.A., enjoys the tax benefit established by State Decree 1,922/2011, which allows the appropriation of presumed ICMS credit equivalent to the rate provided for in the respective output of goods listed in the Decree. This benefit applies to industrial plants manufacturing IT and automation products located in the state of Paraná and which meet the

requirements of the Law of Information Technology. This credit is given as a subsidy for investments, for which the Company must:

a) have publications in Interministerial Decree (Finance, Development, Industry and Foreign Trade, and Science and Technology); and
b) invest in research and development activities according to item II, paragraph 2, of Article 1 of State Decree 1,922/2011.

2.11. New standards and interpretations that have yet to take effect

IFRS 15 - Revenue from Contracts with Customers, which is the result of a joint initiative involving the IASB and FASB to converge the standards on revenue recognition and disclosure that apply to contracts with customers. This new standard establishes the principles that an entity shall apply to measure revenue and when it is recognized. It becomes effective on January 1, 2018 and replaces IAS 11 – Construction Contracts and IAS 18 – Revenue and related interpretations. The Company is analyzing the possible impacts of the application of this standard.

IFRS 16 – Leases, which replaces IAS 17, providing a single accounting treatment for operating and finance leases based on a model similar to the finance lease, impacting fixed assets and financial liabilities. This standard becomes effective on January 1, 2019, and the Company is evaluating its content and possible impacts from its adoption.

There are no other IFRS standards not yet effective that may have significant impact on the Company and its subsidiaries.

3. Business combination

Business combinations and acquisitions of interests in 2015 and 2014 are in line with the Company's strategy of specialization and consolidation of its position as a provider of solutions to different segments of the economy, and bringing new solutions to TOTVS' customers through portfolio diversification with niche-specific solutions.

The Company uses the acquisition method to book business combinations. The Company recognizes the noncontrolling interest in the company acquired, both at its fair value and in proportion to the noncontrolling interest in the fair value of the acquired company's net assets.

3.1. Acquisition of subsidiaries

Corporate reorganization – Bematech S.A.

On August 14, 2015, the boards of directors of the Company and Bematech S.A. ("Bematech") approved the corporate reorganization involving the companies to integrate their activities. At the extraordinary shareholders meeting held on September 3, 2015, the shareholders of both companies approved the corporate restructuring, as follows:

(i) Makira II Empreendimentos e Participações S.A. ("Makira II") absorbs Bematech shares at market value for R$549,900, resulting in the issue by Makira II of 749,863,050 common shares and 4,249,223,950 redeemable preferred shares in favor of Bematech shareholders who held the merged shares.

(ii) Redemption of the redeemable preferred shares of Makira II, issued in favor of the former shareholders of Bematech, in the total amount of R$467,415 (R$0.11 for each redeemed share), paid in cash by the Company as the successor to Makira II on November 10, 2015 for the inflation-adjusted amount of R$473,586. Makira II preferred shares were cancelled and deducted from capital reserve.

(iii) With the redemption of preferred shares, the shareholders resolved on the merger of Makira II with the Company, with the absorption of its net assets stated at book value, and the consequent dissolution of Makira II. As a result, a total of 2,170,656 Company's new common shares were issued in favor of Bematech's shareholders to replace Makira II's common shares.

As a result of the merger of Makira II, the shareholders' equity of the Company increased by R$82,485, which corresponds to the book value of the net assets of Makira II. Of the equity increase reported by the Company, (a) R$14,782 were allocated to Company's capital increase and (b) R$67,703 were allocated to capital reserve.

The acquisition price is summarized below:

Consideration paid for redemption of preferred shares of Makira II	R$473,586
Exchange of shares	R$82,485
Total consideration	**R$556,071**

The purpose of the corporate reorganization is to unify the efforts to strengthen the portfolio of software and hardware platforms and solutions, given that the complementary nature of the current product portfolios will make the Company even more complete and valuable to its clients and shareholders. Moreover, the synergies from the integration of the companies will also generate lower combined expenses and economies of scale.

Up to the reporting date, transaction costs totaled R$5,895, recorded in the Company's statement of income and included in other operating expenses.

The above-mentioned restructuring was concluded on October 22, 2015, when the Company took over Bematech, after approval by Brazil's antitrust agency (CADE) on October 6, 2015 and after 15 days during which appeals could be filed by third parties, which had conditions precedent.

Acquisition of remaining interest in capital of TOTVS Agroindústria S.A. and P2RX Soluções em Software S.A.

On May 11, 2015, the Company acquired the remaining interest of 40% in the capital of the subsidiaries TOTVS Agroindústria S.A. and P2RX Soluções em Software S.A. for R$8,834, according to the share purchase agreement and other covenants entered into on April 18, 2013. With these acquisitions, TOTVS now holds 100% interest in these subsidiaries.

Acquisition of Neolog Consultoria e Sistemas S.A.

On February 11, 2015, the Company acquired 60% of the capital of Neolog Consultoria e Sistemas S.A. ("Neolog") for R$15,547. Neolog develops software solutions in the software as a service (SaaS) model for the Logistics and Supply Chain Management market. In addition to this amount, the agreement establishes the payment of a variable, which shall be paid with the attainment of certain targets defined to Neolog up to June 30, 2016.

The agreement also establishes that the Company acquire the remaining interest in Neolog between January 2018 and January 2020 for a variable amount based on Neolog's performance metrics. The estimated amount relating to the acquisition of Neolog's remaining interest at the present value on the acquisition date was R$9,992 and is recorded under liabilities due to investment acquisition.

Acquisition of Virtual Age Soluções em Tecnologia Ltda.

On May 21, 2014, the Company acquired 100% of the capital of Virtual Age Soluções em Tecnologia Ltda. ("Virtual Age"), which develops cloud-based software solutions for the fashion and apparel value chain, for R$50,105. The agreement also establishes the payment of a variable amount of up to R$25,000, of which R$15,000 was paid and the balance shall be paid based on the achievement by Virtual Age of certain metrics defined in the agreement, by December 2016.

Acquisition of CIASHOP – Soluções para Comércio Eletrônico S.A.

On January 5, 2014, after CADE's approval without restrictions, the Company acquired, through its subsidiary TOTVS Sales (merged into TOTVS S.A. in October 2014), 70% of the capital of Ciashop – Soluções para Comércio Eletrônico S.A. ("CIASHOP") for R$16,442, which is a pioneer in e-commerce in Brazil, offering a cloud platform that delivers its solutions in the Software as a Service (SaaS) model.

3.2. Identifiable assets acquired and goodwill

The fair value of identifiable assets acquired in the business combinations mentioned above was measured and recognized on the acquisition date. The methods and assumptions used for fair value measurements were based on cash flow discounted to its present value and replacement cost. To estimate the amount using the discounted cash flow method, the rate used varied from 14.4% to 18.3% p.a. (in nominal terms). The amount of assets not identifiable from these business combinations was booked as goodwill based on technical studies of future profitability.

The fair value, goodwill and the cost of holding interest on the acquisition date of the identifiable assets acquired that impacted the consolidated financial statements on December 31, 2015 and 2014 are shown below:

Preliminary fair value	Neolog	Bematech (*) (**)	Total
Current Assets	**1,421**	**274,018**	**275,439**
Cash and cash equivalents	254	78,854	79,108
Trade accounts receivable	1,005	106,300	107,305
Inventories	-	40,092	40,092
Other current assets	162	48,772	48,934
Non-current assets	**13,833**	**249,935**	**263,768**
Other non-current assets	638	58,608	59,246
Brands and patents	-	25,628	25,628
Software	7,933	49,100	57,033
Client portfolio	4,226	116,599	120,825
Non-competition	1,036	-	1,036
Current liabilities	**1,117**	**102,100**	**103,217**
Non-current liabilities	**184**	**126,705**	**126,889**
Non-controlling interests	**303**	-	**303**
Net assets and liabilities	**13,650**	**295,148**	**308,798**
Acquisition cost	16,223	556,071	572,294
Remaining installment	9,992	-	9,992
Goodwill	**12,565**	**260,923**	**273,488**

(*) The allocation of Bematech's intangible assets is preliminary and it is under review for the determination of fair value of identifiable assets acquired and liabilities assumed. The Company expects to conclude these studies in the coming months.
(**) Goodwill from expected future profitability to be deducted for tax purposes after the merger totaled R$102,855, which refers to the amount paid less Bematech's equity (before fair value adjustments).

	Acquisitions – 2014		
Fair value	**Ciashop**	**Virtual Age**	**Total**
Current Assets	**639**	**3,821**	**4,460**
Cash and cash equivalents	28	616	644
Trade accounts receivable	529	2,744	3,273
Other current assets	82	461	543
Non-current assets	**10,368**	**28,096**	**38,464**
Identifiable assets	**9,429**	**27,542**	**36,971**
Client portfolio	166	4,011	4,177
Brand	2,151	-	2,151
Software	6,989	21,118	28,107
Non-competition	123	2,413	2,536
Current liabilities	**1,211**	**3,275**	**4,486**
Non-current liabilities	**350**	**34**	**384**
Non-controlling interests	**5**	-	**5**
Net assets and liabilities	**9,441**	**28,608**	**38,049**
Acquisition cost	16,442	75,105	91,547
Goodwill	**7,001**	**46,497**	**53,498**

The acquisitions mentioned above are incorporated into the management model and distribution channels of TOTVS and contributed to net revenue of R$86,845 on December 31, 2015 (R$29,954 on

December 31, 2014) and net income of R$2,107 on December 31, 2015 (R$6,473 on December 31, 2014) in the consolidated results of the Company.

3.3. Merged companies

Over the course of 2015 and 2014, the Company merged the net assets, recorded at book value, of the subsidiaries shown in the table below:

	2015			
Balance Sheet	**TOTVS Agroindústria**	**P2RX**	**Makira II**	**Total**
Current Assets	3,795	385	47,632	51,812
Non-current assets	403	3	-	406
Long-term assets	13	-	-	13
Property, plant and equipment	157	3	-	160
Intangible assets	233	-	-	233
Total assets	**4,198**	**388**	**47,632**	**52,218**
Current liabilities	1,091	597	172	1,860
Shareholders' Equity	3,107	(209)	47,460	50,358
Total liabilities	**4,198**	**388**	**47,632**	**52,218**

	2014		
Balance Sheet	**Seventeen**	**TOTVS Sales**	**Total**
Current Assets	1,758	14,041	15,799
Non-current assets	252	37,823	38,075
Long-term assets	-	722	722
Investments	-	590	590
Property, plant and equipment	248	-	248
Intangible assets	4	36,511	36,515
Total assets	**2,010**	**51,864**	**53,874**
Current liabilities	1,856	12,302	14,158
Non-current liabilities	65	584	649
Shareholders' Equity	89	38,978	39,067
Total liabilities	**2,010**	**51,864**	**53,874**

In accordance with the merger protocol approved in the Extraordinary Shareholders Meetings held on September 3, 2015 for Makira II, December 15, 2015 for TOTVS Agroindústria and P2RX, and October 22, 2014 for Seventeen and TOTVS Sales, the net assets of the subsidiaries were valued by experts who issued their valuation reports of the companies as on March 31, 2015, September 30, 2015 and August 31, 2014, respectively. Changes to equity after the base date until the effective merger date were absorbed by TOTVS Sales, relating to Seventeen in 2014, and TOTVS, relating to TOTVS Sales in 2014 and Makira II, TOTVS Agroindústria and P2RX in 2015.

