Financial Statements

Totvs S.A.

December 31, 2010 and 2009 and 01.01.2009

Totvs S.A.

Financial statements

December 31, 2010 and 2009

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MANAGEMENT REPORT / COMMENTS ON THE PERFORMANCE

Dear Shareholders,

In compliance with legal requirements, TOTVS S.A., Latin America's largest developer of application software, the world's 7th largest developer of integrated management system (ERP) and the 1st in emerging markets, as well as the absolute leader in Brazil, submits to its shareholders' appraisal the Management Report and the Financial Statements, accompanied by the independent auditors' report for the fiscal years ended December 31, 2010 and 2009, in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) for the Consolidated Financial Statements.

MESSAGE FROM THE MANAGEMENT

The Brazilian economy registered strong growth in 2010, continuing the quick recovery after the crisis in the global financial markets that affected the world economy as a whole in the middle of 2008 and 2009. At TOTVS, investments in brand consolidation, unification of the distribution channels and streamlining of the internal processes and development structures were the core focus points for the Management in 2010. The results of these efforts are already reflected in yet another year of favorable indicators, with new records in sales, new clients, profitability and headcount.

As part of its long-term vision, TOTVS once again reaffirmed its capacity to innovate, spending close to R$150.000 thousands in research and development (R&D), equivalent to 13.3% of its net revenue and is one of the highest amounts in the Brazilian market. According to a study by Booz and Co. published in the Valor Econômico magazine, TOTVS is one of the 1,000 companies around the world that most invest in R&D. As part of the long-term vision, again, the Company's manpower was increased by about 870 new employees, most of them in the software development and implementation areas. Thanks to this increase, the Company posted gross revenue of over R$1 billion and, with the rapid expansion of its businesses, its share of the management software market in Brazil jumped to 45.3% at the end of the first half of 2010, according to the study entitled "Latin America Semiannual ERM Tracker" by the IDC Institute.

In the Management's opinion, TOTVS ended 2010 better prepared in terms of infrastructure, manpower and technology to provide positive and continuous solutions to those mainly responsible for the company's success – clients, shareholders, employees, suppliers and other market partners.

ECONOMIC SCENARIO

In 2010, the effects of the financial crisis that originated in the United States in 2008 and which spread to other economies around the world, continued to affect the global scenario,

notably the economic powerhouses like the United States and England, as well as European economies like Spain, where unemployment continued at double-digit levels. Other European economies like Greece had to be bailed out with aid from other governments to prevent the crisis from spreading across the region. On the other hand, emerging economies like Brazil and a few other Asian countries witnessed a different scenario of strong GDP growth, driven mainly by the surge of a new class of consumers in their domestic economies. Another noteworthy characteristic of the economic scenario in 2010 was that the "currency war" among several countries became fiercer, with countries trying to solve their internal demand problem by devaluing their currencies to make their products cheaper in the international market. The effect of this "war" on Brazil was that the Brazilian Real appreciated 4.3% against the U.S. Dollar and various sectors of the economy started losing their competitive edge in the export market as well as in the domestic market due to the competition from imported products in practically all sectors of the economy.

In any case, what one noticed in Brazil was a period of growth and increased consumption, with a sharp decline in the population in the lower economic classes and a higher concentration of buying power in the middle class (class C). While on the one hand, the successive sales records in such sectors as real estate and automobiles brought the benefits of a buoyant economy, they also raised concerns about growing inflation. The IPCA inflation index, which was 4.31% in 2009, ended 2010 on a high of 5.91% - slightly higher than the target set by the government. The IGPM index reached 11.32%, substantially higher than the 1.71% deflation recorded in 2009. To combat the inflationary trend by restricting demand, the basic interest (Selic) rate established by the Brazilian Central Bank, which began the year at 8.75% p.a., the lowest since it was created in 1999, ended 2010 at 10.75% p.a. It must be mentioned that GDP grew in 2010 – by around 7.6% according to estimates since the official figure had not been announced till the publication of this report – despite the increase in the interest rate and the presidential succession. After being reelected in 2006, Brazilian president Luiz Inácio Lula da Silva ended 8 years at office with record popularity and chose his successor, Dilma Rousseff, elected in November, as the first woman to lead Brazil. The election process passed off without any hiccups, with the transition occurring in a democratic manner and without any significant effect on the interest or exchange rates or any other market index.

In 2010, Brazil remained in the spotlight of media and of international investors, not only because of its continuously excellent performance but also by the expectations of additional investments needed to build the infrastructure required to drive the country's growth and meet its needs as the host nation of the 2014 World Cup Soccer and the 2016 Olympic Games, to be held in Rio de Janeiro.

Benefited by this scenario, the IT industry registered growth in 2010. The December 2010 study by the IDC Institute estimated that the management software market in Brazil grew by more than 14% compared to 2009 and in Latin America by over 11% in 2010. It also estimated a CAGR of over 12% p.a. for the period 2008-2014. The growth cycle of the economy, the higher utilization of Internet tools, accessible prices of computers and the

obligation for companies to implement the Public Digital Bookkeeping System (SPED) and issue electronic invoices (NF-e) have helped drive management software sales.

CONSOLIDATED FINANCIAL AND OPERATING PERFORMANCE

Sustained by strong fundamentals, the Company once again closed the 12-month cycle with positive indicators like an increase in the number of new clients, growth across all revenue lines and record net income of R$137.863 thousands, 14.6% higher than in the previous year. TOTVS registered EBITDA (*) ("Earnings before interest, taxes, depreciation and amortization") of R$289.552 thousands in 2010, up 16.2% over 2009, with EBITDA (**) margin of 25.6%, 40 basis points over 2009.

The Company has managed to grow and, at the same time, raise its productivity, without affecting investments in R&D, which is fundamental to build the future of TOTVS. The margin gain has been the result of revenue growth combined with the strong capture of synergies from the companies acquired in recent years, in addition to the increased efficiency of the internal management system with the implementation of new processes and quality indicators.

TOTVS ended 2010 with net revenue of R$1,129.475 thousands, up 14.2% over the net revenue in 2009, largely aided by the restructuring of the distribution system, initiated in the second half of 2009, as well as the economic growth of Brazil and the region.

License fee revenue totaled R$278.845 thousands, 22.1% more than the R$228.270 thousands in 2009, thanks to the addition of 2,840 new software clients and the significant number of existing clients served.

Service revenue was 10.7% higher than in 2009, amounting to R$367.698 thousands. The growth mainly resulted from the increase in the volume of implementations, thanks to new software sales to both existing and new clients, as well as the expansion of the Value-Added and Consulting Services operations.

Maintenance fee revenue closed 2010 at R$513.860 thousands, 12.5% more than the R$456.515 thousands in 2009. The growth in the Company's client base, i.e., clients who pay every month for software updates and help-desk support, which directly affects this revenue item, and the low churn rate in the year were important revenue growth factors. TOTVS ended 2010 with more than 26,000 active clients.

Cost of license fees increased 5.3%, from R$22.909 thousands in 2009 to R$24.118 thousands in 2010. This line represents the cost of third-party solutions sold by the Company.

The sum of cost of services and cost of sales came to R$353.331 thousands in 2010, up 19.1% over 2009. This higher increase in costs than service revenue was mainly due to the restructuring of the franchises, the Company's main distribution channels, which, though carried out at the end of 2009, still reflected in efficiency declines in 2010.

R&D expenses stood at R$149.924 thousands in 2010, corresponding to 13.3% of net revenue. The increased investments in TOTVS' proprietary technology to make it more versatile and in such innovations as the digital TV segment were the key items affecting this expense line, which, as mentioned earlier, is fundamental for the company's future in the IT sector.

Advertising expenses amounted to R$32.335 thousands in 2010, equivalent to 2.9% of net revenue, and were focused on strengthening the TOTVS brand through advertising and marketing campaigns in Brazil and abroad.

Selling expenses increased 24.1% between 2009 and 2010 to reach R$71.225 thousands, impacted by the internal reorganization consequent to the absorption of the sales teams from the franchises. On the other hand, as the following paragraph explains, the amount of commissions paid declined with the absorption of the sales teams in the company.

Commissions increased from R$102.970 thousands in 2009 to R$108.508 thousands in 2010, up 5.4%. This increase, which was slower than sales growth, was due to the absorption of the sales teams in the company, as mentioned in the previous paragraph.

General and administrative expenses totaled R$71.819 thousands in 2010, 5.8%% down from the R$76.268 thousands in 2009. The share of this expense line as a percentage of net revenue dropped from 7.7% in 2009 to 6.4% in 2010, reflecting the gains in scale from the optimization of the structure.

Management fees in 2010 came to R$27.967 thousands, 11.9% down from 2009, impacted by the provision for proportional attainment of the company's financial targets.

Allowance for doubtful accounts in 2010 totaled R$10.595 thousands, 37.2% more than in 2009. The increased provision is due to the analysis of the company's receivables portfolio

and the decision on potential losses that the company may incur, which corresponds to 0.9% of the net revenue in 2010 (0.8% in 2009).

Depreciation and amortization expenses totaled R$77.883 thousands in 2010, as against R$69.918 thousands in 2009, up 11.4%, reflecting the expansion of the Company's infrastructure and the increase in the amortization of intangible assets resulting from acquisitions.

Financial expenses stood at R$68.172 thousands, 35% more than the R$50.481 thousands in 2009. The increase was mainly due to the, interest on BNDES and PROSOFT loans, (R$37.023 thousands in 2010 vs. R$33.480 thousands in 2009), mark to market of the premium on the non-conversion of debentures (R$11.801 thousands in 2010 vs. R$9.442 thousands in 2009) and the negative goodwill on the issue of shares to debenture holders on August 19, 2010 at the time of the mandatory conversion, at a price lower than the market price (R$7.442 thousands in 2010).

TOTVS' cash balance on December 31, 2010 was R$232.508 thousands, 11.9% more than the R$207.721 thousands on December 31, 2009. The Company reiterates that it has a conservative financial management policy for its debit and credit operations and that it did not carry out any speculative operations in the financial market.

TOTVS posted record net income of R$137.863 thousands in 2010, an increase of 14.6% over 2009.

(*) EBITDA is a non-accounting measure used by the Company, calculated in accordance with CVM Circular 01/2007, which corresponds to interest before taxes and contributions, minority interest, net financial expense/revenue, depreciation, amortization and non-operating result.

(**) EBITDA margin is the percentage between EBITDA and net revenue.

CAPITAL MARKETS

Free float on December 31, 2010 was 76.4%, i.e., 24,035,873 (out of a total of 31,459,272 shares). The remaining shares are held by the Company's administrators, including related persons and companies controlled by them (18.33%), and by BNDES Participações S/A (5.27%).

In 2010, TOTVS' shares (Bovespa: TOTS3) appreciated by 43.2%, compared to the Ibovespa's 1.0%.

Average daily financial volume in 2010 was R$15.700 thousands, compared to R$4.900 thousands in 2009, a 217.7% increase.

Interest on equity for the year 2009: approved on December 10, 2009 and paid on January 20, 2010. The interest amount of R$22.500 thousands pertains to 2009 and was imputed to the minimum mandatory dividend in accordance with Article 37 of TOTVS' Bylaws. Net earnings per share came to R$0.7223 (seventy-two centavos).

Dividends for the year 2009: On April 14, 2010, as approved at the Annual Shareholders' Meeting held on March 24, 2010, the Company paid dividend relating to the fiscal year ended December 31, 2009, in the amount of R$49.598 thousands, corresponding to earnings per share of R$1.5921 (one real and fifty-nine centavos).

Interest on equity for the year 2010: On December 21, 2010, the Company announced to its shareholders its decision to pay interest on equity in the total amount of R$27.000 thousands, relating to the year 2010, corresponding to R$ 0.858252 per share. Holders of shares issued by TOTVS as on December 21, 2010 were entitled to the interest on equity, which was paid on January 19, 2011.
The payment is related to the fiscal year 2010 and will be imputed to the minimum mandatory dividend in accordance with Article 37 of TOTVS' Bylaws.

Dividends for the year 2010: Dividends proposed by the Board of Directors on January 27, 2011, amounting to R$83.350 thousands, will be submitted for approval by the Annual Shareholders' Meeting.

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 5 members, 4 of them external and independent members, in accordance with Novo Mercado regulations. The Executive Board is composed of 29 officers. The list containing the names, position and a brief resume of the Board members and Executive Officers is available at www.totvs.com/ri.

Audit Committee: created in 2007, it 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. Its members are elected by the Board of Directors and meet at least 8 times a year. The committee currently has 3 members.

People Committee: created to aid the Board of Directors in establishing the compensation and benefits for executive offices and board members. It is important to note that the committee currently has 4 members, 2 of them independent.

Arbitration: according to Novo Mercado Regulations and the Company's Bylaws, the controlling shareholder, administrators, the Company and the Fiscal Council members should undertake to resolve all and any dispute or controversy arising from or relating to Novo Mercado Regulations, the Novo Mercado Adhesion Agreement, Arbitration Clauses, especially, regarding the 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 December 31, 2010.

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 their 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.

In addition to the audit services of the annual financial statements, services related to the review of macro-processes and the review of tax aspects were also conducted. The fees of these services totaled R$ 363.700 thousand, representing 45.7% of total fees related to external audit.

ACKNOWLEDGEMENTS

We thank all those who contributed to the Company in any manner, thus enabling TOTVS' success in the Brazilian and Latin American markets. We especially acknowledge the contributions made by our employees, our shareholders, our clients and our partners.

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Balance Sheets
December 31, 2010 and 2009, and January 1, 2009
(Amounts expressed in thousands of Reais)

		Company			Consolidated		
Assets	Note	2010	2009	1/1/2009	2010	2009	1/1/2009
Current assets							
Cash and cash equivalents	5	**177,275**	161,860	92,514	**232,508**	207,721	120,677
Marketable Securities	6	**6,118**	21,450	10,701	**6,317**	22,469	14,301
Trade accounts receivable	7	**195,195**	175,544	123,645	**264,029**	230,995	172,352
Allowance for doubtful accounts	7	**(16,221)**	(14,677)	(11,361)	**(20,900)**	(20,314)	(19,139)
Dividends receivable	10	**4,097**	3,605	74	**800**	-	-
Recoverable taxes	9	**24,657**	28,442	13,952	**29,894**	32,716	18,664
Other assets		**10,376**	6,967	5,219	**16,030**	11,646	7,662
		401,497	383,191	234,744	**528,678**	485,233	314,517
Non-current assets							
Long-term assets							
Marketable Securities	6	**49,731**	17,206	9,969	**50,129**	19,314	12,428
Trade accounts receivable from clients	7	**14,807**	2,242	4,474	**14,807**	6,000	4,474
Credits with related companies	10	**21,900**	27,243	24,764	**-**	-	-
Deferred income and social contribution taxes	8	**155,115**	173,433	198,967	**170,088**	184,159	203,262
Judicial deposits	19	**5,916**	14,213	28,840	**5,916**	14,213	28,840
Other assets		**14,570**	3,316	2,327	**15,363**	4,147	3,265
		262,039	237,653	269,341	**256,303**	227,833	252,269
Investments	11	**114,068**	87,233	58,688	**8**	10	21
Property, plant and equipment	12	**29,792**	26,348	26,343	**36,535**	32,887	31,863
Intangible assets	13	**554,823**	561,064	581,922	**593,873**	604,071	610,303
		960,722	912,298	936,294	**886,719**	864,801	894,456
Total		**1,362,219**	1,295,489	1,171,038	**1,415,397**	1,350,034	1,208,973

Liabilities	Note	Company			Consolidated		
		2010	2009	1/1/2009	2010	2009	1/1/2009
Current liabilities							
Labor and social security liabilities	14	**52,141**	48,178	33,392	**69,072**	59,199	42,329
Trade accounts payable		**9,205**	14,723	19,649	**17,363**	23,984	27,711
Taxes liabilities		**1,805**	3,718	1,856	**5,903**	7,198	7,937
Loans and financing	15	**59,289**	7,118	4,216	**62,029**	7,838	5,242
Lease financing	16	**1,839**	3,786	4,814	**1,923**	4,027	5,036
Debentures	17	**12,155**	5,218	5,634	**12,155**	5,218	5,634
Commissions payable		**36,596**	31,346	17,624	**38,581**	32,765	19,135
Dividends and interest on equity payable	21	**33,139**	25,947	17,162	**34,302**	25,947	17,213
Liabilities from investment acquisition	18	**10,382**	33,159	15,279	**10,581**	34,577	16,299
Other liabilities		**2,532**	2,095	1,566	**3,306**	3,329	4,542
		219,083	175,288	121,192	**255,215**	204,082	151,078
Non-current liabilities							
loans and financing	15	**156,230**	208,963	163,270	**156,230**	210,038	163,270
Lease financing	16	**105**	2,044	4,297	**114**	2,138	4,444
Debentures	17	**185,795**	212,219	202,777	**185,795**	212,219	202,777
Deferred taxes	8	**119,708**	137,811	147,477	**123,551**	143,592	148,185
Provision for losses on investments	11	**1,485**	3,045	1,654	**-**	-	-
Provision for contingencies and legal obligations related to legal proceedings	19	**5,876**	10,653	35,839	**5,876**	10,653	35,839
Liabilities from investment acquisition	14	**54,074**	18,578	22,922	**54,472**	20,286	25,748
Other liabilities		**1**	1,822	1,421	**2,568**	5,001	1,902
		523,274	595,135	579,657	**528,606**	603,927	582,165
Shareholders' Interest							
Capital Stock	20	**406,489**	376,493	376,493	**406,489**	376,493	376,493
Capital reserve	20	**60,406**	48,851	46,831	**60,406**	48,851	46,831
Asset valuation adjustments		**(2,186)**	(1,977)	532	**(2,186)**	(1,977)	532
Profit reserve		**155,153**	101,699	46,333	**154,485**	101,699	46,333
Minority interest		**-**	-	-	**12,392**	16,959	5,541
		619,862	525,066	470,189	**631,576**	542,025	475,730
Total liabilities		**1,362,219**	1,295,489	1,171,038	**1,415,397**	1,350,034	1,208,973

The notes are an integral part of the financial statements.

Totvs S.A.

