TOTVS S.A.

Financial Statements

December 31, 2013 and 2012

Contents

Management report and comments on Company's performance 03

Independent auditor's report.....09

Audited financial statements:

- Balance sheets 11
- Income statements..... 12
- Statements of comprehensive income 13
- Statements of changes in Shareholder's Equity 14
- Cash flow statements.....15
- Statements of value added 17
- Notes to financial statements 18

Business projection comments 86

Audit Committee Opinion 88

MANAGEMENT REPORT AND COMMENTS ON COMPANY'S PERFORMANCE

Dear Shareholders,

Pursuant to legal provisions, TOTVS S.A., Latin America's largest developer of application software, the world's 6th largest ERP developer, the leader in emerging markets and the absolute leader in Brazil, 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, 2013 and 2012, prepared in accordance with the Brazilian accounting practices.

MESSAGE FROM MANAGEMENT

The year of 2013 showed the resilience of TOTVS business model, which increased both revenue and net income, maintaining the high level of its clients´ loyalty and the strong cash generation, despite the complex macroeconomic scenario of the year. Additionally, the Company increased its investment capacity and its capital structure efficiency by hiring from BNDES a financing line of R$658,601 thousand.

Sales growth was below TOTVS´ expectations, especially in license sales to new clients, reflecting the greater conservatism of Brazilian companies, most strongly in industry-oriented sectors. Despite this scenario, the Management decided to keep its accelerated and fundamental investments to create new growth cycles for TOTVS in the medium and long term. This combination of sales below expectations and increased investments contributed to the reduction of the Company´s operational efficiency in 2013.

Organic and inorganic investments are mainly related to the TOTVS´s industry-orientation strategy to add knowledge about the particularities of the 10 major economic industry sectors. This strategy has proven to work, since TOTVS has been able to provide solutions increasingly essential to its clients´ activities, capturing the different sectorial dynamics and increasing its share in sectors with higher growth potential.

Management currently practices and will intensify the austerity in managing costs and expenses in the short term, aiming to gain operational efficiency without risking the new growth cycles in the medium and long term.

ECONOMIC SCENARIO

In 2013, the Chinese GDP maintained the same growth level of 2012, when it reached its lowest level of growth in 14 years. The European economy emerged from the recession, but still indicating a slow recovery and high unemployment records. In the United States, the economic recovery gained a little more strength and the government stated that it would gradually reduce the economic incentives. In Latin America, the economic growth was once again modest, with presidential elections in many countries, such as Venezuela, Chile and Ecuador.

In Brazil, inflation ended the year at 5.91%, above the target of 4.5% projected by the government. Thus, the scenario of low interest rates was not sustained. The Selic rate, which started the year at 7.25%, reached 10.0% in December.

Despite the inflation above the target and the interest rate increase, the Brazilian economy raised its growth rate, ending 2013 with estimated GDP growth of 2.3%, against 1.0% in 2012, mainly due to sectors more service-oriented. The unemployment rate, which fell to the lowest level in its history in 2013, also contributed to GDP growth, in addition to the increase of labor cost in the country.

This economic scenario of high labor cost, above-target inflation and moderate growth shows the need for companies to seek efficiency gains in its operations to maintain their competitiveness. Thus, the companies' investments in information technology tend to be positively affected, but the need for investments in infrastructure, technology and education are also essential for the Brazilian economy sustainable growth.

CONSOLIDATED FINANCIAL AND OPERATING PERFORMANCE

The Company ended 2013 with net income of R$223,100 thousand, breaking once again the record set in the previous year, increasing 7.7%. TOTVS achieved EBITDA* (earnings before interest, taxes, depreciation and amortization) of R$402,078 thousand in 2013, the highest in its history. The Company maintained its steady growth in all revenue lines despite the unfavorable economic moment, which influenced in a more relevant way certain sectors more industry-oriented and larger companies.

In 2013, the Company net revenue totaled R$1,611,794 thousand, an increase of 14% over 2012. This growth is due to (i) the growth of the software market, (ii) the Company's initiatives to capture the growth of the software market, including the specialization by industry sector in the development and sales teams, which are still in progress, and (iii) the acquisitions made in 2013.

License fees increased by 5.6% between 2012 and 2013. In 2013, the growth in license fees was concentrated in sales to existing clients, which grew 12.3% over 2012, mainly due to the growth of 13.6% in the number of sales to existing clients. The decrease in sales to new clients is mainly due to the 13.1% reduction in the average value of sales, a consequence of the decrease in sales to larger clients and the performance below the historical average of sales to industry sectors that are currently facing economic difficulties.

Such increase, below the Company´s expectations for 2013, resulted in a lower growth of this revenue line when compared to others. Thus, the share of net revenue from license fees on the total net revenue decreased from 23.3% in 2012 to 21.6% in 2013.

Services increased 15.9% in 2013, totaling R$480,655 thousand. This growth, higher than the growth of license fees, is mainly explained by the variation in the license sales mix between franchises and own channels and by the constant efforts to increase the service team performance, especially those related to software implementation. Net service revenues represented 29.8% of total net revenues, against 29.3% in 2012.

Net revenues from maintenance totaled R$783,331 thousand in 2013, an increase of 17% over 2012. The growth in maintenance revenue primarily resulted from sales of licenses from previous quarters and the

retention of maintenance contracts, which are subject to annual adjustment based on pre-defined levels of inflation, mostly IGP-M. This strong growth has resulted in an increase of 1.2 percentage points in the share of net revenue from maintenance, reaching 48.6% of share.

The operating costs and expenses excluding depreciation and amortization increased by 16.8% between 2012 and 2013, higher than the 14.0% growth in net revenues, reflecting the investments made by the Company in 2013, mainly targeting innovation and the industry specialization of the development and sales teams.

The cost of license fees amounted R$74,569 thousand, an increase of 33.2% compared to 2012, increasing its participation on net revenues in 0.6 percentage points, to 4.6%. This growth was mainly influenced by the increase in solutions developed by partners that are integrated within TOTVS solutions.

Cost of services and sales increased by 16.4% in 2013, higher than the 15.9% of services revenue growth in the period, and now represents 29.0% of net revenue, compared to 28.3% in 2012. This growth is mainly the consequence of the operational efficiency decrease of the service teams in the first half of 2013.

Research and development expenses amounted to R$213,602 thousand in 2013, a growth of 22.5% over 2012 and now represents 13.3% of net revenues, compared to 12.3% in 2012. This growth is the consequence of the intensive investments mainly related to the specialization of the solutions segment.

Advertising expenses increased by 31.5% in 2013, representing 2.8% of net revenues, compared to 2.4% in the previous period. This level of 2.8% is in line with the Company's history and reflects the communication plan for the year, which addressed the efforts to increase TOTVS´s brand recognition, the 22th most valuable brand in Brazil.

Selling expenses totaled R$107,432 thousand in the year, an increase of 22%, increasing its participation on net revenues by 0.5 percentage points. This growth reflects mainly the investments in vertical and horizontal segmentation of the sales teams, both in training the sales team and the back office structure.

Commission expenses increased by 9.3% in 2013, totaling R$154,144 thousand. This growth, lower than the net revenue growth, was influenced by the sales mix during the year.

General and administrative expenses (G&A) grew 15.6% in 2013, totaling R$95,809 thousand. This growth, higher than the growth in net revenues, is mainly due to wage increases, the hiring over the period and the infrastructure spending annual adjustments.

Management fees decreased 18.0% between 2012 and 2013, from 2.5% of net revenues in 2012 to 1.8% in 2013. This reduction was mainly influenced by the changes in the executive board in 2013.

The allowance for doubtful accounts totaled R$23,652 thousand in 2013, an increase of 1.8% over 2012. This line of spending represented 1.5% of net revenues in 2013, compared to 1.6% in 2012, still higher than historical levels for this line.

Depreciation and amortization totaled R$82,558 thousand in 2013, compared to R$81,228 thousand in 2012, representing a growth of 1.6%. This line includes mainly the amortization of intangible assets resulting from acquisitions.

Financial expenses, net from financial revenues, reached R$2,657 thousand, a decrease of 69.2% compared to R$8,623 thousand in 2012. This decrease is mainly due to the reduction of expenditure on mark to market of convertible debentures, since the portion of convertible debentures reached the maximum conversion of 60% in 2013.

Income tax and social contribution grew 15.1% in 2013, 5.3 percentage points higher than the growth of Earnings Before Taxes, totaling R$93,267 thousand. This growth was mainly impacted by the decrease in the "Lei do Bem" benefit on investments in innovation and by the decrease in the tax benefit from interest on equity.

Net income reached R$223.100 thousand in 2013, an increase of 7.7% when compared to 2012. The Company's net income margin was 13.8% in 2013, compared to 14.7% in 2012. The reduction in net margin is due to the 6.4% growth in EBITDA, lower than the 14% of growth in net revenues, the reduction of financial expenses in the period and the increase in the effective tax rate.

CAPITAL MARKETS

Free float on December 31, 2013 was 67.8%. The remaining shares are held by the Company's administrators, including related persons and companies controlled by them (17.6%), BNDES Participacoes (4.6%), Fundação Petrobas de Seguridade Social – PETROS (9.8%) and shares held in treasury.

In 2013, TOTVS' shares (BM&FBovespa: TOTS3) depreciated 8.5%, while IBovespa depreciated 15.5%.

Average daily traded volume in 2013 was R$18,500 thousand/day, compared to R$15,300 thousand/day in 2012, a 21.3% increase.

Interest on equity for the year 2013: On July 30, 2013, the Company declared to its shareholders the approval of interest on equity of R$21,508 thousand for the first semester of 2013, having made entitled do the benefit the shareholders of TOTVS as such on August 01, 2013. Interest on equity was paid on August 28, 2013.

On December 19, 2013, the Company declared to its shareholders the approval of interest on equity of R$18,337 thousand for the second semester of 2013, having made entitled do the benefit the shareholders of TOTVS as such on December 23, 2013. Interest on equity was paid on January 15, 2014.

The payment is related to the fiscal year of 2013 and was imputed to the minimum mandatory dividend in accordance with Article 37 of TOTVS' Bylaws.

Interest on equity for the year 2012: On December 20, 2012, the Company declared to its shareholders the approval of interest on equity of R$40,200 thousand for the year 2012, having made entitled do the benefit the shareholders of TOTVS as such on December 20, 2012. Interest on equity was paid on January 17, 2013.

The payment is related to the fiscal year of 2012 and was imputed to the minimum mandatory dividend in accordance with Article 37 of TOTVS' Bylaws.

Dividends for 2012: proposed by the Board of Directors on January 24, 2013, and approved at the Ordinary General Meeting on March 05, 2013, totaled R$77,800 thousand, having made entitled to the benefit the shareholders of TOTVS as such on March 05, 2013. The dividend was paid on April 10, 2013.

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 7 members, 6 of them external and independent members, in accordance with Novo Mercado regulations. 16 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 www.totvs.com/ri.

Audit Committee: aids the Board of Directors in conducting the Company's business in the best possible manner and, in accordance with the best market practices, the Company's internal and external audit. The committee currently has 3 external independent members, who were elected by 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 4 members, of which 2 are independent.

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, 2013.

RELATIONSHIP WITH INDEPENDENT AUDITORS

The Company's policy in engaging services not related to external auditing from independent auditors is grounded on the principles that rule its independence. These principles consist of internationally accepted standards, namely: (a) auditors must not audit their own work; (b) auditors must not occupy the position of manager in their clients; and (c) auditors must not generate conflicts of interest with their clients.

Procedures adopted by the Company, as per item III, article 2 of CVM Rule 381/03: The Company and its subsidiaries adopt as a formal procedure to consult with the independent auditors prior to engaging other professional services other than those related to the external accounting audit, aiming to ensure that the execution of these other services does not affect their independence and objectivity, necessary for the execution of independent audit services, as well as to obtain the approval of its Audit Committee. In addition, formal statements from these auditors as to their independence in the execution of the non-auditing services are required.

Other services were provided in addition to those related to the audit of the financial statements in 2013. The fees for these services totaled R$296,000 thousand, representing 39.9% of total fees related to external audit.

ACKNOWLEDGEMENTS

We thank all those who contributed to the Company's success in 2013, especially our employees, our clients, our partners and our shareholders.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of TOTVS S.A. ("Company" or "Parent Company"), which comprise the balance sheet as at December 31, 2013 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, 2013 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 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, 2013, 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, 2013, and their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of matter

As discussed in Note 2.1(b) to these financial statements, the parent company financial statements have been prepared in accordance with accounting practices adopted in Brazil. In the case of TOTVS S.A., these practices differ from IFRS applicable to separate financial statements only in relation to the measurement of investments in subsidiaries based on equity accounting, while IFRS requires measurement based on cost or fair value. Our opinion is not qualified in respect of this matter.

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, 2013, 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. 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, January 27, 2014

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, 2013 and 2012

(In thousands of reais)

	Parent Company		Consolidated	
Assets	**2013**	**2012**	**2013**	**2012**
Current assets	**855,578**	**700,546**	**941,748**	**744,980**
Cash and cash equivalents (Note 5)	506,886	398,753	533,063	412,408
Marketable securities (Note 6)	7,428	10,168	13,277	10,168
Trade accounts receivable (Note 7)	357,155	306,644	404,985	333,609
Allowance for doubtful accounts (Note 7)	(34,639)	(39,166)	(39,765)	(44,014)
Taxes recoverable (Note 8)	1,476	13,993	7,634	19,506
Other assets	17,272	10,154	22,554	13,303
Non-current assets	**868,563**	**706,667**	**907,032**	**675,641**
Long-term assets	**93,547**	**109,700**	**204,451**	**129,996**
Marketable securities (Note 6)	15,297	13,123	61,322	13,123
Financial assets at fair value (Note 4)	-	-	36,332	-
Receivables from related parties (Note 10)	3,139	2,251	-	-
Trade accounts receivable (Note 7)	22,633	38,070	24,126	39,583
Deferred income and social contribution taxes (Note 9)	25,463	37,818	48,707	58,001
Judicial deposits (Note 18)	14,616	7,831	14,616	7,831
Other assets	12,399	10,607	19,348	11,458
Investments (Note 11)	265,920	65,979	-	-
Property, plant and equipment (Note 12)	60,393	53,961	70,674	58,089
Intangible assets (Note 13)	448,703	477,027	631,907	487,556
Total assets	**1,724,141**	**1,407,213**	**1,848,780**	**1,420,621**

	Parent Company		Consolidated	
Liabilities and equity	**2013**	**2012**	**2013**	**2012**
Current liabilities	**277,528**	**322,052**	**367,653**	**334,016**
Labor and social security liabilities (Note 14)	83,394	88,639	99,552	95,072
Trade accounts payable	27,539	26,277	33,149	30,281
Loans and financing (Note 15)	55,127	53,851	56,443	54,399
Taxes payable	11,127	3,091	13,836	3,518
Commissions payable	56,409	44,872	57,584	45,382
Dividends payable	32,012	49,681	32,067	49,681
Liabilities from acquisition of investments (Note 17)	8,530	11,399	63,717	11,399
Debentures (Note 16)	1,805	42,930	1,805	42,930
Other liabilities	1,585	1,312	9,500	1,354
Non-current liabilities	**378,992**	**172,015**	**411,289**	**173,459**
Loans and financing (Note 15)	250,000	51,068	250,000	51,068
Debentures (Note 16)	102,400	99,747	102,400	99,747
Provision for losses on investments (Note 11)		1,365	355	
Tax payable	-	-	1,064	-
Provision for contingencies and legal obligations related to legal proceedings (Note 18)	7,183	6,370	7,305	6,370
Liabilities from acquisition of investments (Note 17)	19,409	13,465	45,830	13,465
Other liabilities	-	-	4,335	2,809
Equity (Note 19)	**1,067,621**	**913,146**	**1,069,838**	**913,146**
Capital	526,592	480,598	526,592	480,598
Treasury shares	(12,960)	-	(12,960)	-
Capital reserves	98,327	78,241	98,327	78,241
Other comprehensive income results	(1,720)	(2,213)	(1,720)	(2,213)
Retained profit reserve	354,470	287,717	354,470	287,717
Proposed additional dividend	102,912	68,803	102,912	68,803
Non-controlling interests	-	-	**2,217**	-
Total liabilities and equity	**1,724,141**	**1,407,213**	**1,848,780**	**1,420,621**

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, 2013 and 2012

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

	Parent Company		Consolidated	
	2013	2012	2013	2012
Net revenue from services and sales (Note 27)				
License fees	307,769	269,107	347,808	329,424
Services	399,619	299,238	480,655	414,871
Maintenance	730,943	653,231	783,331	669,681
	1,438,331	**1,221,576**	**1,611,794**	**1,413,976**
Cost of license fees (Note 26)	(68,350)	(50,837)	(74,569)	(55,969)
Cost of services and maintenance (Note 26)	(381,770)	(312,970)	(466,727)	(400,851)
Gross profit	**988,211**	**857,769**	**1,070,498**	**957,156**
Operating income (expenses)				
Research and development (Note 26)	(188,981)	(146,700)	(213,602)	(174,332)
Advertising expenses (Note 26)	(37,555)	(30,110)	(44,650)	(33,942)
Selling expenses (Note 26)	(81,923)	(67,366)	(107,432)	(88,058)
Commissions (Note 26)	(146,588)	(134,762)	(154,144)	(141,014)
General and administrative expenses (Note 26)	(81,052)	(72,277)	(95,809)	(82,875)
Management fees (Note 10)	(23,452)	(34,247)	(28,734)	(35,046)
Depreciation and amortization (Notes 12 and 13)	(69,924)	(75,324)	(82,558)	(81,228)
Allowance for doubtful accounts (Note 7)	(20,275)	(20,787)	(23,652)	(23,234)
Other net operating income (expenses) (Note 26)	(567)	(324)	(397)	(607)
Income before financial effects and equity pickup	**337,894**	**275,872**	**319,520**	**296,820**
Financial income (Note 23)	36,427	40,699	40,459	45,415
Financial expenses (Note 23)	(37,147)	(51,802)	(43,116)	(54,038)
Equity pick-up (Note 11)	(20,494)	9,343	(496)	-
Income before income tax and social contribution	**316,680**	**274,112**	**316,367**	**288,197**
Income tax and social contribution Current (Note 9)	(83,230)	(78,489)	(90,277)	(89,958)
Income tax and social contribution Deferred (Note 9)	(10,938)	11,525	(2,990)	8,909
Total of Income tax and social contribution	(94,168)	(66,964)	(93,267)	(81,049)
Net income for the year	**222,512**	**207,148**	**223,100**	**207,148**
Net income attributable to the owners of Company	**222,512**	**207,148**	**222,512**	**207,148**
Net income attributable to non-controlling interest	**-**	**-**	**588**	**-**
Basic earnings per thousand shares (in Reais)	1.37	1.29	1.37	1.29
Diluted earnings per thousand shares (in Reais)	1.34	1.25	1.34	1.25

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

TOTVS S.A.