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

4.1. Analysis of financial instruments

Through the information available and using the appropriate valuation methodologies, the Company and its subsidiaries valued their financial assets and liabilities in relation to market value.

However, the interpretation of market data and the selection of valuation methods require considerable judgment and estimates to calculate the most appropriate realizable value. Consequently, the estimates presented do not necessarily show the amounts that may be realized in the market. The use of different market assumptions and/or methods may have a material effect on the estimated realizable values.

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

	Fair Value through profit		Loans and receivables		Held to maturity		Financial liabilities measured at cost	
	2015	2014	2015	2014	2015	2014	2015	2014
Financial Instruments								
Assets								
Cash and cash equivalents	-	-	426,415	697,901	-	-	-	-
Securities	-	-	-	-	114,747	105,849	-	-
Accounts receivable, net	-	-	530,095	430,324	-	-	-	-
Court deposits	-	-	-	-	43,407	22,420	-	-
Investments at fair value	68,044	46,934	-	-	-	-	-	-
Other assets		-	-	-	59,678	45,370	-	-
Financial liabilities								
Loans and Financing	-	-	-	-	-	-	678,309	482,490
Debentures and non-conversion premium	-	-	-	-	-	-	144,286	112,854
Accounts payable and suppliers	-	-	-	-	-	-	346,888	281,603
Other liabilities	-	-	-	-	-	-	12,278	10,265
Total	**68,044**	**46,934**	**956,510**	**1,128,225**	**217,832**	**173,639**	**1,181,761**	**887,212**

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:

- Securities, 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.

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

4.2. Financial assets at fair value

Investments in startups made by the Company, through TOTVS Ventures, 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 on December 31, 2015 was R$68,044 (R$46,934 on December 31, 2014).

On January 21, 2015, TOTVS Ventures announced the sale of its non-controlling interest in ZeroPaper.

4.3. 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 Group's consolidated assets and liabilities measured at fair value on December 31, 2015 and 2014:

	2015			2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial Assets						
Financial investments	-	320,607	-	-	636,337	-
Financial assets at fair value through profit or loss	-	-	68,044	-	-	46,934
Financial Liabilities						
Loans and Financing	-	678,309	-	-	482,490	-
Debentures	45,384	-	144,286	-	-	112,854

There were no transfers between Levels 1 and 2 during the year.

4.4. Sensitivity analysis of financial assets and liabilities

The Company's financial instruments are represented by cash and cash equivalents, accounts receivable, payables, debentures, loans and financing, and are recorded at cost plus income or charges incurred and which, on December 31, 2015 and 2014 approximated their market values.

The key risks related to the Company’s operations are related to the variations in the long-term interest rate (TJLP) and the extended consumer price index (IPCA) for funding from the Brazilian Development Bank (BNDES), and for the debentures issued, and the variation of the overnight interest rate (CDI) for financial investments.

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 considering the reasonableness 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 the D Series 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 on December 31, 2015, three different scenarios were created. Based on the forecast by financial institutions, we arrived at CDI forecast of 14.13% for December 2015 and which 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, 2015, with a one-year projection to check the sensitivity of CDI to each scenario.

Operation	Balances in 2015	Risk	Probable Scenario (I)	Scenario (II)	Scenario (III)
		Reduction			
Financial investments	R$ 320,607	CDI	14.13%	10.60%	7.07%
Financial income			**R$ 45,302**	**R$ 33,984**	**R$ 22,667**

To check the sensitivity of the indexes to which the Company is exposed when estimating the debts as on December 31, 2015, three different scenarios were created. Based on TJLP and the IPCA rates in force on December 31, 2015, the most probable scenario (scenario I) was determined for 2016 and, from this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each scenario, the gross financial expense was calculated, not taking into account the tax and the maturity flow for each agreement scheduled for 2015. The reference date used for the financing and debentures was December 31, 2015, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances in 2015	Risk	Probable Scenario (I)	Scenario (II)	Scenario (III)
		Increase			
BNDES - Financing	R$602,520	TJLP (a)	7.00%	8.75%	10.50%
	R$2,380	UMBND(b)	45.00%	56.25%	67.50%
Estimated finance expense			**R$43,247**	**R$54,059**	**R$64,871**
		Increase			
Debentures	R$98,902	TJLP (a)	7.00%	8.75%	10.50%
		IPCA (c)	10.67%	13.34%	16.01%
	R$45,384	CDI (d)	14.13%	17.66%	21.20%
Estimated finance expense			**R$25,391**	**R$28,411**	**R$31,431**

(a) Long-term Interest Rate
(b) UMBND – BNDES monetary unit.
(c) Brazil's Extended Consumer Price Index
(d) Interbank Deposit Certificate

4.5. Financial risk management

The main market 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 in order 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 balance sheet date and the contractual maturity date. The amounts disclosed in the table represent the contractual undiscounted cash flows.

	Consolidated			
	Less than one year	**Between one and two years (i)**	**Between two and five years (i)**	**Over five years (i)**
On December 31, 2015				
Suppliers	86,932	-	-	-
Loans and Financing	177,514	177,316	327,246	-
Debentures	61,915	40,707	51,338	-
Liabilities from investment acquisition	82,220	41,258	48,460	-
Other liabilities	8,563	-	-	-
On December 31, 2014				
Suppliers	35,479	-	-	-
Loans and Financing	25,314	119,412	337,764	-
Debentures	33,834	48,002	31,018	-
Liabilities from investment acquisition	51,499	78,260	10,723	-
Other liabilities	2,707	-	-	-

(i) As the amounts included in the table represent undiscounted cash flows, these amounts will not be reconciled with the amounts reported in the balance sheet for loans, derivative financial instruments, suppliers 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 financial instrument or contract with a client, 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 with risk ratings of at least BBB.

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 provision of services and sale of licenses and hardware. The subsidiary Bematech operates with distribution

agreements and currently concentrates its distribution in a single logistics distributor, with a low credit risk. On December 31, 2015, 6.6% of consolidated accounts receivable pertained to distributors.

c. Market risk

i) Interest rate and inflation risk: interest rate risk arises from the portion of the debt related to TJLP, IPCA and financial investments in CDI, which can adversely affect the financial 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 exchange 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.

The Company and its subsidiaries do not have currency hedge instruments since they do not have any significant operations denominated in foreign currencies.

d. Investments at fair value through profit and loss

Investments at fair value through profit or loss consist of startup companies whose success depends on product development, market acceptance, operational efficiency, ability of investee companies to raise additional funds in financial markets that can be volatile, and other key business factors.

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. Derivatives

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

4.6. Capital management

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

TOTVS controls its capital structure by adjusting itself to current economic conditions. To maintain this structure, the Company may pay dividends, repurchase shares, take out new loans, issue debentures or promissory notes and contract operations with derivatives.

The Company's net debt structure includes loans, financing and debentures, less cash and cash equivalents.

	Parent Company		Consolidated	
	2015	2014	2015	2014
Loans and financing and debentures and leasing	734,077	594,828	822,595	595,344
Liabilities due to acquisitions of investments	71,557	78,463	170,492	140,482
(-) Cash and cash equivalents	(314,405)	(659,236)	(426,415)	(697,901)
(-) Securities	(46,268)	(48,831)	(114,747)	(105,849)
Net debt	**444,961**	**(34,776)**	**451,925**	**(67,924)**
Equity	1,237,686	1,116,374	1,237,732	1,118,062
Equity and debt	**1,682,647**	**1,081,598**	**1,689,657**	**1,050,138**

5. Cash and cash equivalents

Cash and cash equivalents are maintained for the purpose of meeting short-term cash requirements to the Company's strategic investments, as well as other purposes. The Company's cash equivalents include financial investments in CDB (Interbank 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	
	2015	2014	2015	2014
Cash equivalents	57,930	32,518	105,808	61,564
Cash and cash equivalents	**256,475**	**626,718**	**320,607**	**636,337**
Repurchase agreements	183,897	618,429	147,714	598,649
CDB	72,578	8,289	172,893	37,688
	314,405	**659,236**	**426,415**	**697,901**

The Company has financial investment policies, which establish that the investments focus on low risk securities and investments in top-tier financial institutions, and are significantly remunerated based on CDI variation, which averaged 1.04% a month during the year ended December 31, 2015.

6. Trade accounts receivable

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

	Parent Company		Consolidated	
	2015	2014	2015	2014
Domestic market	439,241	440,240	579,125	478,776
Foreign market	1,185	-	26,830	10,412
Gross trade accounts receivable	**440,426**	**440,240**	**605,955**	**489,188**
(-) allowances for doubtful accounts	(56,551)	(53,652)	(75,860)	(58,864)
Net trade accounts receivable	**383,875**	**386,588**	**530,095**	**430,324**
Current assets	345,199	347,177	489,142	389,496
Non-current assets	38,676	39,411	40,953	40,828

The accounts receivable from the foreign market mainly refers to sales of the Company´s foreign subsidiaries in Argentina: R$8,228; Mexico: R$6,458, USA: R$5,473 (In 2014 Argentina: R$6,362; Mexico:

R$3,837; and USA: R$213), converted using the end of period rate.

Below are the receivables in connection with the net amount of allowance for doubtful accounts by aging list on December 31, 2015 and 2014:

	Parent Company		Consolidated	
	2015	2014	2015	2014
Falling due	348,071	357,106	475,821	388,213
Overdue				
1 to 30 days	19,949	13,168	30,226	17,508
31 to 60 days	5,492	5,417	8,076	9,299
61 to 90 days	5,347	4,430	6,899	6,716
91 to 180 days	7,069	5,891	10,346	7,189
181 to 360 days	16,413	15,317	34,078	17,720
more than 360 days	38,085	38,911	40,509	42,543
Gross accounts receivable	**440,426**	**440,240**	**605,955**	**489,188**
(-) Allowance for doubtful accounts	(56,551)	(53,652)	(75,860)	(58,864)
Net accounts receivable	**383,875**	**386,588**	**530,095**	**430,324**

Changes in the allowance for doubtful accounts are as follows:

	Parent Company		Consolidated	
	2015	2014	2015	2014
Balance at the beginning of the year	53,652	34,639	58,864	39,765
Acquisition of subsidiary	-	-	15,082	-
Additional provision in the year	30,192	24,297	34,562	27,565
Written off from the provision:	(27,293)	(5,284)	(32,648)	(8,466)
Balance on December 31, 2015	**56,551**	**53,652**	**75,860**	**58,864**

Management believes that the risk related to trade accounts receivable is minimized by the fact that the Company's customer portfolio is highly diluted, except for accounts receivable from distributors of Bematech, as mentioned in Note 4.5(b). The Company does not require any guarantee on installment sales.