Statement of Income
Years ended on December 31, 2010 and 2009
(Amounts expressed in thousands of Reais)

	Note	Company		Consolidated	
		2010	**2009**	**2010**	**2009**
Net revenues from services and sales					
License fees		**212,976**	163,030	**278,845**	228,270
Service		**186,988**	176,845	**336,770**	303,894
Maintenance		**494,485**	436,904	**513,860**	456,515
		894,449	776,779	**1,129,475**	988,679
Cost of goods sold / services rendered					
Cost of license fees		**(13,234)**	(12,727)	**(24,118)**	(22,909)
Cost of services and maintenance		**(225,933)**	(199,286)	**(353,332)**	(296,678)
Gross profit		**655,282**	564,766	**752,025**	669,092
Operating revenues (expenses)					
Research and development		**(110,748)**	(94,831)	**(149,924)**	(118,446)
Advertising expenses		**(30,385)**	(28,928)	**(32,335)**	(30,715)
Selling expenses		**(47,537)**	(40,462)	**(71,225)**	(57,393)
Commissions		**(101,278)**	(98,148)	**(108,508)**	(102,970)
General and administrative		**(60,526)**	(60,435)	**(71,819)**	(76,268)
Management compensation	10,3	**(23,643)**	(27,905)	**(27,967)**	(31,750)
Depreciation and amortization	12/13	**(69,491)**	(65,218)	**(77,883)**	(69,918)
Allowance for doubtful accounts		**(7,421)**	(5,697)	**(10,595)**	(7,720)
Other net operating revenues (expenses)		**6,516**	6,572	**9,900**	5,435
Income before financial effects and equity pickup		**210,769**	149,714	**211,669**	179,347
Financial revenues	27	**13,068**	12,540	**18,442**	19,257
Financial expenses	27	**(64,705)**	(46,733)	**(68,172)**	(50,481)
Equity in the earnings of subsidiaries	11	**180**	19,630	**-**	-
Income before income and social contribution taxes		**159,312**	135,151	**161,939**	148,123
Current		**(20,792)**	-	**(31,084)**	(11,748)
Deferred		**(324)**	(14,855)	**6,673**	(13,479)
	8	**(21,116)**	(14,855)	**(24,411)**	(25,227)
Net income for the year before minority interest		**138,196**	120,296	**137,528**	122,896
Minority interest		**-**		**335**	(2,600)
Net income for the year		**138,196**	120,296	**137,863**	120,296
Number of shares at the end of the year	20	**31,459,272**	31,152,402		
Basic earnings per 100 shares (amounts in Reais)	29	**4,420.14**	3,688.60		
Diluted earnings per 100 shares (amounts in Reais)	29	**4,179.50**	3,861.53		

The notes are an integral part of the financial statements.

Totvs S.A.

Statements of Changes in Shareholders' Equity – Company
Years ended on December 31, 2010 and 2009
(Amounts expressed in thousands of Reais)

	Capital Stock	Premium on the purchase from minority shareholders	Reserve			Other results	Retained Earnings	Additional proposal for dividend distribution	Shareholders' Equity
			Capital	Legal	Profit Retention				
Balances at January 1, 2009	376,493	-	46,831	5,960	23,862	532	-	16,511	470,189
Capital transactions with partners									
Capital increase (reduction)									-
Through acquisition	-		-	-	-	-	-		-
Through acquisition of remaining interest	-	(19,916)	-	-	-	-	-		(19,916)
Stock option plan	-		2,020	-	-	-	-		2,020
Dividends	-		-	-	-	-	(6,070)	(16,511)	(22,581)
Proposed additional dividend – exceeding minimum mandatory	-						(43,526)	43,526	-
Interest on equity - distributed	-		-	-	-	-	(22,500)		(22,500)
Reversal of interest on equity - not distributed from previous years	-		-	-	-	-	67		67
Total Other Comprehensive Income									
Net income for the year	-		-	-	-	-	120,296		120,296
Currency translation accumulated adjustment						(2,509)			(2,509)
Internal changes in shareholders' equity									
Reserves accrued:	-			6,015	42,252		(48,267)		-
Balances at December 31, 2009	**376,493**	**(19,916)**	**48,851**	**11,975**	**66,114**	**(1,977)**	**-**	**43,526**	**525,066**
Capital transactions with partners									
Recognized options granted			**4,106**						**4,106**
Dividends							**(5,822)**	**(43,526)**	**(49,348)**
Proposed additional dividend – exceeding minimum mandatory							**(54,285)**	**54,285**	
Interest on equity - distributed							**(27,000)**		**(27,000)**
Debentures converted into shares	**29,996**		**7,449**						**37,445**
Goodwill from acquisition of minority shareholders		**(8,394)**							**(8,394)**
Total Other Comprehensive income									
Net income for the year							**138,196**		**138,196**
Other results									
Translation adjustments for the period						**(209)**			**(209)**
Reserves accrued				**6,910**	**44,179**		**(51,089)**		**-**
Balance at December 31, 2010	**406,489**	**(28,310)**	**60,406**	**18,885**	**110,293**	**(2,186)**	**-**	**54,285**	**619,862**

The notes are an integral part of the financial statements.

Totvs S.A.

Statements of Changes in Shareholders' Equity - Consolidated
Years ended on December 31, 2010 and 2009
(Amounts expressed in thousands of Reais)

			Reserve								
	Capital Stock	Premium on the purchase from minority shareholders	Capital	Legal	Profit Retention	Other results	Retained Earnings	Additional proposal for dividend distribution	Shareholders ' Equity	Minority interest	Consolidated Shareholders ' Equity
Balances at January 1, 2009	376,493	-	46,831	5,960	23,862	532	-	16,511	470,189	5,541	475,730
Capital transactions with partners											
Capital increase (reduction)									-		
Through acquisition	-		-	-	-	-	-		-	12,466	12,466
Through acquisition of remaining interest	-	(19,916)	-	-	-	-	-		(19,916)	(3,648)	(23,564)
Stock option plan	-		2,020	-	-	-	-		2,020	-	2,020
Dividends	-		-	-	-	-	(6,070)	(16,511)	(22,581)	-	(22,581)
Proposed additional dividend – exceeding minimum mandatory							(43,526)	43,526			
Interest on equity – distributed	-		-	-	-	-	(22,500)		(22,500)	-	(22,500)
Reversal of interest on equity - not distributed from previous years	-		-	-	-	-	67		67	-	67
Total Other Comprehensive Income											
Net income for the year	-		-	-	-	-	120,296		120,296	2,600	122,896
Currency translation accumulated adjustment						(2,509)			(2,509)		(2,509)
Internal changes in shareholders' equity											
Reserves accrued:	-			6,015	42,252		(48,267)				
Balances at December 31, 2009	**376,493**	**(19,916)**	**48,851**	**11,975**	**66,114**	**(1,977)**	**-**	**43,526**	**525,066**	**16,959**	**542,025**
Capital transactions with partners											
Recognized options granted			**4,106**						**4,106**		**4,106**
Dividends							**(5,822)**	**(43,526)**	**(49,348)**		**(49,348)**
Proposed additional dividend – exceeding minimum mandatory							**(54,285)**	**54,285**			
Interest on equity - distributed							**(27,000)**		**(27,000)**		**(27,000)**
Debentures converted into shares	**29,996**		**7,449**						**37,445**		**37,445**
Goodwill from acquisition of minority shareholders		**(8,394)**							**(8,394)**		**(8,394)**
Reduction from acquisition from minority shareholders										**(6,266)**	**(6,266)**
Capital increase through acquisition										**1,354**	**1,354**
Total Other Comprehensive Income											
Net income for the year							**137,528**		**137,528**	**335**	**137,683**
Other Comprehensive Income											
Translation adjustments for the period						**(209)**			**(209)**		**(209)**
Reserves accrued				**6,910**	**43,511**		**(50,421)**		**-**		**-**
Balance at December 31, 2010	**406,489**	**(28,310)**	**60,406**	**18,885**	**109,625**	**(2,186)**	**-**	**54,285**	**619,194**	**12,382**	**631,576**

The notes are an integral part of the financial statements.

Totvs S.A.

Cash flow Statements
Years ended on December 31, 2010 and 2009
(Amounts expressed in thousands of Reais)

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Cash flow provided by operating activities				
Net income for the year	**138,196**	120,296	**137,863**	120,296
Adjustments:				
Depreciation and amortization	**69,491**	65,218	**77,883**	69,918
Share-based payment	**11,555**	2,020	**11,555**	2,020
Gains on the sale of permanent assets	**1,391**	(3,075)	**4,546**	(1,531)
Allowance for doubtful accounts	**7,421**	5,697	**10,595**	7,720
Deferred income and social contribution taxes	**324**	15,873	**(6,673)**	14,497
Equity pickup	**(180)**	(19,630)	**-**	-
Interest and monetary and exchange variations, net	**40,678**	41,702	**41,623**	42,471
Investment losses	**1,354**	2,083	**-**	-
Provision (Reversal) for contingencies	**(4,777)**	(8,606)	**(4,777)**	(8,605)
Changes in operating assets and liabilities:				
Trade accounts receivable from clients	**(38,093)**	(52,048)	**(51,850)**	(66,714)
Dividends received	**3,738**	6,486	**(800)**	-
Other assets	**(10,878)**	(16,212)	**(12,778)**	(17,888)
Judicial deposits	**8,297**	(1,954)	**8,297**	(1,954)
Labor and social security liabilities	**3,963**	14,786	**9,873**	16,870
Suppliers	**(5,518)**	(4,926)	**(6,621)**	(3,727)
Commissions payable	**5,250**	13,722	**5,816**	13,630
Taxes payable	**(1,913)**	1,862	**(1,295)**	(739)
Other accounts payable	**(1,383)**	930	**(1,962)**	(1,641)
Minority interest	**-**	-	**(4,150)**	917
Net cash provided by operating activities	**228,916**	184,224	**217,145**	185,540
Cash flow provided by investment activities				
Acquisition of subsidiaries less net cash	**-**	(46,487)	**-**	-
Addition of investments	**(34,121)**	(19,686)	**-**	(46,487)
Intangible and/or associated transactions:				
Addition of intangible assets	**(17,721)**	(14,953)	**(23,126)**	(17,592)
Liabilities from investment acquisition/intangible	**(32,100)**	13,536	**(34,626)**	12,816
Securities – Restricted associated with intangible	**(17,193)**	(17,986)	**(14,663)**	(15,054)
Total intangible and/or associated transaction	**(67,014)**	(19,403)	**(72,415)**	(19,830)
Value of fixed assets sale	**43**	5,656	**43**	5,656
Divestment due to sale or merger of subsidiary	**-**	1,990	**-**	-
Acquisition of fixed assets	**(13,978)**	(14,175)	**(16,333)**	(17,490)
Net cash provided by (used in) investment activities	**(115,070)**	(92,105)	**(88,705)**	(78,151)
Cash flow from financing activities				
Bank loans	**(30,731)**	15,919	**(30,731)**	15,919
Credit with related companies	**5,343**	(2,479)	**-**	-
Dividends paid	**(69,157)**	(36,213)	**(68,794)**	(36,264)
Liabilities from commercial lease	**(3,886)**	-	**(4,128)**	-
Net cash provided by (used in) financing activities	**(98,431)**	(22,773)	**(103,653)**	(20,345)
Increase (decrease) in cash and cash equivalents	**15,415**	69,346	**24,787**	87,044
Cash and cash equivalents at the beginning of the period	**161,860**	92,514	**207,721**	120,677
Cash and cash equivalents at the end of the period	**177,275**	161,860	**232,508**	207,721
Payment of interests	**36,019**	33,123	**36,019**	33,123
Payment of income and social contribution taxes	**-**	-	**10,292**	7,524

The notes are an integral part of the financial statements.

Totvs S.A.

Statements of value added
Years ended on December 31, 2010 and 2009
(Amounts expressed in thousands of Reais)

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
1 - REVENUES	**956,021**	830,562	**1,210,603**	1,055,880
1.1 Sale of goods. products and services	**956,678**	829,683	**1,211,041**	1,058,080
1.2 Other revenues	**6,764**	6,576	**10,157**	5,520
1.3 Allowance for doubtful accounts - reversal/ (recording)	**(7,421)**	(5,697)	**(10,595)**	(7,720)
2 - RAW MATERIAL ACQUIRED FROM THIRD-PARTY (includes ICMS and IPI taxes)	**(315,556)**	(282,930)	**(434,477)**	(387,571)
2.1 Cost of services sold	**(15,534)**	(12,223)	**(31,369)**	(25,104)
2.2 Materials. energy. outsourced services and other	**(300,022)**	(270,707)	**(403,108)**	(362,467)
3 - GROSS VALUE ADDED (1-2)	**640,465**	547,632	**776,126**	668,309
4 – DEPRECIATION AND AMORTIZATION	**(69,491)**	(65,218)	**(77,883)**	(69,918)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY	**570,974**	482,414	**698,243**	598,391
6 - VALUE ADDED RECEIVED FROM TRANSFER	**13,248**	32,170	**18,442**	19,257
6.1 Equity in the earnings of subsidiaries	**180**	19,630	**-**	-
6.2 Financial revenues	**13,068**	12,540	**18,442**	19,257
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	**584,222**	514,584	**716,685**	617,648
8 - VALUE ADDED DISTRIBUTION	**(584,222)**	(514,584)	**(716,685)**	(617,648)
8.1 Personnel	**(241,660)**	(207,465)	**(332,138)**	(267,746)
8.1.1 Direct compensation	**(204,306)**	(175,461)	**(278,045)**	(227,149)
8.1.2 Benefits	**(21,272)**	(19,222)	**(33,605)**	(24,930)
8.1.3 FGTS (worker's severance fund)	**(16,082)**	(12,782)	**(20,488)**	(15,667)
8.2 Taxes. fees and contributions	**(133,163)**	(128,112)	**(170,761)**	(163,835)
8.2.1 Federal	**(109,557)**	(108,339)	**(140,498)**	(138,847)
8.2.2 State	**(98)**	(1)	**95**	(106)
8.2.3 Municipal	**(23,508)**	(19,772)	**(30,358)**	(24,882)
8.3 Interests and rentals	**(71,203)**	(58,711)	**(75,925)**	(63,171)
8.3.1Juros	**(56,965)**	(69,233)	**(59,948)**	(72,980)
8.3.2Aluguéis	**(14,238)**	(12,468)	**(15,808)**	(14,168)
8.3.3 Other	**-**	22,990	**(169)**	23,977
8.4 Remuneration on equity capital	**(138,196)**	(120,296)	**(137,861)**	(122,896)
8.4.1 Interest on equity	**(27,000)**	(22,500)	**(27,000)**	(22,500)
8.4.2 Dividends paid or credited to partners	**(5,822)**	(28,570)	**(5,822)**	(28,570)
8.4.3 Retained earnings/ accumulated losses for the year	**(105,374)**	(69,226)	**(105,374)**	(69,226)
8.4.4 Minority interest in retained earnings	-	-	**335**	(2,600)

The notes are an integral part of the financial statements.

1. Operations

The business purpose of Totvs S.A., (hereinafter referred to as ("Totvs", or "the Company") is a publicly-held corporation, headquartered at Av. Braz Leme, 1639 2º floor, in the City and State of São Paulo, whose shares are traded on the BM&F BOVESPA – Bolsa de Valores, Mercadorias e Futuros, the São Paulo Stock Exchange.

The Company's purpose is developing and selling rights of use of information technology systems and rendering of implementation, consultation, assistance and maintenance services related thereto. The main software products developed by the Company are ERP (Enterprise Resource Planning) applications that have the purpose of electronically integrating the strategic and operating levels of a user company, allowing the creation of information flows which comprehend the operating needs and those related to management information of different areas of the user company. The main areas comprised by the Company's ERP software products are: management, finance, operations, industrial, human resources and client service.

The Company and Consolidated Financial Statements were approved at the Board of Directors' Meeting held on January 27, 2011.

All amounts presented in this Financial Statements are expressed in thousands of Brazilian Reais, except when indicated otherwise. Due to rounding's, numbers presented throughout this document may not precisely correspond to actual figures.

During the years ended December 31, 2010 and 2009, the Company carried out important transactions involving business combinations and mergers of subsidiaries as disclosed in Note 4.

2. Accounting policies

The Consolidated Financial Statements for the periods ended December 31, 2010 and 2009 and January 1, 2009 were prepared in accordance with the accounting practices adopted in Brazil, which include rules of the Brazilian Securities and Exchange Commission (CVM) and pronouncements of the Brazilian Accounting Standards Board (CPC); while the consolidated financial statements were prepared in conformity with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The Company and the Consolidated financial statements were prepared based on different assessment bases used to prepare accounting estimates. The accounting estimates involved in the preparation of the financial statements were based on both objective and subjective factors, and in line with management's judgment for the determination of the appropriate amounts to be recorded on the financial statements. Significant items subject to these estimates and assumptions include the selection of the useful life of the fixed assets and their recoverability in operations, the evaluation of financial assets both at fair value and adjustment to present value, analysis of the credit risk to determine the allowance for doubtful accounts, as well as the analysis of other risks to determine other provisions, including the provision for contingencies.

As a result of the settlement of transactions comprising these estimates, values may be materially different from those recorded in the financial statements due to the probability treatment inherent to the estimate process. The Company reviews the estimates and assumptions at least once a year. Please refer to note 2.17 for further detail on estimates.

The Company has adopted all the standards, standard reviews and interpretations issued by the Accounting Pronouncements Committee (CPC) by IASB and regulatory agencies that were in effect on December 31, 2010.The financial statements were prepared using the historical cost as the value basis, except for the valuation of certain assets and liabilities, such as financial instruments, which are measured at their fair value.

2.1. Consolidation basis

The consolidated financial statements include the Company’s operations and the following subsidiaries; the percentage of interest on the balance sheet date is summarized below:

Corporate Name	Interest % 2010	2009
Totvs Rio Software Ltda. ("Totvs Rio")	**100.00**	100.00
Totvs Argentina S.A. ("Totvs Argentina")	**89.80**	100.00
Totvs México S.A. ("Totvs México")	**99.99**	98.00
Totvs Corporation ("Totvs Corporation")	**100.00**	100.00
Totvs Nordeste Software Ltda. ("Totvs Nordeste")	**100.00**	100.00
Setware Informática Ltda. ("Setware") (d)	**100.00**	100.00
Totvs Brasília Software Ltda. ("Totvs Brasília")	**100.00**	100.00
RO Resultados em Outsourcing Ltda. ("RO")	**100.00**	100.00
Inteligência Organizacional Serviços, Sistemas e Tecnologia em Software Ltda. ("IOSSTS")	**100.00**	100.00
Eurototvs Ltda. ("Eurototvs")	**100.00**	100.00
TQTVD Software Ltda. ("TQTVD") (c)	**100.00**	55.00
Look Informática S.A. ("Look")	**100.00**	100.00
BCS Comércio e Serviços de Informática Ltda. ("BCS Comercio")	**100.00**	100.00
BCS Sistemas Computacionais Ltda. ("BCS Sistemas")	**100.00**	100.00
BCSFLEX Comércio e Serviços de Informática Ltda. ("BCSFLEX")	**100.00**	100.00
HBA Informática Ltda. ("HBA")	**100.00**	100.00
Midbyte Informática Ltda. ("Midbyte")	**100.00**	70.00
Datasul S.A. de CV ("Datasul México")	**100.00**	100.00
Datasul Incorporation ("Datasul USA")	**100.00**	100.00
Datasul Argentina S.A. ("Datasul Argentina")	**100.00**	100.00
Totvs Serviços Inform. e Consultoria S.A. ("Totvs Serviços")	**100.00**	100.00
Gens Tecnologia da Informação Ltda. ("Gens")	**100.00**	100.00
YMF Arquitetura Financeira de Negócios S.A. ("YMF")	**100.00**	100.00
Tools Arquitetura Financeira de Negócios S.A. ("Tools")	**100.00**	100.00
DTSL Sistemas e Serv. de Inform. S.A. ("Datasul Paranaense")	**100.00**	100.00
Soft Team Consultoria e Informática Ltda. ("Softeam") (b) (d)	**-**	100.00
DTS Consulting Partner, AS de CV ("Partner") (d)	**100.00**	100.00
Hery Software Ltda.	**100.00**	100.00
TotalBanco Consultoria e Sistemas Ltda. (e)	**70.00**	70.00
Totalbanco Participações Ltda.	**100.00**	100.00
M2S Serviços de Suporte Ltda. (a)	**100.00**	-
SRC Serviços em Informática Ltda. (a)	**100.00**	-
Mafipa Serviços de Informática Ltda. (a)	**100.00**	-

(a) Business combination in 2010, see Note 4.
(b) Subsidiary sold in 2010 for R$9,500 that generated a gain of R$3,434 and recorded as “other net operating revenues and expenses”.
(c) Acquisition of minority interest in 2010, see Note 4.
(d) Indirect interest.
(e) The Company has an option to acquire 30% of the interest held by non-controlling shareholders of Totalbanco.