Statements of comprehensive income
Years ended December 31, 2013 and 2012

(In thousands of Reais)

	Parent Company	
	2013	**2012**
Net income for the year	**222,512**	**207,148**
Exchange variations on foreign investments	747	528
Deferred income tax	(254)	(183)
Exchange variations on foreign investments, net of tax effects	**493**	**345**
Comprehensive income for the year	**223,005**	**207,493**

	Consolidated	
	2013	**2012**
Net income for the year	**223,100**	**207,148**
Exchange variations on foreign investments	747	528
Deferred income tax	(254)	(183)
Exchange variations on foreign investments, net of taxes effects	**493**	**345**
Comprehensive income for the year	**223,593**	**207,493**
Net income for the year attributable to controlling shareholders	223,005	207,493
Attributable to non-controlling interest	588	-

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, 2013 and 2012

(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
Balances at December 31, 2011	443,702	(25,518)	76,275	27,330	171,240	-	(2,558)	-	59,396	749,867	-	749,867
Capital transactions with partners						-						
Share issue through exercise of stock option	6,898	-	-	-	-	-	-	-	-	6,898	-	6,898
Stock option plan	-	-	9,004	-	-	-	-	-	-	9,004	-	9,004
Dividends	-	-	-	-	-	-	-	(8,998)	(59,396)	(68,394)	-	(68,394)
Proposed Additional Dividend – exceeding the mandatory minimum	-	-	-	-	-	-	-	(68,803)	68,803	-	-	-
Interest on equity – distributed	-	-	-	-	-	-	-	(40,200)	-	(40,200)	-	(40,200)
Debentures converted into shares	29,998	-	18,480	-	-	-	-	-	-	48,478	-	48,478
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**345**	**207,148**	**-**	**207,493**	**-**	**207,493**
Net income for the year	-	-	-	-	-	-	-	207,148	-	207,148	-	207,148
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	-	345	-	-	345	-	345
Reserves set up	-	-	**-**	**10,357**	**78,790**	**-**	**-**	**(89,147)**	**-**	**-**	**-**	**-**
Balance at December 31, 2012	**480,598**	**(25,518)**	**103,759**	**37,687**	**250,030**	**-**	**(2,213)**	**-**	**68,803**	**913,146**	**-**	**913,146**
Capital transactions with partners											-	
Share issue through exercise of stock option	15,994	-	-	-	-	-	-	-	-	15,994	-	15,994
Stock option plan	-	-	7,898	-	-	-	-	-	-	7,898	-	7,898
Dividends	-	-	-	-	-	-	-	(13,002)	(68,803)	(81,805)	-	(81,805)
Proposed Additional Dividend – exceeding the mandatory minimum	-	-	-	-	-		-	(102,912)	102,912	-	-	-
Interest on capital – distributed	-	-	-	-	-	-	-	(39,845)	-	(39,845)	-	(39,845)
Debentures converted into shares	30,000	-	12,431	-	-	-	-	-	-	42,431	-	42,431
Purchase of treasury shares	-	-	-	-	-	(13,617)	-	-	-	(13,617)	-	(13,617)
Disposal of treasury shares	-	-	(243)	-	-	657	-	-	-	414	-	414
Acquisitions of subsidiaries	-	-	-	-	-	-	-	-	-	-	1,629	1,629
Total comprehensive income							**493**	**222,512**		**223,005**	**588**	**223,593**
Net income for the year	-	-	-	-	-	-	-	222,512	-	222,512	588	223,100
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	-	493	-	-	493	-	493
Reserves set up	**-**	**-**	**-**	**11,126**	**55,627**	**-**	**-**	**(66,753)**	**-**	**-**	**-**	**-**
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**

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

TOTVS S.A.
Statement of cash flow
Years ended December 31, 2013 and 2012
(In thousands of Reais)

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Cash flow from operating activities				
Profit before Taxation Income and Social Contribution	**316,680**	**274,112**	**316,367**	**288,197**
Adjustments for:				
Depreciation and amortization (Notes 12 and 13)	69,924	75,324	82,558	81,228
Share-based payments (Note 22)	7,898	9,004	7,898	9,004
(Gains) losses on sale of fixed assets	1,553	(1,280)	2,507	7,259
Allowance for doubtful accounts (Note 7)	20,275	20,787	23,652	23,234
Equity pick up (Note 11)	20,494	(9,343)	496	-
Provision for contingencies and legal obligations	813	3,782	935	3,782
Interest and monetary and exchange variations, net	18,039	33,600	17,489	33,680
Changes in operating assets and liabilities:				
Trade accounts receivable	(59,876)	(58,814)	(73,507)	(65,769)
Other assets	(7,000)	(1,750)	(10,276)	(1,310)
Judicial deposits	(6,785)	(3,372)	(6,627)	(3,372)
Labor and social security liabilities	(5,245)	21,916	(6,586)	22,087
Taxes recoverable	12,517	12,128	14,293	10,761
Suppliers	1,262	9,971	(697)	10,746
Commission payable	11,537	3,592	11,585	2,185
Taxes payable	(39,646)	(31,346)	(39,377)	(43,033)
Other accounts payable	272	(837)	4,911	(828)
Cash flow provided by operations	**362,712**	**357,474**	**345,621**	**377,851**
Interest paid	(13,392)	(21,104)	(20,414)	(21,104)
Income tax and social contributions paid	(35,548)	(48,922)	(42,981)	(49,951)
Net cash provided by operating activities	**313,772**	**287,448**	**282,226**	**306,796**
Cash flow provided by investment activities				
Additions to investments in subsidiaries (Note 11)	(221,052)	(27,817)	-	-
Increase in intangible assets (Note 13)	(22,052)	(8,466)	(162,658)	(9,999)
Value of fixed assets sale	-	1,042	-	1,042
Acquisitions of subsidiaries, net of cash obtained in the acquisitions	-	-	9,879	-
Dividends received	-	11,909	-	-
Acquisitions of fixed assets (Note 12)	(23,892)	(17,031)	(29,019)	(25,834)
Investments at fair value	-	-	(36,332)	-
Net cash used in investment activities	**(266,996)**	**(40.363)**	**(218,130)**	**(34,791)**

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

TOTVS S.A.
Statement of cash flow
Years ended December 31, 2013 and 2012

(In thousands of Reais)

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Cash flow from financing activities				
Payment of principal on loans and financing	(51,227)	(52,914)	(70,212)	(54,010)
Receivables from related companies	(888)	23,908	(260)	-
Dividends and interest on capital paid	(139,319)	(99,383)	(139,661)	(99,383)
New loans and financing	250,000	-	263,901	-
Purchase of treasury shares	(13,617)	-	(13,617)	-
Disposal of treasury shares	414	-	414	-
Obligations related to leasing	-	(169)	-	(181)
Paid-in capital (Note 19)	15,994	6,898	15,994	6,898
Net cash generated (used) in financing activities	**61,357**	**(121,660)**	**56,559**	**(146,676)**
Increase in cash and cash equivalents	**108,133**	**125,425**	**120,655**	**125,329**
Cash and cash equivalents provided by incorporated subsidiaries	-	51,430	-	-
Cash and cash equivalents at beginning of year	398,753	221,898	412,408	287,079
Cash and cash equivalents at the end of the year	**506,886**	**398,753**	**533,063**	**412,408**

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

TOTVS S.A.
Statement of Value Added
Years ended December 31, 2013 and 2012

(In thousands of Reais)

	Parent Company		Consolidated	
	2013	2012	2013	2012
1 – REVENUES	**1,550,214**	**1,309,604**	**1,733,401**	**1,513,303**
1.1 Sales of goods, products and services	1,571,058	1,330,738	1,757,434	1,537,144
1.2 Other revenue	(569)	(347)	(381)	(607)
1.3 Allowance for doubtful accounts – recording	(20,275)	(20,787)	(23,652)	(23,234)
2 - RAW MATERIALS ACQUIRED FROM THIRD-PARTIES				
(includes ICMS and IPI taxes)	(489,046)	(390,661)	(561,795)	(480,154)
2.1 Cost of goods and services sold	(69,551)	(56,158)	(72,607)	(62,155)
2.2 Materials , energy, outsourced services and other	(419,495)	(334,503)	(489,188)	(417,999)
3 - GROSS VALUE ADDED (1-2)	**1,061,168**	**918,943**	**1,171,606**	**1,033,149**
4 - DEPRECIATION AND AMORTIZATION	(69,924)	(75,324)	(82,558)	(81,228)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)	**991,244**	**843,619**	**1,089,048**	**951,921**
6 - VALUE ADDED RECEIVED THROUGH TRANSFERS	14,489	46,900	39,742	42,273
6.1 Equity in	(20,494)	9,343	(496)	-
6.2 Financial income	34,983	37,557	40,238	42,273
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	**1,005,733**	**890,519**	**1,128,790**	**994,194**
8 - VALUE ADDED DISTRIBUTION	**1,005,733**	**890,519**	**1,128,790**	**994,194**
8.1 Personnel	439,015	407,605	532,000	473,051
8.1.1 Direct Compensation	355,019	341,951	437,088	397,985
8.1.2 Benefits	49,361	39,620	57,349	45,553
8.1.3 FGTS (worker's severance fund)	34,635	26,034	37,563	29,513
8.2 Taxes and contributions	249,298	210,680	269,382	244,911
8.2.1 Federal	211,675	176,253	226,593	205,377
8.2.2 State	207	71	590	356
8.2.3 Municipals	37,416	34,356	42,199	39,178
8.3 Interest and rent	94,908	65,086	104,308	69,084
8.3.1 Interest	72,019	45,301	78,944	47,290
8.3.2 Rents	22,889	19,785	25,364	21,794
8.4 Remuneration of equity capital	222,512	207,148	223,100	207,148
8.4.1 Interest on capital	39,845	40,200	39,845	40,200
8.4.2 Dividends paid or credited to shareholders	115,914	77,801	115,914	77,801
8.4.3 Retained profit / loss for the year	66,753	89,147	66,753	89,147
8.4.4 Minority interest in retained earnings	-	-	588	-

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

TOTVS S.A.
Notes to the financial statements
Years ended December 31, 2013 and 2012
(In thousands of Reais)

1. Operational Context

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

The Company's business purpose is the development of, and the sale of the right to use information technology systems and process platforms, as well as the provision of related implementation, consulting, and assistance and maintenance services. The main software products developed by the Company are Enterprise Resource Planning ("ERP") applications by market industry, for the purpose of electronically integrating the strategic and operating levels of user companies, allowing the creation of information and process flows which meet the operating and information management needs of the different areas of the user company. The main areas covered by the Company's ERP software products are: management, finance, operations, industrial, human resources and client services.

The presented Financial Statements were approved at the Board of Directors' Meeting held on January 27, 2014.

All amounts presented in these Financial Statements are expressed in thousands of Reais, except where otherwise indicated. Due to rounding, figures presented throughout this document may not precisely correspond to the totals of the actual figures.

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. Significant Accounting Practices

The principal accounting policies applied in preparing these financial statements are set out below. These policies have been consistently applied to the years presented.

2.1. Basis of preparation

The financial statements were prepared on the historical costs basis, except for the valuation of certain assets and liabilities, such as financial instruments, which were measured at their fair value.

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the management of the Company in the process of applying the Company´s accounting policies. The areas that require greater judgment and have greater complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 2.25.

(a) Consolidated financial statements

The 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"), and in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

The presentation of individual and consolidated Statement of Value Added ("DVA"), is required by the Brazilian corporate law and the accounting practices adopted in Brazil applicable to public companies. IFRS does not require the presentation of this statement. As a result, under IFRS, this demonstration is presented as supplementary information to the financial statements.

(b) Individual financial statements

The individual financial statements of the Company have been prepared in accordance with the accounting practices adopted in Brazil issued by the CPC and are disclosed together with the consolidated financial statements.

In the individual financial statements, subsidiaries are accounted for using the equity method. The same adjustments are made to the financial statements as the consolidated financial statements to achieve the same result and equity attributable to shareholders of the Parent Company. In the case of TOTVS, the accounting practices adopted in Brazil applicable to individual financial statements differ from the IFRS applicable to separate financial statements only in terms of the measurement of investments in subsidiaries, jointly controlled entities and associates using the equity method, while under IFRS this would take place at cost or fair value.

(c) Changes in accounting policies and disclosures

There are no new pronouncements or interpretations of CPCs / IFRS effective from 2013 that could have a significant impact on the Company's financial statements.

2.2. Consolidation

The following accounting policies are applied to preparation of the consolidated financial statements:

Subsidiaries are all entities over which the Company has control. TOTVS has controls when is exposed to, or has rights to variable returns arising from its involvement with the organization and has the ability to affect those returns through of the power it exercises over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to TOTVS and consolidation is discontinued from the date on which TOTVS ceases to have control.

Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of subsidiaries have been changed when necessary to ensure consistency with the policies adopted by TOTVS.

The Company uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is equivalent to the fair value of assets transferred, liabilities incurred and equity instruments issued by the Company. The consideration transferred includes the fair value of assets and liabilities resulting from a contingent consideration agreement, if applicable. Cots acquisition are recognized in the income statement as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes the non-controlling interest in the acquire either at fair value as the proportionate share of the uncontrolled participation in the fair value of the net assets acquired. The measurement of the non-controlling interest is determined on each acquisition. The excess of the consideration transferred and the fair value at the acquisition date of any previous equity interest in the acquire over the fair value of the Company's interest in the identifiable net assets acquired is recorded as goodwill. For acquisitions in which the Company attributes the fair value of non-controlling interests, the determination of goodwill also includes the value of any non-controlling interest in the acquiree, and the goodwill is determined by considering the interest of the Company and the non-controlling interests. When the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement for the year.

The results of subsidiaries acquired/incorporated during the years ended December 31, 2013 and 2012 are included in the consolidated results from the date of acquisition/ merger. Therefore, for purposes of comparing the results of the Company and the consolidated results between 2013 and 2012, the dates of acquisition and incorporation of the results of each subsidiary should be considered.

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

Direct Investments:

Corporate Name	Head office	Denomination		Interest % 2013	Interest % 2012
TOTVS Rio Software Ltda.	BRA	TOTVS Rio		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	(b)	100	-
PRX Soluções em Gestão Agroindustrial Ltda.	BRA	PRX	(a)	60	-
P2RX Soluções em Software S/S Ltda.	BRA	P2RX	(a)	60	-
TOTVS Brasil Sales S.A.	BRA	TOTVS Sales		100	100
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		100	100
TOTVS Incorporation	USA	TOTVS Inc.		100	100

Indirect Investments:

Corporate Name	Head office	Denomination		Investor	Interest % 2013	Interest % 2012
DTS Consulting Partner, SA de CV	MEX	Partner		TOTVS México	100	100
W&D Participações S.A.	BRA	W&D	(a)	TOTVS Brasília	100	-
PC Informática S.A.	BRA	PC Informática	(a)	W&D	100	-
uMov.me S.A.	BRA	uMov.me	(c)	TOTVS Ventures	20	-
RMS Software S.A.	BRA	RMS	(a)	TOTVS Nordeste	100	-
Webstrategie Software S.A.	BRA	Webstrategie	(a)	RMS	100	-
Seventeen Tecnologia da Informação em Informática Ltda.	BRA	Seventeen	(a)	Totvs Sales	100	-

(a) Business Combinations occurred in 2013.
(b) Company created in 2013.
(c) New investments in associates in 2013.

In January 2013, the Company established a subsidiary, TOTVS Ventures Participações Ltda., which is a holding company for investments in startups, aiming to boost revenue generation and the growth of investee companies.

2.3. Translation of foreign currency-denominated balances

The functional currency of the Company and its subsidiaries based in Brazil is the Brazilian Real, the same currency used in the preparation and presentation of the Parent Company and consolidated financial statements. The financial statements of each subsidiary included in the Company's consolidation and those evaluated using the equity accounting method in the Company's individual financial statements are prepared based on the functional currency of each entity.

For subsidiaries located overseas, the Management concluded that as they have administrative, financial and operational independence, the results and financial position of these subsidiaries, whose functional currency is different from the presentation currency, should be translated into the presentation currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date.

(ii) Income and expenses for each income statement are translated at the average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case, the revenue and expenditure are translated at the rate in force on the dates of the transactions).

(iii) All resulting exchange differences are recognized as a separate component of shareholders' equity under other comprehensive income.

Upon consolidation, exchange differences arising from the translation of net investment in foreign operations, external loans and other foreign currency instruments are recognized in equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized in the income statement as part of the gain or the loss on sale.

Goodwill and adjustments to fair value resulting from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.4. Information per segment

Given that its activities are concentrated in developing and trading licenses to use computer-based systems, and in providing implementation services and consulting, advisory and maintenance services related thereto, the Company is organized around one single business unit. The Company's software is designed to attend to diverse segments of the economy, all the investments are analyzed, monitored and evaluated on an integrate way.

2.5. Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits and other short-term highly liquid investments with original maturities until three months and with an insignificant risk of changes in value, the net balance of bank overdrafts is presented in the statement of cash flow. A breakdown of these financial investments by classification is shown in Note 5.

2.6. Financial Instruments

2.6.1 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, 2013 and 2012, the Company had no financial assets classified as available for sale.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it was acquired principally for selling in the short term. Assets in this category are classified as current assets. Gains or losses arising from changes in fair value of financial assets at fair value through profit or loss are presented in the statement of income in "financial results" in the period in which they occur, unless the instrument has been taken in connection with other operations. In this case, the variations are recognized in the same line of the income affected by the operation.

Investments in associates or subsidiaries where the portion of participation is held indirectly or directly through a venture capital organization, regardless of the venture capital organization, exercises significant influence over that portion participation in accordance with CPC 18(R2) also are included in this category.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those with maturities greater than 12 months after the issue date of the balance sheet (these are classified as noncurrent assets). The Company's loans and receivables are mainly composed of "Accounts receivable and other receivables" and "cash and cash equivalents."