7. Stocks

The breakdown of stocks of Bematech on December 31, 2015 is as follows:

	Consolidated	
	2015	2014
Finished products	15,305	-
Raw material	22,924	-
Products for resale and others	6,190	-
Parts for technical assistance	2,536	-
(-) Provision for adjustment to realization	(2,548)	-
	44,407	**-**

8. Taxes recoverable

	Parent Company		Consolidated	
	2015	2014	2015	2014
State Goods and Services Tax (ICMS) (a)	-	-	47,972	-
Tax on manufactured products (IPI)	-	-	3,413	-
Withholding income tax	21,273	277	33,157	2,566
Withholding social contribution tax	6,399	156	8,057	1,186
Withholding PIS and COFINS taxes	-	40	3,612	283
Other	1	-	2,954	2,301
	27,673	**473**	**99,165**	**6,336**
Current	27,673	473	81,284	6,336
Non-current	-	-	17,881	-

(a) Bematech uses ICMS tax benefit for investments granted by the state of Paraná, which aim to foster the development of technological products, provided the requirements included in the Federal Law are met, especially regarding research and development expenditure. There is the concession of ICMS presumed credit equivalent to the amount due on the outflow of products and, starting from September 1, 2015, is limited to the ICMS debit amount of the respective period, pursuant to Decree 2,175/2015 of the State of Paraná. Although recent changes in Paraná State laws contributed to the reduction in the accumulated ICMS credits, the Company and its subsidiary are conducting studies jointly with their legal counsel to realize these credits.

9. Income and social contribution taxes

Income and social contribution taxes, current and deferred, were recorded pursuant to the current rates in force. Deferred income tax and social contribution are calculated over temporary differences and accrued tax losses/negative social contribution base.

9.1. 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	
	2015	2014	2015	2014
Income before taxes	**236,674**	**354,868**	**254,834**	**360,258**
Income and social contribution taxes at combined nominal rate of 34%	(80,469)	(120,655)	(86,644)	(122,488)
Adjustments for the statement of effective rate				
Equity pick-up	3,359	133	(26)	(198)
Law No. 11,196/05 (Incentive for research and development) (a)	16,567	15,946	17,501	16,838
Effect of subsidiaries subject to special rates	-	-	(10,178)	(4,488)
Interest on equity	20,575	14,040	20,575	14,040
Management stake	(352)	(76)	(363)	(91)
Accounts receivable deemed uncollectible	(146)	(145)	(426)	(230)
Workers' Food Program	845	1,578	1,185	1,593
Stock Options	(535)	(1,843)	(535)	(1,843)
Other	(989)	(886)	(977)	(593)
Income tax and social contribution expense	**(41,145)**	**(91,908)**	**(59,888)**	**(97,460)**
Current income tax and social contribution	(47,025)	(88,122)	(69,250)	(96,957)
Deferred income tax and social contribution	5,880	(3,786)	9,362	(503)
Effective rate	**17.4%**	**25.9%**	**23.5%**	**27.1%**

a) The Brazilian tax legislation provide a mechanism to encourage the technological development of the country, which granted tax incentives to companies that carry out technological research and development (R&D). On September 30,2105 was publishet the Provisional Presidential Decree 694, which sougth to suspend in fiscal year 2016 the benefit envisaged in Law. However, this provisional expired on 8 March 2016 for not being voted upon by the Senate by said date, and new provisional can be edited by the Executive Power.

9.2. Breakdown of deferred income and social contribution taxes

	Parent Company		Consolidated	
	2015	2014	2015	2014
Deriving from temporary differences:				
Difference between fiscal base and book value from goodwill	117,789	77,012	139,130	95,453
Amortization of fiscal benefit	(63,136)	(55,334)	(89,744)	(55,511)
Intangible asset allocation	(97,784)	(58,705)	(114,762)	(71,077)
Provision for commissions	18,144	19,744	19,133	20,590
Anticipated income or revenues	(5,542)	(4,835)	(4,599)	(3,869)
Allowance for doubtful accounts	19,227	18,242	20,317	19,375
Provision for contingencies and other liabilities	23,933	3,690	30,764	3,686
Provision for losses in inventories and guarantees	-	-	2,541	-
Tax losses and social contribution tax losses carried forwards	-	-	53,794	26,075
Provision for premiums due to non-conversion of debentures	-	10,546	-	10,546
Present value adjustment	1,802	2,520	2,592	2,523
Other	2,521	9,164	4,341	9,734
Net deferred income and social contribution tax	**16,954**	**22,044**	**63,507**	**57,525**

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

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

	Parent Company	Consolidated
On January 1	**22,044**	**57,525**
Expense in income statement	5,880	9,362
Tax related to other comprehensive income	(10,972)	(10,972)
Acquisition of subsidiary	-	7,497
Other	2	95
On December 31, 2015	**16,954**	**63,507**

9.3. Estimated realization of deferred taxes

Based on projections of taxable income from future years approved by the Board of Directors on December 31, 2015, the Company expects to recover tax credits recorded in non-current assets in the following years:

	Parent Company	Consolidated
2016	31,981	42,653
2017	4,932	19,353
2018	12,034	26,123
2019	12,670	26,643
2020 onwards	18,473	38,479
	80,090	**153,251**
Tax benefit of goodwill (a)	(63,136)	(89,744)
Deferred tax assets, net	**16,954**	**63,507**

(a) Refers to the amount of the tax benefit amortized without established timeframe for realization, since this will be done only through the sale or write-off of Investments that generated said tax benefit.

During the year ended December 31, 2015, no material event occurred that indicates a limitation on the full recovery of deferred taxes recognized within 10 years.

10. Related-party balances and transactions

Transactions between the Parent Company and its subsidiaries are carried out under market conditions and prices established by the parties, and are eliminated for the purposes of consolidating the financial statements.

10.1. Transactions with subsidiaries and associate companies

On December 31, 2015 and 2014, the balance of transactions with related parties classified as related companies in non-current assets and liabilities were:

	Parent Company	
ASSETS	**2015**	**2014**
TOTVS Nordeste	-	211
TOTVS Brasília	1,921	
TOTVS RO	32	-
Ciashop	1,550	1,134
PC Sistemas	119	-
	3,622	**1,345**
LIABILITIES		
TOTVS Serviços	(5,435)	(6,599)
TQTVD	(2,278)	(1,717)
TOTVS Nordeste	(2,808)	-
TOTVS Ventures	(4,502)	-
TOTVS Brasília	-	(4,900)
	(15,023)	**(13,216)**

The amounts refer to accounts payable and receivable among subsidiaries, without remuneration and/or forecast maturity. There was no purchase and sale or provision of services between the subsidiaries and the parent company. Credits are related to loan transactions.

10.2. Transactions or relationships with shareholders and key management personnel

a) Shareholders

The Company maintains property lease agreements with companies, some of which are owned by shareholders of TOTVS. Rental paid was R$8,352 for the year ended December 31, 2015 (R$7,944 for the year ended December 31, 2014), in line with market rates. The agreements are effective for 60 months and are adjusted by IGP-M (General Price Index – Market) every 12 months. Additionally, the Company entered into an agreement in 2013 to build the new headquarters for delivery in March 2017 confome mentioned in Note 23.2.

Some Company Officers directly or indirectly hold 17.4% of the Company's shares on December 31, 2015 (17.7% on December 31, 2014), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company also has loans and financing operations (Note 15) and debentures (Note 16), substantially with the BNDES, which held 4.49% of the Company's capital on December 31, 2015 (Note 19), plus a member of Board of Directors.

b) Key management personnel

Itaú Unibanco is a related party of the Company through one of the independent members on the Board of Directors. On December 31, 2015, the amounts and transactions involving the Itaú Unibanco Group companies, which were conducted under usual market conditions, include the following:

	Parent Company	
Nature of transaction	**2015**	**2014**
Financial investments	29,156	68,957
Revenue from assignment of use rights and technical support	12,841	7,263
Partnership with Rede S.A. (a)	1,500	-
Other revenues	2,782	-
Other expenses	1,095	1,136
	47,374	**77,356**

(a) On February 24, 2015, the Company signed a commercial partnership agreement with Rede S.A., a payments company belonging to the Itaú Group, to offer a complete solution encompassing management. e-commerce and automation of stores and payment methods targeted at micro and small companies.

The Company has an agreement, for no consideration, relating to the management of the pension plan with Itaú Vida e Previdência S.A.

10.3. Management fees

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

	Parent Company		Consolidated	
	2015	2014	2015	2014
Short-term benefits to managers				
Salaries, fees and payroll charges	14,990	13,578	18,978	19,456
Private pension plan	459	417	483	417
Variable bonus	1,036	224	1,220	756
	16,485	14,219	20,681	20,629
Share-based payments (Note 21)	2,795	5,420	2,795	5,420
	19,280	**19,639**	**23,476**	**26,049**

The Company does not have any additional post-employment liabilities, nor does it provide other long-term benefits, such as paid leave based on years of service and other benefits for years of service at the Company. It also does not provide other benefits when members of its management quit, in addition to those established by Brazilian laws.

11. Investments

The breakdown of investments in subsidiaries is shown below:

	Summarized financial statements of affiliate companies and subsidiaries on December 31, 2015					Equity pick-up (parent Company) for years ended:		Balance of investments as of:	
	Assets	Liabilities	Net Equity	Gross Revenue	P&L for the year	2015	2014	2015	2014
TOTVS Serviços	15,420	(5,210)	20,630	21,089	7,659	7,659	9,202	20,629	24,934
TOTVS Nordeste	100,278	27,661	72,617	8,575	3,982	3,982	(3,051)	72,618	68,092
TOTVS Brasília	151,658	34,120	117,538	5,535	6,197	6,197	2,662	117,538	111,341
TOTVS Argentina	15,561	4,567	10,994	27,240	15	15	1,075	10,994	8,632
TOTVS México	9,224	8,271	953	13,941	(11,381)	(11,381)	(7,339)	953	-
EuroTOTVS	-	-	-	-	-	-	(32)	-	316
TQTVD	16,215	(652)	16,867	12,995	2,045	2,045	1,458	16,868	14,823
TOTVS Inc.	80,623	252	80,371	218	(8,924)	(8,924)	(6,944)	80,370	57,360
Datasul Argentina	325	-	325	-	(11)	(11)	(70)	325	338
TOTVS Agroindústria (b)	-	-	-	12,255	(1,299)	(865)	209	-	2,241
P2RX (b)	-	-	-	2,413	(1,903)	(1,910)	220	-	411
TOTVS Sales (a)	-	-	-	-	-	-	(1,640)		-
Seventeen (a)	-	-	-	-	-	-	(824)	-	-
TOTVS RO	4,316	2,571	1,745	20,190	1,735	1,735	-	1,745	-
TOTVS Ventures	6,629	(4,501)	11,130	-	5,550	5,550	(2,205)	11,130	6,120
Ciashop (c) (d)	2,375	3,208	(833)	8,875	(565)	(2,284)	(2,175)	10,117	14,541
Virtual Age (c) (d)	16,751	4,218	12,533	40,848	3,510	(5,586)	7,957	77,476	83,062
Neolog (c) (d)	2,068	1,328	740	6,935	30	(1,868)	-	24,319	-
Makira II (b) (c)	-	-	-	-	581	581	-	-	-
Bematech (c) (d)	672,091	216,915	455,176	94,673	2,076	437	-	556,391	-
						(4,628)	**(1,497)**	**1,001,473**	**392,211**

(a) Companies merged in 2014.