The results of acquired/merged subsidiaries during years ended December 31, 2010 and 2009 are included in the statements of income as of the date of their acquisition/combination. Therefore, for comparison purposes of the consolidated and the Company’s results between 2010 and 2009, we must consider the dates of acquisition and incorporation of each subsidiary’s results.

The fiscal years of subsidiaries included in the consolidation are compatible with the Company and the accounting practices and policies were consistently applied over consolidated companies and in conformity with those applied in the previous year. All intercompany balances and transactions were removed in the consolidation. Transactions between the Company and the subsidiaries are conducted under conditions and prices established between the parties.

2.2. Revenues and expenses

The Company and its subsidiaries measure software license revenue, comprising the licensing fees, revenue from services, including consulting fees, revenue from supporting and maintenance services for the product's technological upgrade and revenue from client service (help desk).

The revenues related to the licenses of use are recognized upon: (i) execution of the agreement and the software is delivered to the client; ii) its value may be measured reliably (pursuant to the terms of agreement); iii) all risks and benefits inherent to the license are transferred to the buyer; iv) the Company no longer owns the effective control over 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.

The revenues from services are billed separately and recognized as the services are rendered. Revenues related to technological upgrade and help desk service are billed and recognized on a monthly basis, during the effectiveness of the agreement with clients. Booked revenues which do not achieve the mentioned recognition criteria are reversed from the revenues account, and wrote-down under their respective accounts receivables group. Revenues are presented in the net income for the year by their gross value, i.e., they include taxes levied thereon, which are presented as revenue deductions.

The cost related to the revenue from licensing fees includes costs of acquisition of data base, costs of media in which the product is delivered, and price of licenses paid to third parties, in case of resold software. The cost related to the revenue from maintenance and services consists mainly in the salary of consulting and supporting personnel and other costs related to those areas.

Expenses from research and development incurred by the development (software programming and manufacturing) area, linked to new software versions and upgrade of existing software, are registered as expenses for the year in which they incurred and are stated separately from selling costs, in operating expenses.

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 Company and consolidated financial statements. The financial statements of each subsidiary included in the Company's consolidation and those evaluated according to the equity accounting method in the Company's financial statements are prepared based on the functional currency of each entity.

Concerning subsidiaries located abroad that the Management concluded have administrative, financial and operational independence, their assets and liabilities are translated into Reais at the exchange rate on the balance sheet closing dates and the results translated into Reais by the monthly average rates of the periods. The restatement of investment accounts deriving from exchange variation are recognized as accumulated conversion adjustment in shareholders' equity of the Company.

2.4. Cash and cash equivalents

These include cash, cash account balances and financial investments redeemable within 90 days of the transactions dates and with insignificant risk of change in its market value. The financial investments included in cash and cash equivalents are mostly classified as "financial assets at fair value through income." The opening of these financial investments by type of classification is shown in Note 5.

2.5 Trade accounts receivable

These are shown at realization amounts, and the accounts receivable from clients in the foreign market are restated based on exchange rates effective on the date of financial statements. A provision was recorded in an amount considered sufficient by the Management for the credits of which recovery is considered doubtful, based on the individual analysis of each client with installments in arrears.

2.6 Investments in subsidiaries

The Company's investments in its subsidiaries are valued based on the equity accounting method, in accordance with CPC 18 (IAS 28), for purposes of the Company financial statements.

Based on the equity accounting method, the investment in the subsidiary is booked in the the Company's balance sheet at cost, plus the changes made after the acquisition of interest in the associated company. Goodwill referring to the associated company is included in the investment's book value and is not amortized. As the goodwill grounded on future profitability composes the book value of the investment in the associated company (not recognized separately), it is not tested separately for impairment.

Interest in the subsidiary is demonstrated in the Company's income statement as equity in the earnings of subsidiaries, representing the net income attributable to the associated company's shareholders.

The financial statements of subsidiaries are prepared for the same reporting period as the Company's.

Whenever necessary, adjustments are made so that the accounting policies are in accordance with those adopted by the Company.

After applying the equity accounting method for purposes of the Company's financial statements, the Company determines whether or not it is necessary to recognize additional impairment on the Company's investment in its associated company. On every balance sheet closing date, the Company establishes whether there is objective evidence that investments in subsidiaries have suffered impairment. If this is the case, the Company calculates the impairment amount as the difference between the Company's recoverable amount and its book value and recognizes this amount in the Company's income statement.

2.7 Property, plant and equipment

This is recorded at acquisition cost. The depreciation of assets is calculated by the straight-line method at rates mentioned in Note 12 and takes into account the estimated economic-useful life of 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 amount and useful life of assets and the depreciation methods are reviewed at the closing of each fiscal year and are adjusted prospectively whenever necessary.

Due to changes in the Brazilian accounting practice for full convergence with international practices, at the first-time adoption of Technical Pronouncements CPC 27 (IAS 16) and CPC 28 (IAS 40), there is the option to adjust the initial balances according to what is allowed by the international accounting standards, by using the deemed cost concept as provided for in Technical Pronouncements CPC 37 (IFRS 1) and 43.

The Company opted for not evaluating its property, plant and equipment at fair value as attributed cost, considering that: (i) the cost method, minus allowances for losses, is the best method for evaluating the Company's property, plant and equipment; (ii) the Company's property, plant and equipment is broken down into well-defined classes, related to its only operating activity, which is the provision of software development and maintenance services; (iii) the infrastructure used in the industry in which the Company operates is significantly affected by the technological development, new products with increased capacity at lower prices are made available, requiring frequent updates of operational equipment and 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 controls over property, plant and equipment assets 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 value of property, plant and equipment is close to its fair value. There is no significant impact on the application of these technical pronouncements.

2.8 Leasing

Financial leases that transfer to the Company basically all the risks and benefits associated with the ownership of the leased asset are capitalized in the beginning of the lease at the fair value of the leased asset or at the present value of the minimum lease payments, whichever is lower. The initial direct costs incurred in the transaction are added to costs, when applicable. Financial lease payments are allocated to financial charges and reduction of the financial lease liability so as to obtain constant interest rates over the liability's outstanding balance. Financial charges are recognized in the income statement.

Leased assets are depreciated over their useful lives. However, when there isn't a reasonable amount of certainty that the group will obtain the ownership at the end of the leasing term, the asset is depreciated either over its estimated useful life or within the leasing term, whichever is shorter.

Operating lease payments are recognized as expense in the income statement according to the straight-line method over the leasing term.

2.9 Intangible assets

Intangible assets acquired separately are measured at cost at the time of their initial recognition. The cost of intangible assets acquired in a business combination corresponds to the fair value on the acquisition date. After the initial recognition, intangible assets are presented at cost, minus the accrued amortization and impairment losses. Intangible assets generated internally, excluding capitalized development costs, are not capitalized and the expense is reflected in the income statement for the fiscal year when they are incurred.

Intangible assets are represented by: software, trademark and patents, client portfolio and goodwill generated in view of the expectation of profitability and incremental revenues expected in the future, connected with business combinations of the Company and subsidiaries, disbursements related to acquisition of exploration rights of areas and acquisition of new products developed by third parties.

Limited-life intangible assets are amortized over their useful economic life and tested for impairment whenever there is an indication that the asset's economic value has been impaired. The period and the amortization method for a limited-life intangible asset are reviewed at least at the end of each fiscal year. Changes in the estimated useful life or in the expected use of these assets' future economic benefits are accounted for by means of changes in the amortization period or method, depending on the case, and are treated as changes in accounting estimates. The amortization of limited-life intangible assets is recognized in the income statement under the expense category consistent with the use of the intangible asset.

Indefinite-life intangible assets are not amortized but are tested annually for impairment, either individually or at the level of the cash-generating unit. The evaluation of the indefinite useful life is reviewed annually to determine if this evaluation remains justified. In case there is evidence to the contrary, the change in useful life from indefinite to limited is made prospectively.

Gains and losses resulting from the write-off of an intangible asset are measured as the difference between the net sales value and the asset's book value and are recognized in the income statement at the time when the asset is written off.

2.10 Provision for asset impairment

The Management annually reviews the net book value of assets with a view to evaluating events or changes in economic, operational or technological circumstances that may indicate deterioration or impairment. In case 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 cash-generating unit is defined as being the greater between the value in use and the net sales value.

When estimating the asset's value in use, the estimated future cash flows are discounted to their 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 expenses attributable to the asset sale, or, when there is no sales contract, based on the market price of an active market or also on the price of the most recent transaction 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 (on Setember 30) or when circumstances indicate loss due to depreciation of its book value.

b) Intangible assets

Indefinite-life intangible assets are tested annually (on Setember 30) 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).

2.11 Other assets and liabilities

An asset is recognized in the balance sheet when it is a resource controlled by the Company resulting from past events and expected to produce future economic benefits.

A liability is recognized in the balance sheet when the Company has a legal obligation or obligation resulting from a past event, and will probably require an economic resource to settle it.

2.12 Taxation

Taxes on sales

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

- Social Integration Program (PIS) 0.65% and 3.00%;
- Social Security Financing (COFINS) 3.0% and 7.65%;
- Services Tax (ISS) between 2% and 5%.

These charges are stated as sales deductions in the statement of income.

Income and social contribution taxes - current

The taxation on income includes income and social contribution taxes. The income tax is calculated on the taxable income at the rate of 15%, accruing a surcharge of 10% for profits exceeding R$240 in the 12-month period, while the social contribution tax is calculated at 9% on taxable income, recognized by the accrual basis of accounting; therefore, inclusions to 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. Advances or amounts subject to offset are stated in current or non-current assets, according to the estimate 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;

- over deductible temporary tax differences associated with investments in subsidiaries, in which the reversion of temporary differences may 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 credit and losses, to the extent that it is likely that the taxable income is 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 are reversed in the near future and the taxable income is available so that the temporary differences may be used.

The book value of deferred tax assets is 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 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 liability will be settled, based on the tax rate (and tax law) that are in effect on the balance sheet date.

Deferred taxes associated with items recognized directly in shareholders' equity are also recognized in shareholders' equity and not in the income statement. Deferred tax items are recognized according to the transaction that originated the deferred tax, either in other comprehensive income or directly in shareholders' equity.

Deferred tax assets and liabilities will be stated net if there is a legal or contractual right to offset the tax asset against the tax liability, and deferred taxes are associated with the same tax entity and subject to the same tax authority.

2.13 Share-based payment

During 2010, 2009 and 2008, the Company granted share-based compensation to its main executives and managers. The Company measures the cost of share-settled transactions involving employees based on the fair value of equity instruments on the granting date. Estimating the fair value of share-based payments requires determining the most appropriate evaluation model for concession of equity instruments, which depends on the concession's terms and conditions. This also required determining the most appropriate data for the evaluation model, including the option's expected life, the volatility and return of dividends and the corresponding assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 25. Expenses related to these transactions are recognized in income during the period in which services are rendered in a contra account of capital reserve.

2.14 Other employee benefits

Benefits granted to the Company's employees and managers include, in addition to fixed compensation (payroll and social security contributions (INSS, vacation, 13th month pay – Christmas bonus), variable compensation, such as profit sharing, bonuses private pension plans with defined contributions managed by an insurance company (Note 24), and share-based compensation. These benefits are recorded in net income for the year when the Company has an obligation on an accrual basis, as they are incurred.

2.15 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).

2.16 Adjustment at present value of assets and liabilities

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

The adjustment at present value is calculated taking into account contractual cash flows and explicit interest rates, and in certain cases implicit interest rates of respective assets and liabilities. Therefore, interest rates accrued on revenues, expenses and costs associated with these assets and liabilities are discounted with a view to recognizing them in conformity with the accrual basis of years. Subsequently, this interest is reallocated to financial income and expenses in results by using the effective interest rate method in relation to the contractual cash flows.

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

2.17 Judgments, estimates and significant accounting assumptions

Judgments

The preparation of the Company and consolidated financial statements requires that the management 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 financial statement database. 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.

Financial Leasing agreements

The Company has financial leasing agreements of computers and facilities (equipments) designated to use in its operations. The company assessed the terms and conditions of the agreements and assumed all significant risks and benefits of these equipments. Based on the assessment performed by Company, these agreements are recorded as financial leasing.

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 significant risk of causing a major adjustment to the book value of assets and liabilities in the following reporting period, are discussed below.

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 highest of fair value less selling costs and 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 asset. The calculation of the value in use is based on the discounted cash flow model. Cash flows derive from the budget for the next five years and do not include reorganization activities the Company has not committed with yet, 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 rate 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 on Note 13.2.

Share-based Payment Transactions

The Group measures the cost of stock-settled transactions with employees based on the fair value of the equity instruments on the date 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 on Note 25.

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 the complexity of existing contracts, differences between the actual results and the adopted assumptions or future changes in such assumptions could require future adjustments to the tax income and expense already recorded. The Company forms provisions, based on applicable estimates, for possible consequences of auditing by tax authorities of the respective jurisdictions where it operates. The amount of such provisions is based on several factors, like prior experiences with fiscal 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 respective domicile of the company.

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

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. Data used in such methodologies are based on market practices whenever possible; however, when it 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.

Provisions for Tax, Civil and Labor Risks

The Company recognizes a provision for civil and labor lawsuits. The assessment on 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 expiration deadline, conclusions of fiscal inspections, 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 financial statements due to inaccuracies inherent to the process of their determination. The Company reviews its estimates and assumptions, at least, quarterly.

2.18 Cash flow statements

The cash flow statements were prepared based on the indirect method and stated pursuant to CVM Resolution 547 of August 13, 2008, which approved the accounting pronouncement CPC 03 (IAS 7) – Cash Flow Statements, issued by the Brazilian CPC/IASB.

2.19 Financial instruments

a) First-time recognition and measurement

The Company's financial instruments are represented by cash equivalents, accounts receivable, accounts payable, debentures, loans and financing and derivatives. The instruments are recorded for the first time at their fair value plus costs directly attributable to their acquisition or issue, except for financial instruments at fair value through profit or loss, whose costs are recorded in the profit or loss for the year.

Main financial assets recognized by the Company are: cash and cash equivalents and trade accounts receivable.

The main financial liabilities recorded by the Company are: accounts payable to suppliers, loans and financing and debentures and derivatives.

b) Subsequent measurement

The measurement of financial assets and liabilities depends on their classification, which may be one of the following:

Financial assets at fair value through profit or loss: Financial assets at fair value through profit or loss include financial assets held for trading and financial assets recorded at fair value through profit or loss upon their first-time recognition. Financial assets held for trading are those acquired with the purpose of being sold in the short term.

The Company has assessed its financial assets at fair value through profit or loss because it intends to trade them in the short term. If the Company has no conditions to trade such financial assets due to market inactivity, and if the management's intention of selling such financial assets significantly changes in the near future, the Company may choose to reclassify these financial assets under certain circumstances. Reclassification to loans and accounts receivable, available for sale or held to maturity, depends on the nature of the asset. This does not affect any financial asset recorded at fair value through profit or loss using the fair value choice upon reporting.

Financial liabilities at fair value through profit or loss: these liabilities include financial liabilities for trading and financial liabilities designated upon recognition at fair value through profit or loss.

Financial liabilities are classified as held for trading when they are acquired with the purpose of being sold in the short term. This category includes derivative financial instruments contracted by the Company and that do not meet the hedge accounting criteria established by CPC 38 (IAS 39). Derivatives, including embedded derivatives that are not related to the main agreement and that must be separated are also classified as held for trading, unless they are designated as effective hedge instruments.

Gains and losses in liabilities held for trading are recognized in the income statement.

The Company did not present any financial liabilities at fair value through profit or loss.

Loans and financing: Following the initial recognition, loans and financing subject to interest are measured at the amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement at the time when the liabilities are written off, as well as during the amortization process according to the effective interest rate method.

2.20 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, despite being designated to various segments of business of economy (agribusiness, infra-structure, construction and projects, health, logistics and distribution, transport, educational, financial services, legal, retail, and services) are not controlled and managed by the management as independent segments, being the Company's results followed, monitored and evaluated in a integrated manner.

3. First-time Adoption of International Accounting Standards

The Company's financial statements (Company and Consolidated) up to December 31, 2009 were prepared based on the accounting practices adopted in Brazil, additional rules of the Brazilian Securities and Exchange Commission (CVM), technical pronouncements of the Accounting Standards Board issued up to December 31, 2008, and provisions in the Brazilian Corporate Law (BRGAAP)

The Company has prepared its opening balance sheet with transition date on January 1, 2009. Therefore, it has adopted the mandatory exceptions and certain optional exemptions of full retrospective adoption, according to Technical Pronouncements, Interpretations and Guidelines issued by the Accounting Standards Board – (CPC) and approved by the Brazilian Securities and Exchange Commission – (CVM) for the Company and Consolidated Financial Statements and according to the International Financial Reporting Standards – IFRS, issued by the "International Accounting Standards Board – IASB" for Consolidated Financial Statements

CPC 37 R (IFRS 1) requires that an entity develop accounting policies based on the CPC and IASB standards and interpretations effective on the closing date of the first company's and consolidated financial statement, and such policies shall be applied on the transition date and during all periods presented in the first CPC (application of all rules) and IFRS statements. The Company's transition date is January 1, 2010. The Company has adopted all Pronouncements, Guidelines and Interpretations of the CPC issued up to December 31, 2009, therefore the financial statements are aligned with the international accounting standards issued by IASB.

The main differences between the practices adopted on the transition date, including shareholders' Equity and other comprehensive income reconciliations, and the practices adopted for the presentation of comparable financial information are described on Note 3.2.

The Company's financial statements for the year ended December 31, 2010 are the first one presented considering the full application of the CPCs and the Consolidated Financial Statements also are the first one presented considering the full application of the CPCs and in accordance with the International Financial Reporting Standards - IFRS.

3.1 Mandatory exceptions and exemptions to retrospective adoption

CPC 37 R (IFRS 1) allows for companies to adopt certain voluntary exemptions. The Company has analyzed all voluntary exemptions. Below the Company presents the result of such analysis on its operations and the treatment given by the Company (indicating the corresponding International Standard):

The following exemptions apply to our operations:

a) Mandatory exceptions for business combination: The Company adopted CPC 15 (IFRS 3R) starting in January 1, 2010, with retrospective effect only for the immediately previous year (starting January 1, 2009);

b) Exemption for the presentation of fair value of property, plant and equipment at acquisition cost: The Company has chosen not to measure its property, plant and equipment again on the transition date at fair value. Instead, it has chosen to maintain the acquisition cost according to BRGAAP as the value for its property, plant and equipment;

c) Exemption regarding the measurement of financial instruments: The Company has reclassified its financial liabilities to liabilities and shareholders' equity items, according to CPC 39 (IAS 32);

d) Effects of changes in foreign exchange rates and translation of financial statements to the presentation currency: The Company recorded the adjustment of accumulated exchange differences from the translation of the financial statements of subsidiaries overseas for the year ended December 31, 2008, according to CPC 02 (IAS 21).