2.6.2 Recognition and measurement

Purchases and sales of financial assets are usually recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not classified as at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flow has expired or been transferred, in which case, if the Company has transferred substantially all risks and rewards of ownership. Financial assets available for sale and financial assets at fair value through profit or loss are

subsequently carried at fair value and loans and receivables are carried at amortized cost, using the effective interest rate.

Dividends on financial assets at fair value through profit or loss and equity instruments, such as shares, are recognized in the income statement as part of other income, is established when the Company's right to receive dividends .

The fair values of publicly quoted investments are based on current bid prices. If the market for a financial asset (and for unlisted securities on the stock exchange) is not active, the Company establishes the fair value using valuation techniques. These techniques include the use of recent transactions with third parties, reference to other instruments that are substantially similar, analysis of discounted cash flows and option pricing models making maximum use of information from the market and with the least possible information generated by the Company's management.

2.6.3 Offsetting of financial instruments

Assets and liabilities are offset and their net amounts reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle them on a net basis, or to realize the asset and settle the liability simultaneously.

2.6.4 Impairment of financial instruments

(a) Assets carried at amortized cost

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. An asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that event (or events) has an impact on the estimated future cash flow of the financial asset or group that can be reliably estimated.

The criteria that the Company uses to determine whether there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;
(ii) a breach of contract, such as default or delinquency in interest or principal payments;
(iii) the Company, for economic or legal reasons relating to the financial difficulty of the borrower extends the borrower a concession that a lender would not normally consider;
(iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

(v) the disappearance of an active market for that financial asset because of financial difficulties, or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio;
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The amount of the impairment loss is measured as the difference between the carrying value of the assets and present value of the estimated value of future cash flow (excluding future credit losses that have not yet been incurred) discounted at the effective interest rates. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement. If a loan or investment held to maturity has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment based on the fair value of an instrument using an observable market price.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of this loss previously recognized will be recognized in statement of income.

2.7. 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. If the period of collection is equivalent to one year or less, the receivables are classified as current assets. Otherwise, they are presented as non-current assets.

Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less a provision for doubtful accounts ("PCLD" or impairment) cost method as shown in Note 7.

2.8. Investments in subsidiaries

The Company's investments in subsidiaries are valued based on the equity method for the purposes of the Financial Statements of the Parent Company.

Based on the equity method, investments in subsidiaries are accounted for in the balance sheet of the Company at cost plus changes after the acquisition of equity interest in the subsidiaries. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized. As goodwill is based on future profitability integrating the carrying value of investment in associate, this is not recognized separately, and it is tested for impairment as part of the cash-generating unit to which it belongs.

The equity interest in the subsidiary is presented in the income statement of the Company as equity pickup, representing the net profit attributable to shareholders of the associate.

Where necessary, adjustments are made to the accounting policies of the subsidiary in order to ensure consistency with those adopted by the Company.

After the application of the equity method for the purposes of the Financial Statements of TOTVS, the Company determines whether it is necessary to recognize additional impairment losses on the Company's investments in its associates. TOTVS determines, at each balance sheet closing date, if there is objective evidence that investments in subsidiaries suffered losses due to impairment. Therefore, the Company calculates the amount of impairment losses as the difference between the recoverable amount and the carrying amount of the subsidiary, and the amount recognized in the income statement of the parent company.

2.9. Property, plant and equipment

These are recorded at acquisition cost. The depreciation of assets is calculated based on the straight line method at the rates mentioned in Note 12, and takes into account the estimated economically useful lives of the assets.

A property, plant and equipment item is written off when it is sold or when no future economic benefit is expected to arise from its use or sale. Any gains or losses resulting from the asset write-off (calculated as the difference between the net sales value and the asset's book value) are included in the income statement for the year when the asset is written off.

The residual values and useful lives of assets, and the depreciation methods used, are reviewed at the closing of each fiscal year and are adjusted prospectively whenever necessary.

After calculating the residual value of property, plant and equipment for the purposes of preparing the financial statements of the parent company and its subsidiaries, the Company determines whether it is necessary to record an additional loss in the value of property, plant and equipment in conjunction with other assets, such as investments and intangible assets in cash-generating units.

The considerations for the adoption of the cost method are as follow: (i) the cost method, minus an allowances for losses, is the best method for evaluating the Company's property, plant and equipment, (ii) the Company's property, plant and equipment are broken down into well-

defined classes, related to its sole operating activity, which is the provision of software development and maintenance services, (iii) the infrastructure used in the industry in which TOTVS operates is significantly affected by technological developments, and new products with increased capacity at lower prices are made available, requiring frequent updates to operating equipment and the review of the recoverable values and useful life estimates of property, plant and equipment assets, which the Company has been doing over the years, and (iv) the Company has effective control over property, plant and equipment items that allow it to identify impairment losses and changes in useful life estimates, (v) the depreciation rates used adequately represent the useful life of equipment, which leads to the conclusion that the values of property, plant and equipment items approximate their fair values.

2.10. Intangible assets

(a) Goodwill

Goodwill represents the positive difference between the amount paid and / or payable for the acquisition of a business and the net fair value of the assets and liabilities of the acquired entity. Goodwill on acquisitions of subsidiaries is included in "intangible assets" in the consolidated financial statements. In the event that negative goodwill is calculated, the amount is recorded as a gain in the income statement at the date of acquisition. Goodwill is tested annually for impairment. Goodwill is stated at cost less accumulated impairment losses. Impairment losses recognized for goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units (“CGUs”) for impairment testing. The allocation is made to those cash-generating units or groups of cash generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segment.

(b) Trademarks and Licenses

Trademarks and licenses acquired separately are initially shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Subsequently, trademarks and licenses, evaluated as having finite useful lives are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated 15-20 year useful live.

(c) Contractual Customer Relationships

Contractual customer relationships acquired in the course of business combination are recognized at fair value at the acquisition date. Contractual customer relationships have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight line method over the expected life of the customer relationship.

(d) Software

Software licenses are capitalized based on the costs incurred to acquire the software and make it ready for use. Software acquired in the course of a business combination is recognized at its fair value at the acquisition date. Subsequently, these costs are amortized over the estimated effective software useful life from three to five years.

Costs associated with maintaining computer software are recognized as expenses as incurred. The software internally generated, excluding capitalized development costs (TQTVD - product development (see Note 13.1.b)) are not capitalized, and expenditure is recognized in the income statement in the year in which it is incurred.

Gains and losses arising from derecognition of an intangible asset are measured as the difference between the net from the sale and the carrying amount of the asset and are recognized in the income statement upon disposal of the asset.

2.11. Provision for asset impairment

Management annually reviews the net book values of assets with a view to evaluating the impact of events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment. In the event that this 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.

The recoverable value of an asset or a certain CGU is defined as being the higher of its value in use and net sales value.

When estimating the asset's value in use, the estimated future cash flow is discounted to its present value by using a discount rate before taxes that reflects the weighted average cost of capital for the industry where the cash-generating unit operates. The net sales value is determined, whenever possible, based on a commutative sales contract between knowing and interested parties, adjusted by the expenses attributable to the asset sale, or, when there is no sales contract, based on the market price in an active market or on the prices of the most recent transactions conducted with similar assets.

The following criterion is also applied to evaluate impairment losses:

a) Goodwill paid for expected future profitability

This goodwill is tested annually for impairment or when circumstances indicate a loss due to the depreciation of its book value.

b) Intangible assets

Indefinite-life intangible assets are tested annually for impairment, either individually or at the level of the cash-generating unit, depending on the case, or when circumstances indicate loss due to depreciation of their book value.

When this evidence is identified and the net book value exceeds the recoverable value, a provision is established for impairment, adjusting the net book value to the recoverable value, when applicable (Note 13).

2.12. Accounts payable to suppliers

Accounts payable to suppliers are obligations to pay for goods or services that have been acquired in the ordinary course of business, and are classified as current liabilities if payment is due within a period of one year. Otherwise, the accounts payable are presented as non-current liabilities.

They are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

2.13. Loans And financing

Borrowing is recognized initially at fair value, net of costs incurred in the transaction and are subsequently stated at amortized cost. Any difference between the amount raised (net of transaction costs) and the total amount payable is recognized in the income statement over the periods during which the loans are outstanding, using the effective interest rate method.

Compound financial instruments, which have components of a financial liability (debt) and equity issued by the Company comprise securities that can be converted into equity at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is initially recognized at fair value. The fair value of the liability portion of a convertible debt security is determined using the discounted cash flow, considering the market interests rate for debt instruments with similar characteristics (period, value, credit risk), but not convertible. The equity component is recognized, initially, by the difference between the total amount received by the Company with bond issue and the fair value of the financial liability component. Transaction costs directly attributable to the instrument are allocated to the liability component and the equity in proportion to the amounts initially recognized.

After initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component of a compound financial instrument is not remeasured after the initial recognition except upon conversion or expiry.

Borrowing items are classified as current liabilities unless the Company has an unconditional right to defer settlement of the related liability for at least 12 months after the balance sheet date.

2.14. Share-based payment

The Company measures the cost of equity-settled transactions with employees based on the fair value of the equity instruments on the granting date. Estimating the fair value of share-based payments requires the most appropriate evaluation model to be determined for granting of equity instruments, which depends on the granting terms and conditions. This also requires the determination of the most appropriate data for the evaluation model, including the option expected life, the volatility and dividends return, and the corresponding assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 22. Expenses related to these transactions are recognized in income during the period in which services are rendered, against to the capital reserve.

2.15. Other employee benefits

Benefits granted to the Company´s employees and managers include, in addition to fixed compensation (wages, contributions to social security (INSS), vacation and 13th month's salary – Christmas bonuses), variable compensation such as profit sharing, bonuses, defined contribution private pension plans administered by an insurance Company (Note 24) and share-based compensation (Note 22). These benefits are recognized in income as they are incurred, based on accrual basis from the time the Company assumed the obligation.

2.16. Provisions

Provisions for litigation (labor, civil and tax) are recognized when: (i) the Company has a present obligation, formalized or not, as a result of past events, (ii) it is probable that an outflow of resources will be required to settle the obligation, and (iii) the amount can be reliably estimated. Provisions for restructuring include fines for the termination of rental contracts and payments on the termination of employment. Provisions do not include future operating losses.

When there are a number of similar obligations, the likelihood of settling them is determined taking into account the class of obligations as a whole. A provision is recognized even if the likelihood of settlement related to any item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a rate before tax, which reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as an interest expense.

2.17. Dividends and interest on equity

The distribution of dividends and interest on equity to the Company's shareholders is recognized as a liability in the financial statements of the Company at the year end, based on the Company's bylaws. Any amount above the minimum required is only provided on the date on which it is approved by the General Assembly.

The tax benefit of interest on equity is recognized in the income statement.

2.18. Other assets and liabilities (current and non-current)

An asset is recognized in this balance when it refers to resource controlled by the Company due to past events, and that is expected to result in future economic benefits. A liability is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past events, and it is probable that economic profits will be required to settle it. Where applicable, the corresponding charges and monetary or exchange variations incurred are increased. Provisions are recorded based on the best estimates regarding the risks involved.

Assets and liabilities are classified as current when their realization or settlement is likely to occur in the next 12 months. Otherwise, they are classified as non-current.

2.19. Present value adjustment of assets and liabilities

Long-term and short-term monetary assets and liabilities are adjusted to their present value when the effect is considered relevant in relation to the financial statements taken as a whole.

The adjustment to present value is calculated taking into account contractual cash flow and explicit interest rates, and in certain cases implicit interest rates of the respective assets and liabilities. Therefore, interest accrued on revenue, expenses and costs associated with these assets and liabilities is discounted with a view to recognizing it using the accruals basis of accounting. Subsequently, this interest is reallocated to financial income and expenses in the income statement by using the effective interest rate method in relation to the contractual cash flow.

Implicit interest rates were determined based on assumptions and accounting estimates are considered.

Discount rates used during the 2013 fiscal year ranged between 5.5% and 11.2 % (between 6.6% and 11.2% in 2012). The main accounts subject to present value adjustments are Clients, Suppliers, Commissions and Liabilities due to Investment Acquisitions (all of which have long-term maturities).

2.20. Capital

The Company's capital is composed solely of common shares. Within the limit of authorized capital, the Company may, by a resolution of the Board of Directors, increase the share capital

regardless the changes in the statute. The Board of Directors shall determine the conditions of issue, including pricing and payment term. Within the limit of authorized capital, the Board of Directors may also decide to issue warrants.

2.21. Treasury shares

Treasury shares are the Company's on equity instruments that are acquired and recognized at cost and deducted from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Company´s own equity instruments. Any difference between the book value and amount paid are recognized in other capital reserves.

2.22. Revenues and expenses

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Company and they can be measured reliably. Revenues is measured at the fair value of the consideration received, excluding discounts, rebates and sales taxes or charges and services. The Company evaluates transaction revenue according to specific criteria to determine if it is acting as agent or principal, and concluded that it is acting as principal for all of its revenue.

The Company and its subsidiaries earn software license revenue, made up of the licensing fees, revenue from services that includes consulting fees, revenue from supporting and maintenance services for the product's technological upgrade and revenue from help desk services.

Revenue related to licenses for the use of softwares is recognized when all of the following are cumulatively achieved:

(i) execution of the agreement and software delivery to the client;
(ii) the value thereof may be measured reliably (pursuant to the terms of the agreement);
(iii) all risks and rewards inherent to the license are transferred to buyer;
(iv) the Company no longer holds effective control over the license; and,
(v) it is probable that economic benefits will be generated to the benefit of the Company. Revenues from use license resulting from subscription are recognized on a monthly basis, for a term set forth in the agreement.

Revenue from services is billed separately and recognized as the services are performed. Revenue related to technological developments and help desk services (phone service for inquiries) are billed and recognized monthly over the terms of the contracts with customers. Billed revenue that does not meet the recognition criteria mentioned, is reverted to the revenue account and accounts receivable. The revenue is presented in the income statement at its net value, i.e. excluding taxes imposed on them.

For all financial instruments measured at amortized cost and interest bearing financial assets, financial income or expenses are recorded using the effective interest rate that exactly discounts the estimated future cash payments or cash receipts over the estimated life of the

instrument financial or in a shorter period of time, where applicable, to the net carrying amount of the financial asset or liability. Interest income is recorded under financial income in the income statement.

Dividend income is recognized when the right to receive payment is established.

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

Expenses for 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.

2.23. Taxation

Taxes on sales

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 Security Institute (INSS) 2.5% from April - (2% since august)

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

Income and social contribution taxes - current

The taxation on income includes income and social contribution taxes. Income tax is calculated on taxable income at the rate of 15%, plus a surcharge of 10% for profits exceeding R$240 in a 12 month period, while social contribution tax is calculated at 9% on taxable income, recognized using the accruals basis of accounting. Therefore, inclusions in the book profit of expenses, temporarily not deductible, or revenue exclusions, temporarily not taxable, considered in the calculation of current taxable income generate deferred tax credits or debits. Prepayments or amounts subject to offsetting are stated in current or non-current assets, according to the estimates of their realization.

Deferred taxes

Deferred taxes are generated by temporary differences on the balance sheet date between the tax bases of assets and liabilities and their book values. Deferred tax liabilities are recognized for all temporary tax differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction other than a business combination, and, on the transaction date, it affects neither the book profit nor the tax profit or loss, and

- over deductible temporary tax differences associated with investments in subsidiaries, where the reversion of temporary differences can be controlled and it is likely that the temporary differences will not be reversed in the near future.

Deferred tax assets are recognized for all deductible temporary differences, unused tax credits and losses, to the extent that it is likely that taxable income will be available so that the deductible temporary differences may be realized and unused tax credits and losses may be used, except:

- when the deferred tax asset associated with the deductible temporary difference is generated at the initial recognition of the asset or liability in a transaction other than a business combination, and, on the transaction date, it affects neither the book profit nor the tax profit or loss; and

- over deductible tax temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is likely that temporary differences will be reversed in the near future and the taxable income will be available so that the temporary differences may be used.

The book values of deferred tax assets are reviewed on each balance sheet date and written off to the extent that it is no longer likely that taxable income will be available to allow all or part of the deferred tax asset to be used. Written off deferred tax assets are reviewed on each balance sheet date and recognized to the extent that it becomes likely that future taxable income will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rate expected to be applicable in the year when the asset will be realized or the liabilities will be settled, based on the tax rate (and tax law) that are in effect on the balance sheet date.

Contribution to the INSS - the payroll tax relief

The Law No. 12,546, of December 14, 2011, among other changes, reduced costs related to payroll of companies in the Information Technology sector, among other areas, modifying the calculation basis of the INSS (National Institute of Social Insurance), to be levy on the gross revenue of the services at the rate of 2.5% from April 2012 and 2% from August 2012, which were previously

levied on the payroll of the Company at the rate of 20%. In light of the changes introduced by the Act, the Company believes that the INSS has become a tax on sales and, consequently, for purposes of disclosure of financial information on December 31, 2013 and 2012, the sales revenue is presented net of tax, as described in Note 27. The adjustment made considers the values calculated from the effective date of the Act, in other words, April 1, 2012.

2.24. Earnings per share

The Company calculates earnings per hundred shares using the weighted average number of total shares outstanding during the period corresponding to the result according to the technical pronouncement CPC 41 (IAS 33).

2.25. Judgments, estimates and significant accounting assumptions

Judgments

The preparation of the Company and consolidated financial statements requires management to make judgments and estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, as well as disclosures of contingent liabilities, on the reporting date. However, the uncertainty associated with these assumptions and estimates could lead to results that require a significant adjustment to the book value of the affected asset or liability in future periods.

Estimates and assumptions

The key assumptions regarding the sources of uncertainty for future estimates and other important sources of uncertainty for estimates on the balance sheet date, involving a significant risk of causing a major adjustment to the book value of assets and liabilities in the following reporting period, are discussed below.

(i) Impairment of non-financial assets

There is impairment when the book value of an asset or cash-generating unit exceeds its recoverable value, which is the higher of its fair value less selling costs and its value in use. The calculation of fair value less selling costs is based on the available information on sale transactions for similar assets or market prices less additional costs to dispose of such assets. The calculation of the value in use is based on the discounted cash flow method. Cash flow derives from the budget for the next five years and does not include reorganization activities to which the Company is not yet committed, or significant future investments that will improve the asset base of the cash-generating unit being tested for impairment. The recoverable value is sensitive to the discount rate used in the discounted cash flow methodology, as well as to expected future cash to be received, and to the growth rates used for extrapolation purposes. The key assumptions used to determine the recoverable value of the different cash-generating units, including the sensitivity analysis, are further detailed in Note 4.

