TOTVS S.A.

Interim Financial Statements
March 31, 2018
and Independent auditor´s review report on interim financial information

Contents

Management report and comments on company's performance 3

Independent auditor's report on the review of interim financial information 5

Financial statements 7

Statement of financial position 7

Statement of profit or loss 8

Statement of comprehensive income 9

Statements of changes in equity 10

Statements of cash flow 11

Statements of value added 12

Notes to the financial statements 13

1. The Company and its operations 13

2. Basis of Preparation and presentation of the financial statements 13

3. Financial instruments and sensitivity analysis of financial assets and liabilities 18

4. Cash and cash equivalents 20

5. Trade accounts receivable 21

6. Stocks 22

7. Taxes recoverable 22

8. Income taxes 22

9. Related-party balances and transactions 24

10. Investments 25

11 .Property, plant and equipment 27

12. Intangible assets 29

13. Payroll and labor obligations 32

14. Tax liabilities 32

15. Loans and financing 33

16. Debentures 34

17. Liabilities due to investment acquisition 34

18. Provision for contingencies related to legal proceedings 35

19. Possible contingencies 37

20. Equity 37

21. Dividends and Interest on Equity 38

22. Insurance coverage 38

23. Stock option plan and restrict shares 38

24. Segment industrial information 39

25. Earnings per share 40

26. Gross sales revenue 40

27. Expenses by nature 41

28. Finance income and expenses 41

29. Private pension plan – defined contribution 42

30. Subsequent events 42

FINANCIAL PERFORMANCE AND CONSOLIDATED RESULT

Net revenue totaled R$562,998 thousand in 1Q18, up 0.5% from 1Q17, resulting from: (i) the Company's initiatives to capture the software market's growth, including the sales of business solutions by industry sector, productivity and collaboration platforms, cloud infrastructure and mobile solutions to its clients; and (ii) the growth of recurring revenues from subscription;

Licensing revenue grew 13.9% year on year, mainly reflecting the increase in average ticket resulting from the higher participation of sales to large clients.

Maintenance revenue decreased 3.4% year on year in 1Q18 and was negatively affected by: (i) the lower volume of license sales in previous periods; (ii) the increase in client defaults; (iii) the higher volume of partial cancellation of maintenance contracts due to layoffs at clients; and (iv) the decline in the IGP-M index in the last 12 months.

Subscription revenue increased 38.3% year on year and totaled R$94,622 thousand in the quarter. This growth is mainly due to the higher share of new sales to small and medium clients, especially under the TOTVS Intera commercial model.

Service revenue totaled R$120,635 thousand in the 1Q18, a reduction of 6.2% year on year mainly driven by the 5.7% decrease in services not related to software implementation and the 7.4% decrease in services not related to software implementation, chiefly consulting projects.

Hardware revenue decreased 23.3% year-over-year and totaled R$44,009 thousand in 1Q18, mainly due to the seasonality of sales in the period and decline in sales of fiscal printers.

The cost of software increased 6.9% in 1Q18, when compared to the same quarter of 2017, reflecting mainly the share of complementary solutions provided by partners in the sales.

The cost of support grew 5.8% in the year on year comparison, chiefly explained by wage increases and contracts adjustments with suppliers made in the past 12 months.

The cost of services totaled R$115,065 thousand, reduction of 9.9% when compared to 1Q17, despite the collective bargaining agreements settled in the last 12 months, mainly due to the organizational restructuring carried out by the Company in the second half of 2017.

The cost of hardware, which includes the cost of the equipment and technical assistance services provided by subsidiary Bematech, reduced 18.5% year on year, mainly because mainly due to lower sales in the period. It is worth mentioning that the hardware cost also includes depreciation expenses of R$836 thousand.

Research and development expenses grew 6.8% year-over-year. This growth results mainly from the collective wage adjustments made in the period.

Advertising and marketing expenses in 1Q18 grew 2.5% year on year, chiefly explained by wage increases and contracts adjustments with suppliers made throughout the year.