The following exemptions are not applicable to the operations and do not impact the financial statements on the first-time adoption date:

a) Employee benefits CPC 33 (IAS 19): The Company does not have private pension plans characterized as defined benefit plan.

b) Insurance Contracts CPC11 (IFRS 4): The standard does not apply to the Company's operations.

c) Service Concession Arrangements ICPC01 (IFRIC 12): The Company does not have public service concession operations.

In addition to voluntary adjustment exemptions, CPC 37 (IFRS 1) also prescribes expressly forbids the adjustment of certain transaction on the first-time adoption, since the adoption in these areas would require the management to analyze past events after the result of such transactions. The mandatory exemptions include:

a) Accounting for financial assets and liabilities write-offs: The Company has not retrospectively adjusted its financial assets and liabilities for the first-time adoption of the CPC.

b) Recording hedge operations: The Company had no hedge operations for purposes of the CPC on the transition date.

c) Changes in estimates: The estimates adopted on the transition to CPC are in line with the estimates made based on the previous accounting standards.

d) Investments in subsidiaries, subsidiaries' assets and liabilities, discontinued liabilities, and transfer of customer's assets: These standards do not apply to the Company's operations

3.2. Reconciliation of the accounting practices adopted in the preparation of the financial statements previously disclosed

Pursuant to CPC 37 R (IFRS 1), the Company presents the reconciliation of assets, liabilities, income, shareholders' equity and other comprehensive income, for the Company and Consolidated, for the quarterly or annual information previously disclosed for the periods ended January 1, 2009 (transition date) and December 31, 2009, prepared based on the BRGAAP in effect up to December 31, 2009 and international rules considering the CPC in effect in 2010.

3.2.1. Opening balance on January 1, 2009

		Opening balance - 1.01.2009						
		Company				Consolidated		
		BRGAAP	Adjustments	CPCs	Note	BRGAAP	Adjustments	CPCs
Current assets	**Note**	**250,834**	**(16,090)**	**234,744**		**332,644**	**(18,127)**	**314,517**
Cash and cash equivalents		103,215	-	103,215		134,978	-	134,978
Credits		112,284	-	112,284		153,213	-	153,213
Other	**(e)**	35,335	(16,090)	19,245	**(e)**	44,453	(18,127)	26,326
Non-current assets		**752,272**	**184,022**	**936,294**		**707,689**	**186,767**	**894,456**
Long-term assets	**(e)**	85,319	184,022	269,341	**(e)**	65,502	186,767	252,269
Permanent assets		666,953	-	666,953		642,187	-	642,187
Total Assets		**1,003,106**	**167,932**	**1,171,038**		**1,040,333**	**168,640**	**1,208,973**
Current liabilities		**137,703**	**(16,511)**	**121,192**		**167,589**	**(16,511)**	**151,078**
Dividends payable	**(a)**	33,673	(16,511)	17,162	**(a)**	33,724	(16,511)	17,213
Other liabilities		104,030	-	104,030		133,865	-	133,865
Non-current liabilities		**411,725**	**167,932**	**579,657**		**419,066**	**163,099**	**582,165**
Long-term liabilities	**(e)**	411,725	167,932	579,657	**(e)**	413,525	168,640	582,165
Minority interest		-	-	-	**(b)**	5,541	(5,541)	-
Shareholders' equity	**(a)**	**453,678**	**16,511**	**470,189**	**(b)**	**453,678**	**22,052**	**475,730**
Total liabilities		**1,003,106**	**167,932**	**1,171,038**		**1,040,333**	**168,640**	**1,208,973**

3.2.2. Opening balance on December 31, 2009

		Opening balance - 12.31.2009						
		Company				Consolidated		
		BRGAAP	Adjustments	CPCs	Note	BRGAAP	Adjustments	CPCs
Current assets	**Note**	**399,078**	**(15,887)**	**383,191**		**503,177**	**(17,944)**	**485,233**
Cash and cash equivalents		183,310	-	183,310		230,190	-	230,190
Credits		160,867	-	160,867		210,681	-	210,681
Other	**(e)**	54,901	(15,887)	39,014	**(e)**	62,306	(17,944)	44,362
Non-current assets		**771,762**	**140,536**	**912,298**		**705,926**	**158,875**	**864,801**
Long-term assets	**(d)/(e)**	77,185	160,468	237,653	**(d)/(e)**	59,527	168,306	227,833
Permanent assets	**(c)**	694,577	(19,932)	674,645	**(c)**	646,399	(9,431)	636,968
Total Assets		**1,170,840**	**124,649**	**1,295,489**		**1,209,103**	**140,931**	**1,350,034**
Current liabilities		**218,815**	**(43,527)**	**175,288**		**247,609**	**(43,527)**	**204,082**
Dividends payable	**(a)**	69,474	(43,527)	25,947	**(a)**	69,474	(43,527)	25,947
Other liabilities		149,341	-	149,341		178,135	-	178,135
Non-current liabilities		**450,554**	**144,581**	**595,135**		**460,023**	**143,904**	**603,927**
Long-term liabilities		450,554	144,581	595,135	**(e)**	453,565	150,362	603,927
Minority interest	**(b)**	-	-	-	**(b)**	6,458	(6,458)	-
Shareholders' equity	**(a)/(C)**	**501,471**	**23,595**	**525,066**	**(a)/(c)**	**501,471**	**40,554**	**542,025**
Total liabilities		**1,170,840**	**124,649**	**1,295,489**		**1,209,103**	**140,931**	**1,350,034**

The summary of adjustments is as follows:

		Company		
		Shareholders' equity		Income for the year
	Note	12/31/2009	1/1/2009	12/31/2009
According to CPC		**525,066**	**470,189**	**120,296**
Dividends	(a)	(43,527)	(16,511)	-
Acquisition of minority interest	(c)	19,932	-	-
BR GAAP (effective up to 12.31.2009)		**501,471**	**453,678**	**120,296**

		Consolidated		
		Shareholders' equity		Income for the year
	Note	12/31/2009	1/1/2009	12/31/2009
According to CPC		**542,025**	**475,730**	**122,896**
Dividends	(a)	(43,527)	(16,511)	-
Minority interest	(b)	(16,997)	(5,541)	(2,600)
Amortization of intangible assets	(f)	38	-	-
Acquisition of minority interest	(c)	19,932	-	-
BR GAAP (effective up to 12.31.2009)		**501,471**	**453,678**	**120,296**

The cash flows of the Company and Consolidated on January 01, 2009 and December 31, 2009, prepared in compliance with the accounting practices adopted in Brazil up to December 31, 2009, do not have any differences with the adoption of the Pronouncements, interpretations and technical guidance issued by the Brazilian Accounting Standards Board (CPC), except of the dividends' treatment as described in the Note (a) below.

a) *Proposed dividends:* According to CPC 24 (IAS 10), only the minimum mandatory dividends (25% of adjusted income) are recognized as liability before approval by the shareholders.

b) *Minority Interest:* In accordance with the accounting practices adopted in Brazil, pursuant to the NBC T 08 (Brazilian Accounting Rules), the minority interest in the shareholders' equity of subsidiaries should be presented in an isolated group in the consolidated balance sheet, immediately before the shareholders' equity group, the minority interest, in the net income or loss (for the year) of subsidiaries must be set apart and presented as deduction from or addition to the consolidated net income or loss, respectively.

According to CPC 36 (IAS 27), the minority interest must be presented in the shareholders' equity of consolidated statements separately from the controlling interest. The result must be attributed to controlling and minority shareholders even if the minority interest has been in deficit.

c) *Business combination:* According to CPC 36 (IAS 27), CPC15 (IFRS 3R), ICPC 9 amounts overpaid in the acquisition of minority interests of subsidiaries: RO in June 2009 of R$2,976, YMF in September 2009 of R$15,478 and Tools in September 2009 of R$1,462, other R$16, in the total amount of R$19,932, previously classified as goodwill based on CVM Rule 247, are recorded as reductions to shareholders' equity and correspond to the fair value of the interest held by non-controlling shareholder due to expected purchase of minority interest. Regarding the acquisition of 70% TotalBanco, the 30% remainder related to the minority was recorded considering the fair value based on the expectation of the minority's purchase. Therefore, the impact of this transaction was recorded retrospectively to December 31, 2009 in the amount of R$10,539 increasing the consolidated intangible assets and equity (Minority Interest).

d) *Presentation of Court Deposits:* Pursuant to NPC 22/05, Brazilian entities often challenge the legitimacy of certain liabilities; consequently, either through court order or through a strategy of the management itself, the amounts in question are deposited in court and the liability is not characterized as settled. In these situations, in case the deposit cannot be redeemed, unless the decision is favorable to the entity, the deposit must be presented minus the amount of the liability. Regarding the disclosure, in accordance with paragraph 76, in cases where, for disclosure purposes, the liabilities are offset with the amounts deposited in court as allowed by this NPC, the amounts being offset and the explanation about any existing differences must be mentioned in an explanatory note.

For the IFRS, in accordance with CPC 37 (IFRS 1), an entity should not present net assets, liabilities, revenues and expenses unless this presentation is required or allowed by the legislation. According to this pronouncement, in the case of court deposits, an entity must present assets and liabilities separately, as court deposits do not meet the criterion for net presentation. Net presentation, both in the balance sheet and in the income statement, reduces the ability of financial statements users to understand the transactions, other events and the conditions in which these occurred and estimate the entity's future cash flow, except when the net presentation reflects the substance of the transaction or another event. Therefore, the Company reclassifies the balances and records court deposit amounts in the non-current assets group.

e) *Reclassification of deferred taxes*

In Brazil, in accordance with CVM Rule 371/02, for purposes of first-time recognition of deferred tax assets, the company must cumulatively meet the following conditions: i) present a history of profitability; and ii) present its expectation regarding the generation of future taxable income, adjusted to present value and grounded on a technical feasibility study, which allows the realization of the deferred tax asset within a maximum of ten years. This feasibility study must be analyzed by the fiscal council and approved by the company's board of directors, and must be reviewed each fiscal year, adjusting the value of the deferred tax asset whenever there is a change in its expected realization.

Pursuant to CPC 37 (IFRS 1), when the entity presents current and non-current assets, classifying these separately in the balance sheet, it should not classify deferred tax assets and liabilities as current. Therefore, the company reclassified the deferred net income tax that was classified in the current asset and non-current to deferred income tax in non-current assets and liabilities.

f) *Amortization of intangible assets:* Intangible asset derived from the choice to acquire investment (TotalBanco), net of deferred taxes.

The aforementioned changes did not produce any effects for income tax purposes.

3.2.3. Reconciliation between the Company and the Consolidated shareholders' equity and income for the year in accordance with the adoption of the CPCs

		Shareholders' equity			Income for the year	
	Note	12/31/2010	12/31/2009	1/1/2009	2010	2009
Company		**619,862**	**525,066**	**470,189**	**138,196**	**120,296**
Minority Interest	(a)	12,047	16,997	5,541	(335)	2,600
Amortization of intangibles	(b)	(333)	(38)	-	(333)	-
Consolidated		**631,576**	**542,025**	**475,730**	**137,528**	**122,896**

(a) As mentioned in note (b) in the item 3.2.2, according to CPC36 (IAS 27), the minority interest is part of the shareholders' equity and of the group's result. The minority interest includes the result of subsidiaries which has become fully controlled by Totvs this accounting period.

(b) Amortization of allocated intangibles recorded in the Consolidated Statement, net of deferred taxes.

3.3 New IFRS and IFRIC Interpretations

The new accounting IASB procedures and IFRIC interpretations have been published and/or revised and their adoption is optional or mandatory for the years beginning on January 01, 2010. The Company's Management evaluated the impacts of these new procedures and interpretations and does not expect their adoption to have any significant impacts on the Company's annual information in the year when they are first adopted, as follows:

- IAS 24 Requirements for Disclosure of State-owned Entities and Definition of Related Party (Revised) - Simplifies requirements for disclosure of state-owned entities and clarifies the related party definition. The revised standard addresses aspects which, in accordance with disclosure requirements and the previous definitions for related party, were extremely complex and of difficult to apply in practice, particularly in largely state-controlled environments, offering partial exemption to state-owned entities and a revised definition of the related party concept. This amendment was issued in November 2009 and is effective for fiscal years beginning on January 1, 2011. It will not affect the Company's consolidated quarterly information.

- IFRS 9 Financial Instruments – Classification and Measurement - IFRS 9 closes the first phase of the project of replacing "IAS 39 Financial Instruments: Recognition and Measurement". IFRS 9 uses a simple approach to determine whether a financial asset is measured at amortized cost or fair value, based on how an entity manages its financial instruments (its business model) and the characteristic contractual cash flow of financial assets. The standard also requires the adoption of one single method to determine asset impairment losses. This standard is effective for fiscal years beginning on January 1, 2013. The Company does not expect this amendment to cause impacts on its consolidated quarterly information.

- IFRIC 14 Prepayments of a Minimum Funding Requirement - This amendment applies only to those situations in which an entity is subject to minimum funding requirements and makes prepayments in order to cover these requirements. The amendment allows this entity to register the benefit of said prepayment as an asset. This amendment is effective for fiscal years beginning on January 1, 2011. It will not affect the Company's consolidated financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments - IFRIC 19 was issued in November 2009 and is effective as of July 1, 2010, and its early application is allowed. This interpretation clarifies requirements of the International Financial Reporting Standards (IFRS) whenever an entity renegotiates the terms of a financial liability with its creditor and the latter accepts that entity's shares and other equity instruments in order to partially or fully settle the financial liability. The Company does not expect IFRIC 19 to cause any impacts on its consolidated financial statements.

- Improvements to the IFRS – The IASB issued improvements to the rules and amendments to the IFRS on May 2010; the amendments will be in force as of January 1, 2011. Below is a list of the main amendments that could have an impact on the Company:

  - IFRS 3 – Business combinations.
  - IFRS 7 – Financial Instruments: Disclosures.
  - IAS 1 – Presentation of Financial Statements.

  The Company does not expect the changes to have any impact on its consolidated financial statements.

  Other rules and interpretations that have been issued but not adopted yet are not expected, based on management's opinion, to have a significant impact on the Company's reported result or equity.

4. Business combinations

The acquisition method is used to account for business combinations. The cost of an acquisition is measured by the sum of the consideration amount transferred, which is assessed according to fair value on the acquisition date, and the amount of any minority interest in the acquiree. For each business combination, the acquirer must measure the minority interest in the acquiree at fair value or based on its interest in the acquiree's net assets identified. Costs directly attributable to the acquisition must be accounted for as expenses when incurred.

When acquiring a business, the Company assesses the financial assets and liabilities assumed aiming to classify and allocate them according the contractual terms, economic circumstances and applicable conditions on the acquisition date, which includes the segregation of embedded derivatives existing in host contracts at the acquiree.

If the business combination is achieved in stages, the fair value on the date of acquisition of the equity interest previously held in the acquiree is revaluated at fair value on the acquisition date, and the impacts are recognized in the income statement.

Any contingent consideration to be transferred by the acquirer will be recognized at the fair value on the acquisition date. Subsequent changes to the fair value of contingent consideration deemed to be an asset or liability must be recognized pursuant to CPC 38 (IAS 39) in the statement of income or in other comprehensive income. If the contingent consideration is classified as equity, it should not be revaluated until it is finally settled in the equity.

Goodwill is initially measured as being the excess consideration transferred in relation to the acquired net assets (acquired net identifiable assets and assumed liabilities). If this consideration is lower than the fair value of the acquired net assets, the difference must be recognized as profit in the income statement.

After the initial recognition, goodwill is measured at cost less any accumulated impairment losses. For purposes of impairment testing, goodwill acquired in a business combination is, as of the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination synergies, irrespective of whether the acquiree's other assets or liabilities are assigned to those units.

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

Goodwill and other intangible assets with indefinite useful life are not amortized, but these are tested for impairment at least on a yearly basis (Note 13).

During the year 2010, the Company carried out the following business combinations:

Company	Operating segment	Acquisition date	Corporate Interest Acquired	Company's interest after operation	Operation amount	Amount paid	Amount payable	Allocation of intangible assets	Allocation of goodwill
M2I e M2S	Distribution channel of "RM" brand	1/05/10	100%	100%	R$5,300	R$ 5,300	-	R$ 4,758	R$ 12
SRC Serviços	Developing franchise of "Datasul" brand	7/28/10	100%	100%	R$43,000	R$ 8,421	R$ 34,092	R$ 9.312	R$ 33.688
Mafipa	Distribution channel of "RM" brand	11/24/2010	100%	100%	R$ 5,920	R$ 2,920	R$ 3,000	-	R$ 6,056

M2I e M2S - On January 5, 2010, the Company entered into an agreement for the acquisition of M2I Serviços de Implantação de Software Ltda. ("M2I") and of M2S Serviços de Suporte Ltda. ("M2S") through its subsidiary TOTVS Nordeste Software Ltda. ("TOTVS NE"). M2I and M2S are distribution channels for the RM brand. The companies are located in Salvador, state of Bahia, and are dedicated to the sale, implementation and support to RM products in Bahia. The companies have 33 employees. The acquisition of both companies totaled R$5,300, R$4,770 corresponded to M2S acquisition and R$530 refers to M2I acquisition.

On January 26, 2010, the Company executed a Private Instrument for the Purchase and Sale of Quotas, pursuant to which the Company sold 99.98% of the total capital of M2I Serviços de Implantação de Software to acquire JRP Assessoria de Informática Ltda. for the total amount of R$840. Payment will be made in 42 monthly and successive installments of R$20, restated at the IGPM rate from the agreement's execution date to the date of payment of each installment. The first installment is due on July 1, 2010 and the remaining installments are due on the 1st day of each subsequent month.

SRC Serviços – on July 28, 2010 the Company acquired 100% of quotas from SRC Serviços em Informática Ltda. SRC holds the assets related to the operation of the companies Logistics Solutions Ltda., Futura Soluções em Finanças Ltda., Action Desenvolvimento e Consultoria de Negócios Ltda., SGP - Solução de Gestão de Pessoas Ltda. e Autus Desenvolvimento de Sistemas Ltda. Developing Franchise companies of software related to "Datasul" brand, including the totality of its customer portfolio.

MAFIPA Serviços de Informática – On November 24, 2010, the Company acquired 100% of the shares in SRC Serviços em Informática Ltda.'s capital. MAFIPA holds assets related to the operation of companies Cygni Tecnologia em Informática Ltda. and L2M Serviços de Informática Ltda., which are dedicated to the commercialization, implementation and support areas of former brand RM in Distrito Federal.

Business combinations carried out in December 2010 were preliminarily allocated by the Company as goodwill, considering the economic fundamentals, based on studies and appraisals prepared by experts. This preliminary allocation may be revised during 2011, and occasional reclassifications must be made to this group of accounts (Note 13).

During the year of 2010, the Company acquired the minority interest of the following subsidiaries:

Subsidiary	Operating segment	Acquisition date	Corporate Interest Acquired	Company's interest after operation	Operation amount	Amount paid	Amount payable	Profit retention from shareholders' equity
Midbyte	Retail Software Development	1/05/10	30%	100%	R$12	R$ 12	-	(R$ 591)
TQTVD	Digital TV Software Development	6/01/10	45%	100%	R$14,266	R$ 5,999	R$ 7,107	R$ 8,985

MidByte - On January 5, 2010, the Company acquired, through the exercise of call options provided for in the Shareholders' Agreement entered into on November 26, 2007, for R$12,000, shares representing thirty percent (30%) of the capital stock of MIDBYTE INFORMÁTICA S.A. ("MIDBYTE"), a privately-held joint-stock company that develops retail software. TOTVS already held 70% of MidByte's Capital Stock.