(b) Companies merged during 2015, see note 3.3.

(c) Business combinations in 2015 and 2014, see note 3.1.

(d) 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.

	2014	Addition (Write-off)	Business Combination	Dividends	Equity Pick-up	Foreign Exchange	Merger	Reclassification	2015
TOTVS Serviços	24,934	-	-	(11,964)	7,659	-	-	-	20,629
TOTVS Nordeste	68,092	544	-	-	3,982	-	-	-	72,618
TOTVS Brasília	111,341	-	-	-	6,197	-	-	-	117,538
TOTVS Argentina	8,632	1,262	-	-	15	1,085	-	-	10,994
TOTVS México	-	8,065	-	-	(11,381)	4,375	-	(106)	953
EuroTOTVS	316	(334)	-	-	-	18	-	-	-
TQTVD	14,823	-	-	-	2,045	-	-	-	16,868
TOTVS Inc.	57,360	5,022	-	-	(8,924)	26,912	-	-	80,370
Datasul Argentina	338	-	-	-	(11)	(2)	-	-	325
TOTVS Agroindústria	2,241	2,806	-	(271)	(865)	-	(3,911)	-	-
P2RX	411	1,456	-	(209)	(1,910)	-	252	-	-
TOTVS RO	-	10	-	-	1,735	-	-	-	1,745
TOTVS Ventures	6,120	2,015	-	(2,555)	5,550	-	-	-	11,130
Ciashop	14,541	-	(2,536)	-	(2,284)	-	-	396	10,117
Virtual Age	83,062	-	-	-	(5,586)	-	-	-	77,476
Neolog	-	-	26,215	(28)	(1,868)	-	-	-	24,319
Makira II	-	46,880	-	-	581	-	(47,461)	-	-
Bematech	-	-	556,071	-	437	(117)	-	-	556,391
Sum of Investments	**392,211**	**67,726**	**579,750**	**(15,027)**	**(4,628)**	**32,271**	**(51,120)**	**290**	**1,001,473**
TOTVS México	(106)	-	-	-	-	-	-	106	**-**
Ciashop	(188)	-	-	-	-	-	-	(396)	(584)
Sum of provision for losses	**(294)**	-	-	-	-	-	-	**(290)**	**(584)**
Total Investments	**391,917**	**67,726**	**579,750**	**(15,027)**	**(4,628)**	**32,271**	**(51,120)**	**-**	**1,000,889**

	2013	Addition	Business Combination	Equity Pick-up	Foreign Exchange	Merger	Dividends	Reclassification	2014
TOTVS Serviços	15,732	-	-	9,202	-	-	-	-	24,934
TOTVS Nordeste	67,043	4,100	-	(3,051)	-	-	-	-	68,092
TOTVS Brasília	92,129	16,550	-	2,662	-	-	-	-	111,341
TQTVD	20,938	(7,573)	-	1,458	-	-	-	-	14,823
TOTVS Argentina	7,100	1,622	-	1,075	(1,165)	-	-	-	8,632
TOTVS México	987	9,468	-	(7,339)	(3,222)	-	-	106	**-**
TOTVS Inc.	41,973	15,194	-	(6,944)	7,137	-	-	-	57,360
EuroTOTVS	348	-	-	(32)	-	-	-	-	316
Datasul Argentina	508	-	-	(70)	(100)	-	-	-	338
TOTVS Ventures	7,504	821	-	(2,205)	-	-	-	-	6,120
TOTVS Sales	8,332	31,550	-	(1,640)	-	(38,242)	-	-	**-**
TOTVS Agroindústria	3,075	-	-	209	-	-	(540)	(503)	2,241
P2RX	251	-	-	220	-	-	(60)	-	411
Virtual Age	-	1,066	74,039	7,957	-	-	-	-	83,062
Ciashop	-	98	16,430	(2,175)	-	-	-	188	14,541
Seventeen	-	-	-	(824)	-	824	-	-	**-**
Sum of Investments	**265,920**	**72,896**	**90,469**	**(1,497)**	**2,650**	**(37,418)**	**(600)**	**(209)**	**392,211**
Ciashop	-	-	-	-	-	-	-	(188)	**(188)**
TOTVS México	-	-	-	-	-	-	-	(106)	**(106)**
Sum of provision for losses	-	-	-	-	-	-	-	(294)	**(294)**
Total Investments	**265,920**	**72,896**	**90,469**	**(1,497)**	**2,650**	**(37,418)**	**(600)**	**(503)**	**391,917**

12. 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 breakdown of the Company's property, plant and equipment is shown below:

	Parent Company					
	Computers and software	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Others	Total Property, plants and equipment
Cost or valuation						
Balance on December 31, 2013	**76,479**	**6,652**	**11,021**	**13,695**	**21,578**	**129,425**
Additions	13,338	1,408	1,595	1,782	7,490	25,613
Write-off	(1,055)	(2,012)	(69)	12	(41)	(3,165)
Balance on December 31, 2014	**88,762**	**6,048**	**12,547**	**15,489**	**29,027**	**151,873**
Additions	25,905	3,325	553	300	11,960	42,043
Merger	85	-	-	24	-	109
Write-off	(1,907)	(2,415)	(133)	(13)	(1,837)	(6,305)
Balance on December 31, 2015	**112,845**	**6,958**	**12,967**	**15,800**	**39,150**	**187,720**
Depreciation						
Balance on December 31, 2013	**(48,084)**	**(1,825)**	**(5,111)**	**(4,863)**	**(9,149)**	**(69,032)**
Depreciation in the year	(10,826)	(1,261)	(1,045)	(1,309)	(3,572)	(18,013)
Write-off	1,017	920	10	(25)	(26)	1,896
Balance on December 31, 2014	**(57,893)**	**(2,166)**	**(6,146)**	**(6,197)**	**(12,747)**	**(85,149)**
Depreciation in the year	(13,092)	(1,363)	(1,089)	(1,398)	(4,309)	(21,251)
Write-off	1,808	1,424	119	2	1,562	4,915
Balance on December 31, 2015	**(69,177)**	**(2,105)**	**(7,116)**	**(7,593)**	**(15,494)**	**(101,485)**
Residual value						
Balance on December 31, 2015	**43,668**	**4,853**	**5,851**	**8,207**	**23,656**	**86,235**
Balance on December 31, 2014	**30,869**	**3,882**	**6,401**	**9,292**	**16,280**	**66,724**
Average annual depreciation rate	**20%**	**20%**	**10%**	**10% to 20%**	**5% to 47%**	

	Consolidated					
	Computers and software	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Others	Total Property, plants and equipment
Cost or valuation						
Balance on December 31, 2013	**85,060**	**8,141**	**13,386**	**15,061**	**24,635**	**146,283**
Additions	15,573	1,649	2,050	2,293	8,844	30,409
Acquisition of subsidiary	254	219	167	66	112	818
Write-off	(2,208)	(2,381)	(384)	(157)	(358)	(5,488)
Exchange variation	1,742	370	533	769	288	3,702
Balance on December 31, 2014	**100,421**	**7,998**	**15,752**	**18,032**	**33,521**	**175,724**
Additions	27,525	4,363	1,225	1,024	13,387	47,524
Acquisition of subsidiary	5,123	128	1,709	6,143	1,691	14,794
Write-off	(2,716)	(2,608)	(243)	(638)	(2,552)	(8,757)
Exchange variation	826	156	200	92	284	1,558
Balance on December 31, 2015	**131,179**	**10,037**	**18,643**	**24,653**	**46,331**	**230,843**
Depreciation						
Balance on December 31, 2013	**(52,636)**	**(2,262)**	**(5,881)**	**(5,186)**	**(9,644)**	**(75,609)**
Depreciation in the year	(12,706)	(1,615)	(1,368)	(1,569)	(4,571)	(21,829)
Write-off	2,057	1,085	190	94	292	3,718
Exchange variation	(1,548)	(177)	(382)	(558)	(218)	(2,883)
Balance on December 31, 2014	**(64,833)**	**(2,969)**	**(7,441)**	**(7,219)**	**(14,141)**	**(96,603)**
Depreciation in the year	(15,446)	(1,862)	(1,546)	(2,180)	(5,390)	(26,424)
Write-off	2,441	1,536	214	46	2,212	6,449
Exchange variation	(402)	(70)	(100)	(38)	(57)	(667)
Balance on December 31, 2015	**(78,240)**	**(3,365)**	**(8,873)**	**(9,391)**	**(17,376)**	**(117,245)**
Residual value						
Balance on December 31, 2015	**52,939**	**6,672**	**9,770**	**15,262**	**28,955**	**113,598**
Balance on December 31, 2014	**35,588**	**5,029**	**8,311**	**10,813**	**19,380**	**79,121**
Average annual depreciation rate	**20%**	**20%**	**10%**	**10% to 20%**	**5% to 47%**	

13. Intangible assets

Intangible assets acquired separately are measured at cost at the time of their initial recognition, whereas 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	Goodwill	Total Intangible assets
Cost or valuation						
Balance on December 31, 2013	**189,080**	**63,149**	**207,586**	**15,080**	**353,726**	**828,621**
Additions	6,957	-	21	-	-	6,978
Merger	-	-	-	-	15,463	15,463
Allocation on intangible assets	-	-	1,362	1,257	(1,164)	1,455
Write-off	32	-	-	-	-	32
Balance on December 31, 2014	**196,069**	**63,149**	**208,969**	**16,337**	**368,025**	**852,549**
Additions	41,039	-	-	-	-	41,039
Merger	188	-	-	-	-	188
Reclassification	-	-	-	-	(134,214)	(134,214)
Balance on December 31, 2015	**237,296**	**63,149**	**208,969**	**16,337**	**233,811**	**759,562**
Amortization						
Balance on December 31, 2013	**(98,247)**	**(22,818)**	**(113,031)**	**(11,608)**	**(134,214)**	**(379,918)**
Amortization in the year	(22,064)	(4,201)	(23,082)	(1,889)	-	(51,236)
Write-off	(17)	(1)	-	1	-	(17)
Balance on December 31, 2014	**(120,328)**	**(27,020)**	**(136,113)**	**(13,496)**	**(134,214)**	**(431,171)**
Amortization in the year	(22,154)	(4,201)	(21,634)	(1,654)	-	(49,643)
Reclassification	-	-	-	-	134,214	134,214
Balance on December 31, 2015	**(142,482)**	**(31,221)**	**(157,747)**	**(15,150)**	**-**	**(346,600)**
Residual value						
Balances on December 31, 2015	**94,814**	**31,928**	**51,222**	**1,187**	**233,811**	**412,962**
Balances on December 31, 2014	**75,741**	**36,129**	**72,856**	**2,841**	**233,811**	**421,378**
Average annual amortization rates	10% to 20%	6.7% to 8%	10% to 12.5%	10% to 50%		