Selling expenses totaled R$52.275 thousand in 1Q18, a 10.8% reduction over 1Q17, and the commissions expenses grew 13.3% when comparing to the 1Q17, totaling R$42,305 thousand. When taken together, the sum of these expenses increased its share over net revenue, mainly reflecting (i) the change in sales mix between franchises and own branches; and (ii) the higher volume of software sales in the subscription model.

General and administrative expenses increased 8.0% in 1Q18 to R$54,740 thousand. This variation was affected by the higher level of provision for contingencies and wage adjustments resulting from collective agreements.

Management fees decreased 11.2% over 1Q17 mainly as a result of the organizational restructuring and provision for bonus related to the achievement of financial and individual targets of executives in the period.

Depreciation and amortization expenses were stable year-over-year, mainly due the combination of the depreciation of assets of the Company's new headquarters in São Paulo and the amortization of intangible assets arising from acquisitions.

Allowance for doubtful accounts corresponded to 2.3% in 1Q18, compared to 1.6% in 1Q17. This line was impacted by the new accounting practices (IFRS9) adopted in the quarter, which resulted in a negative effect of R$3,197 thousand. Excluding these effects from IFRS9, the allowance for doubtful accounts represented 1.7% of net revenue, same level as in the previous period.

The negative financial result (financial revenues net of financial expenses) was 4.6% lower than the 1Q17 negative financial result, mainly reflecting: (i) the reduction of the indices used for monetary restatement of the provision for contingencies; and (ii) the reduction of interest paid and incurred due to the reduction of net debt in the period.

Income Tax and Social Contribution expenses in 1Q18 were 38.8% higher than the expenses recorded in 1Q17, mainly due to: (i) lower utilization of the R&D tax benefit in the period, as a result of collective holidays that lasted until January 2018; and (ii) the subsidy reduction of ICMS in the State of Paraná.

EBITDA (*) for the quarter totaled R$96,768 thousand, 7.4% higher than 1Q17 Adjusted EBTIDA, as shown below:

	Consolidated		
	1Q18	**1Q17**	**Change**
Net Income	**34,310**	**30,162**	**13.8%**
Equity	129	-	-
Income Tax and Social Contribution	*16,840*	*12,135*	*38.8%*
Financial result	*10,995*	*11,531*	*-4.6%*
Depreciation and amortization	*33,658*	*33,560*	*0.3%*
Depreciation – Cost of hardware	*836*	*856*	*-2.5%*
EBITDA	**96,768**	**88,244**	**9.7%**
Write-off of fixed assets	-	*1,880*	*-100.0%*
ADJUSTED EBITDA	**96,768**	**90,124**	**7.4%**

This growth is mainly due to the higher results of software and services presented in the period, in spite of the level of delinquency, cancellations and reductions in software maintenance contracts and the level of IGP-M (inflation index used to adjust recurring revenues). EBITDA margin ended the quarter at 17.2%, compared to 16.1% in 1Q17 Adjusted EBITDA margin, due to the events already described in previous comments of each line.

(*) EBITDA is a non-accounting measure prepared by the Company and consists of net income for the year, plus income taxes, financial expenses net of financial revenues, and depreciation and amortization. 1Q17 Adjusted EBITDA represents EBITDA, net of extraordinary effects related to write-off of fixed assets.

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

Independent auditor's report on the review of interim financial information

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

We have reviewed the individual and consolidated interim financial information of TOTVS S.A., ("Company"), contained in the Quarterly Information Form (*Informações Trimestrais* - ITR) for the quarter ended on March 31, 2018, which comprise the statement of financial position as of March 31, 2018 and the related statements of income, of comprehensive income, of changes in equity and of cash flows for the three-month period then ended, including other explanatory information.