TQTVD – On June 01, 2010 the Company acquired for R$14,266 45% of the capital stock of the subsidiary TQTVD Software Ltda.'s, which operates in the area of development and trading of software products and solutions for digital television. Out of the total price, R$5,999 was paid in cash, and a variable amount up to R$8,267 is expected to be paid subject to the compliance of certain goals established for fiscal years 2011 through 2014, which adjusted to present value on December 31, 2010 amounted to R$7,107, (Note 18). The Company already held 55% of TQTVD's capital stock, and following this acquisition it now holds all the quotas.

The goodwill generated in the minority interest acquisitions was recorded in the shareholders' equity, in the "capital reserve" account, pursuant to ICPC 9 (IFRS 3R).

5. Cash and cash equivalents

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
Cash equivalents	**10,281**	27,247	16,830	**37,074**	40,781	21,311
Cash and cash equivalents						
Purchase and sale commitments	**75,935**	49,550	5,396	**95,338**	52,310	8,033
CDB	**91,059**	85,051	70,277	**100,096**	112,449	88,320
DI Funds		12	11		2,181	3,013
	166,994	134,613	75,684	**195,434**	166,940	99,366
	177,275	161,860	92,514	**232,508**	207,721	120,677

Cash equivalents are maintained with the purpose of meeting short-term cash requirements and not for investments or other purposes. For the Company, cash equivalents are financial investments that can be immediately converted into a known amount of cash, and that are, therefore, subject to an insignificant risk of change in value. The Company's cash equivalents include financial investments in DI funds, Interbank Deposit Certificates and repurchase operations, and are redeemable in a period of up to 90 days from the date of the respective transactions. Investments are classified as cash equivalents pursuant to CPC 3 (IAS 7).

The Company has financial investments policies which establish that the investments focus on low risk securities and investments in prime financial institutions and they are significantly remunerated based on the variation percentage of the Interbank Deposit Certificates (CDI).

6. Marketable Securities

The balances of securities of R$55,849 and R$56,446, Company and Consolidated, respectively on December 31, 2010 (R$38,656 Company and R$41,783 on December 31, 2009 and R$20,670 – Company and R$26,729 – consolidated on January 1, 2009), refer to secured accounts for the payment of client portfolio acquisitions and business combinations (Note 18), as shown below:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
Próxima	**-**	-	-	**-**	-	800
YMF Participações	**4,374**	19,336	11,328	**4,374**	19,336	11,328
Soft Team	**-**	-	-	**-**	2,002	3,226
Gens	**527**	1,273	2,097	**527**	1,273	2,097
Tech Prod	**1,266**	2,535	2,137	**1,863**	3,660	3,071
Tools	**1,469**	2,672	4,875	**1,469**	2,672	4,875
Datasul MG	**2,429**	4,103	-	**2,429**	4,103	-
Datasul Saúde MG	**946**	803	-	**946**	803	-
TotalBanco	**2,338**	2,647	-	**2,338**	2,647	-
Hery	**4,294**	4,886	-	**4,294**	4,886	-
ERP Cedente	**663**	-	-	**663**	-	-
SRC	**34,092**	-	-	**34,092**	-	-
Mafipa	**3,031**	-	-	**3,031**	-	-
Other	**420**	401	233	**420**	401	1,332
	55,849	38,656	20,670	**56,446**	41,783	26,729
Current assets	**6,118**	21,450	10,701	**6,317**	22,469	14,301
Non-current assets	**49,731**	17,206	9,969	**50,129**	19,314	12,428

7. Trade accounts receivable

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
Domestic market	**210,002**	177,786	128,119	**263,184**	219,687	163,898
Foreign market	**-**	-	-	**15,652**	17,308	12,928
	210,002	177,786	128,119	**278,836**	236,995	176,826
Current assets	**195,195**	175,544	123,645	**264,029**	230,995	172,352
Non-current assets	**14,807**	2,242	4,474	**14,807**	6,000	4,474

Below are the net receivables from allowance for doubtful accounts by aging list, on December 31, 2010 and 2009 and January 1, 2009:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
Falling due	**170,714**	141,078	99,951	**217,473**	176,318	126,968
Overdue						
de 1 a 30 dias	**4,031**	7,192	7,845	**6,703**	11,013	11,933
de 31 a 60 dias	**4,427**	3,696	3,183	**6,954**	5,084	5,322
de 61 a 90 dias	**2,676**	2,645	1,776	**4,064**	3,436	2,761
de 91 a 180 dias	**5,780**	3,833	2,859	**9,023**	9,511	6,109
de 181 a 360 dias	**4,547**	4,097	1,042	**8,863**	10,353	4,380
mais de 360 dias	**1,606**	568	102	**4,856**	966	215
Total	**193,781**	163,109	116,758	**257,936**	216,681	157,688

The breakdown of the allowance for doubtful accounts is as follows:

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Balance at the beginning of the year	**14,677**	11,361	**20,314**	19,139
Additional provision in the year	**7,421**	5,697	**10,595**	7,720
Written off from the provision:	**(5,877)**	(2,381)	**(10,009)**	(6,545)
Balance on December 31	**16,221**	14,677	**20,900**	20,314

The Management believes that the risk related to the accounts receivable from clients is minimized by the fact that the client structure of the Company is highly diluted. The Company has more than 26,000 active clients in the portfolio and on December 31, 2010, December 31, 2009 and January 1, 2009 no client accounted for 5% or more of the revenue or the accounts receivable.

The Company does not require any guarantee on installment sales.

8. Income taxes and social contribution

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 loss carryforwards.

8.1 Reconciliation of expense of income tax and social contribution:

The conciliation of expenses calculated through applying the income and social contribution tax rates is as follows:

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Income before taxes	**159,312**	135,151	**161,939**	148,123
Income tax and social contribution at combined nominal rate of 34%	**(54,166)**	(45,951)	**(55,059)**	(50,362)
Adjustments for the statement of effective rate				
Equity pickup	**61**	6,674	**-**	-
Law 11,196/05 (Incentive for research and development)	**22,500**	20,457	**23,588**	20,809
Effect of subsidiary's taxable income based on a percentage of gross sales	**-**	-	**(3,044)**	623
Interest on equity	**9,180**	7,650	**9,180**	7,650
Managers' stake	**201**	(2,700)	**201**	(2,700)
Accounts receivable deemed uncollectible	**(56)**	(151)	**(147)**	(162)
Other	**1,164**	(834)	**870**	(1,085)
Expense of income tax and social contribution	**(21,116)**	(14,855)	**(24,411)**	(25,227)
Effective rate	**13.3%**	11.0%	**15.1%**	17.0%

Income and social contribution expenses recorded in the consolidated statement of income for the years ended on December 31, 2010 and 2009 are broken down as follows:

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Income and social contribution taxes	**(20,792)**	-	**(31,084)**	(11,748)
Deferred income and social contribution taxes	**(324)**	(14,855)	**6,673**	(13,479)
	(21,116)	(14,855)	**(24,411)**	(25,227)

8.2 Breakdown of deferred income tax and social contribution

	Company			Consolidated		
	2010	**2009**	**1/1/2009**	**2010**	**2009**	**1/1/2009**
ASSETS						
Deriving from temporary differences:						
Goodwill in business combination	**116,221**	141,426	148,581	**120,033**	139,636	149,398
Provision for commissions	**12,933**	9,972	7,696	**13,634**	10,308	7,799
Anticipated income or revenues	**4,247**	3,306	7,101	**3,163**	3,584	7,309
Allowance for doubtful accounts	**5,515**	4,423	3,233	**6,274**	5,082	3,444
Provision for contingencies and other liabilities	**1,998**	3,622	7,648	**1,998**	3,622	7,648
Tax losses and social contribution tax loss carryforward	**-**	-	-	**9,175**	1,812	1,124
Provision for premium due to non-conversion of debentures	**8,167**	4,154	944	**8,167**	4,154	944
Adjustments from Law 11,638/07 and Provisional Measure 449/08	**1,095**	1,472	1,438	**1,095**	1,472	1,438
Other	**4,939**	5,058	22,326	**6,549**	14,489	24,158
Total deferred income and social contribution taxes	**155,115**	173,433	198,967	**170,088**	184,159	203,262
LIABILITIES						
Deriving from temporary differences:						
Intangible assets allocation	**118,515**	137,811	147,477	**121,379**	143,592	148,185
Other	**1,193**	-	-	**2,172**	-	-
Total deferred income and social contribution taxes	**119,708**	137,811	147,477	**123,551**	**143,592**	**148,185**

8.3 Estimated tax credit recovery

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

a) In non-current assets:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
2010	**-**	-	90,772	**-**	-	94,979
2011	**-**	97,405	59,029		112,823	56,486
2012	**27,318**	2,786	32,183	**37,703**	2,721	35,461
2013	**10,779**	20,770	16,993	**10,851**	19,148	16,336
2014	**12,777**	21,147	-	**12,849**	20,649	-
2015	**81,843**	31,325	-	**82,389**	28,818	-
2016 onwards	**22,398**	-	-	**26,296**	-	-
	155,115	173,433	198,967	**170,088**	184,159	203,262

b) In non-current liabilities:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
2011	**-**	78,573	84,084	**-**	87,917	90,729
2012	**21,082**	2,170	2,323	**27,387**	2,124	2,192
2013	**8,319**	16,183	17,318	**7,882**	14,944	15,422
2014	**9,860**	16,477	17,632	**9,333**	16,116	16,631
2015	**63,161**	24,408	26,120	**59,847**	22,491	23,211
2016 onwards	**17,286**	-	-	**19,102**	-	-
	119,708	137,811	147,477	**123,551**	143,592	148,185

9 Recoverable taxes

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**2009**
Recoverable taxes						
Withholding income tax	**16,137**	19,292	8,971	**18,882**	20,832	10,956
Withholding social contribution	**8,589**	8,391	3,387	**9,956**	9,267	4,280
Withholding PIS and COFINS taxes	**89**	395	1,150	**342**	1,485	1,890
Other	**(158)**	364	444	**714**	1,132	1,538
	24,657	28,442	13,952	**29,894**	32,716	18,664

10. Balances and related party transactions

Transactions between the Company and subsidiaries are carried out under conditions and prices established by the parties.

10.1 Balances and transactions with subsidiaries and associated companies

On December 31, 2010 and 2009 and January 1. 2009, the balance of transactions with related parties classified as credits with related parties in non-current assets may be stated as follows:

	Company		
	2010	**2009**	**1.01.2009**
Totvs Serviços	**4,655**	17,451	16,763
Datasul México	**-**	3,749	3,141
Totvs Brasília Software	**1,232**	2,147	1,502
Totvs Nordeste Software	**1,238**	-	
RO Resultados em Outsourcing	**1,376**	1,545	-
BCS Comércio	**-**	1,030	98
Datasul Argentina	**718**	618	780
Hery Software	**1,701**	357	-
Gens	**4,333**	-	-
Tools	**9**	-	-
YMF	**20**	-	-
Inteligência Organizacional	**2**		
Totvs Rio Software	**6,734**	-	-
Totvs México	**-**	-	2,279
Other	**(118)**	346	201
	21,900	27,243	24,764

The amounts refer to accounts payable and receivable between subsidiaries, without remuneration and/or forecasted maturity.

The balance of dividends receivable recorded by the Company in the amount of R$4,097 (R$3,605 on December 31, 2009), reflects the proposal for allocation of profits of its subsidiaries.

10.2 Transactions or relationships with 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.). The rental paid was R$5,409 for the year ended on December 31, 2010 (R$5,362 for the year ended on December 31, 2009), in line with market values. The agreements are effective for 60 months and are adjusted by IGP-M, every 12 months.

Some Company officers directly or indirectly hold 18.04% of the Company shares on December 31, 2010 (19.43% on December 31, 2009), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company maintains loans and financing operations (Note 15) and debentures (Note 17), transactions substantially carried out with National Bank for Economic and Social Development (BNDES).

10.3 Management compensation

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

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Short-term benefits to employees (a)				
Salaries and fees	**14,029**	14,596	**17,791**	18,228
Payroll charges	**3,271**	2,903	**3,832**	3,116
Private pension plan	**506**	444	**505**	444
Variable bonuses	**1,731**	7,942	**1,732**	7,942
	19,537	25,885	**23,860**	29,730
Share-based payments (b)	**4,106**	2,020	**4,107**	2,020
	23,643	27,905	**27,967**	31,750

a) Short-term benefits: Short-term benefits include fixed compensation (salaries and fees, vacation, 13th month pay and private pension plans), payroll charges (social security contributions - INSS, FGTS and others) and variable compensation, such as profit sharing and bonuses, as well as private pension plans, see Note 24.

b) Share-based compensation: The Management (chief executive officer, executive officers and vice chief executive officers) participates in the Stock Option Plan, approved by the Extraordinary General Meeting, see Note 25.

c) Other: The Company does not have any additional post-employment liability, 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 withdrawal of its top management in addition to those established by Brazilian labor laws, see Note 24.

11. Investments

The breakdown of investments in subsidiaries is show below:

	Summarized financial information of associated companies and subsidiaries on December 31, 2010					Equity accounting (Company) for years ended in		Balance of investments as of		
	Assets	Liabilities	Shareholders' equity	Gross Revenue	Net income for the year	2010	2009	2010	2009	1.01.2009
Totvs Rio Software	20,721	13,713	7,008	38,586	(4,302)	**(4,302)**	1,467	**7,008**	11,311	9,844
Totvs Argentina	4,382	2,062	2,320	9,235	(2,688)	**(2,427)**	(2,691)	**2,081**	2,836	2,426
Totvs México	10,032	7,443	2,589	13,247	(5,507)	**(5,473)**	(3,887)	**2,589**	3,434	308
Totvs Corporation	1,962	(1)	1,963	-	14	**14**	(24)	**1,963**	2,036	2,768
Totvs Nordeste	12,084	2,282	9,802	5,115	(808)	**(808)**	773	**9,802**	5,604	4,780
Totvs Brasília	3,642	2,149	1,493	6,932	(935)	**(935)**	(163)	**1,493**	-	
IOSSTS	3,520	381	3,139	5,507	2,433	**2,433**	715	**3,139**	706	-
Eurototvs	1,117	621	496	1,647	(2,707)	**(2,707)**	(118)	**496**	1,558	262
RO	5,310	3,371	1,939	14,895	1,522	**1,522**	(245)	**1,939**	417	1,191
Midbyte	3,430	402	3,028	5,364	1,843	**1,843**	1,147	**3,028**	1,407	-
TQTVD	18,827	2,956	15,871	6,915	(6,434)	**(4,948)**	357	**15,871**	8,456	4,478
BCS Comércio	8,149	1,252	6,897	15,656	2,334	**2,334**	3,920	**6,897**	4,563	3,143
BCS Sistemas	74	-	74	-	-	**-**	(75)	**74**	74	617
BCS FLEX	-	(100)	100	-	-	**-**	(1)	**100**	100	310
HBA	30	(1)	31	-	4	**4**	17	**31**	26	490
Look (a)	-	-	-	-	-	**-**	(129)	**-**	-	105
Totvs Vitória (a)	-	-	-	-	-	**-**	74	**-**	-	1,347
Totvs Serviços	19,973	7,512	12,461	24,362	2,636	**2,636**	5,493	**12,461**	9,827	4,334
Gens	3,551	5,036	(1,485)	4,118	(2,913)	**(2,913)**	(234)	**-**	1,429	1,663
YMF	29,928	5,345	24,583	50,387	5,233	**5,233**	10,256	**24,583**	20,660	9,960
Tools	7,498	3,361	4,137	19,871	4,324	**4,324**	2,116	**4,137**	895	1,186
DTSL	6,680	5	6,675	3,155	(97)	**(97)**	1,840	**6,675**	6,771	5,118
Datasul S.A. de CV	2,406	1,365	1,041	-	(346)	**(346)**	(1,277)	**1,041**	-	-
Datasul Incorporation	1,014	33	981	-	(23)	**(23)**	(119)	**981**	1,047	1,480
Datasul Argentina	3,004	729	2,275	-	(176)	**(176)**	915	**2,275**	2,667	2,072
Hery	5,352	2,910	2,442	11,664	343	**343**	(401)	**2,442**	-	-
Total banco	6,410	2,179	4,231	21,221	4,852	**3,397**	(96)	**2,962**	1,407	785
SRC	-	-	-	-	1,116	**1,116**	-	**-**	**-**	-
Mafipa	-	-	-	-	136	**136**	-	**-**	**-**	-
						180	19,630	**114,068**	87,231	58,667
Other investments						**-**	-	**-**	2	21
						180	19,630	**114,068**	87,233	58,688

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

	Company		
	2010	**2009**	**1.01.2009**
Totvs Brasília	**-**	472	308
Datasul S.A. de CV	**-**	2,172	1,337
Hery	**-**	401	-
Gens	**1,485**	-	-
IOSSTS	**-**	-	9
	1,485	3,045	1,654

12. Property, plant and equipment

The breakdown of Company's property, plant and equipment is shown below:

	Company					
	Computers and software	**Vehicles**	**Furniture and Fixtures**	**Facilities, Machinery and Equipment**	**Other**	**Total property, plant and equipment**
Cost or valuation						
Balance on January 1, 2009	25.798	3.212	4.202	2.860	5.639	41.711
Additions	6.645	2.351	639	420	839	10.894
Write-off	(1.327)	(1.023)	(569)	-	(2.254)	(5.173)
Transfer	8.455	946	1.138	778	2.332	13.649
Balance on December 31, 2009	39.571	5.486	5.410	4.058	6.556	61.081
Additions	8.231	2.494	1.484	329	1.440	13.978
Write-off	(505)	(859)	(61)	(47)	(1.046)	(2.518)
Transfer	-	1	(1)	-	-	-
Balance on December 31, 2010	**47.297**	**7.122**	**6.832**	**4.340**	**6.950**	**72.541**
Depreciation						
Balance on January 1, 2009	(10.759)	(372)	(1.292)	(1.224)	(1.721)	(15.368)
Depreciation in the year	(5.408)	(929)	(467)	(452)	(1.093)	(8.349)
Write-off	1.273	307	279	-	774	2.633
Transfer	(9.134)	(1.276)	(1.143)	(802)	(1.294)	(13.649)
Balance on December 31, 2009	(24.028)	(2.270)	(2.623)	(2.478)	(3.334)	(34.733)
Depreciation in the year	(5.982)	(1.094)	(502)	(225)	(1.393)	(9.196)
Write-off	460	351	35	22	312	1.180
Transfer	1	-	-	-	(1)	-
Balance on December 31, 2010	**(29.549)**	**(3.013)**	**(3.090)**	**(2.681)**	**(4.416)**	**(42.749)**
Residual value						
Balance on December 31, 2010	**17.748**	**4.109**	**3.742**	**1.659**	**2.534**	**29.792**
Balance on December 31, 2009	15.543	3.216	2.787	1.580	3.222	26.348
Balance on January 1, 2009	15.039	2.840	2.910	1.636	3.918	26.343
Average annual depreciation rate	20%	20%	10%	10%	4%to10%	

	Consolidated					
	Computers and software	**Vehicles**	**Furniture and Fixtures**	**Facilities, Machinery and Equipment**	**Other**	**Total Property Plant and Equipment**
Cost or valuation						
Balances on January 1, 2009	38,185	5,355	5,471	3,539	7,061	59,611
Additions	8,810	2,635	1,024	668	1,038	14,175
Write-off	(1,869)	(1,095)	(894)	(32)	(2,635)	(6,525)
Transfer	1,058	(632)	1,412	1,006	2,038	4,882
Balance on December 31, 2009	46,184	6,263	7,013	5,181	7,502	72,143
Additions	9,965	2,640	1,669	477	1,582	16,333
Write-off	(786)	(1,058)	(178)	(51)	(1,101)	(3,174)
Transfer	13	-	-	(13)	-	-
Balance on December 31, 2010	**55,376**	**7,845**	**8,504**	**5,594**	**7,983**	**85,302**
Depreciation						
Balance on January 1, 2009	(19,873)	(1,171)	(2,875)	(1,726)	(2,103)	(27,748)
Depreciation in the year	(6,536)	(1,045)	(635)	(493)	(1,166)	(9,875)
Write-off	1,551	356	535	16	791	3,249
Transfer	(1,811)	(682)	(207)	(999)	(1,183)	(4,882)
Balance on December 31, 2009	(26,669)	(2,542)	(3,182)	(3,202)	(3,661)	(39,256)
Depreciation in the year	(7,391)	(1,238)	(678)	(368)	(1,457)	(11,132)
Write-off	486	458	90	218	369	1,621
Transfer	181	1	1	(183)	-	-
Balance on December 31, 2010	**(33,393)**	**(3,321)**	**(3,769)**	**(3,535)**	**(4,749)**	**(48,767)**
Residual value						
Balance on December 31, 2010	**21,983**	**4,524**	**4,735**	**2,059**	**3,234**	**36,535**
Balance on December 31, 2009	19,515	3,721	3,831	1,979	3,841	32,887
Balance on January 1, 2009	18,312	4,184	2,596	1,813	4,958	31,863
Average annual depreciation rate	20%	20%	10%	10%	4% to 10%	

Considering the relevance of property, plant and equipment in the financial statements as a whole, the Company and its subsidiaries have assessed these assets' useful and economic life, and concluded there are no material adjustments or changes to be recognized on December 31, 2010.