(ii) Share-based payment transactions

The Company measures the cost of stock-settled transactions with employees based on the fair value of the equity instruments on the date when they are granted. The estimate of the fair value of stock-based payments requires that the most suitable appraisal model be determined for the granting of equity instruments, which depends on the terms and conditions of the grant. This also requires that the most appropriate data be determined for the appraisal model, including the expected life of the option, volatility and dividend yield, and the corresponding assumptions. The assumptions and models used to estimate the fair value of stock-based payments are reported in Note 22.

(iii) Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the value and timing of future taxable results. Given the comprehensive aspect of international business relationships, and the long-term nature and complexity of existing contracts, differences between the actual results and the adopted assumptions or future changes in such assumptions could require future adjustments to taxable income and tax expenses already recorded. The Company sets up provisions, based on applicable estimates, for possible consequences of auditing by the tax authorities of the respective jurisdictions where it operates. The amounts of these provisions are based on several factors, like prior experiences with tax audits and different interpretations of the tax regulations by the taxable entity and by the tax authority in question. Such differences in interpretation may arise for the most diverse matters, depending on the conditions in force in the jurisdiction of domicile of the Company.

Significant management judgment is required in determining the amounts of the deferred tax assets that can be recognized based on the probable deadline and future taxable income levels, as well as future tax planning strategies.

(iv) Fair value of financial instruments

Whenever the fair value of financial assets and liabilities reported in the balance sheet cannot be obtained from active markets, it is determined through appraisal techniques, including the discounted cash flow methodology. The data used in such methodologies are based on market practices whenever possible. However, when this is not feasible, a certain level of judgment is required to determine the fair value. Judgment includes considerations on used data, such as, for example, liquidity risk, credit risk and volatility. Changes in assumptions on such factors could affect the reported fair value of the financial instruments (as presented on Note 4).

(v) Provisions for tax, civil and labor risks

The Company recognizes a provision for civil and labor lawsuits. The assessment of the probability of loss includes the analysis of available evidence, the hierarchy of laws, the available jurisprudence, the latest decisions of courts of law and their relevance in the legal system, as well as the opinion of external legal advisers. The provisions are revised and adjusted to take into

account changes in circumstances, such as the applicable statute-barring periods, conclusions of tax audits, or additional exposures that may be identified based on new matters or court decisions.

The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to inaccuracies inherent to the process of their determination. The Company reviews its estimates and assumptions, at least, quarterly.

2.26. New standards and Interpretations

The following new standards and interpretations of existing standards were issued by the IASB but are not effective for the financial year 2013. The early adoption of standards, although encouraged by the IASB, is not permitted in Brazil, by the CPC.

. IFRIC 21 - "Fees". The interpretation clarifies that an entity should recognize an obligation to pay fees in accordance with the law. The obligation should only be recognized when the event that triggers the obligation occurs. This interpretation is applicable from January 1, 2014.

. IFRS 9 - " Financial Instruments " addresses the classification, measurement and recognition of financial assets and liabilities. IFRS 9 was issued in November 2009 and October 2010 and replaces those parts of IAS 39 relating to the classification and measurement of financial instruments. IFRS 9 requires the classification of financial assets into two categories: at fair value and measured at amortized cost. The determination is made upon initial recognition. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial instruments. In relation to financial liabilities, the standard retains most of the requirements established by IAS 39. The main change is that in cases where the fair value option is taken for financial liabilities, the portion of change in fair value due to credit risk of the entity itself is recorded in other comprehensive income and not in the income statement, unless to do otherwise would result in an accounting mismatch. The Company is assessing the full impact of IFRS 9. The standard is applicable from January 1, 2015.

No other IFRS standards and IFRIC interpretations that have not yet entered into force that could have significant impact on the Company and its subsidiaries.

3. Business Combination and acquisition of interests

Business combinations and acquisitions of interests in 2013 are in line with the Company's strategy of specialization and consolidation of its position in different segments, in addition to bringing new solutions to TOTVS' customers through portfolio diversification with solution specific niches.

3.1. Acquisition of subsidiaries

W&D Participações S.A.

On January 24, 2013 the company through its subsidiary TOTVS Brasilia acquired the entire share capital of W&D Participações S.A. and its companies PC SISTEMAS S.A. (incorporated by PC INFORMÁTICA S.A. on January 29, 2013) and PC INFORMÁTICA S.A. (together "W&D"), which are focused on developing software for the distribution, wholesale and retail segments in Brazil.

The transaction involved the amount of R$95,000, of which R$55,000 was paid on the date of signing the contract, with the remainder to be paid according to the following conditions:

- R$ 25,000 deposited/invested in an escrow account to cover any liabilities prior to the date of purchase, in the case of non-occurrences of which the seller can withdraw 80% in late 2016 and the remainder in 2017,
- R$ 15,000, variable according to the attainment of the minimum expected results (as set out in the agreement) up to December 31, 2013.

PRX Soluções Agroindustrial Ltda.

On April 18, 2013, the Company acquired a majority share of 60% of the capital of PRX Soluções em Gestão Agroindustrial Ltda., and P2RX Soluções em Softwares S/S LTDA. (together PRX) for R$ 11,000. There is also a proposal for the future purchase of the remaining shares at variable amounts, which shall be fixed according to metrics defined in the contract, based on the performance of PRX prior to the last day of February 2015. Due to this being a step acquisition, the Company recorded the estimated amount that will be paid for the acquisition of the remaining interest at the acquisition date, which amounted to R$ 7,994.

RMS Software S.A. and Webstrategie Software Ltda.

On July 15, 2013, the Company acquired, through its subsidiary TOTVS Nordeste, 100% of the capital of RMS Software S.A. and Webstrategie Software Ltda. (together RMS) for R$ 37,400, which is engaged in the development of software solutions for the management and delivery of information technology services to retailers and supermarkets in Brazil. The contract also includes the additional payment of a variable amount, totaling up to R$ 5,000, which will be paid based on forms meeting certain targets during the 12 months following the closing of the transaction.

The closing of the transaction, with the fulfillment of conditions precedent and other provisions of the contract, occurred on August 28, 2013.

Seventeen Tecnologia da Informação em Informática Ltda.

On November 25, 2013, the Company acquired, through its subsidiary TOTVS Sales, 100% of the capital of Seventeen Tecnologia da Informação em Informática Ltda. ("Seventeen") for R$12,450, which works under a TOTVS Development Franchise contract management solutions development, that are used by customers of all sizes in the health sector, especially large health plan operators in Brazil. The Agreement also establishes the payment of a variable amount that can reach the amount of R$5,700, which shall be paid in accordance with metrics defined in the Agreement until 2017 and recognized in balance at liabilities from investiments acquisition (Note 17).

CIASHOP – Soluções para Comércio Eletrônico S.A.

On December 2nd, 2013, the Company acquired, through its subsidiary TOTVS Sales, 68.5% of the capital of Ciashop Soluções para Comércio Eletrônico S.A. ("Ciashop") for R$16,400, which is a pioneer in e-commerce in Brazil, offering a cloud platform that delivers it solutions as a Software as a Service (SaaS). In addition to the acquisition of shares representing 68.5% of the total shares, TOTVS will invest up to R$ 3,000 in the acquisition of new shares to be issued by CIASHOP, which will bring its total participation up to 72%. This Agreement also contemplates a variable payment of up to R$ 2,000, based on the achievement of certain parameters established for CIASHOP over 30 months after the closing of this transaction.

The closing of this transaction is subject to certain closing conditions in the Agreement, including the approval by the Brazilian antitrust authority, the Administrative Council for Economic Defense (CADE - Conselho Administrativo de Defesa Econômica), and in December 31, 2013 the transaction was not concluded.

3.2. Identifiable assets acquired and goodwill

The fair value of identifiable assets acquired was measured and recognized at 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 value, the discounted cash flow method was used, at a rate of 15.47% p.a. for W&D, 15.7% to 18% for PRX and P2RX (in real terms). The amounts of assets not identifiable from this business combination were allocated to goodwill, based on technical studies of future profitability.

The amount paid for the acquisition of control of RMS and Seventeen are being allocated among the identified assets acquired and liabilities assumed at their fair values at the acquisition date, and were not completed at the time of disclosure of these financial statements.

The main assets and liabilities at their fair values on the acquisition date and which have an impact on the consolidated information as at December 31, 2013 are presented below:

Fair Value	W&D	PRX/P2RX	RMS	Seventeen	Total
Assets	**13,754**	**6,409**	**1,254**	**2,603**	**24,020**
Cash and Cash equivalents	392	2,189	448	454	3,483
Accounts receivable	9,244	3,201	288	1,013	13,746
Other current assets	4,118	1,019	518	1,136	6,791
Non-current assets	**3,516**	**993**	**548**	**433**	**5,490**
Assets identified	**26,698**	**3,422**	**-**	**-**	**30,120**
Customer portfolio	5,561	3,270	-	-	8,831
Trademarks	3,599	-	-	-	3,599
Software	7,538	-	-	-	7,538
No-competition agreements	10,000	152	-	-	10,152
Current liabilities	**11,505**	**3,329**	**18,402**	**2,868**	**36,104**
Non-current liabilities	**11,141**	**1,163**	**74**	**100**	**12,478**
Deferred taxes	9,108	1,163	-	-	10,271
Other	2,033	-	74	100	2,207
Minority participation		**1,629**	**-**		**1,629**
Liquid assets and liabilities	**21,322**	**4,703**	**(16,674)**	**68**	**9,419**
Acquisition cost	95,000	11,000	42,400	18,150	166,550
Contingent Consideration	-	7,994	-	-	7,994
Goodwill in the operation	**73,678**	**14,291**	**59,074**	**18,082**	**165,125**

The acquisitions in 2013 and inserted into the management model and distribution channels of TOTVS contributed to net revenue of R$88,923 and net income of R$10,176 in the consolidated results of the Company.

In 2012, there were no acquisitions of equity interest.

3.3. Other acquisitions of interests

On April 2, 2013 the Company acquired, through its subsidiary TOTVS Ventures, a minority interest of 20% of the capital of uMov.me Tecnologia S.A. (the current name of uMov.me S.A.). This company is a provider of enterprise mobility technology platforms in the cloud, in the form of software as a service amounting to R$3,200, and predicts additional future investments by 2017, based on the performance of this investee.

The interest in the associate uMov.me will be measured using the equity method, and the amount paid is allocated among the identified assets acquired and the liabilities assumed at their fair values, and the difference is preliminarily recorded as goodwill of R$3,061.

3.4. Incorporation of companies

In 2013, there were no incorporations of companies.

The Company incorporated the net assets, recorded at book value, of the subsidiaries, shown in the table below:

	Incorporation Date	Current Assets	Total Assets	Current Liabilities	Non-current Liabilities	Net worth incorporated by the Company
IOSSTS	March 2012	7,524	7,606	447	-	7,159
Mafipa		-	-	-	-	-
Setware		1,629	1,665	98	26	1,541
M2S		-	-	-	-	-
BCS	May 2012	3,090	4,413	43	-	4,370
Gens (FDES)		-	-	-	-	-
Midbyte		3,002	3,025	32	-	2,993
TOTVS Serviços		5,982	16,318	259	-	16,059
Totalbanco Participações		-	7,861	-	-	7,861
YMF	November 2012	39,580	46,738	5,043	570	41,125
Tools		11,705	11,817	744	30	11,043
Hery		5,594	5,782	1,307	-	4,475
Gens		1,450	1,782	85	38	1,659
Totalbanco		12,723	13,119	2,467	-	10,652

In accordance with the merger protocol approved in the Special Shareholders' Meeting held on March 21, 2012, May 17, 2012 and November 29, 2012, the net assets of the subsidiaries were evaluated by experts who delivered their appraisal reports in equity of companies with base date of February 29, 2012, April 22, 2012, and November 29, 2012. The equity variations after the base date until the effective date of incorporation were absorbed by TOTVS S.A. and TOTVS Nordeste S.A. The subsidiaries Setware and M2S were indirect subsidiaries and were merged into TOTVS Nordeste.

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

a) Financial Instruments Analysis

The Company and its subsidiaries evaluated their financial assets and liabilities in relation to the market value through the information available and using the appropriate evaluation methodologies. However, the interpretation of market data and the selection of evaluation methods requires extensive 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 shows the book of the Company's financial instruments, as presented in its financial statements:

	Fair Value through profit		Loans and receivables		Held to maturity		Financial liabilities measured at cost	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Financial Instruments								
Assets								
Cash and cash equivalents	**-**	-	**533,063**	412,408	**-**	**-**	**-**	**-**
Securities	**-**	-	**-**	-	**74,599**	23,291	**-**	**-**
Accounts receivable, net	**-**	-	**389,346**	329,178	**-**	-	**-**	**-**
Investments at fair value	**36,332**	-	**-**	-	**-**	-	**-**	**-**
Other assets	**-**	-	**-**	-	**41,902**	24,761	**-**	**-**
Total	**36,332**	-	**922,409**	741,586	**116,501**	48,052	**-**	**-**
Liabilities								
Loans and Financing	-	-	-	-	-	-	**306,443**	105,467
Debentures and non-conversion premium	-	-	-	-	-	-	**104,205**	130,369
Fair value of convertible debentures	-	-	-	-	-	-	**-**	12,308
Accounts payable and suppliers	-	-	-	-	-	-	**200,280**	100,527
Other liabilities	-	-	-	-	-	-	**13,835**	4,163
Total	**-**	**-**	**-**	**-**	**-**	**-**	**624,763**	352,834

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 is estimated using a valuation technique.

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

- The held to maturity of the convertible debentures portion and debentures were adjusted to their fair values, according to Note 16.

b) Financial assets at fair value

Investments in startups made by the Company, through TOTVS Ventures, have a medium-term strategy, in which the output is planned for the moment when the financial returns are achieved, and therefore, are recognized as financial instruments. The value of these investments at December 31, 2013 was R$36,332 and included the following startups:

GoodData

At June 12, 3013 the Company acquired of minority interest in the capital of GoodData, through TOTVS Inc. This company provides business intelligence solutions in the cloud, offered in the form of software as a service, and using technology based on Big Data (a combination of structured and unstructured data). TOTVS Ventures led the investment with a contribution of US$ 16,000,000 (sixteen million dollars) and has representation on the Board of Directors of GoodData.

Zeropaper

At July 1, 3013 the Company acquired of a minority interest in ZeroPaper, composing the investor list of this startup together with accelerator 21212 and the angel investor Maratea Participações. ZeroPaper provides simple financial management software, tailored for professionals, freelancers and solo entrepreneurs.

c) Measurement at 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 the fair values.

The table below classifies financial instruments recorded at fair value in accordance with the valuation method. The different levels are defined as follows:

a) Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

b) Level 2: inputs other than quoted prices included within level 1 that are observable by the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

c) Level 3: inputs for the asset or liability that are not based on observable market data by (i.e., unobservable assumptions).

The table below presents the Group's assets and liabilities measured at fair value at December 31, 2012 and 2013:

	2013			2012		
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Short-term investments	-	486,471	-	-	381,055	-
Financial assets at fair value through profit	-		36,332	-		-

	2013			2012		
Financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Loans and Financing	-	306,443	-	-	105,467	-
Debentures	-	-	104,205	-	-	130,369
Fair value of future translations	-	-	-	-	12,308	-

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

d) Sensitivity analysis of financial assets and liabilities

The Company's financial instruments represent cash and cash equivalents, accounts receivable, payables, debentures, loans and financing, and are recorded at cost plus income or charges incurred, which at December 31, 2013 and 2012 approximated their market values.

During the financial year 2013, as described in Note 16, the Company recognized the impact of the fair value of stock issued to debenture holders, according to the mandatory conversion of the debentures (4th tranche - 15%) in Company stock, up to 60% of debentures which may be converted. The Company has also accrued the 40% non-conversion premium of the debentures not converted into shares.

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

According to Note 16, debentures issued by the Company are private, with unique characteristics, and thus, they preclude any market value estimate. Thus, it is the Company’s opinion that these debentures’ book value is the closest approximation to the market value for these securities.

With regard to financing operations, these refer to transactions carried out within the Program for the Development of the Software and Information Technology Industry – PROSOFT and Program of Investments Support - PSI, for which BNDES assesses each Company to grant the loans. Bearing this in mind, the recorded value is the closest approximation to the market value of these financial instruments.

CDI investments are recorded at market value, according to price quotations published by the respective financial institutions and the others mostly refer to certificates of bank deposit and repurchase and resale agreements. This means that the value recorded for these instruments does not show any difference in relation to the market value.

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 fair value in the circumstances. Additionally, the investment of greater relevance, GoodData, are in preferred shares - Series D, which are entitled to preference upon liquidation, to ensure the return of the minimum amount invested by the Company.

As an attempt to check the sensitivity of the indexes for the financial investments that the Company was exposed to at December 31, 2013, three different scenarios were created. Based on the forecast by financial institutions, we arrived at a 12-month forecast for CDI, with an average of 10.5% for the fiscal year of 2014 – this being the most probable scenario, and from this rate, we assessed variations from 25% to 50%.

For each of these scenarios the "gross financial revenue" was estimated, with taxes on investments return not included. The reference date for the portfolio was December 31, 2013, with a one-year projection to check the CDI's sensitivity to each scenario.

Operation	Balances at 2013	Risk	Probable Scenario (I)	Scenario II	Scenario III
Financial investments	R$ 486,471	**CDI**	10.50%	7.88 %	5.25%
Financial income			**R$ 51,079**	**R$ 38,334**	**R$ 25,540**

In order to check the sensitivity of the indexes to which the Company is exposed when estimating the debts as at December 31, 2013, three different scenarios were created. Based on TJPL and the IPCA rates in force as at December 31, 2013, the most probable scenario was determined for 2014 and, from this, variations from 25% to 50% were estimated.