	Consolidated					
	Software	**Trademarks & patents**	**Customer portfolio**	**Other**	**Goodwill**	**Total intangible assets**
Cost or valuation						
Balance on December 31, 2013	**200,683**	**66,760**	**219,391**	**40,306**	**508,677**	**1,035,817**
Additions	7,299	-	21	-	90,469	97,789
Allocation of intangible assets	6,989	7,806	16,723	3,864	(46,153)	(10,771)
Acquisition of subsidiary	694	-	-	-	-	694
Write-off	(39)	-	-	-	(1,624)	(1,663)
Exchange variations	1,061	4	(64)	834	-	1,835
Balance on December 31, 2014	**216,687**	**74,570**	**236,071**	**45,004**	**551,369**	**1,123,701**
Additions	43,048	148	-	3	414,216	457,415
Allocation of intangible assets	30,949	20,597	113,275	3,449	(168,270)	-
Acquisition of subsidiary	53,446	5,031	11,561	-	-	70,038
Write-off	(1,759)	(3)	-	721	(3,973)	(5,014)
Reclassification	-	-	-	-	(134,299)	(134,299)
Exchange variations	388	71	(12)	444	-	891
Balance on December 31, 2015	**342,759**	**100,414**	**360,895**	**49,621**	**659,043**	**1,512,732**
Amortization						
Balance on December 31, 2013	**(101,584)**	**(24,020)**	**(117,502)**	**(26,505)**	**(134,299)**	**(403,910)**
Amortizations for the year	(25,828)	(7,434)	(26,790)	(7,047)	-	(67,099)
Write-off	52	-	-	-	-	52
Exchange variations	(371)	(2)	47	(332)	-	(658)
Balance on December 31, 2014	**(127,731)**	**(31,456)**	**(144,245)**	**(33,884)**	**(134,299)**	**(471,615)**
Amortizations for the year	(35,112)	(7,356)	(27,500)	(7,268)	-	(77,236)
Write-off	1,090	3	-	(238)	-	855
Reclassification	-	-	-	-	134,299	134,299
Exchange variations	(19)	(18)	12	2	-	(23)
Balance on December 31, 2015	**(161,772)**	**(38,827)**	**(171,733)**	**(41,388)**	**-**	**(413,720)**
Residual value						
Balance on December 31, 2015	**180,987**	**61,587**	**189,162**	**8,233**	**659,043**	**1,099,012**
Balance on December 31, 2014	**88,956**	**43,114**	**91,826**	**11,120**	**417,070**	**652,086**
Average annual amortization rate	10% to 20%	6.7% to 8.00%	10% to 12.5%	20% to 50%		

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 specialized Company.

The "**Other**" column in the table above consists basically of non-competition rights arising from the allocation of the purchase price of business combinations in 2015 and 2014 (see Note 3.2) and also the rights to explore areas.

13.1. Goodwill and intangible assets identified in business combinations

The breakdown and addition/write-off of goodwill in the fiscal years ended December 31, 2015 and 2014 is shown below:

	2013	Addition /(write-off)	Purchase price allocation	2014	Addition /(write-off)	Purchase price allocation	2015
RM	90,992	-	-	90,992	-	-	90,992
Logo Center	5,703	-	-	5,703	-	-	5,703
TOTVS BMI	2,053	-	-	2,053	-	-	2,053
Midbyte	1,765	-	-	1,765	-	-	1,765
IOSSTS	2,643	-	-	2,643	-	-	2,643
BCS	11,821	-	-	11,821	-	-	11,821
Datasul	30,084	-	-	30,084	-	-	30,084
Setware	961	-	-	961	-	-	961
Hery	2,927	-	-	2,927	-	-	2,927
TotalBanco	6,008	-	-	6,008	-	-	6,008
M2S	12	-	-	12	-	-	12
SRC	33,688	-	-	33,688	-	-	33,688
Mafipa	1,195	-	-	1,195	-	-	1,195
Gens FDES	16,340	-	-	16,340	-	-	16,340
W&D	73,678	-	(9,608)	64,070	-	-	64,070
uMov.me (c)	3,061	(1,624)	-	1,437	(1,437)	-	-
TOTVS Agroindústria	14,291	-	(1,163)	13,128	-	-	13,128
RMS	59,074	-	(23,334)	35,740	-	-	35,740
Seventeen	18,082	-	(2,619)	15,463	-	-	15,463
Ciashop (a)	-	16,430	(9,429)	7,001	(2,536)	-	4,465
Virtual Age (a)	-	74,039	-	74,039	-	(27,542)	46,497
Neolog (b)	-	-	-	-	25,760	(13,195)	12,565
Bematech (b)	-	-	-	-	388,456	(127,533)	260,923
	374,378	**88,845**	**(46,153)**	**417,070**	**410,243**	**(168,270)**	**659,043**

(a) Business combination 2014.
(b) Business combination 2015, see note 3.
(c) Write-off of goodwill due to impairment in 2014 and due to the sale of interest in the company in 2015.

13.2. 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.

Cash generating units are composed of assets acquired but not merged and differing operations. In 2015, cash generating units valued were: TQTVD, TOTVS Argentina and Mexico, PC Informática, Ciashop, RMS, Neolog and Virtual Age.

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 and from them, taking into account the perpetuity of assumptions in view of the capacity of business continuity indefinitely.

Growth rates used to extrapolate projections as of December 31, 2015, in addition to the five year period ranged from 0% to 2%. Estimated future cash flows were discounted at rates ranging from 8.6% to 9.2% p.a. (in real terms) for each cash generating unit analyzed.

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

• Revenues – revenues were projected between 2016 and 2020, taking into account the growth of the customer bases of different cash generating units.

• Operating costs and expenses – costs and expenses were projected in line with the Company's historical performance and the historical growth of revenues.

• Capex – investments in capital goods were estimated taking into account the technological infrastructure required to deliver services, based on the Company's history.

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 Company's impairment testing of intangible assets, carried out annually, resulted in the provision for losses of R$2,536 referring to goodwill from subsidiary Ciashop in the year ended December 31, 2015, since the estimated market value was lower than its net book value on the valuation date.

14. Payroll and labor obligations

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

	Parent Company		Consolidated	
	2015	2014	2015	2014
Labor liabilities:				
Salaries payable	17,666	23,405	20,281	25,728
Pension plan payable	721	642	763	670
Vacations payable	51,071	47,686	69,686	54,370
Profit sharing and bonus	8,677	7,636	11,193	9,201
Other	13,236	4,761	18,274	7,592
	91,371	**84,130**	**120,197**	**97,561**
Payroll liabilities				
FGTS (Government Severance Indemnity Fund for Employees) payable	3,965	3,945	5,294	4,712
INSS (Brazilian Social Security Institute) payable	3,854	7,682	7,661	9,124
	7,819	**11,627**	**12,955**	**13,836**
Total	**99,190**	**95,757**	**133,152**	**111,397**

15. Loans and financing

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 income statement during the period when the loans are due, using the effective interest rate method.

The loan and financing operations are as follows:

		Parent Company		Consolidated	
	Annual financial charges	2015	2014	2015	2014
BNDES PROSOFT	TJLP + 1.5% to 1.52% p.a.	575,877	436,710	594,285	436,710
BNDES PSI	3.5% to 4.0% p.a.	56,116	42,841	69,194	42,841
BNDES – Social	TJLP	3,182	2,423	3,182	2,423
BNDES Inovação	TJLP + 0.52% p.a.	-	-	5,053	-
BNDES EXIM Banco do Brasil	5.5% to 8% p.a.	-	-	2,457	-
BNDES Internacionalização	UMBND + 1.82% p.a.	-	-	2,380	-
FINAME	7% p.a.	-	-	697	-
Secured accounts and other		-	-	1,061	516
		635,175	**481,974**	**678,309**	**482,490**
Current liabilities		168,643	24,798	177,514	25,314
Non-current liabilities		466,532	457,176	500,795	457,176

Amounts recorded in non-current liabilities on December 31, 2015 and 2014, have the following maturity schedule:

	Parent Company		Consolidated	
	2015	**2014**	**2015**	**2014**
2016	-	119,412	-	119,412
2017	164,658	119,412	175,713	119,412
2018	164,658	119,412	173,642	119,412
2019	137,216	98,940	146,200	98,940
2020	-	-	5,240	-
Non-current liabilities	**466,532**	**457,176**	**500,795**	**457,176**

Below is the breakdown of loans and financing on December 31, 2015 and 2014:

	Parent Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Balance at beginning of year	**481,974**	**305,127**	**482,490**	**306,443**
Additions	181,055	227,078	181,858	227,078
Acquisition of subsidiary	-	-	41,728	-
Interest incurred	40,060	18,594	42,398	19,184
Amortizations	(67,914)	(68,825)	(69,761)	(70,215)
Balance at end of year	**635,175**	**481,974**	**678,309**	**482,490**

The Company and the subsidiary Bematech has 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.