The book value of property, plant and equipment kept under financial leasing agreements on December 31, 2010 is R$2,037 (December 31, 2009: R$6,165, January 1, 2009: R$9,480). During 2010, no items under financial leasing agreements (2009: R$748) are added to property, plant and equipment.

13. Intangible Assets

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

	Company						
	Software	**Trademarks & patents**	**Franchising**	**Client portfolio**	**Other**	**Goodwill**	**Total property, plant and equipment**
Cost/valuation							
Balance on January 1, 2009	151,087	62,264	83,223	157,654	11,114	277,955	743,297
Additions	6,857	(265)	(1)	26,226	(596)	3,310	35,531
Write-offs	(29)	(12)	-	-	(17)	-	(58)
Transfers	-	-	-	1,299	(1,299)	-	-
Balance on December 31, 2009	157,915	61,987	83,222	185,179	9,202	281,265	778,770
Additions	(404)	-	-	8,758	4,200	41,631	54,185
Write-offs	(112)	-	-	1	-	(1)	(112)
Transfers	-	-	-	(1,299)	1,299	1	1
Balance on December 31, 2010	**157,399**	**61,987**	83,222	**192,639**	**14,701**	**322,896**	**832,844**
Amortization							
Balances on January 1, 2009	(6,744)	(1,767)	(7,772)	(6,166)	(4,654)	(134,272)	(161,375)
Amortization in the year	(15,006)	(4,543)	(18,599)	(17,094)	(1,644)	-	(56,886)
Write-offs	(75)	(13)	(54)	(1,013)	1,652	58	555
Transfers	-	-	-	-	-	-	-
Balance on December 31, 2009	(21,825)	(6,323)	(26,425)	(24,273)	(4,646)	(134,214)	(217,706)
Amortization in the year	(15,638)	(4,092)	(18,654)	(20,177)	(1,772)	-	(60,333)
Write-offs	18	-	-	-	-	-	18
Transfers	-	(1)	2	-	(1)	-	-
Balance on December 31, 2010	**(37,445)**	**(10,416)**	**(45,077)**	**(44,450)**	**(6,419)**	**(134,214)**	**(278,021)**
Residual value							
Balance on December 31, 2010	**119,954**	**51,571**	**38,145**	**148,189**	**8,282**	**188,682**	**554,823**
Balance on December 31, 2009	**136,090**	**55,664**	**56,797**	**160,906**	**4,556**	**147,051**	**561,064**
Balance on January 1, 2009	**144,343**	**60,497**	**75,451**	**151,488**	**6,460**	**143,683**	**581,922**
Average annual amortization rate	10% to 16.7%	8%	20% to 50%	10% to 12.5%	20% to 50%	**(*)**	

(*) Amortized up to December 31, 2008 at the average rate of 20% p.a.

	Consolidated						
	Software	**Trademarks & patents**	**Franchising**	**Client portfolio**	**Other**	**Goodwill**	**Total property, plant and equipment**
Cost/valuation							
Balance on January 1, 2009	160,427	63,727	83,223	169,159	18,606	278,799	773,941
Additions	8,784	3	-	27,064	8,709	10,141	54,701
Write-offs	(1,233)	(859)	-	1,723	(1,322)	-	(1,691)
Transfers	1,251	784	(2)	(2,480)	(259)	(56)	(762)
Balance on December 31, 2009	169,229	63,655	83,221	195,466	25,734	288,884	826,189
Additions	(309)	-	-	13,517	4,205	42,174	59,587
Write-offs	(118)	(3)	-	(3,513)	(31)	-	(3,665)
Transfers	3	(1)	-	(1)	(1)	-	-
Balance on December 31, 2010	168,805	63,651	83,221	205,469	29,907	331,058	882,111
Amortization							
Balance on January 1, 2009	(7,094)	(1,814)	(7,772)	(7,619)	(4,984)	(134,355)	(163,638)
Amortization in the year	(16,165)	(4,652)	(18,653)	(18,098)	(2,530)	-	(60,098)
Write-offs	631	(3)	(54)	(46)	282	-	810
Transfers	(764)	(11)	54	103	1,370	56	808
Balance on December 31, 2009	(23,392)	(6,480)	(26,425)	(25,660)	(5,862)	(134,299)	(222,118)
Amortization in the year	(16,920)	(4,201)	(18,652)	(21,638)	(4,809)	(531)	(66,751)
Write-offs	19	-	-	613	(1)	-	631
Transfers	1	-	-	-	(1)	-	-
Balance on December 31, 2010	(40,292)	(10,681)	(45,077)	(46,685)	(10,673)	(134,830)	(288,238)
Residual value							
Balance on December 31, 2010	**128,513**	**52,970**	**38,144**	**158,784**	**19,234**	**196,228**	**593,873**
Balance on December 31, 2009	**145,837**	**57,175**	**56,796**	**169,806**	**19,872**	**154,585**	**604,071**
Balance on January 1, 2009	**153,333**	**61,913**	**75,451**	**161,540**	**13,622**	**144,444**	**610,303**
Average annual amortization rate	10% to 16.7%	8%	20% to 50%	10% a 12.5%	20% to 50%	**(*)**	

(*) Amortized up to December 31, 2008 at the average rate of 20% p.a.

13.1 Goodwill and intangible assets identified in business combinations

The goodwill breakdown as of December 31, 2010 and December 31, 2009 and the additions and write-offs in the years ended on December 31, 2010 and 2009 are as follows:

	1.01.2009	Additions	Write-offs	2009	Additions	Write-offs	2010
RM (a)	90,992	-	-	90,992	-	-	90,992
Logo Center (a)	5,703	-	-	5,703	-	-	5,703
Totvs BMI (a)	2,053	-	-	2,053	-	-	2,053
Midbyte	1,765	-	-	1,765	-	-	1,765
IOSSTS (a)	2,643	-	-	2,643	-	-	2,643
BCS (a)	10,610	-	-	10,610	1,211	-	11,821
Datasul (a)	29,917	167	-	30,084	-	-	30,084
Setware	761	200	-	961	-	-	961
Hery	-	3,174	-	3,174	(247)	-	2,927
TotalBanco	-	6,600	-	6,600	923	-	7,523
M2I (b) (c)	-	-	-	-	531	(531)	-
M2S (c)	-	-	-	-	12	-	12
SRC (c)	-	-	-	-	33,688	-	33,688
Mafipa	-	-	-	-	6,056	-	6,056
	144,444	10,141	-	154,585	42,174	(531)	196,228

(a) Companies merged into Totvs.
(b) Company sold in 2010
(c) Business combination 2010 (Note 4)
(d) Adjustment in the total amount payable in the acquisition due to noncompliance with contractual provisions.

Out of the intangible assets aggregated during the year ended on December 31, 2010, in the amount of R$59,587 (R$54,701 in 2009), R$39,756 refer to goodwill of business combinations and measured by their fair value (Note 4).

As of January 1, 2009, goodwill was no longer amortized. To measure intangible assets identified in the business combinations and measured by their fair value. We used the methodologies of future cash flow discounted at present value and replacement cost, among others. To estimate the value by the discounted cash flow methodologies, we used a rate of 15% to 22.8% (12.56% and 17.52% p.a. in 2009) (in real terms), varying according to the intangible asset analyzed. The amortization of intangible assets is based on their estimated useful lives. Intangible assets identified, values recognized and the assets' useful life are substantiated by a technical study conducted by an independent specialized company.

The group of "Other Intangibles" is basically composed of 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 client portfolios in the regions of São Paulo Grande ABC 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 that use the discounted cash flow method.

b) New product development

New product development represents expenses incurred by the Company with the development of the software "Ginga TQTVD" that will allow the implementation of interactive applications for digital TV, which will be part of subsidies set forth to TQTVD.

In November 2007, the Company associated with Quality Software S.A. ("Quality") to develop a middleware called "Ginga TQTVD," which allows implementation of interactive applications for Digital TV. As a result of this association, in January 2008 the Company acquired 700 quotas corresponding to 70% of TQTVD Software Ltda.'s capital stock ("TQTVD"). In January 2009, Totvs' interest in TQTVD's capital decreased to 55%, due to the performance of Quality Software S.A. (Totvs partnership in this project) in product development, as per contractual clause. On June 1, 2010, the Company acquired the remaining 45%, and following this acquisition it now holds all the quotas.

13.2 Provision for asset impairment

The Company valued the recoverable book value of goodwill by employing the usage value concept through discounted cash flow models of cash generating units representing the group of tangible and intangible assets utilized in the development and sale of different solutions to its clients.

The process to determine the usage value involves the use of assumptions, judgments and estimates on cash flows, such as: growth rates of revenues, costs and expenses, estimates of investments and future working capital and discount rates. The assumptions on growth, cash flows and future cash flow projections are based on the Company's business plans approved by the management as well as comparable market information, and they represent the Management's best estimate of economic conditions that will exist during the economic life of different Cash Generating Units, a group of assets that generate cash flows. Cash flows were discounted based on the representative rate of the cost of capital.

Compatible with economic valuation techniques, the Usage Value valuation is carried out within a five-year period, and onwards, taking into account the perpetuity of assumptions in view of the capacity of business continuity for an indeterminate term.

The growth rates used to extrapolate projections beyond a 5-year period vary between 0% and 2%. Estimated future cash flows were discounted at discount rates which vary from 15.0% to 22.8% p.a. for each cash-generating unit analyzed.

Main assumptions used in the Usage Value estimate are as follows:

- Revenues – Revenues were projected between 2011 and 2015, taking into account the growth of the client base 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 feasible the provision of services, based on the Company's history.

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

The Company's recoverability test of intangible assets did not result in the need for recognizing losses in the year ended on December 31, 2010, since the estimated market value is higher than its net book value on the valuation date.

14 Social and labor obligations

Salaries and charges payable balances are broken down as follows:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
Labor obligations						
Salaries payable	**6,926**	5,030	3,961	**10,083**	6,973	5,579
Pension plan payable	**371**	330	233	**444**	368	267
Vacations payable	**25,062**	20,818	15,240	**32,043**	26,122	19,143
Profit sharing and bonus	**7,562**	13,042	6,941	**9,429**	13,240	7,615
Other	**5,052**	3,457	2,815	**7,771**	5,500	4,377
	44,973	42,677	29,190	**59,770**	52,203	36,981
Social Obligarions						
FGTS payable	**5,401**	4,240	3,199	**6,989**	5,340	4,048
INSS payable	**1,767**	1,261	1,003	**2,313**	1,656	1,300
	7,168	5,501	4,202	**9,302**	6,996	5,348
	52,141	48,178	33,392	**69,072**	59,199	42,329

15 Loans and Financing

Loans and financings are as follows:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
BNDES (a)	**210,370**	209,775	163,352	**210,370**	209,775	163,352
FINEP (b)	**5,019**	6,306	4,109	**5,019**	6,306	4,109
Secured accounts and other	**130**	-	25	**2,870**	1,795	1,051
	215,519	216,081	167,486	**218,259**	217,876	168,512
Current liabilities	**59,289**	7,118	4,216	**62,029**	7,838	5,242
Non-current liabilities	**156,230**	208,963	163,270	**156,230**	210,038	163,270

Amounts recorded in non-current liabilities on December 31, 2010 and December 31, 2009, present the following maturity schedule:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
2010	**-**	-	1,006	-	-	1,006
2011	**-**	45,954	41,006	**-**	47,029	41,006
2012	**53,378**	41,931	41,006	**53,378**	41,931	41,006
2013	**51,705**	41,078	40,252	**51,705**	41,078	40,252
2014	**51,147**	40,000	40,000	**51,147**	40,000	40,000
2015	**-**	40,000	-	**-**	40,000	-
Non-current liabilities	**156,230**	208,963	163,270	**156,230**	210,038	163,270

a) BNDES – National Bank for Economic and Social Development

On August 19, 2008, the Board of Directors approved the loan borrowing with 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.

In September 2008, the Company was provided with the amount of R$160,000, which is secured by a letter of bank guarantee. In April 2009, more than R$44,500 was made available, in addition to the borrowing approved in 2008.

Loans have the purpose of financing software innovation researches, brand repositioning and restructuring of sale channels, and yielded based on Long-Term Interest Rates - TJLP, accrued of 1.5% interest p.a., maturing every six months.

b) Software development – FINEP – Research and Project Financing

Said loan – contracted by subsidiary Datasul – is yielded based on the Long-Term Interest Rate, accrued of 5% interest p.a. and is secured by bank's letters of guarantee.

16 Financial Leasing

Leasing payable balances are broken down as follows:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
HSBC LEASING	**73**	174	276	**73**	174	276
CSI LEASING	**192**	880	1,679	**242**	1,185	1,980
ITAÚ LEASING	**1,584**	4,410	6,419	**1,627**	4,432	6,453
REAL LEASING	**41**	2	154	**41**	2	154
BRADESCO LEASING	**54**	94	-	**54**	94	-
HP LEASING	**-**	270	583	**-**	270	583
CIT BRASIL ARREND	**-**	-	-	**-**	8	34
	1,944	**5,830**	**9,111**	**2,037**	**6,165**	**9,480**
Current liabilities	**1,839**	**3,786**	**4,814**	**1,923**	**4,027**	**5,036**
Non-current liabilities	**105**	**2,044**	**4,297**	**114**	**2,138**	**4,444**

The Company contracted financial leasings and entered into leasing agreements for several items of property, plant and equipment. These leasings have renewal terms but do not include purchase options and price readjustment clauses. Minimum future lease payments, under the terms of the financial leasings and leasing agreements together with the present value of minimum lease payments, are the following on December 31, 2010:

	Company		Consolidated	
	Minimum payments	**Present value**	**Minimum payments**	**Present value**
Within 1 year	**1,839**	1,761	**1,923**	1,842
After 1 year to 5 years	**105**	92	**114**	100
Over 5 years	**-**	-	**-**	-
Total minimum lease payments	**1,944**	1,853	**2037**	1,942
Reduction of amounts representing financial charges	**91**	-	**95**	-
Present value of minimum lease payments	**1,853**	1,853	**1,942**	1,942

17 Debentures

a) Description of operation

On August 19, 2008, shareholders approved raising R$200,000 by the issue of up 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) the remuneration of debentures convertible into shares of both series of the 1st private issue of the Company ("Debentures"); (b) the premium due to non-conversion of Debentures; (c) the conversion percentage; (d) the premium over price in the event of mandatory conversion of Debentures. The Company executed the 2nd amendment to the private deed of 1st issue of debentures.

1st Series debentures will be paid based on IPCA increased of 3.5% interest p.a., limited at 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* the compensation 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.

Units will have mandatory conversion into Company's common shares should, as of its issue date, the weighted average price of 360 days of Company shares, calculated at the São Paulo Stock Exchange ("Bovespa") trading sessions and assessed at the Units' reference date, in each period, be higher than the weighted average price per volume of the Company share, also calculated at the Bovespa trading sessions within the period from June 6 and August 31, 2008 ("reference period"), increased by the premium of 50% of the weighted value of shares mentioned in the period, during the debenture's three first reference dates, dropping to 46%, 42% and 40% in the subsequent years. For assessment purposes of the weighted value of shares at the reference period, historical values will be restated based on indices set forth at bookkeeping of debentures and restated based on the average between IPCA + 12% and TJLP +9% from the number of days between the calculation and the issue date.

Should the appreciation meet the abovementioned conditions, debenture holders will be obliged to convert debentures, and the mandatory conversion may only take place 2 years after its issue, , i.e., on August 19, 2010 (already converted), up to 15% of debentures issued, up to 30% in 2011, up to 45% in 2012, and up to 60 % in 2013.

Conversion price, should that happen, will also be the average price weighted by the volume of Company's shares, calculated in the Bovespa's trading sessions at the base period, increased by the 50% premium of the weighted value of shares in said period, for the possible conversions to be carried out as from 2011, dropping to 46%, 42% and 40% in the subsequent years. For assessment purposes of the weighted value of shares at the reference period, historical values will be restated based on indices set forth at bookkeeping of debentures.

Voluntary conversion of debentures, at the debenture holders' discretion, may be executed taking in consideration the percentage limits per year and conversion price abovementioned. Despite the maximum conversion percentage mentioned, debenture holders may convert 100% of the securities should: i) a third party acquire more than 20% of the Company's shares or ii) the number of independent members of the Company's Board of Directors be lower than 50%.

The conversion price will take place simultaneously and will be adjusted proportionally whenever there is a capital increase.

Bookkeeping of debentures have early maturity, should they not comply with certain financial and non-financial conditions, in addition to other ancillary obligations. On December 31, 2010, the Company was performing with all established conditions.

The issue will not be filed with the Brazilian Securities and Exchange Commission, as the debentures issued by the Company will be privately issued exclusively to the Company's shareholders on the placement date, with no general market sale effort

b) "Non-conversion of debentures" clause

Should there not be a conversion, debentures will be entitled of a non-conversion premium, for 1st series debentures equivalent to the difference between IPCA increased by 8.0% 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 8.0% p.a., and 2nd series debentures will be restated by TJLP increased by 5.0% p.a.