Management is responsible for the preparation of the individual and consolidated interim financial information in accordance with Brazilian Accounting Standard CPC 21 (R1) Interim Financial Reporting (*Demonstração Intermediária*) issued by CPC (Comitê de Pronunciamentos Contábeis) and with IAS 34 – Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this information in conformity with the standards issued by the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM) applicable to the preparation of Quarterly Information Form (ITR). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements – NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity *(Revisão de Informações Intermediárias Executada pelo Auditor da Entidade*) and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion on the individual and consolidated interim financial information

Based on our review, nothing has come to our attention that causes us to believe that the individual and consolidated interim financial information included in the Quarterly Information Form (ITR) referred to above was not prepared, in all material respects, in accordance with CPC 21 (R1) and IAS 34 applicable to the preparation of the Quarterly Information Form (ITR), and presented consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Statements of value added

We have also reviewed the individual and consolidated interim Statements of Value Added for the three-month period ended on March 31, 2018, prepared under management's responsibility, whose presentation in the interim financial information is required by the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to preparation of the Quarterly Information Form (ITR), and as supplementary information under the IFRS, which do not require Statement of Value Added presentation. This statement has been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that it is not fairly presented, in all material respects, in relation to the overall accompanying individual and consolidated interim financial information.

São Paulo, May 04, 2018

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

Luiz Carlos Marques
Accountant CRC-1SP 147693/O-5

TOTVS S.A.

Statement of financial position as at March 31, 2018 and December 31, 2017

(In thousands of reais)

	Parent Company		Consolidated			Parent Company		Consolidated	
Assets	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**	**Liabilities and equity**	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**
Current assets	**694,038**	**712,940**	**1,038,781**	**1,038,346**	**Current liabilities**	**497,619**	**486,735**	**634,244**	**619,286**
Cash and cash equivalents (Note 4)	281,160	305,920	380,705	387,169	Payroll and labor obligations (Note 13)	120,161	117,635	147,531	148,836
Marketable securities (Note 17)	26,671	28,512	49,882	44,615	Trade accounts payable	62,248	66,812	91,276	108,424
Trade accounts receivable (Note 5)	367,601	359,904	535,212	515,545	Taxes payable (Note 14)	26,961	20,818	40,465	28,725
Allowance for doubtful accounts (Note 5)	(81,741)	(73,469)	(107,286)	(89,032)	Commissions payable	38,482	33,798	45,020	39,769
Stocks (Note 6)	-	-	41,217	44,828	Dividends payable (Note 21)	15,639	18,015	15,972	18,487
Taxes recoverable (Note 7)	52,100	56,571	86,623	93,097	Loans and financing (Note 15)	188,441	191,810	199,566	220,215
Other assets	48,247	35,502	52,428	42,124	Debentures (Note 16)	356	3,841	356	3,841
					Liabilities due to investments acquisition (Note 17)	42,915	31,459	87,986	47,561
					Other liabilities	2,416	2,547	6,072	3,428
Noncurrent assets	**1,627,353**	**1,626,849**	**1,426,461**	**1,455,279**	**Noncurrent liabilities**	**539,376**	**591,660**	**546,169**	**612,762**
Marketable securities (Note 17)	-	-	-	7,013	Loans and financing (Note 15)	137,510	182,264	152,029	182,341
Trade accounts receivable (Note 5)	30,748	30,999	31,733	31,901	Debentures (Note 16)	267,305	265,297	267,305	265,297
Receivables from related parties (Note 9)	5,569	6,721	-	-	Provision for losses on investments (Note 10)	886	1,005	-	-
Taxes recoverable (Note 7)	-	-	21,752	20,695	Payables to related parties (Note 9)	13,992	13,428	-	-
Deferred income and social contribution taxes (Note 8)	44,965	44,889	97,839	104,715	Provision for contingencies related to legal proceedings (Note 18)	113,452	110,782	120,642	117,770
Financial assets (Note 3)	-	-	57,913	57,645	Liabilities due to investments acquisition (Note 17)	-	13,297	-	41,886
Judicial deposits (Note 18)	48,662	49,207	60,190	61,127	Other liabilities	6,231	5,587	6,193	5,468
Other assets	21,262	21,184	26,834	26,844					
					Equity (Note 20)	**1,284,396**	**1,261,394**	**1,284,829**	**1,261,577**
Investments (Note 10)	905,742	893,688	2,407	2,349	Capital	989,841	989,841	989,841	989,841
Property, plant and equipment (Note 11)	165,665	163,834	185,986	182,022	Treasury shares	(70,834)	(71,495)	(70,834)	(71,495)
Intangible assets (Note 12)	404,740	416,327	941,807	960,968	Capital reserves	165,649	165,079	165,649	165,079
					Other comprehensive income	(2,517)	1,728	(2,517)	1,728
					Retained profit reserve	196,815	170,799	196,815	170,799
					Proposed additional dividend	5,442	5,442	5,442	5,442
					Noncontrolling interests		**-**	**433**	**183**
Total assets	**2,321,391**	**2,339,789**	**2,465,242**	**2,493,625**	**Total liabilities and equity**	**2,321,391**	**2,339,789**	**2,465,242**	**2,493,625**