16. Debentures

On December 31, 2015 and 2014, the balance was broken down as follows:

				Parent Company		Consolidated	
Issue	**Debentures**	**Annual financial charges**	**Unit price**	**2015**	**2014**	**2015**	**2014**
1st series	40,000	IPCA + 3.5% limited to TJLP + 1.5%	0.60	24,737	40,918	24,737	40,918
2nd series	40,000	TJLP + 1.5%	0.60	24,737	40,918	24,737	40,918
Sole series	500	CDI + 2.25%	100.00	-	-	45,384	-
		Subtotal		49,474	81,836	94,858	81,836
		Premium due to non-conversion		49,428	31,018	49,428	31,018
		Total		**98,902**	**112,854**	**144,286**	**112,854**
		Current liabilities		49,473	33,834	61,915	33,834
		Non-current liabilities		49,429	79,020	82,371	79,020

Maturity of non-current amounts is as follows:

	Parent Company		Consolidated	
	2015	2014	2015	2014
August 2016	-	48,002	-	48,002
August 2017	24,714	14,927	35,688	14,927
August 2018	24,715	16,091	35,689	16,091
August 2019	-	-	10,994	-
	49,429	**79,020**	**82,371**	**79,020**

The changes occurred in the years considered was as shown below:

	Parent Company		Consolidated	
Debentures and premiums from non-conversions	**2015**	**2014**	**2015**	**2014**
Balance at beginning of year	**112,854**	**104,205**	**112,854**	**104,205**
Acquisition of subsidiary	**-**	**-**	46,049	**-**
Interest incurred	23,810	13,279	25,026	13,279
Amortization	(37,762)	(4,630)	(37,762)	(4,630)
Debenture repurchase	-	-	(1,881)	-
Balance at end of year	**98,902**	**112,854**	**144,286**	**112,854**

a) Description of operations

On August 19, 2008, shareholders approved raising R$200,000 through the issue of up to 100,000 Units, represented by Brazilian Depositary Receipts, comprised by two non-detachable debentures, one of which is 1st series convertible and the other 2nd series convertible. On December 31, 2015, of the total Units issued by the Company, 60% were converted into common shares during 2010 through 2013, due to the attainment of the conditions described in the indenture.

The 1st series debentures are paid based on the IPCA plus 3.5% interest p.a., limited to TJLP plus 1.5% p.a., annually payable on August 19. The 2nd series debentures are paid based on the TJLP plus 1.5% p.a., half-yearly payable on February 19 and August 19.

The issue was not filed with the Brazilian Securities and Exchange Commission as the debentures issued by the Company were privately issued exclusively to the Company's shareholders on the issue date, with no general market placement efforts.

On July 10, 2014, Bematech issued unsecured non-convertible debentures in a single series, which was placed through a public offer with restricted placement efforts, in the amount of R$50,000, composed of 500 debentures with unit value of R$100 each. After corporate reorganization involving two companies, TOTVS became guarantor of all the obligations assumed by Bematech related debentures.

The debentures will mature in July 2019 and have been amortized in nine half-yearly installments since July 2015. Interest is paid in half-yearly installments, with the first payment made on January 10, 2015 and the next payment to occur in January 2016.

The debenture indenture have early maturity clauses if certain financial and non-financial covenants and other ancillary obligations are not met. On December 31, 2015 and 2014, the Company and its subsidiaries were in full compliance with all covenants.

b) "Non-conversion of debentures" clause

In case of non-conversion, Company's debentures 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 will be paid in at most six installments, and within three years from the payment of the last installment of principal and interest (February 19, 2017).

17. 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 non-current liabilities, as follows:

	Parent Company		Consolidated	
	2015	**2014**	**2015**	**2014**
Datasul MG	2,884	2,470	2,884	2,470
Datasul Saúde MG	641	641	641	641
TotalBanco	99	88	99	88
Hery	545	571	545	571
TQTVD	-	237	-	237
SRC	196	173	196	173
Mafipa	1,174	1,036	1,174	1,036
Gens FDES	5,914	8,764	5,914	8,765
Umov.me	-	-	-	754
W&D Participações	-	-	31,365	28,937
Ciashop	1,186	1,345	1,186	1,345
RMS	-	-	29,639	32,327
TOTVS Agroindústria	4,742	11,809	4,742	11,809
Virtual Age	33,247	42,209	33,247	42,209
Seventeen	8,070	9,120	8,070	9,120
Neolog	12,859	-	12,859	-
RJ Participações	-	-	21,527	-
GSR7	-	-	1,724	-
Bematech Sistemas	-	-	14,680	-
Total	**71,557**	**78,463**	**170,492**	**140,482**
Current liabilities	24,492	18,417	82,220	51,499
Non-current liabilities	47,065	60,046	88,272	88,983

Installments recorded as non-current liabilities mature as follows:

Year	Parent Company	Consolidated
2017	41,258	55,184
2018	5,807	33,088
Non-current liabilities	**47,065**	**88,272**

On December 31, 2015 and 2014, the liabilities for acquisition of Investments had secured accounts as securities, which consisted of CBD operations in the amounts mentioned below:

	Parent Company		Consolidated	
	2015	2014	2015	2014
Current securities	17,488	10,415	75,213	35,169
Non-current securities	28,780	38,416	39,534	70,680
Total	**46,268**	**48,831**	**114,747**	**105,849**

18. Provision for contingencies related to legal proceedings

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

The Company and its subsidiaries, during the regular course of their operations, are parties in several legal proceedings related to tax, social security, labor and civil matters. 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 assessment of the probability of loss includes the analysis of available evidence, the hierarchy of laws, the current jurisprudence, the latest decisions of courts of law on each subject matter, as well as the opinion of external legal advisers. The assessments are continuously reviewed.

The amount of provisions constituted on December 31, 2015 and 2014 is as follows:

	Parent Company		Consolidated	
	2015	2014	2015	2014
Tax	1,323	78	12,965	78
Labor	40,070	9,537	45,466	9,537
Civil	28,999	1,239	32,076	2,903
	70,392	**10,854**	**90,507**	**12,518**

The summary of main proceedings in progress is presented below.

Tax

In December 2006, Bematech filed for a writ of mandamus against the District Director of the Federal Revenue Service in Curitiba for the recognition of illegality/unconstitutionality of the inclusion of ICMS amounts in the PIS and COFINS calculation base. The lawsuit is currently in the Regional Federal Appellate Court of the 4th Region until the final decision of the full bench of the Federal Supreme Court on the matter. The updated amount for this lawsuit was R$7,645 on December 31, 2015 (R$7,107 on December 31, 2014).

Other lawsuits classified as probable loss deal with recovering tax dues that the Company considers improper. These lawsuits amount to R$5,320 on December 31, 2015 (R$78 on December 31, 2014).

Labor

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

These lawsuits totaled R$45,466 on December 31, 2015 (R$9,537 on December 31, 2014), there being no individually significant case.

Civil

Civil lawsuits classified as probable loss refer mainly to lawsuits filed by clients 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 client. The updated amount on December 31, 2015 is R$5,644. The Company appealed against the merits of the unfavorable decision and the amount involved.

(ii) Action for damages due to alleged pain and suffering and pecuniary loss and filed by client alleging problems in delivery of services. The updated probable amount is R$5,663 on December 31, 2015. The Company appealed against the merits of the unfavorable decision and the amount involved.

Other lawsuits amount to R$20,769 on December 31, 2015 (R$2,903 on December 31, 2014), there being no other individually significant cases.

a) Changes in provisions

The breakdown of provisions in the year ended December 31, 2015 and 2014 is as follows:

	Parent Company			
	Tax	**Labor**	**Civil**	**Total**
Balances on December 31, 2013	**645**	**5,546**	**992**	**7,183**
(+) Additional provision	-	4,374	420	4,794
(+) Monetary restatement	30	838	146	1,014
(-) Reversal of provision not used	(597)	(1,221)	(319)	(2,137)
Balances on December 31, 2014	**78**	**9,537**	**1,239**	**10,854**
(+) Additional provision	1,763	35,624	27,047	64,434
(+) Monetary restatement	(12)	130	808	926
(-) Payment/Reversal	(506)	(5,221)	(95)	(5,822)
Balances on December 31, 2015	**1,323**	**40,070**	**28,999**	**70,392**

	Consolidated			
	Tax	**Labor**	**Civil**	**Total**
Balances on December 31, 2013	**645**	**5,546**	**1,114**	**7,305**
(+) Additional provision	-	4,374	1,963	6,337
(+) Monetary restatement	30	838	267	1,135
(-) Reversal of provision not used	(597)	(1,221)	(441)	(2,259)
Balances on December 31, 2014	**78**	**9,537**	**2,903**	**12,518**
(+) Acquisition of subsidiary	12,691	5,415	2,943	21,049
(+) Additional provision	1,763	35,637	27,050	64,450
(+) Monetary restatement	134	206	980	1,320
(-) Payment/Reversal	(1,701)	(5,329)	(1,800)	(8,830)
Balances on December 31, 2015	**12,965**	**45,466**	**32,076**	**90,507**

At the end of 2015, the Company complemented its provisions by R$59,022 in General and Administrative Expenses, due to the change in accounting estimate related to the calculation of contingent losses deemed as probable associated to legal proceedings. The additional provision comprised of R$33,351 for labor lawsuits, R$24,386 for civil lawsuits and R$1,285 for tax lawsuits.

These provisions reflect management's best current estimate, which is based on information, external counsel's analyses and outcomes of previous legal proceedings in which the Company was defendant. This estimate is constantly reviewed by TOTVS's risk monitoring and control.

b) Judicial deposits

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

	Parent Company		Consolidated	
Judicial deposits	**2015**	**2014**	**2015**	**2014**
Tax	5,557	5,070	13,723	5,070
Labor	17,119	11,625	19,282	11,625
Civil	9,012	5,116	10,402	5,725
	31,688	**21,811**	**43,407**	**22,420**

18.2. Other ongoing proceedings (deemed as "possible" losses)

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	**2015**	**2014**	**2015**	**2014**
Tax	79, 204	40,539	97,861	52,142
Labor	69,022	25,534	76,717	29,289
Civil	237,312	147,826	248,788	149,076
	385,538	**213,899**	**423,366**	**230,507**

The summary of main proceedings in progress is presented below.

Tax

The Company continued in discussion of a motion to stay the tax enforcement of execution the unenforceability of NFLD, originally issued against Datasul S.A., whose amount on December 31, 2015 was R$7,689 (R$9,766 on December 31, 2014). The notification was imposed by the INSS due to alleged irregularities in outsourcing services. An appeal was filed against the outcome that partially decided that the motion to stay tax foreclosure is valid.

The Company was issued ISS assessment notices by the Municipality of São Paulo for the period from 1996 to 2000, in the restated amount of R$6,884 (R$6,336 on December 31, 2014). The assessments notices were maintained at the administrative level, since the Municipality of São Paulo understands that services provided by the Joinville branch office were actually within the boundaries of São Paulo.

With the beginning of tax foreclosure, the Company offered debt guarantee and filed a motion against it.

In 2012, the Company offset debts with CSLL negative balance, but offsets were fully disallowed. The statement of discontentment is pending judgment in the lower administrative court. The updated amount of this proceeding on December 31, 2015 was R$9,469. On December 31, 2014, the lawsuit was classified as remote loss.

As a result of inspection procedures of the Federal Revenue Service in 2006, the same 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 to taxable income. The tax deficiency notice was challenged and is currently awaiting judgment of voluntary appeal. The updated amount for this lawsuit was R$10,021 on December 31, 2015 (R$11,583 on December 31, 2014).

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 (client). TOTVS was considered jointly liable because the Company installed at the taxpayer a software that controls outflow of goods. The tax deficiency notice was challenged and currently awaits judgment in the lower administrative court. The updated amount for this lawsuit on December 31, 2015 was R$16,638.