For each scenario, the gross financial expense was calculated, not taking into account the tax and the maturity flow for each agreement scheduled for 2013. The reference date used for the financing and debentures was December 31, 2013, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances at 2013	Risk	Probable Scenario (I)	Scenario II	Scenario III
BNDES - Financing	R$ 305,095	TJLP	5.00%	6.25%	7.50%
Estimated finance expense			**R$ 15,255**	**R$ 19,068**	**R$ 22,882**
Debentures	R$ 104,205	IPCA	6.03%	7.54%	9.05%
		TJLP	5.00%	6.25%	7.50%
Estimated finance expense			**R$ 11,971**	**R$ 12,344**	**R$ 12,714**

The Company has loans, financing and debenture agreements, with covenants usually applicable to these types of operations, related to the achievement of economic and financial indexes, cash generation and other factors. These covenants have been met and do not restrict the Company's capacity to normally conduct its operations.

e) Financial risk management

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

a. Liquidity Risk

Liquidity risk relates to the possibility that the Company and its subsidiaries may not have sufficient funds to comply with their financial commitments due to the different currencies and settlement terms of their rights and obligations.

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 assure that cash flow from operations and the previous 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 flow.

	Parent Company			
	Less than one year	**Between one and two years (i)**	**Between two and five years (i)**	**Over five years (i)**
On December 31, 2013				
Suppliers	27,539	-	-	-
Loans and Financing	55,127	10,417	239,583	-
Debentures	-	31,517	72,688	-
Liabilities from investment acquisition	8,530	5,823	20,690	-
Other liabilities	1,585	-	-	-
On December 31, 2012				
Suppliers	26,277	-	-	-
Loans and Financing	-	54,643	-	-
Debentures	42,930	-	99,747	-
Liabilities from investment acquisition	11,399	5,044	8,421	-
Other liabilities	1,312	-	-	-

	Consolidated			
	Less than one year	**Between one and two years (i)**	**Between two and five years (i)**	**Over five years (i)**
On December 31, 2013				
Suppliers	33,149	-	-	-
Loans and Financing	56,443	10,417	239,583	-
Debentures	-	31,517	72,688	-
Liabilities from investment acquisition	63,717	25,823	27,112	-
Other liabilities	9,500	-	-	-
On December 31, 2012				
Suppliers	30,281			
Loans and Financing	-	54,643	-	-
Debentures	-		99,747	-
Liabilities from investment acquisition	11,399	5,044	8,421	-
Other liabilities	4,163	-	-	-

(i) As the amounts included in the table represent the undiscounted cash flows, these amounts will not be reconciled with the values reported in the balance sheet for loans, derivative financial instruments, suppliers and other obligations.

b. Credit risk

Credit risk arises from possible difficulties in collecting amounts from maintenance and other services rendered to its customers and from the sale of licenses.

The Company and its subsidiaries are also subject to credit risk arising from their investments.

The credit risk related to services rendered and from the sale of licenses is minimized by is a strong control of the customer base and active delinquency management accomplished by means of clear policies regarding service provision and license sales.

As regards the credit risk associated with financial institutions, the Company and its subsidiaries operate so as to distribute this exposure among financial institutions with risk ratings of at least BBB.

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 hedging derivative financial instruments given that 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 which success depends on product development, market acceptance, operational efficiency, the ability of the investee companies to raise additional funds in financial markets that can be volatile, and other key business factors. The companies could fail or not be able to raise additional funds when needed, or they may receive lower valuations with less favorable investment terms than previous financings. These events could cause our investments to become impaired. In addition, financial market volatility could negatively affect our ability to realize value in our investments through liquidity events such as initial public offerings, mergers, and private sales.

e. Derivatives

Apart from the embedded derivatives operation described in Note 16, the Company does not maintain derivative operations.

f. Capital management

The Company's capital management aims to ensure a strong credit rating with institutions and an excellent capital ratio in order to provide support to 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, return shareholders' capital, take out new loans, issue debentures, issue promissory notes and contract operations with derivatives. As of the year ended December 31, 2008, there have been no changes in the capital structure's goals, policies or processes.

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

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Loans and financing and debentures and leasing	**409,332**	247,596	**410,648**	248,144
Liabilities due to acquisitions of investments	**27,939**	24,864	**109,547**	24,864
(-) Cash and cash equivalents	**(506,886)**	(398,753)	**(533,063)**	(412,408)
(-) Securities	**(22,725)**	(23,291)	**(74,599)**	(23,291)
Net debt	**(92,340)**	(149,584)	**(87,467)**	(162,691)
Equity	**1,067,621**	913,146	**1,069,838**	913,146
Equity and debt	**975,281**	763,562	**982,371**	750,455

5. Cash and cash equivalents

Cash equivalents are maintained for the purpose of meeting short-term cash requirements and not for investments or other purposes. The Company's cash equivalents include financial investments in DI funds, Interbank Deposit Certificates and repurchase agreements, and are redeemable in a period of up to 90 days from the date of the respective transactions.

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Cash equivalents	**33,109**	25,732	**46,592**	31,353
Cash and cash equivalents	**473,777**	373,021	**486,471**	381,055
Repurchase agreements	**386,960**	278,839	**396,005**	286,474
CDB	**86,817**	93,672	**90,466**	94,071
DI Funds	**-**	510	**-**	510
Cash equivalents	**506,886**	398,753	**533,063**	412,408

The Company has financial investment policies, which establish that the investments focus on low risk securities and investments in first-tier financial institutions and they are significantly remunerated by reference to CDI variation, with monthly variations of around 0.65% in the year ended December 31, 2013.

6. Marketable securities

The balances of securities refer to secured accounts for the payment of intangible asset acquisitions and business combinations (Note 17), comprising CDB transactions with repurchase agreements by the bank, as follows:

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Tech Prod	**-**	450	**-**	450
Tools	**-**	1,711	**-**	1,711
Datasul MG	**2,226**	2,012	**2,226**	2,012
Datasul Saúde MG	**641**	641	**641**	641
TotalBanco	**748**	1,383	**748**	1,383
Hery	**1,563**	2,549	**1,563**	2,549
ERP Cedente	**138**	261	**138**	261
SRC	**161**	4,325	**161**	4,325
Mafipa	**957**	1,302	**957**	1,302
Gens FDES	**8,348**	8,361	**8,348**	8,361
TOTVS Ventures	**-**	-	**848**	-
W&D	**-**	-	**26,422**	-
RMS	**-**	-	**24,604**	-
PRX	**3,909**	-	**3,909**	-
Seventeen	**4,034**		**4,034**	
Others	**-**	296	**-**	296
	22,725	23,291	**74,599**	23,291
Current assets	**7,428**	10,168	**13,277**	10,168
Non-current assets	**15,297**	13,123	**61,322**	13,123

7. Trade accounts receivable

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

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Domestic market	**379,788**	344,714	**416,927**	364,100
Foreign market	**-**	-	**12,184**	9,092
Gross trade accounts receivable	**379,788**	344,714	**429,111**	373,192
(-) allowances for doubtful accounts	**(34,639)**	(39,166)	**(39,765)**	(44,014)
Net trade accounts receivable	**345,149**	305,548	**389,346**	329,178
Current assets	**322,516**	267,478	**365,220**	289,595
Non-current assets	**22,633**	38,070	**24,126**	39,583

The accounts receivable relate to the foreign market, mainly the sales of the Company´s foreign subsidiaries, as follow: Argentina: R$5,374; México: R$6,191; Portugal: R$79; e, USA R$540, (At 2012 Argentina: R$3,986; México: R$4,508; Portugal: R$532e USA: R$66), converted using the end of period rate.

Below are the net receivables in connection with the allowance for doubtful accounts by aging, at December 31, 2013 and 2012:

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Falling due	**309,051**	268,514	**345,195**	287,946
Overdue				
1 to 30 days	**20,376**	17,631	**23,057**	19,208
31 to 60 days	**6,505**	7,810	**7,595**	8,243
61 to 90 days	**4,404**	4,822	**5,130**	5,760
91 to 180 days	**4,813**	5,428	**5,857**	6,189
181 to 360 days	**-**	1,343	**1,153**	1,786
more than 360 days	**-**	-	**1,359**	46
	345,149	305,548	**389,346**	329,178

Changes in the allowance for doubtful accounts are as follows:

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Balance at the beginning of the year	**39,166**	21,306	**44,014**	31,812
Additional provision in the year	**20,275**	20,787	**23,652**	23,234
Written off from the provision:	**(24,802)**	(2,927)	**(27,901)**	(11,032)
Balance at December 31	**34,639**	39,166	**39,765**	44,014

Management believes that the risk related to the trade accounts receivable is minimized by the fact that the Company's customer portfolio is highly diluted. The Company does not require any guarantee on sales in installments.

8. Taxes recoverable

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Recoverable taxes				
Withholding income tax	**1,740**	11,357	**3,666**	12,730
Withholding social contribution tax	**631**	3,201	**1,799**	4,249
Withholding PIS and COFINS taxes	**-**	22	**303**	91
Other	**(895)**	(587)	**1,866**	2,436
	1,476	13,993	**7,634**	19,506

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 income and social contribution tax losses carried forwards.

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	
	2013	2012	**2013**	2012
Income before taxes	**316,680**	274,112	**316,367**	288,197
Income and social contribution taxes at combined nominal rate of 34%	**(107,671)**	(93,198)	**(107,565)**	(97,987)
Adjustments for the statement of effective rate				
Equity pick-up	**(6,968)**	3,176	**(169)**	-
Law No, 11196/05 (Incentive for research and development) (a)	**13,766**	18,902	**13,963**	19,400
Effect of subsidiary's taxable income based on a percentage of gross sales	**-**	-	**(5,633)**	(4,328)
Interest on equity	**13,547**	13,668	**13,547**	13,668
Management stake	**(154)**	(2,304)	**(180)**	(2,304)
Accounts receivable deemed uncollectible	**(327)**	(40)	**(781)**	(56)
Workers' Food Program	**1,496**	1,410	**1,593**	1,573
Stock Options	**(2,685)**	(3,062)	**(2,685)**	(3,062)
Fair value – Debentures	**(4,322)**	(6,282)	**(4,322)**	(6,282)
Other	**(850)**	766	**(1,035)**	(1,671)
Income tax and social contribution expense	**(94,168)**	(66,964)	**(93,267)**	(81,049)
Effective rate	**29,7%**	24,4%	**29,5%**	28,1%

(a) The Brazilian tax legislation current provides a mechanism to promote the technological development of the country, regulated by Law no. 11196 of November 21, 2005, which grants tax incentives to companies to develop research and development (R&D) technological innovation. The treatment adopted by the Company for the recognition of this tax benefit takes into account the regulations of this law issued in August 2011. Certain expenses used in calculating the income tax and social contributions provided in the regulations may give interpretations for the taxpayer, which may be different from the collecting entity. Management believes that there is no more than a possible risk of challenges to the tax treatment adopted for the deductibility of expenses based on the tax benefit mentioned above.

Income and social contribution tax expenses recorded in the consolidated income statement for the year ended December 31, 2013 and 2012 are broken down as follows:

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Income and social contribution taxes	**(83,230)**	(78,489)	**(90,277)**	(89,958)
Deferred income and social contribution	**(10,938)**	11,525	**(2,990)**	8,909
	(94,168)	(66,964)	**(93,267)**	(81,049)

On November 11th, 2013 was issued the MP No. 627 cancelling Tax Regime (RTT) and adding other actions, including: (i) changes in Decree No. 1598/77 which deals with tax corporate income as well as amending the relevant social contribution on net income legislation, (ii) establishes that the amendment or adoption of accounting methods and criteria through administrative acts issued based on empowered business law, which are subsequent to the publication of this MP, will have no implications in the calculation of federal taxes until tax law governing the matter, (iii) includes specific treatment on potential taxation of profits or dividends; (iv) includes considerations on the calculation of interest on capital and investments valued at equity method.

The provisions of MP are effective from 2015. The early adoption for 2014 can eliminate potential tax effects, especially related to payment of dividends and interest on capital actually paid up to the date of publication of this MP as well as equity earnings. The Company conducted a study of the possible effects that could result from the application of this MP and concluded that its early adoption, or not, does not result in material adjustments to the financial statements. The administration awaits developments and negotiations of amendments to the text of the Provisional Measure so that the Company can decide on its early adoption within the deadlines established by that tax rule.

9.2. Breakdown of deferred income and social contribution taxes

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
ASSETS				
Deriving from temporary differences:				
Goodwill arinsing from business combinations	**99,040**	85,033	**102,509**	86,263
Provision for commissions	**19,794**	16,036	**20,207**	16,237
Anticipated income or revenues	**2,383**	4,423	**5,476**	5,238
Allowance for doubtful accounts	**11,777**	13,316	**13,061**	14,025
Provision for contingencies and other	**2,442**	2,166	**2,442**	2,166
Tax losses and social contribution tax losses carried forwards	**-**	-	**14,849**	16,710
Provision for premiums due to non-conversion of debentures	**8,393**	10,897	**8,393**	10,897
Present value adjustment	**2,247**	2,387	**2,247**	2,387
Other	**7,754**	7,767	**8,754**	8,824
Total deferred income and social contribution	**153,830**	142,025	**177,938**	162,747
LIABILITIES				
Deriving from temporary differences:				
Intangible assets allocation	**127,492**	103,442	**128,265**	103,778
Other	**875**	765	**966**	968
Total deferred income and social contribution	**128,367**	104,207	**129,231**	104,746
Net deferred income and social contribution	**25,463**	37,818	**48,707**	58,001

The Company is presenting the deferred income tax in the non-current assets on a liquid basis.

9.3. Estimated tax credit recovery

Based on projections of deferred income approved by the Board of Directors, as at December 31, 2013, the Company expects to recover tax credits recorded in non-current assets and realize non-current liabilities in the following years:

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Deferred tax asset				
Deferred tax asset to be recovered within 12 months	**37,744**	33,999	**39,279**	35,379
Deferred tax asset to be recovered after 12 months	**116,086**	108,026	**138,659**	127,368
	153,830	142,025	**177,938**	162,747
Deferred tax liability				
Deferred tax liability to be recovered wthin 12 months	**33,162**	33,052	**33,253**	33,255
Deferred tax liability to be recovered after 12 months	**95,205**	71,155	**95,978**	71,491
	128,367	104,207	**129,231**	104,746
Net Deferred income and social contribution tax	**25,463**	37,818	**48,707**	58,001

During the year ended December 31, 2013, no material event has occurred that indicates a limitation on the full recovery of deferred taxes recognized.

Changes in Income Tax and Social Contribution:

	Parent Company	Consolidated
On January 1	37,818	58,001
Expense in the income statement	(10,938)	(2,990)
Tax related to other comprehensive income	(254)	(254)
Acquisition of subsidiary	(1,163)	(5,914)
Others	-	(136)
On December 31	**25,463**	**48,707**

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 consolidation purposes.

10.1. Receivables from related companies

At December 31, 2013 and 2012, the balance of transactions with related parties classified as receivables from related parties in non-current assets may be stated as follows:

	Parent Company	
	2013	2012
TOTVS Nordeste Software	-	2,275
TOTVS Rio Software	**3,139**	-
Others	-	(24)
	3,139	2,251

The amounts refer to accounts payable and receivable among subsidiaries, without remuneration and/or forecast maturity. There were no transactions relating to the purchase and sale or supply of services between subsidiaries or between the subsidiaries and the parent. 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, including the facilities where its headquarters are located, which are owned by one of its shareholders (LC-EH Empreendimentos e Participações S.A.). Rental paid was R$6,911 for the year ended December 31, 2013(R$7,079 for the year ended December 31, 2012), in line with market values. The agreements are effective for 60 months and are adjusted by IGP-M (General Price Index – Market), every 12 months.

Some Company officers directly or indirectly hold 17.6% of the Company's shares at December 31, 2013(17.8% at December 31, 2012), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

In October 2013, the Company signed a contract with VIP VII – Empreendimentos e Participações Ltda. for the construction and leasing of new headquarters, whose goal is to integrate the company's facilities in the city of São Paulo, for a minimum period of 10 years from the date of delivery scheduled in 2017. The contract was negotiated at normal market conditions.

The Company maintains loans and financing operations (Note 15) and debentures (Note 16), transactions substantially carried out with the National Bank for Economic and Social Development (BNDES). On December 31, held 4.55% of the share capital of the Company (Note 19).

b) Key management personnel

Itaú Unibanco is a related party of the Company through one of its independent member of the Board of Directors. Amounts and transactions involving companies of Itaú Unibanco Group on December 31, 2013corresponded to R$48,599 (R$111,186 at December 31, 2012) of financial investments and R$7,281 (R$8,427 at December 31, 2012) related to contracts of bail, stock management, securities and others, as well as contracts for the transfer of the rights to use systems and technical support provided by TOTVS. All contracts are signed in accordance with normal market conditions.

The Company has a non-onerous contract relating to the management of the pension plan with Itaú Vida e Previdência S.A.

10.3. Management fees

Expenses related to fees of main executives and management of the Company and subsidiaries are summarized below:

	Parent Company		Consolidated	
	2013	2012	**2013**	2012
Short-term benefits to employees				
Salaries, fees and payroll charges	**14,658**	18,026	**19,863**	18,787
Private pension plan (Note 24)	**443**	440	**443**	440
Variable bonus	**453**	6,777	**530**	6,815
	15,554	25,243	**20,836**	26,042
Share-based payments (Note 22)	**7,898**	9,004	**7,898**	9,004
	23,452	34,247	**28,734**	35,046

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 in the event of separation of its top management in addition to those established by Brazilian labor laws.