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

TOTVS S.A.

Statements of profit or loss

For the three-months periods ended March 31, 2018 and 2017

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

	Parent Company		Consolidated	
	3/31/2018	3/31/2017	3/31/2018	3/31/2017
Licensing fees	45,062	41,206	56,060	49,240
Maintenance	202,680	216,615	247,672	256,485
Subscriptions	62,807	41,500	94,622	68,418
Services	91,590	101,203	120,635	128,645
Hardware	-	-	44,009	57,345
Net revenue from services and sales (Note 26)	**402,139**	**400,524**	**562,998**	**560,133**
Cost of software	(19,145)	(17,949)	(22,274)	(20,834)
Cost of support	(21,522)	(20,510)	(34,319)	(32,451)
Cost of services	(102,324)	(104,080)	(115,065)	(127,699)
Cost of hardware	-	-	(29,252)	(35,898)
Gross profit	**259,148**	**257,985**	**362,088**	**343,251**
Operating income (expenses)				
Research and development	(67,408)	(62,438)	(91,804)	(85,922)
Advertising expenses	(9,019)	(7,888)	(9,504)	(9,268)
Selling expenses	(34,187)	(36,880)	(52,275)	(58,603)
Commissions (Note 27)	(38,550)	(32,804)	(42,305)	(37,327)
General and administrative expenses	(44,367)	(37,499)	(54,740)	(50,677)
Management fees (Note 9)	(4,717)	(5,255)	(5,238)	(5,898)
Depreciation and amortization (Notes 11 and 12)	(24,812)	(20,922)	(33,658)	(33,560)
Allowances for doubtful accounts (Note 5)	(6,939)	(5,792)	(12,691)	(8,833)
Government subsidy	-	-	1,639	2,637
Other net operating income (expenses)	921	(1,015)	762	(1,972)
Income before financial effects and equity pickup	**30,070**	**47,492**	**62,274**	**53,828**
Financial income (Note 28)	6,410	8,675	8,798	13,302
Financial expenses (Note 28)	(17,156)	(19,075)	(19,793)	(24,833)
Equity pickup (Note 10)	18,533	1,366	(129)	-
Income before income tax and social contribution	**37,857**	**38,458**	**51,150**	**42,297**
Income tax and social contribution - current	-	(14,967)	(10,743)	(20,870)
Income tax and social contribution - deferred	(3,873)	6,478	(6,097)	8,735
Total of Income tax and social contribution (Note 8)	**(3,873)**	**(8,489)**	**(16,840)**	**(12,135)**
Net income for the year	**33,984**	**29,969**	**34,310**	**30,162**
Net income attributable to the owners of company	**33,984**	**29,969**	**33,984**	**29,969**
Net income attributable to non-controlling interest	**-**	**-**	**326**	**193**
Basic earnings per thousand shares (in Reais)	0.2080	0.1835	0.2100	0.1847
Diluted earnings per thousand shares (in Reais)	0.2064	0.1819	0.2084	0.1831

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

TOTVS S.A.
Statements of comprehensive income
For the three-months periods ended March 31, 2018 and 2017
(In thousands of Reais)