The premium due to non-conversion will be paid in at most six (6) installments, and within three years as of the payment of the last installment of the principal and interest (February 19, 2017).

c) Balance on December 31, 2010 and 2009, and January 1, 2009

On December 31, 2010 and December 31, 2009, balance was broken down as follows:

Issue	Debentures	Annual financial charges	Unit price	Company and Consolidated		
				2010	**2009**	**1.01.2009**
1st series	100,000	IPCA* + 3.5% limited to TJLP + 1.5%	1.00	**86,965**	102,609	102,817
2nd series	100,000	TJLP + 1.5%	1.00	**86,965**	102,609	102,817
		Subtotal		**173,930**	205,218	205,634
		Premium due to non-conversion		**9,597**	12,219	2,777
		Fair value - convertible debentures		**14,423**	-	-
		Total		**197,950**	217,437	208,411
		Current liabilities		**12,155**	(5,218)	(5,634)
		Non-current liabilities		**185,795**	212,219	202,777

* *Extended National Consumer Price Index*

The main amount, long-term, matures as shown below:

	December 31, 2010	**December 31, 2009**	**January 1. 2009**
August 2012	**4,637**	-	-
August 2013	**1,561**	-	-
August 2015	**68,000**	80,000	80,000
August 2016	**102,000**	120,000	120,000
After February 2017	**9,597**	12,219	2,777
	185,795	212,219	202,777

d) First conversion of debentures

On August 19, 2010 the average price over the last 360 days of the company's shares outperformed the weighted average price of the "base period" corrected according to the contractual clauses, hence the parameters have been achieved which obligated by debenture holders, the conversion of 15% of the Units. Based on this conversion the Board of Directors approved, within the authorized capital of the Company's TOTVS, the issuance of 306,870 common shares, nominative, without par value, at an issue price of R$97.747683 per share, consequently increase the share capital of TOTVS of R$29,996 by writing off the principal balance of that value (Units) of debentures. (Note 17a).

Due to the issuance of shares to debenture holders by the contract value that is below the market price of the company registered on August 19, 2010, a discount on issue of shares amounting to R$7,448 that was recorded as interest expense in the year.

e) Assessment of future conversions

Taking into account the clauses of the deed of debenture issue was assessed, using the fair value of conversion option defined in that deed was the amount awarded in December 31, 2010 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 date of closing statements. CPC's 38 (IAS 39) and 39 (IAS 32) for recognition of the amounts involved in that December 31, 2010 were taken into account, which corresponded to the liability of R$14,423, which is the counterpart financial results. Because the assumptions used for these calculations may vary over time to estimate the amounts that were recorded may vary compared to actual values in the future.

18 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 by installments, recorded in current and non-current liabilities, as follows:

	Company			Consolidated		
	2010	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
BCS	**-**	7,654	12,127	**-**	7,654	12,127
YMF (a)	**4,374**	19,336	12,089	**4,374**	19,336	12,089
Tools (a)	**1,469**	2,672	5,104	**1,469**	2,672	5,104
Gens (a)	**522**	1,273	2,330	**522**	1,273	2,330
Techprod (a)	**1,266**	2,535	2,307	**1,266**	2,535	2,307
Midbyte	**717**	1,242	1,713	**717**	1,242	1,713
Soft Team (a)	**-**	-	-	**-**	2,000	2,301
Techserv (a)	**-**	-	-	**597**	1,126	1,024
TotalBanco	**2,338**	2,637	**-**	**2,338**	2,637	-
Hery	**4,294**	8,421	**-**	**4,294**	8,421	-
Datasul MG	**2,429**	2,940	**-**	**2,429**	2,940	-
Datasul Saúde MG	**946**	1,126	**-**	**946**	1,126	-
ERP Cedente	**663**	798	**-**	**663**	798	-
Logmann	**782**	**-**	**-**	**782**	**-**	**-**
TQTVD	**7,107**	**-**	**-**	**7,107**	**-**	**-**
SRC	**34,092**	-	-	**34,092**	-	-
Mafipa	**3,031**			**3,031**		
Other (a)	**426**	1,103	2,531	**426**	1,103	3,052
Total liabilities per investment acquisition	**64,456**	51,737	38,201	**65,053**	54,863	42,047
Current liabilities	**10,382**	33,159	15,279	**10,581**	34,577	16,299
Non-current liabilities	**54,074**	18,578	22,922	**54,472**	20,286	25,748

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

Installments registered in non-current liabilities mature as shown below:

	Company			Consolidated		
Year	**2010**	**2009**	**1.01.2009**	**2010**	**2009**	**1.01.2009**
2010		-	15,212		-	16,662
2011		5,995	2,845		6,564	3,304
2012	**34,067**	7,956	4,403	**34,067**	8,870	5,320
2013	**15,939**	2,567	462	**16,072**	2,792	462
2014	**3,564**	2,060	-	**3,829**	2,060	-
2015	**504**	-	-	**504**	-	-
Non-current liabilities	**54,074**	18,578	22,922	**54,472**	20,286	25,748

19. Provision for Legal Obligations related to Legal Proceedings

a) Ongoing proceedings with recorded Provision for Contingencies and Legal Liabilities Related to Legal Proceedings

The Company and its subsidiaries, during the regular course of their operations, are parties in several legal proceedings related to tax, social security, labor and civil matters. A provision for contingencies was set up by management, supported by its legal counsel and analysis of pending judicial proceedings, in an amount considered sufficient to cover probable losses, as shown below:

	Company and Consolidated		
Provision for Contingencies	**2010**	**2009**	**1.01.2009**
Social security	**-**	-	27,526
Tax	**545**	6,419	6,872
Civil	**1,728**	1,645	821
Labor	**3,603**	2,589	620
	5,876	10,653	35,839

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

	Company and Consolidated		
Judicial deposits	**2010**	**2009**	**1.01.2009**
Social Security	**3,197**	3,028	20,193
Tax	**2,331**	10,532	8,456
Other	**388**	653	191
	5,916	14,213	28,840

The breakdown of provisions in the years ended December 31, 2010 and 2009 is as follows:

	Company and Consolidated				
	Social Security	**Tax**	**Labor**	**Civil**	**Total**
Balances on January 1, 2009	27,526	6,872	620	821	35,839
+ Additional provision	5,565	186	2,589	824	9,164
+ Monetary restatement	2,926	1,576	26	-	4,528
- Debts paid in installments	(27,982)	(920)	-	-	(28,902)
- Reversal of provision not used	(8,035)	(1,295)	(646)	-	(9,976)
Balances on December 31, 2009	-	6,419	2,589	1,645	10,653
(+) Complement of provision	-	71	930	285	1,286
(+) Monetary restatement	-	-	424	248	672
(-) Reversal of used provisions	-	(5,945)	(340)	(450)	(6,735)
Balances on December 31, 2010	-	545	3,603	1,728	5,876

The breakdown of main lawsuit whose provision was recorded in the accounting books is as follows:

Tax

The Company's Belo Horizonte branch is discussing in two court deposit actions brought against the city governments of Uberlândia and Vitória, if they are required to pay the ISSQN (Tax on Any Sort of Services) at rates ranging from 2% to 5%, or if the tax is payable to the city government of Belo Horizonte where the rate is 2%. The Company understands that the ISS is due to the municipality of Belo Horizonte, where service is developed. Thus, the Company has been providing court deposits under the scope of said lawsuits, taking into account the rates required by the city governments and recording provision for contingencies for these city governments by the 3% rate. On December 31, 2010, the provision acknowledged for this lawsuit totals **R$364** (R$6,318 on December 31, 2009) and the judicial deposits made until December 31, 2010 amounted to R$2,331 (R$10,532 on December 31, 2009). Lawsuits referring to São Paulo and Rio de Janeiro, which were included in the balances of December 31, 2010, have been judged final and unappealable.

Civil

The Company is defendant in indemnification suits by clients terminating their contracts, cumulated with compensation for damages, as well as suit for damages filed by business agents, related to contract termination cumulated with indemnification charges and requests. On December 31, 2010, the provision recorded for these demands amounts to R$1,728 (R$1,645 updated on December 31, 2009).

Labor

The Company has recorded provision related to lawsuits filed by former employees of companies and service companies. They claim the reduction of commissions on sales and services, overtime and wage parity. The amount accrued is R$3,603 on December 31, 2010 (R$2,589 on December 31, 2009).

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

The Company and its subsidiaries are parties in other lawsuits, for which no provision was recorded, since its external legal advisors and the Company's management deems the risk of loss as possible, as follows:

	Company and Consolidated		
Type	**2010 (**)**	**2009 (*)**	**1.01.2009**
Social security	**15,959**	9,971	11,878
Tax	**19,445**	12,445	10,020
Civil	**23,823**	17,455	4,693
Labor	**5,741**	691	576
	64,968	40,562	27,167

(*) Figures in the column referring to fiscal year 2009 have been adjusted pursuant to CVM Resolution 506/06, with no change to the total amount previously reported.

(**) In 2010, the composition of lawsuits considered as "possible" follows the guidelines of CPC 25 (IAS 37).

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

Social Security

On May 4, 2007, the INSS filed a court claim for taxes against the Company in the amount of R$1,604 (R$2,243 – restated as of December 31, 2010 and R$2,063 on December 31, 2009) referring to the social contributions destined to third parties (SESC and SENAC) levied on the compensation paid to employees who rendered services from March 1999 until July 2000. This amount of R$1,626 (R$2,243 – restated until December 31, 2010 and R$2,091 December 31, 2009) was judicially deposited in 2007, and registered in non-current assets. The company filed motions to stay the enforcement action and is pending decision on trial court.

The Company filed a motion to stay the tax enforcement action and that cannot be liable for the payment of NFLD 35.058.091-0, originally drawn up against Datasul S.A., whose initial value was R$3,862 (R$8,228 restated until December 31, 2010 and R$7,880 on December 31, 2009). Such Notice of Infraction was drawn up by the Social Security National Institute due to an alleged irregularity in our service outsourcing. The discussion of the merit for this stay of enforcement action is currently pending, with no trial court decision.

On June 28, 2010 tax assessment notices were issued by the authorities of the Brazilian Treasury Department in the amount of R$5,113 (R$5,427 updated as of December 31, 2010) aimed at: (i) a supposed characterization of autonomous or companies as secured employees; and (ii) joint responsibility for services provided by companies that provide temporary labor. The tax assessment notices were issued as replacement for the Tax Delinquency Notice 35.136.711-0 of August 30, 2000, deemed groundless by decision of Fourth Chamber of Judgment of the Social Security Appeals Board.

The Company filed the respective objections to the tax assessment notices and awaits the Federal Revenue’s decision.

Tax

As a result of inspection procedures by the Brazilian Internal Revenue Service, the Company was assessed in 2008 in the amount of R$3,628 (R$4,426 – restated until December 31, 2010, R$4,086 on December 31, 2009), referring to discussion for not having added to its taxable income part of its profits that had possibly arisen from one of its subsidiaries abroad and on unduly amortization, in the calculation of taxable income, of the goodwill from the merger of ABR1 into the Company in the calendar years 2003 to 2006. The Company challenged this notice, which is pending decision of the Internal Revenue Service.

The Municipality of São Paulo filed eight Notices of Infraction against our Company regarding the municipal tax on services for the period from 1996 to 2000, in the amount of R$804 (R$6,046 – updated up to December 31, 2010 and R$4,923 on December 31, 2009). The filings that are still in the administrative scope result from the Municipality of São Paulo's understanding that services rendered by our Joinville branch were occurring within the limits of the São Paulo municipality. Our Management and the Company's legal counsels understand that all services are rendered by our branch (in the city of Joinville) and that taxes were duly paid in that city.

As a result of the inspection procedures by the Brazilian Internal Revenue Service, in 2007 the Company proceeded with the Infraction Notice drawn up against Datasul S.A., amounting to R$1,357 (R$1,799 restated up to December, 31, 2010, R$1,658 restated on December 31, 2009), regarding some inquiries on the Datasul's failure to pay withholding income tax on amounts paid by third parties to beneficiaries of the incentive cards established in a previously adopted Marketing Plan. The Company filed a challenge for this intended collection and we are currently awaiting a decision by the Brazilian Internal Revenue Service.

In addition, the Company is party in tax assessments issued by the Federal Revenue Service, in the total amount of R$1,786, restated up to December 31, 2010 (R$1,776 on December 31, 2009).

Civil

The Company is the Defendant party in ordinary actions filed by clients and third parties for contract termination, with additional damages suits, amounting to R$23,823 – restated up to in December 31, 2010 and R$17,455 on December 31, 2009.

Labor

The Company is party in lawsuits filed by former employees and outsourced companies which plead for overtime payment, employment relationship, 13th month pay and other, amounting to R$5,741 restated up to December 31, 2010 (R$691 restated up to December 31, 2009).

c) Legislation in force

Under the current legislation in force in Brazil, the federal, state and municipal taxes, as well as payroll charges, are subject to review by relevant authorities for periods varying from 5 to 30 years. Legislations of other countries where Company's subsidiaries operate stipulate differentiated statutes of limitations.

20 Shareholders' Equity

a) Capital Stock

On December 31, 2010, the Company's capital stock was comprised of 31,459,272 non-par registered common shares, issued and fully paid, (31,152,402 shares on December 31, 2009 and on January 1, 2009), as shown below:

	December 31, 2010		December 31, 2009		January 1, 2009	
Shareholders	**Shares**	**%**	**Shares**	**%**	**Shares**	**%**
LC-EH Empreendimentos e Participações S.A.	**5,352,198**	**17.01**	5,352,198	17.18	5,352,198	17.18
BNDES Participações S.A.	**1,657,527**	**5.27**	2,032,214	6.52	2,032,214	6.52
Genesys Asset Managers, LLP	**1,576,704**	**5.01**	1,590,504	5.11	1,534,564	4.93
Dynamo Administração de Recursos Ltda.	**434,807**	**1.38**	1,574,564	5.05	1,825,376	5.86
Fidelity Management & Research Company	**-**	**-**	505,899	1.63	1,964,300	6.31
Other	**22,438,036**	**71.33**	20,097,023	64.51	18,443,750	59.20
	31,459,272	**100.00**	31,152,402	100.00	31,152,402	100.00

The authorized capital on December 31, 2010, is R$540,000. The Company may, within the authorized capital limit and as authorized by the Board of Directors, increase the capital stock regardless of amending the Bylaws. The Board of Directors is in charge of setting the issuance conditions, including price and payment deadlines. Within the authorized capital limit, the Board of Directors may resolve on the issuance of subscription rights.

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 18, depending on the conversion of debentures into shares of the company on August 19, 2010, the board of directors approved the issuance of TOTVS 306,870 shares, book entry, no par value, the price of R$97.747683 per share, with the consequent increase in capital TOTVS of R$29,996.

b) Capital reserves

The balance of capital reserves on December 31, 2010 and 2009 was broken down as follows:

	2010	2009	1.01.2009
Goodwill reserve	**31,557**	31,557	31,557
Goodwill reserve for merger	**14,330**	14,330	14,330
Debentures converted into shares (fair value)	**7,449**	-	-
Stock option plan	**7,070**	2,964	944
	60,406	48,851	46,831

Goodwill reserve amount of R$31,557 is a result of payments made in the 2005 fiscal year.

The capital reserve shall be used, according to legal provisions, for: i) absorption of losses that exceed the retained earnings and profit reserves; ii) redemption, refund or purchase of shares; iii) beneficiary parties' redemption; iv) incorporation into the capital stock; or v) payment of dividends to preferred shares, when they are entitled to it.

c) Legal reserve

The Brazilian Corporation Law requires publicly-held companies to appropriate 5% of their annual net income to the profit reserve before profits are distributed, limiting this reserve to up to 20% of the total value of the capital stock.

21. Dividends

The Company's Bylaws provide for a minimum mandatory dividend of 25% of the year's net income, adjusted by the creation of a legal reserve, pursuant to the Brazilian Corporation Law.

As for the 2010 fiscal year, on December 21, 2010, the Board of Directors authorized the distribution of interest on equity to the Company's shareholders in the amount of R$27,000, to be attributed to the minimum mandatory dividend for the fiscal year ended on December 31, 2009.

	Company	
	2010	**2009**
	138,196	120,296
Company's net income for the period	**(6,910)**	(6,015)
Creation of legal reserve (Article 193 of Law 6,404)	**131,286**	114,281
Net Income after legal reserve appropriation		
	32,822	28,570
Minimum Mandatory Dividend – 25%	**50,528**	40,689
Proposed additional dividends by the Management	**83,350**	69,259
Dividends proposed by the Management		
Payment:	**27,000**	22,500
(-) Interest on equity paid	**(3,757)**	(2,838)
Withholding income tax on Interest on equity	**60,107**	49,597
Dividends	**83,350**	69,259
Breakdown of the dividends (Equity)_:		
Dividends related of prior year	**43,526**	16,511
Minimum dividends of current year	**5,822**	6,070
Total dividends presented in the Equity	**49,348**	22,581
Number of shares on December 31	**31,459,272**	31,152,402
Dividends and interest on equity per 100 shares – in reais	**2,649.46**	2,223.23

The R$33,139 balance of dividends and interest on equity payable on December 31, 2010 (R$25,974 on December 31, 2009) includes the distribution of the year stated above, as well as the residual balance of previous years.

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

Capital budget and allocation of retained profits reserve

The Company's Board of Executive Officers' proposed capital budget as of December 31, 2010, approved by the Board of Directors on January 27, 2010, subject to the approval of the Annual General Meeting, allocates the total balance of the profit retention reserve account in the amount of R$87,156 for the purposes stated below:

Purposes:	**2010**
Expansion projects, asset replacement, and Research and development	**264,121**
Total	**264,121**
Sources:	
Profit retention reserve on December 31, 2010	**110,293**
Estimated cash to be generated by operating activities in 2010 (unaudited)	**153,828**
Total	**264,121**

22. Insurance coverage

The Company and its subsidiaries, based on the opinion of their advisors, keep insurance coverage in 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 an industrial company.

The insured assets include their own and leased vehicles, and the building where the Company and its subsidiaries operate.

On December 31, 2010, main insurances contracted are:

Type	Insurance Company	Effective		Maximum Liability Limit	Total insured value
		From	To		
Comprehensive corporate	Sul América	6/13/2010	6/13/2011	30,000	85,000
General civil liability	Sul América	6/13/2010	6/13/2011	4,000	18,000
Vehicles	Liberty Seguros	1/07/2010	1/07/2011	1,150	

23 Financial Instruments and sensitivity analysis of financial assets and liabilities

a) Financial instrument analysis

The Company and its subsidiaries evaluated their financial assets and liabilities in relation to the market value through the information available and the appropriate evaluation methodologies. However, the interpretation of market data and the selection of evaluation methods require extensive judgment and estimates to calculate the most appropriate realization 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 realization values.

The Company's and its subsidiaries' financial instruments are presented in accordance to CVM Rule 604, as of November 19, 2009, which approved Technical Pronouncements CPCs 38 (IAS 39), 39 (IAS 32) and 40 (IFRS 7), and CVM Rule 475, as of December 17, 2008.