11. Investments

The breakdown of investments in subsidiaries is shown below:

	Summarized financial statements of affiliate companies and subsidiaries at December 31, 2013					Equity pick-up (parent Company) for years ended :		Balance of investments as of:	
	Assets	Liabilities	Equity	Gross revenue	P&L for the year	**2013**	2012	**2013**	2012
TOTVS Rio	21,065	5,333	15,732	23,482	(7,639)	**(7,639)**	5,808	**15,732**	23,371
TOTVS Argentina	10,452	3,352	7,100	15,760	(1,930)	**(1,930)**	(4,038)	**7,100**	4,816
TOTVS México	9,011	8,024	987	12,588	(4,452)	**(4,452)**	(4,910)	**987**	-
TOTVS Corporation	-	-	-	-	-	**-**	4	**-**	-
TOTVS Nordeste	99,230	32,187	67,043	11,378	793	**793**	(746)	**67,043**	8,183
TOTVS Brasília	134,947	42,818	92,129	10,525	62	**62**	(2,231)	**92,129**	4,931
IOSSTS (a)	-	-	-	-	-	**-**	4,159	**-**	-
Eurototvs	349	1	348	-	(47)	**(47)**	(1,276)	**348**	259
Midbyte (a)	-	-	-	-	-	**-**	1,066	**-**	-
TQTVD	23,896	2,958	20,938	18,176	330	**330**	(3,168)	**20,938**	18,908
BCS Comércio (a)	-	-	-	-	-	**-**	996	**-**	-
TOTVS Serviços	-	-	-	-	-	**-**	(1,245)	**-**	-
Gens	-	-	-	-	-	**-**	779	**-**	-
YMF (a)	-	-	-	-	-	**-**	7,215	**-**	-
Tools (a)	-	-	-	-	-	**-**	4,301	**-**	-
Datasul México	-	-	-	-	(79)	**(79)**	34	**-**	1,094
Datasul USA	41,963	(10)	41,974	186	(7,314)	**(7,314)**	(2,557)	**41,973**	3,199
Datasul Argentina	510	1	508	67	(486)	**(486)**	48	**508**	1,218
Hery (a)	-	-	-	-	-	**-**	1,620	**-**	-
TotalBanco (a)	-	-	-	-	-	**-**	3,484	**-**	-
PRX (c)	6,769	1,644	5,125	16,376	1,682	**1,010**	-	**3,075**	-
P2RX (c)	767	350	418	3,235	(213)	**(127)**	-	**251**	-
Totvs Sales	18,066	9,734	8,332	-	(118)	**(118)**		**8,332**	
TOTVS Ventures (b)	8,353	849	7,504	-	(497)	**(497)**	-	**7,504**	-
						(20,494)	9,343	**265,920**	65,979

(a) Incorporated companies during 2012,as presented on note 3.4.

(b) Company established in 2013.

(c) Business combinations in 2013, as presented on note 3.1.

Provisions for losses were set up for the following investments and recorded in non-current liabilities:

	Parent Company	
	2013	2012
TOTVS México	**-**	1,365
Eurototvs	**-**	-
	-	1,365

Related to European operations, management decided to shut down its operations in 2012 and went on to run their businesses in the region through its structure in Brazil.

	2012	Additions	Equity Pick-up	Foreign Exchange	Reclassification	2013
TOTVS Rio	23,371	-	(7,639)	-	-	**15,732**
TOTVS Nordeste	8,183	58,066	793	-	-	**67,043**
TOTVS Brasília	4,931	87,136	62	-	-	**92,129**
TOTVD	18,908	1,700	330	-	-	**20,938**
TOTVS Argentina	4,816	4,970	(1,930)	(756)	-	**7,100**
TOTVS México	-	-	-	-	987	**987**
TOTVS Inc.,	3,199	43,252	(7,314)	2,836	-	**41,973**
EuroTOTVS	259	82	(47)	54	-	**348**
Datasul Argentina	1,218	-	(486)	(224)	-	**508**
Datasul México	1,094	-	(79)	(1,015)	-	**-**
TOTVS Ventures	-	8,001	(497)	-	-	**7,504**
TOTVS Sales	-	8,450	(118)	-	-	**8,332**
PRX	-	2,065	1,010	-	-	**3,075**
P2RX	-	378	(127)	-	-	**251**
Total Investments	65,979	214,101	(16,042)	895	987	**265,920**
TOTVS México	(1,365)	6,951	(4,452)	(147)	(987)	**-**
Provision for losses on investments	(1,365)	6,951	(4,452)	(147)	(987)	**-**
Total Investments	64,614	221,052	(20,494)	748	-	**265,920**

12. Property, plant and equipment

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 at December 31, 2011	53,065	6,603	7,941	10,482	13,701	91,792
Additions	9,588	3,237	508	1,895	1,803	17,031
Incorporation	5,595	139	738	131	303	6,906
Write-off	(1,979)	(1,909)	(66)	(5)	-	(3,959)
Balance at December 31, 2012	66,269	8,070	9,121	12,503	15,807	111,770
Additions	**12,041**	**2,618**	**1,997**	**1,243**	**5,993**	**23,892**
Write-off	**(1,831)**	**(4,036)**	**(97)**	**(51)**	**(222)**	**(6,237)**
Balance at December 31, 2013	**76,479**	**6,652**	**11,021**	**13,695**	**21,578**	**129,425**
Depreciation						
Balance at December 31, 2011	(29,814)	(3,303)	(3,365)	(2,605)	(5,419)	(44,506)
Depreciation in the year	(8,679)	(1,170)	(775)	(1,067)	(952)	(12,643)
Incorporation	(3,951)	(85)	(377)	(23)	(78)	(4,514)
Write-off	2,567	1,007	214	17	49	3,854
Balance at December 31, 2012	(39,877)	(3,551)	(4,303)	(3,678)	(6,400)	(57,809)
Depreciation in the year	**(9,691)**	**(1,299)**	**(880)**	**(1,224)**	**(2,812)**	**(15,906)**
Write-off	**1,484**	**3,025**	**72**	**39**	**63**	**4,683**
Balance at December 31, 2013	**(48,084)**	**(1,825)**	**(5,111)**	**(4,863)**	**(9,149)**	**(69,032)**
Residual value						
Balance at December 31, 2013	**28,395**	**4,827**	**5,910**	**8,832**	**12,429**	**60,393**
Balance at December 31, 2012	26,392	4,519	4,818	8,825	9,407	53,961
Balance at December 31, 2011	23,251	3,300	4,576	7,877	8,282	47,286
Average annual depreciation rate	**20%**	**20%**	**10%**	**10%**	**4% to 10%**	

	Consolidated					
	Computers and software	**Vehicles**	**Furniture and Fixtures**	**Facilities machinery and equipment**	**Others**	**Total Property, plants and equipment**
Cost or valuation						
Balance at December 31, 2011	62,537	7,331	9,599	10,918	14,557	104,942
Additions	15,961	3,686	1,478	2,102	2,607	25,834
Write-off	(7,707)	(2,209)	(858)	(179)	(305)	(11,258)
Exchange variation	(76)	9	41	-	24	(2)
Balance at December 31, 2012	70,715	8,817	10,260	12,841	16,883	119,516
Additions	**13,497**	**3,242**	**2,466**	**1,682**	**8,132**	**29,019**
Acquisition Subsidiary	**1,771**	**198**	**657**	**508**	**103**	**3,237**
Write-off	**(1,895)**	**(4,654)**	**(279)**	**(56)**	**(561)**	**(7,445)**
Exchange variation	**972**	**538**	**282**	**86**	**78**	**1,956**
Balance at December 31, 2013	**85,060**	**8,141**	**13,386**	**15,061**	**24,635**	**146,283**
Depreciation						
Balance at December 31, 2011	(34,857)	(3,687)	(4,254)	(2,737)	(5,614)	(51,149)
Depreciation in the year	(9,947)	(1,277)	(978)	(1,109)	(1,036)	(14,347)
Write-off	2,648	1,146	266	43	1	4,104
Exchange variation	(132)	7	108	(18)	-	(35)
Balance at December 31, 2012	(42,288)	(3,811)	(4,858)	(3,821)	(6,649)	(61,427)
Depreciation in the year	**(11,188)**	**(1,527)**	**(1,130)**	**(1,350)**	**(3,280)**	**(18,475)**
Write-off	**1,550**	**3,419**	**189**	**40**	**280**	**5,478**
Exchange variation	**(710)**	**(343)**	**(82)**	**(55)**	**5**	**(1,185)**
Balance at December 31, 2013	**(52,636)**	**(2,262)**	**(5,881)**	**(5,186)**	**(9,644)**	**(75,609)**
Residual value						
Balance at December 31, 2013	**32,424**	**5,879**	**7,505**	**9,875**	**14,991**	**70,674**
Balance at December 31, 2012	28,427	5,006	5,402	9,020	10,234	58,089
Balance at December 31, 2011	27,680	3,644	5,345	8,181	8,943	53,793
Average annual depreciation rate	**20%**	**20%**	**10%**	**10%**	**4% to 10%**	

As announced to the market on October 16, 2013, the Company will have a new headquarter from 2017, thus, the improvements to the properties of the current headquarters must be depreciated to this date. The effect of this review corresponded to an increase in depreciation expenses that will affect the next years, worth approximately R$ 600 per year.

Taking into account the relevance of fixed assets in relation to the financial statements as a whole, the Company had no other material changes or adjustments to be recognized at December 31, 2013.

13. Intangible assets

Intangible assets and changes in this Company's balances are as follows:

	Parent Company						
	Software	Trademarks & patents	Franchising	Customer portfolio	Other	Goodwill	Total Intangible assets
Cost or valuation							
Balance at December 31, 2011	169,426	61,987	83,222	201,043	14,015	339,435	869,128
Additions	5,289	-	-	-	3,000	-	8,289
Incorporation	9,973	1,624	-	3,273	-	-	14,870
Write-off	(2,756)	(462)	-	-	(2,087)	-	(5,305)
Balance at December 31, 2012	181,932	63,149	83,222	204,316	14,928	339,435	886,982
Additions	**7,980**	**-**	**-**	**3,270**	**152**	**14,291**	**25,693**
Write-off	**(832)**	**-**	**(83,222)**	**-**	**-**	**-**	**(84,054)**
Balance at December 31, 2013	**189,080**	**63,149**	**-**	**207,586**	**15,080**	**353,726**	**828,621**
Amortization							
Balance at December 31, 2011	(58,351)	(14,508)	(63,729)	(66,944)	(8,876)	(134,214)	(346,622)
Amortization in the year	(18,892)	(4,165)	(14,469)	(22,335)	(2,820)	-	(62,681)
Incorporation	(4,600)	(433)	-	(1,267)	-	-	(6,300)
Write-off	3,073	489	-	(1)	2,087	-	5,648
Balance at December 31, 2012	(78,770)	(18,617)	(78,198)	(90,547)	(9,609)	(134,214)	(409,955)
Amortization in the year	**(20,309)**	**(4,201)**	**(5,024)**	**(22,485)**	**(1,999)**	**-**	**(54,018)**
Write-off	**832**	**-**	**83,222**	**1**	**-**	**-**	**84,055**
Balance at December 31, 2013	**(98,247)**	**(22,818)**	**-**	**(113,031)**	**(11,608)**	**(134,214)**	**(379,918)**
Residual value							
Balance at December 31, 2013	**90,833**	**40,331**	**-**	**94,555**	**3,472**	**219,512**	**448,703**
Balance at December 31, 2012	103,162	44,532	5,024	113,769	5,319	205,221	477,027
Balance at December 31, 2011	111,075	47,479	19,493	134,099	5,139	205,221	522,506
Average annual amortization rate	**10% to 16.7%**	**8%**	**20% to 50%**	**10% to 12.5%**	**10% to 20%**		

	Consolidated						
	Software	Trademarks & patents	Franchising	Customer portfolio	Other	Goodwill	Total Intangible assets
Cost or valuation							
Balance at December 31, 2011	181,384	63,611	83,222	210,753	29,239	341,021	909,230
Additions	6,022	-	-	800	3,000	-	9,822
Write-off	(3,419)	(521)	-	(800)	(2,086)	-	(6,826)
Exchange variations	(849)	70	-	459	-	-	(320)
Balance at December 31, 2012	183,138	63,160	83,222	211,212	30,153	341,021	911,906
Additions	**15,772**	**3,597**	**-**	**8,921**	**10,152**	**168,186**	**206,628**
Acquisitions fo subsidiaries	**1,680**	**2**	**-**	**-**	**-**	**-**	**1,682**
Write-off	**(832)**	**-**	**(83,222)**	**(785)**	**-**	**(530)**	**(85,369)**
Exchange variations	**925**	**1**	**-**	**43**	**1**	**-**	**970**
Balance at December 31, 2013	**200,683**	**66,760**	**-**	**219,391**	**40,306**	**508,677**	**1,035,817**
Amortization							
Balance at December 31, 2011	(64,260)	(14,878)	(63,729)	(69,788)	(15,987)	(134,829)	(363,471)
Amortization in the year	(19,333)	(4,255)	(14,469)	(23,223)	(5,601)	-	(66,881)
Write-off	3,072	521	-	-	2,086	-	5,679
Exchange variations	589	(5)	-	(261)	-	-	323
Balance at December 31, 2012	(79,932)	(18,617)	(78,198)	(93,272)	(19,502)	(134,829)	(424,350)
Amortizations for the year	**(22,270)**	**(5,401)**	**(5,024)**	**(24,385)**	**(7,003)**	**-**	**(64,083)**
Write-off	**832**	**-**	**83,222**	**245**	**-**	**530**	**84,829**
Exchange variations	**(214)**	**(2)**	**-**	**(90)**	**-**	**-**	**(306)**
Balance at December 31, 2013	**(101,584)**	**(24,020)**	**-**	**(117,502)**	**(26,505)**	**(134,299)**	**(403,910)**
Residual value							
Balance at December 31, 2013	**99,099**	**42,740**	**-**	**101,889**	**13,801**	**374,378**	**631,907**
Balance at December 31, 2012	103,206	44,543	5,024	117,940	10,651	206,192	487,556
Balance at December 31, 2011	117,124	48,733	19,493	140,965	13,252	206,192	545,759
Average annual amortization rate	**10% to 16.7%**	**8%**	**20% to 50%**	**10% to 12.5%**	**10% to 50%**		

13.1. Goodwill

There was no change in goodwill for the fiscal year 2012. The composition at December 31, 2013and 2012 and the movements in the year 2013 are presented below:

Incorporated	2012	Additions	**2013**
RM	90,992	-	**90,992**
Logo Center	5,703	-	**5,703**
TOTVS BMI	2,053	-	**2,053**
Midbyte	1,765	-	**1,765**
IOSSTS	2,643	-	**2,643**
BCS	11,821	-	**11,821**
Datasul	30,084	-	**30,084**
Setware	961	-	**961**
Hery	2,927	-	**2,927**
TotalBanco	6,008	-	**6,008**
M2S	12	-	**12**
SRC	33,688	-	**33,688**
Mafipa	1,195	-	**1,195**
Gens FDES	16,340	-	**16,340**
W&D (a)	-	73,678	**73,678**
u,Mov,me (a)	-	3,061	**3,061**
PRX (a)	-	14,291	**14,291**
RMS (a)	-	59,074	**59,074**
Seventeen	-	18,082	**18,082**
	206,192	168,186	**374,378**

(a) Business combination according note 3.

The amortization of intangible assets is based on their estimated useful lives, Intangible assets identified and the recognized values and useful lives of assets are based on a technical study by an independent specialized Company.

The column of “Other” presented on the table above consists basically of non-competition rights arising from the purchase price allocation of W&D, PRX and P2RX (see Note 3.2) and also the right to explore areas and the development of new products with the following characteristics:

a) Rights of area exploration

The rights to explore areas are related to the acquisition of customer portfolios in the regions of São Paulo, “Grande ABC” region and state of Minas Gerais, previously served by Microsiga and Logocenter franchisees. These rights are being amortized on a straight-line basis for an 84 to 120 month term, according to the expectation of future profitability, based on independent appraisal reports issued by specialized companies using the discounted cash flow method.

b) New product development

The development of new products represents expenses incurred by the Company with the development of intermediate software (middleware) called "Ginga TQTVD" that has allowed the implementation of interactive applications for Digital TV. The residual value at December 31, 2013 of R$ 2,327 (R$ 5,331 at December 31, 2012).

The development of the software "Ginga TQTVD" began in 2007 since the partnership with Quality Software SA "Quality" in the purchase of shares shareholding in TQTVD Software Ltda. "TQTVD". In 2010, the Company acquired the remaining shares and now holds all of the shares of the capital of TQTVD.

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.

The process to determine the value in use involves the use of assumptions, judgments and estimates on cash flow, such as the growth rates of revenue, costs and expenses, estimates of investments and future working capital and discount rates. Assumptions on growth, cash flow and future cash flow projections are based on the Company's business plans, approved annually by management, as well as comparable market information, and they represent Management's best estimates of the economic conditions that will exist during the economic lives of different cash generating units, which are groups of assets that generate cash flow. Cash flow was discounted based on the representative rate of the cost of capital.

Compatible with economic valuation techniques, value in use is determined over a five year period, and onwards, taking into account the perpetuity of assumptions in view of the capacity of business going-concern for an indeterminate term.

Growth rates used to extrapolate projections as of December 31, 2013, in addition to the five year period range from 0% and 2%. Estimated future cash flows were discounted at rates ranging from 9% to 14.2% p.a. for each cash generating unit analyzed.

Significant assumptions used in the value in use estimate are as follows:

• Revenues – Revenues were projected between 2014 and 2018, 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, as well as with revenues historical growth.

• Capex – Investments in capital goods were estimated taking into account the technological infrastructure required to make the provision of services feasible, 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 did not result in the need to recognize losses in the year ended December 31, 2013, since the estimated market value is higher than its net book value as of the valuation date. The recovery test is performed annually.

14. Payroll and labor obligations

Salaries and charges payable balances are broken down as follows:

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Labor liabilities:				
Salaries payable	**20,326**	18,666	**22,635**	19,694
Pension plan payable	**677**	602	**703**	623
Vacations payable	**43,044**	39,108	**50,130**	41,922
Profit sharing and bonus	**6,947**	18,259	**9,239**	18,264
Other	**2,102**	2,718	**4,815**	4,668
	73,096	79,353	**87,522**	85,171
Payroll liabilities				
FGTS (Government Severance Indemnity Fund for Employees) payable	**3,453**	3,107	**4,129**	3,325
INSS (Brazilian Social Security Institute) payable	**6,845**	6,179	**7,901**	6,576
	10,298	9,286	**12,030**	9,901
	83,394	88,639	**99,552**	95,072

15. Loans and financing

The operations of loans and financings are as follows:

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
BNDES (a)	**305,095**	104,495	**305,095**	104,495
FINEP (b)	**32**	424	**32**	424
Secured accounts and other	**-**	-	**1,316**	548
	305,127	104,919	**306,443**	105,467
Current liabilities	**55,127**	53,851	**56,443**	54,399
Non-current liabilities	**250,000**	51,068	**250,000**	51,068

Amounts recorded in non-current liabilities at December 31, 2013and 2012, present the following maturity schedule:

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
2014	**-**	51,068	**-**	51,068
2015	**10,417**	-	**10,417**	-
2016	**62,500**	-	**62,500**	-
2017	**177,083**	-	**177,083**	-
Non-current liabilities	**250,000**	51,068	**250,000**	51,068

Below, the breakdown of loans and financing at December 31, 2013 and December 31, 2012:

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Balance at beginning of year	**104,919**	160,842	**105,467**	162,968
Additions	**250,000**	-	**263,901**	-
Interest incurred	**7,367**	7,455	**7,480**	6,973
Amortizations	**(57,159)**	(63,378)	**(70,405)**	(64,474)
Balance at December 31	**305,127**	104,919	**306,443**	105,467

a) BNDES – National Bank for Economic and Social Development

On August 19, 2008, the Board of Directors approved the loan from the National Bank for Economic and Social Development (BNDES), in the amount of R$204,500, within the scope of the Program for the Development of the Software National Industry and Information Technology Services – PROSOFT. The Company provided with

the amount of R$160,000 in September 2008, which is secured by a letter of bank guarantee and the remaining amount of R$44,500 in April 2009.