	Parent Company	
	3/31/2018	**3/31/2017**
Net income for the year	**33,984**	**29,969**
Cumulative adjustment for currency exchange	(6,432)	(4,445)
Deferred income tax	2,187	1,512
Cumulative adjustment for currency exchange, net of tax effects	(4,245)	(2,933)
Comprehensive income for the year	**29,739**	**27,036**

	Consolidated	
	3/31/2018	**3/31/2017**
Net income for the year	**34,310**	**30,162**
Cumulative adjustment for currency exchange	(6,432)	(4,445)
Deferred income tax	2,187	1,512
Cumulative adjustment for currency exchange, net of taxes effects	(4,245)	(2,933)
Comprehensive income for the year	**30,065**	**27,229**
Net income for the year attributable to controlling shareholders	29,739	27,036
Attributable to non-controlling interest	326	193

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

TOTVS S.A.

(A free translation of the original in Portuguese)

Statements of changes in equity
For the three-months periods ended March 31, 2018 and 2017

(In thousands of reais)

		Premium on purchase from non-	Reserves									
	Capital	controlling	Capital	Legal	Retained profits	Share Treasury	Other Comprehensive Income	Retained earnings	Proposed additional dividend	Equity	Non-Controlling	Consolidated Equity
Balance at December 31, 2016	541,374	(25,518)	187,542	79,370	502,703	(73,443)	1,785	-	7,375	1,221,188	(272)	1,220,916
Capital transactions with partners												
Capital increase	448,467	-	-	-	(448,467)	-	-	-	-	-	298	298
Stock option plan	-	-	4,950	-	-	53	-	-	-	5,003	-	5,003
Dividends of previous year	-	-	-	-	-	-	-	-	(7,375)	(7,375)	(120)	(7,495)
Dividends	-	-	-	-	-	-	-	(5,442)	5,442	-	-	-
Interest on equity – distributed	-	-	-	-	-	-	-	(50,346)	-	(50,346)	-	(50,346)
Treasury shares	-	-	(1,895)	-	-	1,895	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**4,649**	**32,544**	**-**	**(57)**	**55,788**	**-**	**92,924**	**277**	**93,201**
Net income for the year	-	-	-	-	-	-	-	92,981	-	92,981	277	93,258
Cumulative adjustment for currency exchange	-	-	-	-		-	(57)	-	-	(57)	-	(57)
Reserves set up	-	-	-	4,649	32,544	-	-	(37,193)	-	-	-	-
Balance at December 31, 2017	**989,841**	**(25,518)**	**190,597**	**84,019**	**86,780**	**(71,495)**	**1,728**	**-**	**5,442**	**1,261,394**	**183**	**1,261,577**
Capital transactions with partners												
Opening balance of CPC 47 e CPC 48	-	-	-	-	-	-	-	(7,968)	-	(7,968)	(15)	(7,983)
Capital increase	-	-	-	-	-	-	-	-	-	-	150	150
Stock option plan	-	-	1,231	-	-	-	-	-	-	1,231	-	1,231
Dividends of previous year	-	-	-	-	-	-	-	-	-	-	(211)	(211)
Treasury shares	-	-	(661)	-	-	661	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**(4,245)**	**33,984**		**29,739**	**326**	**30,065**
Net income for the year	-	-	-	-	-	-	-	33,984		33,984	326	34,310
Cumulative adjustment for currency exchange	-	-	-	-	-	-	(4,245)	-	-	(4,245)	-	(4,245)
Reserves set up	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	-
Balance at March 31, 2018	**989,841**	**(25,518)**	**191,167**	**84,019**	**86,780**	**(70,834)**	**(2,517)**	**26,016**	**5,442**	**1,284,396**	**433**	**1,284,829**

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

TOTVS S.A.
Statement of cash flow
For the three-months periods ended March 31, 2018 and 2017
(In thousands of Reais)