The remaining tax cases classified as possible losses deal with recovering debt which the Company considers improper. These cases totaled R$47,160 on December 31, 2015 (R$24,457 on December 31, 2014).

Labor

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

These lawsuits totaled R$76,717 on December 31, 2015 (R$29,289 on December 31, 2014), there being no individually significant case.

Civil

The civil lawsuits classified 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 amount of R$52,569, is in the initial stage and was deemed as possible loss on December 31, 2015.

(ii) Action for damages due to alleged problems in delivery of services, for the amount of R$51,835 on December 31, 2015. The lawsuit is in the initial stage.

The other suits totaled R$144,384 on December 31, 2015 (R$149,076 on December 31, 2014), there being no other individually significant cases.

19. Equity

a) Capital

On December 31, 2015, the Company's capital was composed of 165,637,727 (163,467,071 on December 31, 2014) issued and fully paid common registered shares, with no par value, as follows:

	2015		2014	
Shareholders	**Shares**	**%**	**Shares**	%
LC-EH Empreendimentos e Participações	26,760,990	16.16%	26,760,990	16.37%
Fundação Petrobrás de Seguridade	16,042,359	9.69%	16,042,359	9.81%
Genesis Asset Managers LLP	8,436,429	5.09%	4,158,594	2.54%
Harris Associates LP	8,223,500	4.96%	3,291,800	2.01%
BNDES Participações S/A	7,444,986	4.49%	7,444,981	4.55%
Laércio José de Lucena Cosentino	1,910,618	1.15%	1,906,947	1.17%
Ernesto Mário Haberkorn	38,810	0.02%	29,710	0.02%
CSHG Senta Pua Fia	43,500	0.03%	43,500	0.03%
Others	94,537,260	57.08%	102,355,180	62.62%
Outstanding shares	163,438,452	98.67%	162,034,061	99.12%
Treasury Shares	2,199,275	1.33%	1,433,010	0.88%
Total in units	165,637,727	100.00%	163,467,071	100.00%

The authorized capital on December 31, 2015 was R$800,000. Additionally, within the authorized capital limit, and pursuant to the plans approved by the Shareholders Meeting, the Board of Directors may grant stock options to the Company's executives and employees, and to executives and employees of other companies that are direct or indirect subsidiaries of the Company, with no preemptive right to shareholders.

b) Capital reserves

The balance of capital reserves on December 31, 2015 and 2014 was broken down as follows:

	2015	2014
Goodwill reserve (a)	99,260	31,557
Goodwill reserve for merger	14,330	14,330
Premium on acquisition of non-controlling interest	(25,518)	(25,518)
Debentures converted into shares (fair value) (note 16)	44,629	44,629
Stock option plan (note 21)	26,512	27,495
	159,213	**92,493**

(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 occurred in October 2015.

c) Treasury shares

The Company has a share buyback program for the acquisition of shares issued by it, without capital reduction, for subsequent cancellation, disposal or to be held in treasury, for the purpose of increasing value for shareholders.

The acquisitions are made at market prices and the Board of Directors decides on the time and number of shares to be acquired under the program, whether in a single transaction or a series of transactions, observing the applicable legal limits and the established maximum number of 1,600,000 common shares.

On December 31, 2015 and 2014, the "Treasury Shares" item was as follows:

	Number of shares (units)	Value (in thousand)	Average price per share (in reais)
Balance on December 31, 2013	363,364	R$12,960	R$35.67
Acquired	2,170,586	R$79,275	R$36.52
Used	(1,100,940)	(R$40,023)	R$36.35
Balance on December 31, 2014	**1,433,010**	**R$52,212**	**R$36.44**
Acquired	1,600,005	R$48,872	R$30.54
Used	(833,740)	(R$30,072)	R$36.07
Balance on December 31, 2015	**2,199,275**	**R$71,012**	**R$32.29**

During the year ended December 31, 2015, the use of 833,740 treasury shares by the stock options plan consumed R$4,975 from the capital reserve.

20. Dividends and Interest on Equity

The Annual Shareholders Meeting held on March 30, 2015 decided on the distribution and payment of dividends related to fiscal year 2014, in the amount of R$124,367 paid starting from April 15, 2015.

On July 27, 2015, the Company's Board of Directors authorized distribution and payment of interest on equity amounting to R$29,196 relating to the 1st half of 2015 paid as of August 19, 2015.

On December 18, 2015, the Board of Directors authorized the distribution and payment of interest on equity to the Company's shareholders, in the amount of R$31,319, to be calculated towards to the minimum mandatory dividend for the year ended December 31, 2015.

	Parent Company	
	2015	**2014**
Net income for the year - Company	195,529	262,960
Accrual of legal reserve (article 193 of Law No. 6404)	(9,776)	(13,148)
Net income after legal reserve allocation	**185,753**	**249,812**
Minimum mandatory dividend – 25%	46,438	67,958
Additional dividends proposed by management	80,656	97,704
Dividends proposed by management	**127,094**	**165,662**
Payment:		
Interest on capital	60,515	41,295
Dividends	66,579	124,367
	127,094	**165,662**
Number of outstanding shares on December 31	163,438,452	162,034,061
Dividends and interest on equity per thousand shares - in reais	**0.78**	**1.02**

The balance of dividends and interest on equity payable of R$32,885 on December 31, 2015 (R$47,071 on December 31, 2014) 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 balance sheet as 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 by the Executive Board of the Company on December 31, 2015 and approved by the Board of Directors on March 15, 2016, *ad referendum* the Shareholders Meeting, allocates the total balance in the reserve account to retained earnings, in the amount of R$448,466 (R$389,807 on December 31, 2014), for the following:

Investments:	**2015**	**2014**
Expansion projects, replacement of assets	437,917	774,804
Total investments	**437,917**	**774,804**
Fonts:		
Retained earnings at December, 31		
Estimated cash to be generated from operating and financing activities for the next year (unaudited)	448,466	389,804
Total of fonts	(10,549)	385,000
	437,917	**774,804**

21. Stock option 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 stock options, 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, tying the granting of long-term incentives to the short-term results of the Company and the executives, and introduce the concept of a "Partners Program" which strengthens the power of retention of select strategic group. The Plan is administered by the Board of Directors of the Company, which establishes grant programs annually.

The plan approved at the ASM of November 29, 2012, effective in 2015, envisages the following incentive options:

(i) Regular options, whose strike prices will be the market price of the shares at the time of the grant of options, determined based on the average of the closing prices of the last five trading days preceding the date of grant; and

(ii) Restricted options, where the strike prices will be established after certain obligations have been met, which consists in the acquisition of Company shares using 100% of the amount received by the beneficiary in the year prior to profit sharing, net of income tax.

The fair value of each option granted is estimated at the grant date based on the Black-Scholes option pricing model. The main events relating to plans in force, the variables used in the calculations and the results are:

	Grant				Fair Value Assumptions			
					Expectation:			
Nº	Date	Number of options	Exercise price in reais	Fair value of shares in reais	Dividends	Volatility	Free interest rate risk	Term Maturity
6th	02.13.12	50,000	R$30.47	10.83	1.92%	32.82%	10.00%	3 years
7th	06.01.12	40,000	R$35.00	12.00	1.92%	32.82%	10.00%	3 years
8th	02.20.13	683,423	R$42.63	11.97	1.70%	30.09%	7.25%	3 years
9th	02.20.13	96,791	-	41.60	1.70%	30.09%	7.25%	3 years
10th	02.20.14	276,496	R$33.05	8.93	2.20%	29.51%	10.75%	3 years
11th	02.20.14	29,633	-	29.93	2.20%	29.51%	10.75%	3 years
12ª	02.20.15	225,425	R$35.60	11.36	2.60%	29.61%	12.75%	3 years
13ª	02.20.15	28,161	-	33.27	2.60%	29.61%	12.75%	3 years
14ª	04.02.15	33,751	R$35.60	12.12	2.60%	29.61%	13.00%	3 years
15ª	04.02.15	9,468	-	34.06	2.60%	29.61%	13.00%	3 years

Changes in options during the year are shown below:

	Parent Company and Consolidated			
	December 31, 2015		December 31, 2014	
	Amount (units)	Average Price (in reais)	Amount (units)	Average Price (in reais)
Balance of options at beginning of year	**1,732,518**	**32.14**	**2,770,782**	**30.00**
Transactions:				
Acquisition of subsidiary (*)	13,895	41.94	-	-
Exercised	(788,804)	29.80	(1,055,056)	25.71
Granted	296,805	31.09	306,129	29.85
Cancelled	(206,074)	32.81	(289,337)	32.68
Balance of shopping options at end of year	**1,048,340**	**33.36**	**1,732,518**	**32.14**

(*) As a result of the corporate restructuring referred to in Note 3.1, the Company absorbed the options granted and not exercised relating to Bematech's share-based compensation plan, which became effective under the same conditions and characteristics of TOTVS' plan.

On December 31, 2015, there were 83,895 vested options, since the period of 36 months from the date of the 6th and 7th grants had already elapsed.

The cumulative effect in the year ended December 31, 2015 was R$3,992 (R$5,557 on December 31, 2014), recorded as stock options expenses.

22. Insurance coverage

The Company and its subsidiaries, based on the opinion of their advisors, 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.

On December 31, 2015, the main insurances taken out were:

Type	Insurance Company	Effective		Maximum limit of Responsibility
		From	To	
Comprehensive corporate	AIG + ACE	June/2015	June /2016	R$78,267 and R$194,795
General civil liability	ACE	June /2015	June /2016	R$4,000
Vehicles	Itaú Seguros S.A.	January/2015	January /2016	(*) Fipe Table
D&O - Liability insurance of directors	ACE + AIG +XL	June /2015	June /2016	R$43,000 and R$80,000
E&O – Liability insurance of professionals	AIG	January /2015	January /2016	R$10,000
International transportation	Allianz	October/2015	October /2016	R$2,000

(*) Market value determined by FIPE - Institute of Economic Research.

23. Commitments assumed

23.1. Investments in Research and Development

Bematech has a commitment to invest annually in information technology research and development activities in Brazil. These commitments are required by the law on IPI tax benefits and government subsidy.

The amount to be invested must correspond to 3% to 4% of net sales in the domestic market of IT goods and services subject to incentives under the law. In this regard, Bematech must maintain the Basic Production Process (PPB) of the products authorized by Interministerial Decrees 770/05 and 109/02. On December 31, 2015, the amount invested was R$5,534, with an unrealized balance of R$261, which will be realized in the first quarter of 2016.