The table below shows the book and fair values of the Company's financial instruments, as presented in its financial statements:

	Book value			Fair value		
	2010	2009	On January 1, 2009	2010	2009	On January 1, 2009
Financial assets						
Cash and cash equivalents	**232,508**	207,721	120,677	**232,508**	207,721	120,677
Securities	**56,446**	41,783	26,729	**56,446**	41,783	26,729
Accounts receivable, net	**257,936**	216,681	215,155	**257,936**	216,681	215,155
Tax recoverable	**29,894**	216,699	222,963	**29,894**	216,699	222,963
Other assets	**31,393**	15,793	10,927	**31,393**	15,793	10,927
Total	**608,177**	698,677	596,451	**608,177**	698,677	596,451
Financial liabilities						
Loans and financings	**218,259**	217,876	168,512	**218,259**	217,876	168,512
Leasings	**2,037**	6,165	9,480	**2,037**	6,165	9,480
Debentures and premiums from non-conversions	**183,527**	217,437	208,411	**183,527**	217,437	208,411
Fair value of convertible debentures	**14,423**	-	-	**14,423**	-	-
Accounts payable and suppliers	**55,944**	56,749	46,846	**55,944**	56,749	46,846
Dividends	**34,302**	25,947	17,213	**34,302**	25,947	17,213
Tax payables	**5,903**	7,198	7,937	**5,903**	7,198	7,937
Other liabilities	**70,927**	63,193	48,491	**70,927**	63,193	48,491
Total	**585,322**	594,565	506,890	**585,322**	594,565	506,890

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 a forced sale or settlement. The methods and assumptions below were used to estimate the fair value.

- Cash and cash equivalents, trade accounts receivable, trade accounts payable and other short-term liabilities are close to their respective book value largely due to the short-term maturity of these instruments.

- The book value of the convertible debentures portion and debentures was adjusted to their fair value, according to Note 18.

b) Measurement at fair value

The table below shows an analysis of the financial instruments recognized at their fair value after the initial recognition. These instruments are grouped on three levels based on how their fair value is priced:

a) Level 1: the measurement of fair value derives from prices (not restated) on active markets based on identical assets and liabilities;
b) Level 2: the measurement of fair value derives from other priced inputs included on Level 1 through an asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
c) Level 3: the measurement of fair value derives from evaluation techniques that include asset or liability not traded on an active market.

	Level 1	Level 2	Level 3
Loans and Financings	-	218,259	-
Debentures	-	-	183,527
Fair Value – Future Convertible Debentures		14,423	

c) Sensitivity analysis of financial assets and liabilities

CVM Resolution 550, as of October 17, 2008, established that publicly-held companies must disclose, in a specific note, qualitative and quantitative information on all its financial instruments, regardless of them being acknowledged or not as assets or liabilities in its balance sheet. During the year of 2010, as Note 18, the Company acknowledged the impact of fair value of stock issued to debenture holders, according to the mandatory conversion of the debentures (15%) in company stock, and projected the impact of the fair value of future Conversion (2011, 2012 and 2013). So the award for non-conversion of 60% debentures (% maximum conversion) was reversed, leaving only the accrued premium of non-conversion of the debentures not converted into shares (40%).

The Company's financial instruments are represented by cash equivalents, accounts receivable, accounts payable, debentures, loans and financing, and are recorded at cost value plus income or incurred charges, which on December 31, 2009 and December 31, 2010 are close to market value.

The key risks linked to the Company's operations refer to the variation of 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.

CVM Rule 475 of December 17, 2008, provides for the presentation of information on financial instruments in a specific explanatory note and the disclosure of the sensitivity analysis statement chart.

According to Note 18, debentures issued by the Company are private, with unique characteristics; thus, they preclude any market value estimate. Thus, it is the Company's opinion that these debentures' book value is the closest to market value for these securities.

With regard to financing operations, these refer to transactions done within the Program for the Development of the Software and Information Technology Industry – PROSOFT, for which the BNDES (Brazilian Development Bank) assesses each company to grant the loans. Having this in mind, the recorded value is the closest to the market value of these financial instruments.

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

As an attempt to check the sensitivity of the index for the financial investments the Company was exposed to on December 31, 2010, three different scenarios were created. Based on the forecast by financial institutions, we arrived at a 12-month forecast for Interbank Deposit Certificates (CDI), with an average of 11.75% for the fiscal year of 2010 – this being the most probable scenario; 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, 2010, with a one-year projection to check the CDI's sensitivity to each scenario.

Operation	Risk	Probable Scenario (I)	Scenario II	Scenario III
Financial investments	CDI	11.75%	8.81%	5.88%
Position on December 31, 2010 R$ 195,434*		22,963	17,218	11,492

**Balance on December 31, 2010 invested in CDB (Bank deposit certificate) and DI funds*

Aiming at checking the sensitivity of the index the Company is exposed to estimate our debts by December 31, 2010, three different scenarios were created. Based on long-term interest rates and the IPCA in force by December 31, 2010, the most Probable Scenario was determined for the fiscal year 2011 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 assessment and the maturities flow for each agreement scheduled for 2010. The reference date used for the financings and debentures was December 31, 2010, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Risk	Probable Scenario (I)	Scenario II	Scenario III
Financing operations		15.778	18.933	22.089
Rate subject to variation R$ 210,370*	TJLP	6.00%	7.50%	9.00%
Debentures		16.704	19.101	21.456
Rate/index subject to variation R$	IPCA	5.00%	6.25%	7.50%
R$183,386*	TJLP	6.00%	7.50%	9.00%

**Balance on December 31, 2010*

The Company has loan, financing and debenture agreements, with restrictive covenants usually applicable to these types of operations, related to the achievement of economic-financial ratios, cash generation and others. These restrictive covenants have been met and do not limit the capacity to normally conduct the operations.

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

a) Liquidity Risk

Liquidity risk consists in 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 control is 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 measure its commitment schedule, not generating liquidity risks for the Company and its subsidiaries.

b) Credit Risk

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

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

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

In what concerns the credit risk associated with financial institutions, the Company and its subsidiaries operate so as to distribute this exposure among top financial institutions.

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 case 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 increase the liabilities resulting from loans and foreign currency purchase commitments or that reduce assets resulting from trade accounts receivable in foreign currency.

The Company and its subsidiaries do not have agreements with derivative financial operations (foreign exchange hedge) to protect itself from foreign exchange variations, given that it does not have any significant operations with foreign currencies.

d) Operations with derivatives

Apart from the embedded derivatives operation described in Note 18, the Company does not carry operations with derivatives.

e) Capital management

The goal of the Company's capital management is to ensure a strong credit rating with the 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 the current economic conditions. To maintain this structure, the Company may pay dividends, return on 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, minus cash and cash equivalents.

	Company		Consolidated	
	12.31.2010	**12.31.2009**	**12.31.2010**	**12.31.2009**
Loans and financings and debentures	**479,869**	491,085	**483,299**	496,341
Liabilities due to Investment Acquisition	**64,456**	51,737	**65,053**	54,863
Cash and cash equivalents and investments	**233,124**	200,516	**288,954**	249,504
Net debt	**311,201**	342,306	**259,398**	301,7
Shareholders' equity	**619,862**	525,066	**631,576**	542,025
Shareholders' equity and net debt	**931,063**	867,372	**890,974**	843,725

24. Private Pension Plans – Defined Contribution

The Company has private pension plans managed by Itaú Vida e Previdência, new corporate name of Unibanco AIG Previdência and HSBC, as follows:

a) Itaú Vida e Previdência

The Company offers the TOTVS Private Pension Plan, 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 employees ruled by bylaws, the contribution varies between 2% and 5%.
- Volunteer Contribution – made exclusively by the employees, with no participation of the Company;
- Company Contribution – corresponds to 100% of the basic monthly contribution. The Company is allowed to make extraordinary contributions, with in the amounts and at the frequency it so chooses.

b) HSBC

The Company has a Supplementary Private Pension Plan (PGBL in Portuguese – Plan Generator of Net Benefits). For the participants who choose the private pension plan, the Company assumes the plan's management fee of 0.95%. The monthly payments are made exclusively by the employees.

The partnerships are different, and the participant's choice for one of the plans depends on the agreement entered into the institution and the participant's unit.

The nature of the plans allows for the Company to suspend or permanently discontinue its contributions at any given time, at its exclusive discretion. The contributions made by the Company and its subsidiaries in the year ended December 31, 2010, amounted to R$3,683 in the Company and R$3,907 in the consolidated (R$4,308 and R$4,552, respectively December 31, 2009).

25. Stock Option Plan

On November 26, 2007, the Extraordinary General Meeting approved the Stock Option Plan. This plan is managed by the Board of Directors, which defines the call option criteria for each category of eligible professionals; defining at its discretion, based on the nomination of the Remuneration and Human Resources Committee, which eligible professionals will participate in the plan, as well as the amount of shares that can be acquired by each one of them by means of the exercise of options.

The Stock Option Plan is valid for 60 months as of its approval by the Company's General Meeting, and it will be in force until the deadline for the exercise of the outstanding options. The total number of shares allocated to this plan should not exceed 3.3% of the Company's capital stock in a period of 3 years, as of the date of approval of the plan by the Company's General Meeting.

On January 30, 2008, the Board of Directors approved the election of the participants in the plan and the number of shares each one of them may acquire through the exercise of their respective options, totaling 270,057 stock options, at the strike price of R$46.16, corresponding to the arithmetic average of the unit value of the shares in the 5 previous trading sessions.

On January 22, 2009, the Board of Directors approved the 2nd granting of stock options and the respective election of participants of the plan and the amount of shares each one may acquire with the exercise of options, amounting to 182,555 stock options, with a strike price of R$36.04, corresponding to the arithmetic average of the share unit price verified in the five previous trading sessions.

On January 22, 2010, the Board of Directors approved the 3rd stock option grant and the respective election of the participants of the plan, as well as the number of shares each participant will be allowed to acquire through the exercise of the options; a total of 335,315 stock options were granted, with exercise price of R$116.79, corresponding to the arithmetic mean of the unit value of the shares in the trading sessions of the 5 days prior to the grant.

On November 19, 2010, the Board of Directors approved the 4th and last stock option grant and the respective election of the participants of the plan, as well as the number of shares each participant will be allowed to acquire through the exercise of the options; a total of 370,842 stock options were granted, with exercise price of R$151.90, corresponding to the arithmetic mean of the unit value of the shares in the trading sessions of the 5 days prior to the grant. This grant has two vesting periods, as follows: (i) 50% of the options will vest after January 30, 2014, and (ii) 50% of the options will vest after January 30, 2015. With the approval of this grant, the Company respected the cap of 3.3% of the capital stock, counted from the date of approval of this plan by the Company's General Meeting, and closed the Stock Option Plan.

The exercise of the options granted has as vesting condition the exercise of the options only at the end of the 36-month period as of the granting date, except for the fourth and last tranche which have specific dates as mentioned above, and no later than 60 months as of the granting date. Options granted by this plan are individual and cannot be transferred, whether or not the vesting period expires.

On December 31, 2010, there were no exercisable options, since the grant date 36-month term has not been elapsed yet.

Fair value of each option granted is estimated on the grant date based on Black-Scholes options valuation model, which considered the following rates and results:

		Fair value premise			
		Expected:		Risk-free Interest	Maturity
Granting	Option price	Dividends	Volatility	rate	term
1st	15.83	2.40%	37.94%	11.75%	4 years
2nd	11.21	3.30%	38.54%	11.25%	4 years
3rd	39.82	1.97%	37.37%	10.75%	4 years
4th	66.43 and 74.27	2.00%	37.37%	10.75%	4 years

The accumulated effect in the year ended on December 31, 2010 is R$4,106 (R$2,020 on December 31, 2009), recorded as stock option grant expense.

The expected life of shares is based on historic data and not necessarily shows standards that may occur. The expected volatility reflects the assumption that the historic volatility indicates future trends, which may not correspond to the actual scenario.

There were no changes in the plan in 2010 and 2009.

The basis for calculation and the transactions carried out during the years were as follows:

	Company and Consolidated			
	December 31, 2010		December 31, 2009	
	Amount	Average price (R$)	Amount	Average price (R$)
Balance of call options at the beginning of the year	**384,494**	**13.74**	254,897	18.22
Changes				
Granted	**706,157**	**55.86**	182,555	12.81
Cancelled	**(52,495)**	**25.80**	(52,958)	17.12
Balance of call options at the end of the year	**1,038,156**	**41.75**	384,494	15.80

26. Financial revenues and expenses

The financial revenues and expenses incurred in years ended December 31, 2010 and 2009 were as follows:

	Company		Consolidated	
	2010	2009	2010	2009
Financial revenues				
Financial investments	**14,388**	12,391	**17,335**	15,171
Exchange gains	**(7,614)**	(3,535)	**(7,362)**	(1,288)
Other financial revenues	**6,294**	3,684	**8,469**	5,374
	13,068	12,540	**18,442**	19,257
Financial expenses				
Interest on equity	**(27,000)**	(22,500)	**(27,000)**	(22,500)
Reversal of Interest on Equity	**27,000**	22,500	**27,000**	22,500
Interest paid or incurred	**(36,812)**	(33,123)	**(37,023)**	(33,480)
Exchange losses	**(356)**	(910)	**(1,636)**	(2,696)
Banking commissions and expenses	**(7,743)**	(3,258)	**(8,078)**	(3,683)
Premium due to non-conversion	**(11,801)**	(9,442)	**(11,801)**	(9,442)
Other Financial Expenses	**(7,993)**	-	**(9,634)**	(1,180)
	(64,705)	(46,733)	**(68,172)**	(55,481)
Net financial	**(51,637)**	(34,193)	**(76,730)**	(36,224)

27. Statement of Other Comprehensive Income

In compliance to CPC 26 (IAS 1) – Presentation of Financial Statements, the Company presents below the changes in comprehensive income for the years ended December 31, 2009 and 2010.

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Net income for the year	**138,196**	120,296	**137,863**	122,896
Exchange variation on investments abroad	**(317)**	(3,801)	**(317)**	(3,801)
Effect of income tax	**108**	1,292	**108**	1,292
Total comprehensive income	**137,987**	117,787	**137,654**	120,387

28. Earnings per share

In compliance with CPC 41(IAS 33) (approved by CVM Rule 636 – Earnings per Share), the Company presents below the information on earnings per share for the years ended December 31, 2009 and 2010.

The basic earnings per share is calculated by dividing the net income for the year (assigned to the holders of the Company's common shares) by the weighted average of common shares available during the year.

The diluted earnings per share are calculated by dividing the net income assigned to the holders of the Company's common shares by the weighted average of common shares available during the year plus the weighted average of common shares that would be issued when converting all potential diluted common shares into common shares.

The charts below show the earnings and shares data used to calculate the basic income and the income diluted per share:

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Basic earnings per share				
Numerator				
Net income for the year assigned to the Company's shareholders	**138,196**	120,296	**137,863**	122,896
Denominator (in thousand shares)				
Weighted average of the common shares number	**31,265**	31,152	**31,265**	31,152
Basic earnings per share	**4.42**	3.86	**4.41**	3.95

	Company		Consolidated	
	2010	**2009**	**2010**	**2009**
Diluted earnings per share				
Numerator				
Net income for the year assigned to the Company's shareholders	**138,196**	120,296	**137,863**	122,896
Denominator (in thousand shares)				
Weighted average number of common shares	**31,265**	31,152	**31,265**	31,152
Dilution effect				
• Share options	**683**	384	**683**	394
• Debentures	**963**		**963**	
Weighted average number of common shares adjusted according to dilution effect	**32,911**	31,536	**32,911**	31,536
Diluted earnings per share	**4.19**	3.81	**4.19**	3.90

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

29. Subsequent events

On January 4, 2011, the Company acquired for up to R$17,810 thousands 100% of the capital stock of GENS TECNOLOGIA E INFORMÁTICA LTDA., company that concentrates the operations of development franchise GENS S.A., focused on the development of software for the health industry. This acquisition will allow for the Company to align the technology platforms of Datasul's software for the health industry with the goal of reducing the dependency on third-party technology, in order to offer a more comprehensive portfolio in the market. This transaction is also part of the Company's strategy of integrating the external development structures, in order to gain synergies and increased efficiency for the Research and Development areas, and to honor the commitment of keeping R&D investments at desirable levels.

On January 18, 2011, fund manager BlackRock Inc.'s interest in the Company's capital stock was 5.01%.

On January 27, 2011, the Company issued 254,897 shares referring to the 2008 grant.

Free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in accordance with the accounting practices adopted in Brazil for the Company (individual) and Consolidated Financial Statements and in accordance with the International Financial Reporting Standards (IFRS) for the Consolidated Financial Statements.

REPORT OF INDEPENDENT AUDITORS ON FINANCIAL STATEMENTS

To the Board of Directors and Officers
Totvs S.A.
São Paulo - SP

We have audited the accompanying individual and consolidated financial statements of Totvs S.A. ("Company"), identified as Company and Consolidated, respectively, comprising the balance sheet as of December 31, 2010 and the related statements of income, of comprehensive income, of changes in shareholders' equity and cash flows for the year then ended, as well as the summary of the main accounting practices and other notes to the financial statements.

Management responsibility for the financial statements

Company management is responsible for preparing and presenting the individual financial statements in accordance with the accounting practices adopted in Brazil and the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the accounting practices adopted in Brazil, as well as for the internal controls Company management determined as necessary to allow the preparation of these financial statements free of material misstatements, regardless of whether or not caused by fraud or error.

Independent auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, conducted in accordance with the Brazilian and international accounting standards. These standards require that auditors comply with ethic requirements and that audit be planned and carried out to obtain reasonable assurance that the financial statements are free of material misstatements.

An audit involves procedures selected to obtain evidence of the values and disclosures in the financial statements. The selected procedures depend on the auditor's judgment, including the assessment of risks of material misstatements in the financial statements, regardless of whether or not caused by fraud or error. In this risk assessment, the auditors consider the significant internal controls for the preparation and fair presentation of the Company's financial statements to plan audit procedures appropriate under the circumstances, but not for purposes of expressing an opinion on the effectiveness of the Company's internal controls. An audit also includes the assessment of fairness of the accounting practices used and reasonableness of the Company management's accounting estimates, as well as the evaluation of the presentation of the financial statements taken as a whole.

In our opinion, the audit evidence obtained is sufficient and appropriate to support our opinion.

Opinion the individual financial statements (Company)

In our opinion, the aforesaid individual financial statements present fairly, in all material respects, the financial position of Totvs S.A. at December 31, 2010, its operating performance and cash flows for the year then ended, in accordance with the accounting practices adopted in Brazil.

Opinion on the Consolidated Financial Statements

In our opinion, the aforesaid consolidated financial statements present fairly, in all material respects, the consolidated financial position of Totvs S.A. at December 31, 2010, its consolidated operating performance and consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the accounting practices adopted in Brazil.

Emphasis of Matter

As described in Note 3, the individual financial statements were prepared in accordance with the accounting practices adopted in Brazil. In the case of Totvs S.A., these practices are different from those of IFRS, applicable to separated financial statements, only as it concerns the valuation of investments in subsidiaries, affiliates and jointly-controlled companies under the equity method, whilst it would be cost or fair value from an IFRS viewpoint.

Other matters

Statements of value added

We have also audited the individual and consolidated statements of value added for the year ended December 31, 2010, whose presentation is required by the Brazilian corporation law for publicly-held companies, as as supplementary information by IFRS, under which the presentation of statements of value added is not required. These financial statements were submitted to the same audit procedures described above, and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, January 27, 2011

Ernst & Young Terco Auditores Independentes S.S.
CRC 2SP015199/O-6

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

AUDIT COMMITTEE'S REPORT