	Parent Company		Consolidated	
	3/31/2018	3/31/2017	3/31/2018	3/31/2017
Cash flow from operating activities				
Profit before taxation income and social contribution	37,857	38,458	51,150	42,297
Adjustments for:				
Depreciation and amortization (Notes 11 and 12)	24,812	20,922	34,494	34,416
Share-based payments (Note 23)	1,231	790	1,231	790
Losses (gains) on disposal of fixed assets	(522)	1,873	(557)	1,888
Allowance for doubtful accounts (Note 5)	6,939	5,792	12,691	8,833
Equity pickup (Note 10)	(18,533)	(1,366)	129	-
Provision for contingencies (Note 18)	13,672	4,304	14,149	3,944
Provision for (reversal of) other obligations and others	(147)	1,897	(148)	1,897
Interest and monetary and exchange variations, net	15,550	15,649	15,749	15,051
Changes in operating assets and liabilities:				
Trade accounts receivable	(11,744)	(5,009)	(25,821)	(4,085)
Stocks	-	-	3,611	(4,752)
Other assets	(13,003)	(3,428)	(10,222)	(849)
Judicial deposits	993	(353)	1,385	(885)
Labor and social security liabilities	16,646	17,083	13,181	19,484
Taxes recoverable	(9,501)	(9,479)	(9,126)	(7,537)
Suppliers	(1,721)	(2,987)	(14,302)	4,310
Commissions payable	1,904	3,373	2,466	2,877
Taxes payable	9,471	(6,861)	8,446	(11,807)
Other accounts payable	(13,309)	(223)	(11,066)	(5,312)
Cash flow provided by operations	**60,595**	**80,435**	**87,440**	**100,560**
Interest paid	(14,310)	(9,663)	(14,725)	(13,563)
Income tax and social contributions paid	(2,629)	(9,600)	(6,547)	(12,631)
Net cash provided by operating activities	**43,656**	**61,172**	**66,168**	**74,366**
Cash flow provided by investment activities				
Capital increase in subsidiaries (Note 10)	(4,939)	(1,514)	-	-
Dividends received	497	-	-	-
Purchases of intangible assets (Note 12)	(4,532)	(3,397)	(4,754)	(4,710)
Value of sales of fixed assets	828	357	872	377
Purchases of property, plant and equipment (Note 11)	(13,527)	(9,303)	(17,286)	(10,031)
Net cash used in investment activities	**(21,673)**	**(13,857)**	**(21,168)**	**(14,364)**
Cash flow from financing activities				
Payment of principal on loans and financing	(42,285)	(41,906)	(45,135)	(44,990)
Payment of principal on debentures	-	-	-	(5,004)
Payment of financial leasing	(6,174)	(3,667)	(6,190)	(3,676)
Receivables from related companies	1,716	1,107		-
Dividends and interest on equity paid	-	(5,441)	(139)	(5,458)
Net cash used in financing activities	**(46,743)**	**(49,907)**	**(51,464)**	**(59,128)**
Increase (decrease) in cash and cash equivalents	**(24,760)**	**(2,592)**	**(6,464)**	**874**
Cash and cash equivalents at beginning of year	305,920	112,504	387,169	214,772
Cash and cash equivalents at the end of the year	281,160	109,912	380,705	215,646

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

TOTVS S.A.
Statement of Value Added
For the three-months periods ended March 31, 2018 and 2017
(In thousands of Reais)