Loans have the purpose of financing software innovation research, brand repositioning and restructuring of sale channels, and bear Long-Term Interest Rate – TJLP plus 1.5% interest p.a., maturing every six months.

On September 13th, 2013, the Board of Directors approved the loan from BNDES in the amount of R$658,501, which has an amortization period of 72 months, including 24 months of grace period for the principal amount, to be released as proof of completion of investments, and divided into three sub-credits, as described below:

Sub credit "A" the amount of R$596,835, which bears interest of 1.5% per year above the TJLP, to be invested between 2013 and 2015 on the development of the qualitative solutions offered by TOTVS, in the range of the BNDES - PROSOFT;

Sub credit "B" the amount of R$58,466, which bears interest of 3.5% per year, to be invested in the development of its platform named "FLUIG", in the range of the BNDES Program of Investment Supporting, Subprogram Innovation and Machinery and Efficient Equipment;

Sub credit "C" the amount of R$3,300, which bears TJLP, to be invested in corporate social responsibility projects to be performed by TOTVS.

On October 2013, the amount of R$250,000 was available to the Company.

b) Software Development – FINEP – Research and Project Financing

This loan – taken out by the subsidiary Datasul – bears Long-Term Interest Rate, plus 5% interest p.a. and is secured by bank letters of guarantee.

16. Debentures

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 August 26, 2009, with a view to breaking down the mode of calculation and adjustment: (a) remuneration of debentures convertible into shares of both series of the 1 private issue of the Company ("Debentures"); (b) premium due to non-conversion of Debentures; (c) conversion percentage; (d) premium over

price in the event of mandatory conversion of Debentures. The Company executed the 2nd amendment to the private deed of the 1st issue of debentures.

1st series debentures will be paid based on the IPCA (Brazil's Extended Consumer Price Index) price increased by 3.5% interest p.a., limited to TJLP increased by 1.5% p.a., annually payable on August 19. 2nd series debentures will be paid based on the TJLP increased by 1.5% p.a., half-yearly payable on February 19 and August 19.

The Company will pay pro rata temporis remuneration owed up to the effective payment day, under the circumstances: (i) possible debenture conversions; (ii) scheduled amortizations; (iii) early maturity; and (iv) final maturity or settlement of debentures.

The Units could be compulsorily converted into common shares of the Company, if the date of its issuance, the weighted 360 days of the Company's shares average price, calculated on the trading floors on the Stock Exchange of São Paulo - ("Bovespa") and calculated on the date of the Units, in each period, was greater than the volume-weighted average of the Company's share price, also calculated at the Bovespa trading sessions, the period from June 6 to August 31, 2008 (" base period "), plus a premium of 50% of the weighted value of the shares of the said period, during the first three anniversaries of the debenture, dropping to 46%, 42% and 40% in subsequent years. For purposes of calculating the weighted value of shares of the base period, the historical values were updated based on indexes defined in the bookkeeping of debentures and updated based on the geometric mean between IPCA + 12% and + 9% TJLP for the number of days accrued between the date of determination and the date of issue.

If the valuation reached the conditions described above debenture holders would be required to convert the debentures, and the mandatory conversion could only occur after 2 years from the date of issue, ie, August 19, 2010, up to 15% of the debentures issued up to 30% in 2011 up to 45% in 2012 and by 60% in 2013. Once the described conditions were met, the Company mandatorily converted 60% of the debentures into shares.

The conversion price was also the volume-weighted average price of the Company shares, calculated on the Bovespa exchange in the base period, plus a premium over the weighted value of shares of that period. For purposes of calculating the weighted value of shares of the base period, the historical values were updated based on indexes defined in the bookkeeping of debentures.

Notwithstanding these maximum conversion percentage mentioned, debenture holders could convert 100% of the debentures if: i) a third party acquires more than 20% of the shares of the Company, or ii) if the proportion of independent directors on the Board of Directors of the Company be less than 50%. The conversion price will be adjusted proportionately and simultaneously to the capital increase.

The debentures not converted will be entitled to a non-conversion premium, and for debentures of the 1 series equivalent to the difference between the IPC-A plus 8% per annum and pay mentioned above, and for debentures of the 2nd equivalent series interest of 3.5% per annum. The non-conversion premium of debentures of the 1 series will be corrected by the IPC-A plus 8% p.a. and the 2nd series will be adjusted by TJLP plus 5% per

annum. The non-conversion premium will be paid for a maximum of 6 installments within 3 years from the date of payment of the last installment of principal and interest (February 19, 2017).

The debentures have early maturity clauses to the case of non-compliance with certain financial and non-financial conditions, and other ancillary obligations. On December 31, 2013 and 2012, the Company was in full compliance with all conditions stipulated.

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

b) "Non-conversion of debentures" clause

Should conversion not take place, debentures will be entitled to a non-conversion premium, for 1st series debentures equivalent to the difference between IPCA increased by 8% p.a. and the compensation abovementioned, and for 2nd series debentures equivalent to interest of 3.5% p.a. Premium due to non-conversion of 1st series debentures will be restated by IPCA increased by 8% p.a., and 2nd series debentures will be restated at TJLP increased by 5% p.a.

The premium due to 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).

c) Balance at December 31, 2013 and 2012

At December 31, 2013 and 2012, the balance was broken down as follows:

Issue	Debentures	Annual financial charges	Unit price	Parent Company and Consolidated 2013	2012
1 series	100,000	IPCA* + 3.5% limited to TJLP + 1.5%	1,00	**39,760**	55,313
2nd series	100,000	TJLP + 1.5%	1,00	**39,760**	55,313
		Sub-Total		**79,520**	110,626
		Premium due to non-conversion		**24,685**	19,743
		Fair value - convertible debentures		**-**	12,308
		Total		**104,205**	142,677
		Current liabilities		**1,805**	42,930
		Non-current liabilities		**102,400**	99,747

** Brazil's Extended Consumer Price Index*

Maturity of non-current amounts is as follows:

	Parent Company and Consolidated	
	2013	**2012**
August 2015	**29,712**	32,002
August 2016	**48,002**	48,002
After February 2017	**24,686**	19,743
	102,400	99,747

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

Debentures and premiums from non-conversions

	Parent Company and Consolidated	
	2013	**2012**
Balance at beginning of year	**130,369**	157,111
Interest incurred	**11,296**	13,896
Amortization	**(37,460)**	(40,638)
Balance at December 31	**104,205**	130,369

Fair value of future conversions

	Parent Company and Consolidated	
	2013	**2012**
Balance at the beginning of the year	**12,308**	13,477
Restatement at market value	**123**	17,311
Amortization	**(12,431)**	(18,480)
Balance at December 31	**-**	12,308

d) Debentures conversion

The average price over the last 360 days of the Company's shares in in August of 2010, 2011, 2012 and 2013 outperformed the weighted average price of the "base period", corrected according to the contractual clauses, hence the parameters have been achieved and required debenture holders to convert 15%, 30%, 45% and 60%, respectively, of the Units. Based on this conversion the Board of Directors approved, within the authorized capital of TOTVS, the issuance of common shares, nominative and with no par value share, and consequently increased the share capital of TOTVS as follows:

Year	Shares	Price per share	Increase capital
2010	306,870	R$ 97,74768	R$ 29,996
2011	1,389,191	R$ 21,59671	R$ 30,002
2012	1,267,849	R$ 23,66052	R$ 29,998
2013	1,141,532	R$ 26,28040	R$30,000

e) Assessment of future conversions

Considering the clauses of the deed of debenture issue, an assessment was carried out, using the fair value, for the conversion option defined in that deed, and the amount was recognized after the assessment of probable conversion of options into shares of the Company in all tranches, based on the best estimate resulting from the model used for this economic evaluation (which considers the future price of shares compared to prices established for the conversion ("strike price") and other variables set forth in the debentures using the Monte Carlo method for pricing options) on the financial statements closing date, CPC 38 (IAS 39) and 39 (IAS 32) were considered in assessing transactions and recognition of the amounts involved.

On December 31, 2012 the Company had a liability of R$ 12,308 related to unexercised tranches, which had a counterpart in the financial result. On 2013, the residual value in the liability was transferred to an equity account, with no more future conversations.

17. Liabilities due to investment acquisition

These refer to installments payable due to investment acquisition carried out by the Company and its subsidiaries, negotiated with payment in installments, recorded in current and non-current liabilities, as follows:

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Tools (a)	**-**	1,711	**-**	1,711
Techprod (a)	**-**	450	**-**	450
Techserv (a)	**-**	296	**-**	296
Datasul MG	**2,226**	2,012	**2,226**	2,012
Datasul Saúde MG	**641**	641	**641**	641
ERP Cedente	**138**	261	**138**	261
TotalBanco	**748**	1,383	**748**	1,383
Hery	**1,563**	2,549	**1,563**	2,549
TQTVD	**662**	380	**662**	380
SRC	**161**	4,325	**161**	4,325
Mafipa	**957**	1,302	**957**	1,302
Gens FDES	**8,940**	8,954	**8,940**	8,954
PRX	**11,903**	-	**11,903**	-
Umov.me	**-**	-	**848**	-
RMS	**-**	-	**29,604**	-
Seventeen	**-**	-	**9,734**	-
W&D Participações	**-**	-	**41,422**	-
Other (a)	**-**	600	**-**	600
Total	**27,939**	24,864	**109,547**	24,864
Current liabilities	**8,530**	11,399	**63,717**	11,399
Non-current liabilities	**19,409**	13,465	**45,830**	13,465

(a) Installment adjustment indexes range from 100% to 100.5% of CDI

Installments recorded as non-current liabilities mature as follows:

	Parent Company		Consolidated	
Year	**2013**	**2012**	**2013**	**2012**
2014	**-**	4,763	**-**	4,763
2015	**4,739**	3,526	**4,739**	3,526
2016	**14,670**	5,176	**36,091**	5,176
2017 on ward	**-**	-	**5,000**	-
Non-current liabilities	**19,409**	13,465	**45,830**	13,465

Values recorded in non-current liabilities are adjusted to their present value at the rate of 11.18% p.a. in 2013 (11.2% in 2012)

18. Provision for legal obligations related to legal proceedings

a) Ongoing procedings 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, as shown below:

	Parent Company		Consolidated	
	2013	**2012**	**2013**	**2012**
Tax	**645**	687	**645**	687
Civil	**992**	958	**1,114**	958
Labor	**5,546**	4,725	**5,546**	4,725
	7,183	6,370	**7,305**	6,370

The breakdown of provisions in the year ended December 31, 2013 and 2012 is as follows:

	Parent Company			
	Tax	**Labor**	**Civil**	**Total**
Balances at December 31, 2011	686	1,281	621	2,588
(+) Additional provision	-	3,201	316	3,517
(+) Monetary restatement	1	243	21	265
Balances at December 31, 2012	**687**	**4,725**	**958**	**6,370**
(+) Additional provision	**-**	**1,242**	**446**	**1,688**
(+) Monetary restatement	**33**	**243**	**352**	**628**
(-) Reversal of provision not used	**(75)**	**(664)**	**(764)**	**(1,503)**
Balances at December 31, 2013	**645**	**5,546**	**992**	**7,183**

	Consolidated			
	Tax	**Labor**	**Civil**	**Total**
Balances at December 31, 2011	686	1,281	621	2,588
(+) Additional provision	-	3,201	316	3,517
(+) Monetary restatement	1	243	21	265
Balances at December 31, 2012	**687**	**4,725**	**958**	**6,370**
(+) Additional provision	**-**	**1,242**	**568**	**1,810**
(+) Monetary restatement	**33**	**243**	**352**	**628**
(-) Reversal of provision not used	**(75)**	**(664)**	**(764)**	**(1,503)**
Balances at December 31, 2013	**645**	**5,546**	**1,114**	**7,305**

The court deposits bound and not bound to provisioned lawsuits are stated below and are recorded under non-current assets:

	Parent Company and Consolidated	
Judicial deposits	**2013**	2012
Social Security	**2,877**	2,575
Tax	**1,655**	1,956
Labor	**8,733**	2,689
Civil	**1,351**	611
	14,616	7,831

The breakdown of main lawsuits for which provisions were recorded in the accounting books is as follows:

Tax

The Company has made provision for lawsuits where they are challenged in court to the payment of taxes levied. On December 31, 2013 is recognized for these lawsuits a provision of R$645 (R$687 at December 31, 2012), and judicial deposits made until December 31, 2013 were R$919 (R$870 at December 31, 2012).

Civil

The Company is a defendant in actions for damages filed by customers for contract termination, cumulated with compensation for damages as well as compensation claims filed by business agents, for contract terminations combined with billing and claims. On December 31, 2013, the provision for these claims totals the amount of R$1,114 (R$958 at December 31, 2012).

Labor

The Company has recorded a provision related to lawsuits filed by former employees and service providers, which claim reduction of commissions on sales and services, recognition of employement, severance pay,

overtime and wage parity. The provisioned amount is R$5,546 at December 31, 2013 (R$4,725 at December 31, 2012).

b) Other ongoing proceedings (deemed as "possible" losses)

In addition, the Company and its subsidiaries are involved in other actions, which the risk of loss, that according to outside counsel and responsible management, it is possible, for which no provision has been recognized as follows:

	Parent Company		Consolidated	
Nature	**2013**	**2012**	**2013**	**2012**
Social security	**18,219**	17,935	**18,277**	17,935
Tax	**19,780**	20,018	**33,658**	20,018
Civil	**122,054**	52,841	**124,650**	52,841
Labor	**20,648**	8,466	**23,502**	8,466
	180,701	99,260	**200,087**	99,260

The summary of main proceedings in progress is presented as follows:

Social security

The Company continued in discussion of a motion to stay the tax enforcement of execution the unenforceability of NFLD, originally drawn up against Datasul S.A., whose amount in December 31, 2013 was R$ 8,767 (R$ 9,014 as of December 31, 2012). The notification was imposed by the INSS due to alleged irregularities in outsourcing services. The embargoes are waiting for the judgment of the especial resources.

On June 28, 2010, notices of violation were issued by inspectors of the Federal Revenue Secretariat of Brazil, in the amount of R$5,002 (R$6,382 updated until December 31, 2012) that focused in summary on the following: (i) an alleged characterization of corporations as autonomous and insured employees, and (ii) joint liability for services provided by temporary employment agencies.

The Company filed the respective objections against the tax assessment notices and is awaiting the Tax Authorities' decisions.

The remaining cases classified as possible loss of social security nature deal with recovering the debt which the Company considers improper. The value of these shares amounted to R$4,508 as of December 31, 2013 (R$2,539 at December 31, 2012).

Tax

As a result of inspection procedures of the Internal Revenue Service in 2008, the Internal Revenue Service issued a Notice of Infraction relating to inquiries for failing to add to your taxable income share of the profits allegedly provided by a subsidiary abroad and improper amortization, in the calculation of taxable income, the amount of goodwill ABR1 cleared the merger of the Company in calendar years 2003 to 2006. The Company filed an appeal against this notice, which is currently awaiting consideration by the administrative judges of the Internal Revenue Service. The updated amount is R$4,677 (R$ 5,123 at December 31, 2012).

The Company suffered eight assessments by the Municipality of São Paulo to demand the ISS, for the period 1996 to 2000, updated until December 31, 2013 at R$5,783 (R$7,297 at December 31, 2012). The assessments were maintained at the administrative level, since the Municipality of São Paulo understands that services had been provided by the Joinville branch office, were actually developed in the São Paulo branch office.

PC Systems, a company acquired by W&D by the Company in 2013 (Note 3), received a Notice of Infraction classified as a possible loss due to the omission of output goods, determined based on a comparison between the values recorded in the subsidiary's own tax books and the output values of real goods registered in the database that the taxpayer used to store its output operations. The amount of R$1,655 of ICMSwas charged, with the calculation basis determined by the proportionality of marketing taxed goods along with fee and legal charges, and the date for this process on December 31, 2013 was R$8,318.

The remaining cases classified as possible losses of a tax nature deal with recovering debt which the Company considers improper. The value of these shares amounted to R$14,880 as of December 31, 2013 (R$7,598 at December 31, 2012).

Civil

The civil lawsuits classified as possible losses relate mainly to lawsuits filed by customers alleging certain issues related to the provision of implementation services of systems acquired, applying the default price increment, implementation of lack terminated the contracts and charges made improperly. The amount of these suits totaled R$124,650 at December 31, 2013 (R$52,841 at December 31, 2012), there being no individually material, process considered relevant.

Labor

The labor lawsuits classified as possible losses refer to lawsuits filed by former employees of the Company and service companies, seeking recognition of employment and other labor credit. The value of these lawsuits were R$23,502 at December 31, 2013 (R$8,466 at December 31, 2012).

19. Equity

a) Capital

At December 31, 2013, the Company's capital as composed of 163,467,071 issued and fully paid common registered shares, with no par value (161,629,945 shares at December 31, 2012), as follows:

	2013		2012	
Shareholders	**Shares**	**%**	**Shares**	%
LC-EH Empreendimentos e Participações S,A,	26,760,990	16.37%	26,760,990	16.56%
Fundação Petrobrás de Seguridade Social – Petros	16,042,359	9.81%	16,042,359	9.93%
BlackRock Inc.	5,946,739	3.64%	8,102,220	5.01%
BNDES Participações S/A	7,444,981	4.55%	6,319,048	3.91%
Laércio José de Lucena Cosentino	1,812,021	1.11%	1,766,265	1.09%
Ernesto Mário Haberkorn	55,140	0.03%	16,810	0.01%
CSHG Senta Pua Fia (***)	43,500	0.03%	43,500	0.03%
Others	104,997,977	64.24%	102,578,753	63.47%
Treasury Shares	363,364	0.22%		
Total	163,467,071	100%	161,629,945	100.00%

The limit of authorized capital at December 31, 2013 was R$540,000. Additionally, within the authorized capital limit, and pursuant to the plans approved by the General 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 directly or indirectly controlled by the Company, with no preemptive right to shareholders.