23.2. Operating lease

The Company and its subsidiaries have diverse operating lease agreements for offices, as well as its current head office, as mentioned in Note 10.2, in addition to sheds for the plant and warehouses. These lease agreements have an average duration between 5 and 10 years, with of them renewable at the end of the lease period at market rates. Most of the agreements can be canceled upon notice sent between 90 and 180 days in advance.

a) Commitments assumed

In October 2013, the Company signed an agreement with VIP VII – Empreendimentos e Participações Ltda., company formed by some direct or indirect members of TOTVS' board of directors, that is, a group's related party, to build and lease the new head office, with the purpose of integrating the company's facilities in the city of São Paulo, for at least 10 years from the date of delivery, which is expected in March 2017. The estimated amount for payment of rents in the first 10 months is R$202,833, agreed under usual market conditions.

24. Financial income and expenses

The financial income and expenses incurred for the years ended December 31, 2015 and 2014 were:

	Parent Company		Consolidated	
	2015	2014	2015	2014
Financial income				
Short-term investments yield	81,504	47,984	94,359	54,530
Exchange gains	1,809	1,789	3,920	3,425
Discounts obtained	102	682	607	1,155
Adjustment to present value	6,249	5,457	6,249	5,461
Interest received	6,440	4,807	7,118	5,178
Other financial income	1,523	1,343	8,912	1,259
	97,627	**62,062**	**121,165**	**71,008**

Financial expenses				
Interest incurred	(72,372)	(38,288)	(79,505)	(44,649)
Exchange losses	(3,918)	(14)	(5,998)	(1,439)
Bank commissions and fees	(3,751)	(2,545)	(4,411)	(2,856)
Discounts granted	(714)	(4,465)	(1,508)	(5,473)
Other financial expenses	(1,352)	(2,444)	(3,217)	(3,409)
	(82,107)	**(47,756)**	**(94,639)**	**(57,826)**
Net financial income (expenses)	**15,520**	**14,306**	**26,526**	**13,182**

25. Private pension plan – defined contribution

The Company offers the TOTVS Private Pension Plan, managed by Itaú Vida e Previdência, which receives contributions from the employees and the Company, described in the Program Membership Agreement. The three types of contribution 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.

26. Earnings per share

Basic earnings per share is calculated by dividing net income from 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 during the year plus the weighted average number of common shares that would be issued if all the potentially diluted common shares are converted into common shares:

	Parent Company and Consolidated	
	2015	2014
Basic earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	195,529	262,960
Denominator		
(in thousands of shares)		
Weighted average number of common shares outstanding	162,570	162,872
Basic earnings per share – in reais	**1.20**	**1.61**
Diluted earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	195,529	262,960
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	162,570	162,872
Weighted average number of stock options	1,443	2,289
Weighted average number of common shares adjusted according to dilution effect	164,013	165,161
Diluted earnings per share – in reais	**1.19**	**1.59**

27. Expenses by nature

The Company presents below the information on operating expenses by nature for the years ended December 31, 2015 and 2014.

	Parent Company		Consolidated	
Nature	**2015**	**2014**	**2015**	**2014**
Salaries, benefits and payroll charges	586,644	543,970	742,803	659,122
Outsourced services and other inputs	446,785	367,052	570,495	428,780
Commissions	138,075	142,175	155,981	154,986
Depreciation and amortization	70,894	69,249	103,660	88,928
Rents	23,235	24,218	31,963	30,520
Allowance for doubtful accounts	30,192	24,297	34,562	27,565
Other	36,238	28,419	40,890	34,887
Total	**1,332,063**	**1,199,380**	**1,680,354**	**1,424,788**

28. Gross sales revenue

Below is information about gross revenue and respective deductions for calculation of net revenues presented in the Company's Income Statements for the years ended December 31, 2015 and 2014.

	Parent Company		Consolidated	
	2015	2014	2015	2014
Gross revenue	**1,728,873**	**1,703,264**	**2,117,167**	**1,956,954**
License fees	226,739	280,424	271,591	331,909
Service	498,513	477,989	622,582	577,502
Subscription	93,950	86,540	153,303	113,064
Maintenance	909,671	858,311	1,007,383	934,479
Hardware	-	-	62,308	-
Deductions	**(171,028)**	**(161,825)**	**(208,430)**	**(184,507)**
Cancellations of sales	(18,366)	(17,299)	(22,422)	(22,482)
Sales tax	(152,662)	(144,526)	(186,008)	(162,025)
Net revenues	**1,557,845**	**1,541,439**	**1,908,737**	**1,772,447**

Accumulated sales for the year refer to operations in Mexico and Argentina amounting to R$41,181 on December 31, 2015 (R$33,423 on December 31, 2014).

* * *

AUDIT COMMITTEE REPORT

Introduction

In accordance with its charter, the Audit Committee is charged with the processes and management of the internal and external audit, the mechanisms and controls related to risk management and the alignment of the financial policies with the strategic guidelines and risk profile of the business, ensuring the quality and integrity of the Company's financial statements, and making recommendations to the Management regarding the approval of financial reports and any actions to improve the internal controls and to reduce risks.

The Audit Committee is formed by three members (one independent member and two external independent members), who are currently in the full exercise of their terms of office.

Activities of the Audit Committee

The committee met ordinarily fourteen (14) times during the period from February 2015 and March 2016 and five (5) times extraordinarily. It discussed 120 topics with the officers, directors, internal auditors, independent auditors and external advisors.

In this period, the Audit Committee also held two private meetings with the independent auditor, two meetings with the chairman and one meeting with the CEO to discuss the main topics accompanied during the year.

Topics discussed by the Audit Committee

The Audit Committee held meetings with officers, directors, internal auditors and independent auditors to understand the processes, internal controls, strategic risks, possible deficiencies and any plans for improvement, and to submit its recommendations to the Board of Directors and the Board of Executive Officers. The main topics discussed in these meetings were:

- **Independent Audit**

  - Discussion of the proposal and recommendation on the approval of the rehiring of the independent auditors;
  - Planning, scope and main findings of the quarterly reviews and report on the financial statements for fiscal year 2015;
  - Deficiencies and recommendations for improving the internal controls indicated in the report;
  - Findings and recommendations of the report on the effectiveness of the controls for general information technology (ISAE 3402/15);
  - Updating of the accounting policies, in particular IFRS 15, which addresses revenue recognition;
  - Monitoring of the independence of the external audit form for the performance of its audit work;
  - Main points of concern on the issue of the quarterly and annual report, in addition to the methodology used by the independent auditor for identifying significant distortions.

- **Internal Audit**

  - Discussion and approval of the annual plan for the internal audit;
  - Accompanying the work of the internal audit at the Company's various units as well as at its franchises, to assess the critical points identified by the auditors, the justifications and accompanying the implementation of any action plans by those responsible for the most relevant cases, in face-to-face meetings;
  - Accompanying the relevant investigations conducted by the internal audit department.

- **TOTVS Conduct and Ethics Committee**

  - Accompanying the activities of the Conduct and Ethics Committee and evaluating any cases of whistleblowing received and the measures adopted by Management;
  - Face-to-face discussions of the main cases, the approach and the investigation format.

- **Internal controls, corporate risk management, ombudsman and clients**

  - Accompanying the project for mapping key processes, controls and the modernization of management;
  - Discussion and accompaniment of the Company's strategic risk management in face-to-face meetings with the managers of each risk and findings of the risk assessment carried out in the year;
  - Accompaniment of the performance of maintenance and subscription revenue and client churn.
  - Accompaniment of project to revitalize customer service, especially the Atitude Q project to improve customer satisfaction with the service provided by the Company;
  - Accompaniment of the customer satisfaction indicators (net promoter score - NPS).

- **Mergers and acquisitions**

  - Accompaniment and recommendations to the board of directors regarding M&A opportunities and details on transactions involving mergers and acquisitions, including valuation, risk assessment and due diligence reports;
  - Discussion and recommendation of the granting of loans to the investee companies and franchises. Assessment of the risks and guarantees for capital injections;
  - Accompaniment of the results of the acquired companies.

- **Financial management and indicators**

  - Review of the policy and procedures for credit analysis;
  - Evaluation and recommendation for the approval of proposals for the payment of interest on equity;
  - Review and monitoring of compliance with the Company's financial and investment policies;
  - Discussion and evaluation of the methodology for recognizing revenue and cost of services;
  - Accompaniment of the estimates for losses from doubtful accounts;
  - Evaluation of the share repurchase program proposed by management;
  - Evaluation of the proposals for stock options and the impacts of Federal Law 12,973/74;
  - Discussion of the key financial and performance indicators and the respective repercussions for the Company's business areas and segments;
  - Financial impacts of changes in legislation, especially those arising from the Brasil Maior plan;

- Discussion and accompaniment of the Company's losses map;
- Proposals by the Company for assuming the guarantees for loans and debentures that are the responsibility of the acquired company;
- Understanding the assumptions and challenges for preparing the Company's annual budget.

- **Corporate governance and other issues**

  - Opinion on Company's quarterly and annual financial statements;
  - Discussion of the contents of notices to the market, press releases, material fact notices and earnings presentations to the market, including the reference form;
  - Review and updating of the charter of the audit committee;
  - Monitoring of the treatment by the Company of labor risks and implications;
  - Accompaniment of the adoption of policies and practices by the Company and its employees and managers to ensure compliance with the anticorruption law;
  - Monitoring of the results of impairment testing;
  - Acknowledgement and assessment of the risks of the executive compensation policy;
  - Accompaniment of the topics and decisions of the Tax Committee;
  - Review of information disclosure and security trading policies, including the treatment of strategic risk of insider trading;
  - Review and discussion of the company's crisis management plan;
  - Review of management's questioning and responses concerning the official letters of regulatory agencies;
  - Accompaniment of the behavior of TOTVS stock in the market.

- **Provisions and contingent liabilities and assets**

  - Verification of compliance with CVM Resolution 594 regarding provisions and contingent liabilities and assets;
  - Evaluation and recommendations, following the engagement of expert external advisors, regarding the processes and controls related to monitoring and managing administrative proceedings and lawsuits and the calculation of provisions;
  - Discussion and accompaniment of the main lawsuits and the quality of management's judgment regarding the probabilities of the outcomes.

- **Information technology, information security and Cloud**

  - Discussion and accompaniment of action plans to improve the Company's controls for access profiles and the segregation of functions;
  - Awareness and accompaniment up of the results of the information security risk assessment and the respective action plan for enhancing IT controls.

Report of the Audit Committee

Annual Financial Statements for 2015:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal responsibilities and powers, in accordance with the Charter of the Audit Committee, examined and analyzed the financial statements, accompanied by report of the independent auditors and the annual report from Management for the fiscal year ended December 31, 2015 ("Annual Financial Statements for 2015") and, considering the information provided by Management of the Company and by PwC Auditores Independentes, as well as the proposed allocation of the earnings for fiscal year 2015, 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 Brazilian Corporation Law.

São Paulo, March 15, 2016

Maria Helena Santana
Chair of the Audit Committee and representative of the Board of Directors

Charles Barnsley Holland
Member of the Audit Committee

Gilberto Mifano
Member of the Audit Committee