	Parent Company		Consolidated	
	3/31/2018	3/31/2017	3/31/2018	3/31/2017
1 – REVENUES	**445,672**	**443,356**	**622,503**	**624,715**
1.1 Sales of goods, products and services	451,765	450,164	633,048	632,884
1.2 Other revenue	846	(1,016)	2,146	664
1.3 Allowance for doubtful accounts – recording	(6,939)	(5,792)	(12,691)	(8,833)
2 - RAW MATERIALS ACQUIRED FROM THIRD-PARTIES (includes ICMS and IPI taxes)	**(147,221)**	**(133,547)**	**(205,002)**	**(204,401)**
2.1 Cost of goods and services sold	(19,145)	(17,949)	(50,327)	(21,616)
2.2 Materials, energy, outsourced services and other	(128,076)	(115,598)	(154,675)	(182,785)
3 - GROSS VALUE ADDED (1-2)	298,451	309,809	417,501	420,314
4 - DEPRECIATION AND AMORTIZATION	(24,812)	(20,922)	(34,494)	(34,416)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)	**273,639**	**288,887**	**383,007**	**385,898**
6 - VALUE ADDED RECEIVED THROUGH TRANSFERS	**24,943**	**10,041**	**8,669**	**13,302**
6.1 Equity pick-up	18,533	1,366	(129)	-
6.2 Financial income	6,410	8,675	8,798	13,302
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	**298,582**	**298,928**	**391,676**	**399,200**
8 - VALUE ADDED DISTRIBUTION	**298,582**	**298,928**	**391,676**	**399,200**
8.1 Personnel	**176,322**	**176,154**	**225,179**	**233,687**
8.1.1 Direct Compensation	143,283	146,703	183,026	194,617
8.1.2 Benefits	20,341	18,529	26,471	24,700
8.1.3 FGTS (worker's severance pay fund)	12,698	10,922	15,682	14,370
8.2 Taxes and contributions	**62,380**	**66,565**	**100,602**	**99,519**
8.2.1 Federal	50,781	55,885	81,663	84,658
8.2.2 State	9	5	3,861	1,067
8.2.3 Local	11,590	10,675	15,078	13,794
8.3 Interest and rent	**25,896**	**26,240**	**31,585**	**35,832**
8.3.1 Interest	17,157	19,075	19,794	24,833
8.3.2 Rents	8,739	7,165	11,791	10,999
8.3.3 Others	-	-	-	-
8.4 Equity remuneration	**33,984**	**29,969**	**34,310**	**30,162**
8.4.3 Retained profit / loss for the year	33,984	29,969	33,984	29,969
8.4.4 Minority interest in retained profts	-		326	193

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

TOTVS S.A.
Notes to the financial statements
(In thousands of Reais, unless otherwise stated)

1. The Company and its operations

a) General Information

TOTVS S.A. ("TOTVS", or "Company") is a publicly held corporation headquartered at Av. Braz Leme, 1000, in the city and state of São Paulo, whose shares are traded on the Novo Mercado of BM&FBOVESPA - Securities, Commodities and Futures Exchange.

b) Operations

The Company's business purpose is to provide business solutions for companies of all sizes, through the development and sale of management software, productivity and collaboration platform, as well as the provision of implementation, consulting, assistance and maintenance services. hrough its subsidiaries, the Company also has hardware manufacturing and sale activities, combining specialized solutions for system management, point of sale (POS), commercial automation, tax solutions, e-commerce, mobility and payment methods. The solutions developed by the Company and its subsidiaries are segmented according to the diverse sectors of the economy, resulting in greater importance of the solutions in our clients' business.

2. Basis of preparation and presentation of the financial statements

2.1. Compliance statement

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

2.2. Basis of presentation

All amounts presented in these interim financial statements are expressed in thousands of reais, unless otherwise indicated.

TOTVS's individual and consolidated Interim Financial Information were approved at Board of Directors Meeting held on May 4, 2018, after a recommendation by the Audit Committee at a meeting held on April 26, 2018.

Non-financial data included in this report, such as the number of clients, average tickets, market share, among others, were not reviewed by our independent auditors.

Significant accounting policies applied in preparing this interim financial information have been consistently applied to the years presented. This interim financial information does not include all of the information required for annual or complete financial statements, and therefore should be read together with the Company's complete financial statements for the year ended December 31, 2017.

2.3. Basis of preparation

The individual and consolidated Interim financial information were prepared using the historical cost as the base value, except for the valuation of certain assets and liabilities, such as business combination and financial instruments, which were measured at their fair value.

(a) Consolidated interim financial information

The consolidated interim financial information was prepared in accordance with CPC 21 - R1 (IAS 34), which are applicable to the preparation of interim financial information, and in a manner consistent with accounting practices adopted in Brazil, including the standards issued by the CVM applicable to ITRs (Quarterly Information).