As mentioned in Note 16, given the conversion of debentures into shares of the Company on August 19, 2013, the Board of Directors approved the issuance by TOTVS of 1,141,532 book entry shares with no par value, at the price of R$26.280409 per share, with the resulting increase in TOTVS capital by R$30,000.

b) Capital reserves

The balance of capital reserves at December 31, 2013 and December 31, 2012 was broken down as follows:

	2013	2012
Goodwill reserve (a)	**31,557**	31,557
Goodwill reserve for merger	**14,330**	14,330
Debentures converted into shares (fair value) (note 16)	**44,629**	32,198
Stock option plan (note 22)	**33,329**	25,674
	123,845	103,759

(a) The goodwill reserve amount of R$31,557 is a result of payments made in 2005.

The capital reserve shall be used, according to legal provisions, for:

(i) absorption of losses that exceed the retained earnings and income reserves;
(ii) redemption, refund or purchase of shares;
(iii) founders' shares redemption;
(iv) incorporation into capital stock; or
(v) payment of dividends to preferred shares, when they are entitled to it.

c) Legal reserve

The Brazilian Corporation Law requires that corporations allocate 5% of their annual net income to the income reserve before profits are distributed, limiting this reserve balance to 20% of the total value of capital.

d) Treasury shares

On June 28, 2013, the Company informed its shareholders and the market in general of the approval by the Board of Directors of the acquisition of shares issued by the Company, without a capital reduction for subsequent cancellation, disposal or held in treasury, for the purpose of increasing value to the shareholders.

This repurchasing program started on July 1, 2013, with a term of 365 days from that date, as the acquisitions will be made at market prices and will be a Board of Director's decision on the time and quantity 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 3,200,000 common shares.

On December 31, 2013, the caption "Treasury Shares" was as follows:

	Number of shares	Value	Average price per share
Balance at beginning of year	-	-	-
Acquired	381,800	13,617	35.66
Used	(18,436)	(657)	22.87
Balance at end of year	**363,364**	**12,960**	**35.66**

During the year ended at December 31, 2013, the use of 18,436 of treasury share by the stock options plan incurred R$243 as loss.

20. Dividends

The Company's articles of incorporation provide for minimum mandatory dividend equivalent to 25% of net income for the year, adjusted by the setting up of a legal reserve, as established by the Corporation Law.

On July 30th, 2013, the Board of Directors authorized distribution and payment of Interest on equity to the Company's shareholders amounting to R$21,508 in the first semester of 2013.

On December 19, 2013, the Board of Directors authorized distribution of interest on equity to the Company's shareholders amounting to R$18,337 (R$40,200 at December 31, 2012), to be added to the minimum mandatory dividend for the year ended December 31, 2013.

	Parent Company	
	2013	2012
Net income for the year – Company	**222,512**	207,148
Establishment of a legal reserve (article 193 of Law No. 6404)	**(11,126)**	(10,357)
Net income after legal reserve allocation	**211,386**	196,791
Minimum mandatory dividend – 25%	**52,847**	49,198
Additional dividends proposed by management	**102,912**	68,803
Dividends proposed by management	**155,759**	118,001
Payment:		
Interest on capital	**39,845**	40,200
Dividends	**115,914**	77,801
	155,759	118,001
Changes in dividends in equity:		
Prior-year dividends	**(68,803)**	(59,396)
Minimum mandatory dividend for the year	**52,845**	49,198
Total dividends deducted from equity	**(15,958)**	(10,198)
Number of share at December 31	163,467,071	161,629,945
Dividends and interest on equity per thousand shares - in reais	**0.95**	0.73

The amount of dividends and interest on equity payable of R$32,012 at December 31, 2013 (R$49,681 at December 31, 2012) 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 the 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 online booking of special dividends in the statement of equity.

The proposed capital budget of December 31, 2013 of the Board of Directors of the Company approved by the Board of Directors on January 27, 2014, ad referendum of the General Meeting, the intended total balance of the reserve account to retained earnings in amount of R$305,657 (R$250,030 at December 31, 2012), for the applications shown below:

Applications:	**2013**	2012
Expansion projects, replacement of assets and research and development.	**406,066**	424,379
Total of applications	**406,066**	424,379
Fonts:		
Retained earnings at December, 31	**305,655**	250,027
Estimated cash to be generated from operating and financing activities for the next year (unaudited)	**343,694**	174,352
Total of fonts	**649,349**	424,379

21. 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.

The insurance policy considers the geographical dispersion and the individual value of the assets used, and the fact that the Company and its subsidiaries are service providers and therefore depend less on tangible assets than a manufacturing Company.

Insured assets include own and leased vehicles, building where the Company and its subsidiaries operate. At December 31, 2013, the main insurances taken out was as follows:

Type	**Insurance Company**	**Effective**		**Maximum limit of Responsibility**	**Total insured**
		From	To		
Comprehensive corporate	Itaú Seguros S.A.	6/13/2013	6/13/2014	80,000	160,482
General civil liability	Itaú Seguros S.A.	6/13/2013	6/13/2014	4,000	-
Vehicles	Itaú Seguros S.A.	1/7/2013	1/7/2014	-	FIPE (*)
D&O - Liability insurance of directors	Itaú Seguros S.A.	6/1/2013	6/1/2014	40,000	-

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

22. Plan for granting stock options

The Incentive Plan based on Shares of the Company is intended to establish rules for certain employees and directors of TOTVS S.A. or other companies under its control so they can to acquire shares of the Company through the grant of Option to purchase Shares, thereby aiming to generate alignment between the medium and long term interests of the Beneficiaries and shareholders' interests, broaden the sense of ownership and commitment of the executives through the concept of investment risk, tying the granting of long-term incentives with 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 selected strategic personnel.

The Plan is administered by the Board of Directors of the Company, that establishes grant programs annually, and is responsible for defining: (i) the beneficiaries of each type of option and election to the Membership Program, (ii) the total number of options of each type of grant, and the number of each type of options to which each Beneficiary will be entitled individually, (iii) the goals related to performance to establish criteria for the selection of beneficiaries and determining the number of options to be granted to each beneficiary, and (iv) the form and time of payment of the exercise price of the options.

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

	Grant				Fair Value Assumptions			
					Expectation:		Free interest rate risk	Term Maturity
Nº	Date	Number of options (*)	Exercise price (*)	Pricing of Options (*)	Dividends	Volatility		
2ª	01.22.09	912,775	R$ 7.21	2.24	3.30%	38.54%	11.25%	3 years
3ª	01.22.10	1,676,575	R$ 23.36	7.96	1.97%	37.37%	10.75%	3 years
4ª	11.19.11	1,854,210	R$ 30.38	13.29 and 14.85	2.00%	37.37%	10.75%	2 and 4 years
5ª	08.12.11	500,000	R$ 25.67	7.41, 8.98 and 10.23	2.00%	34.60%	10.75%	2 and 4 years
6ª	02.13.12	50,000	R$ 30.47	10.83	1.92%	32.82%	10.00%	3 years
7ª	06.01.12	40,000	R$ 35.00	12.00	1.92%	32.82%	10.00%	3 years
8ª	02.20.13	683,423	R$42.63	11.97	1.70%	30.09%	7.25%	3 years
9ª	02.20.13	96,791	-	41.60	1.70%	30.09%	7.25%	3 years

(*) Values after split on March 21, 2011

Changes in the years of the options is shown below:

	Parent Company and Consolidated			
	2013		2012	
	Amount	Average Cost(R$)	Amount	Average Cost (R$)
Balance of options at beginning of year	**3,139,655**	**10.67**	4,091,480	8.86
Transactions:				
Exercised	**(718,030)**	**22.92**	(882,020)	2.46
Granted	**780,214**	**15.64**	90,000	11.35
Cancelled	**(431,057)**	**14.69**	(159,805)	10.03
Balance of shopping options at end of year	**2,770,782**	**12.40**	3,139,655	10.67

On December 31, 2013, there were 420,600 options exercisable, once they have passed the deadline of 36 months from the date of 2nd and 3nd grant.

The cumulative effect for the year ended December 31, 2013 is R$7,898 (R$9,004 at December 31, 2012), recorded as expense for the granting of options to purchase share.

23. Financial income and expenses

The financial income and expenses incurred for the years ended December 31, 2013 and 2012 were as follows:

	Parent Company		Consolidated	
	2013	2012	2013	2012
Financial income				
Short-term investments yield	**24,750**	24,234	**27,660**	27,343
Exchange gains	**796**	74	**1,521**	542
Discounts obtained	**1,005**	7,830	**2,166**	7,830
Adjustment to market value	**3,923**	3,145	**3,923**	3,145
Interest received	**4,262**	4,517	**4,479**	4,517
Other financial income	**1,691**	899	**710**	2,038
	36,427	40,699	**40,459**	45,415

Financial expenses				
Interest paid or incurred	**(18,363)**	(21,539)	**(20,151)**	(21,946)
Exchange losses	**(304)**	(29)	**(786)**	(408)
Bank commissions and fees	**(3,528)**	(3,356)	**(3,796)**	(3,603)
discounts granted	**(4,051)**	(3,790)	**(7,220)**	(3,790)
Mark to market value and non-conversion premium of debentures	**(9,348)**	(22,122)	**(9,348)**	(22,122)
Other financial expenses	**(1,553)**	(966)	**(1,815)**	(2,169)
	(37,147)	(51,802)	**(43,116)**	(54,038)
Net financial income (expenses)	**(720)**	(11,103)	**(2,657)**	(8,623)

24. Private pension plan – defined contribution

The Company offers the TOTVS Private Pension Plan, managed by Itaú Vida e Previdência, which counts on contributions made by the participants and by the Company, described in the Agreement of Subscription to the Program. The three types of contribution are:

- Basic Contribution – corresponds to 2% of the employee's salary; in case of directors ruled by the bylaws, the contribution ranges from 2% to 5%.

- Volunteer Contribution – made exclusively by the 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.

25. Earnings per share

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

Diluted earnings per share are calculated by dividing net income assigned 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 when converting all potentially dilutive common shares into common shares:

	Parent Company and Consolidated	
	2013	**2012**
Basic earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	**222,512**	207,148
Denominator		
(in thousands of shares)		
Weighted average number of common shares outstanding	**162,357**	160,563
Basic earnings per share	**R$1,37**	R$1,29

	Parent Company and Consolidated	
	2013	**2012**
Diluted earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	**222,512**	207,148
Denominator		
(in thousands of shares)		
Weighted average number of common shares outstanding	**162,357**	160,563
Dilution effect		
• Stock options	**3,202**	3,392
• Debentures	**-**	1,944
Weighted average number of common shares adjusted according to dilution effect	**165,559**	165,899
Diluted earnings per share	**R$1,34**	R$1,25

26. Expenses by nature

The Company presents below the information on operating expenses by nature and function for the years ended December 31, 2013 and 2012.

	Parent Company		Consolidated	
Nature	**2013**	**2012**	**2013**	**2012**
Raw material and consumables used	**489,046**	390,661	**561,795**	480,154
Employee benefits expense	**439,016**	407,605	**531,999**	473,051
Depreciation and amortization expenses	**69,924**	75,324	**82,558**	81,228
Rents	**22,889**	19,785	**25,364**	21,794
Allowance for doubtful accounts	**20,275**	20,787	**23,652**	23,234
Others expenses	**59,287**	31,542	**66,906**	37,695
	1,100,437	945,704	**1,292,274**	1,117,156

	Parent Company		Consolidated	
Function	**2013**	**2012**	**2013**	**2012**
Cost of goods sold/services rendered	**450,120**	363,807	**541,296**	456,820
Selling expenses	**81,923**	67,366	**107,432**	88,058
Administrative expenses	**81,052**	72,277	**95,809**	82,875
Other operating expenses	**487,342**	442,254	**547,737**	489,403
	1,100,437	945,704	**1,292,274**	1,117,156

27. Gross revenue

The Company presents below the information about Gross Revenue and deductions for calculation of net revenues presented in the Company's Income Statements for the years ended December 31, 2013 and 2012.

	Parent Company		Consolidated	
	2013	2012	2013	2012
Gross revenue	**1,586,073**	**1,330,918**	**1,774,600**	**1,539,108**
License fees	341,737	294,207	383,773	357,789
Service	447,321	328,633	537,629	455,211
Maintenance	797,015	708,078	853,198	726,108
Deductions	**(147,742)**	**(109,342)**	**(162,806)**	**(125,132)**
(-) Cancellations of sales	(15,015)	(180)	(17,166)	(1,964)
(-) Sales tax	(132,727)	(109,162)	(145,640)	(123,168)
PIS/Cofins/ISS	(111,858)	(88,239)	(122,817)	(99,733)
INSS	(20,869)	(20,923)	(22,823)	(23,435)
Net revenues	**1,438,331**	**1,221,576**	**1,611,794**	**1,413,976**

Accumulated sales for the year refer to operations in Mexico and Argentina amounting to R$28,415 as at December 31, 2013 (R$21,450 at December 31, 2012).

28. Subsequent events

On January 16, 2014 was approved by CADE (Adminstrative Council for Economic Defense), without restrictions, the acquisition of shareholding in the Ciashop, concluing the agreed conditions precedent in a contract, as described in Note 3.

* * *

BUSINESS PROJECTION COMMENTS

EBITDA Margin (Earnings Before Interest, Taxes, Depreciation and Amortization divided by Net Sales)

Projected Consolidated EBITDA margin in the range between 27% and 30% for the years ended between 2013 and 2016.

The assumptions underlying this projection are based on the dilution of the cost structure in terms due to a higher projected sales growth, exceeding the costs and expenses growth for the period, as well as increased efficiency on service teams.

The Company's EBITDA margin was 24.9% in 2013, 26.7% in 2012 and 24.1% in 2011.

In 2013, the Company's EBITDA margin was 2.1 percentage points below the projections for the year, due to the slower than expected revenue growth, whereas the increase in costs and expenses followed the projection for the year. This increase in costs and expenses exceed the revenues caused this decline in EBITDA margin in 2013. The growth in costs and expenses was primarily by increased investments in the development teams of software solutions and sales teams.

The investments made in 2013 are part of the Company's strategy towards specialization in several industry sectors, aiming higher sales growth and increased efficiency, hence increasing the EBITDA margin. The Company has no reason to modify these projections to date.

Research and Development Expenses

Projected expenditure on research and development corresponding to a level of 12% of the consolidated net revenue by the end of 2016.

The Company used as its premise the scalability of its business model, which enables the dilution of expenditure on research and development through growth in net revenues above the level of these expenses.

As a percentage of net revenue, expenditure on research and development of the Company amounted to 13.3% in 2013 12.3% in 2012 and 13.7% in 2011.

In 2013, the Management decided to keep the planned investments in research and development in order to strengthen the development of software solutions related to the activities to their customers, despite the growth in net revenue below the internal projections for the period.

To date, the Company has not identified reasons for the modification of these projections.

Net revenues from international operations

Projected net revenue from international operations representing between 3% and 5 % of consolidated net revenue by 2016.

The Company used the strategic planning for international operations, which involved the restructuring of these operations and aims to explore the market potential especially increasing focus on small and medium enterprises in Latin America market and the participation of third local distributors as premise of this projections.

As a percentage of consolidated net revenues, net revenues from international operations accounted for: 1.7 % in 2013 , 1.4% in 2012 and 1.3 % in 2011.

Increase participation in international operations in the Company's net revenue implies that these operations grow at a faster pace than the Brazilian operation, this does not imply a reduction in the growth of the Brazilian operation .

To date, the Company has not identified reasons for the modification of these projections .

EBITDA (EBITDA - Earnings Before Interest, Taxes , Depreciation and Amortisation) of international operations

Projection of reaching the break-even point of international operations EBITDA, corresponding to a zero EBITDA by the end of the second half of 2014.

The Company used the strategic planning for international operations, which involved the restructuring of these operations and aims to explore the market potential especially increasing focus on small and medium enterprises in Latin America market and the participation of third local distributors as premise of this projections.

Consolidated EBITDA from international operations totaled negative amounts of R$ 6.4 million in 2013, R$ 9.5 million in 2012 and R$ 15.6 million in 2011 .

Reducing the negative results of international operations implies maintaining cost and expenses structures consistent with the level of revenue generated, reducing scheduled losses is also linked to building a base of recurring revenue, mainly linked to maintenance revenue over the years of this projection.

To date, the Company has not identified reasons for the modification of these projections.

AUDIT COMMITTEE REPORT

In accordance with its Bylaws, the Audit Committee is responsible for ensuring the implementation of processes, internal and external audit management, mechanisms and controls related to risk management and the alignment of financial policies with the strategic guidelines and the business risk profile, as well as ensuring the quality and integrity of the Company's financial statements. In this light, the Audit Committee provides recommendations to Management regarding approval of financial reports and on potential actions to improve internal controls and reduce risks.

The Committee held twelve (12) regular meetings from January 2013 to January 2014 and two (2) special meetings to discuss, among other matters: issues related to Corporate Governance and reporting to the market; topics related to and reports from the Independent Audit; plans and reports from the Internal Audit and the Franchises; the effectiveness of Internal Controls and Corporate Risk Management; reports from Ombudsman and the Ethics Committee; a project to rent a new headquarters for the Company (transaction with a related party); Contingencies and tax theses; Technology and Information Security; Financial management and management indicators; and Mergers and acquisitions.

2013 Annual Financial Statements:
The members of the Audit Committee of TOTVS S.A., in the exercise of their duties and legal responsibilities, as provided for in the Audit Committee Bylaws, analyzed the financial statements, accompanied by the independent auditors' report and the annual Management report related to the year ended on December 31, 2013 ("2013 Annual Financial Statements"). Considering the information provided by the Company's Management and PwC Auditores Independentes, as well as the proposal of allocation of net income related to the fiscal year 2013, they unanimously agreed that said Financial Statements reflect, in all relevant aspects, the equity and financial position of the Company and its subsidiaries, and recommended approval of the documents by the Company's Board of Directors and their submission to the Annual Shareholders' Meeting, pursuant to Brazilian Corporate Law.

São Paulo, January 27, 2014

Gilberto Mifano
Chairman of the Audit Committee

Charles Barnsley Holland
Member of the Audit Committee

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