(b) Individual interim financial information

The individual interim financial information was prepared in accordance with CPC 21(R1), applicable to the preparation of interim financial information, and in a manner consistent with the standards issued by the CVM applicable to ITRs, and is disclosed in conjunction with the consolidated financial information.

(c) Changes in accounting policies and disclosure

The following are the new standards and changes issued by the IASB and CPC effective as of January 1, 2018 and their impact on the Company:

IFRS 9/CPC48 – Financial Instruments, addresses the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was published in July 2014, to come into force on January 1, 2018, and replaces IAS 39 guidelines on the classification and measurement of financial instruments. The main changes introduced by IFRS 9 were: (i) new criteria for classifying financial assets; (ii) new impairment model for financial assets, combination of expected and incurred losses, replacing the current model of losses incurred; and (iii) flexibility of requirements to adopt hedge accounting.

IFRS 15/CPC47 - Revenue from Contracts with Customers. The standard sets a new model containing five steps that must be applied to revenues from contracts with customers. According to IFRS 15/CPC47, revenues are recognized in an amount that reflects the consideration to which an entity expects to be entitled in exchange for the transfer of goods or services to a client. The new standard replaces IAS 18 – Revenue, IAS 11 – Construction Contracts and the corresponding interpretations. The Company adopted the new standard on January 1, 2018 through the modified retrospective method.

The reconciliation of the effects by the new standards between the statement of financial position accounts for the year ended December 31, 2017 and the opening balance, as of January 1, 2018, is shown below:

ASSETS	Note	Financial Statements disclosed at 12/31/2017	Effects about first adoption of IFRS15/CPC47 and IFRS9/CPC48	Financial Statements at 1/1/2018
CURRENT ASSETS		**1,038,346**	**(8,288)**	**1,030,058**
Cash and cash equivalents		387,169		387,169
Marketable securities		44,615		44,615
Trade accounts receivable	(i)	515,545	(542)	515,003
Allowance for doubtful accounts	(iii)	(89,032)	(10,967)	(99,999)
Stocks		44,828		44,828
Taxes recoverable		93,097		93,097
Other assets	(ii)	42,124	3,221	45,345
NON-CURRENT ASSETS		**1,455,279**	**3,467**	**1,458,746**
Deferred income and social contribution taxes	(iv)	104,715	3,467	108,182
Other non-current assets		1,350,564		1,350,564
Total assets		**2,493,625**	**(4,821)**	**2,488,804**
LIABILITIES AND EQUITY				
CURRENT LIABILITIES		**619,286**	**3,162**	**622,448**
Taxes payable	(i)	28,725	377	29,102
Commissions payable	(i)	39,769	2,785	42,554
Other liabilities		550,792		550,792
NON-CURRENT LIABILITIES		**612,762**	**-**	**612,762**
EQUITY		**1,261,577**	**(7,983)**	**1,253,594**
Total liabilities and equity		**2,493,625**	**(4,821)**	**2,488,804**

For purposes of comparability, we present below the reconciliation of impacts on consolidated statement of profit or loss for the period ended March 31, 2018 without the effects of the new standards:

	Note	Statements of profit or loss at 3/31/2018	Effects about first adoption of IFRS15/CPC47 and IFRS9/CPC48	Statements of Profit or loss at 3/31/2018 without IFRS/CPC effects
Licensing fees		56,060	-	56,060
Maintenance	(i)	247,672	(365)	248,037
Subscriptions	(i)	94,622	2,552	92,070
Services	(i)	120,635	3,762	116,873
Hardware		44,009	-	44,009
Net revenue from services and sales		**562,998**	**5,949**	**557,049**
(-) Total costs		(200,910)	-	(200,910)
Gross profit		**362,088**	**5,949**	**356,139**
Operating income (expenses)				
Other net operating income (expenses)		(192,543)	-	(192,543)
Selling expenses	(ii)	(52,275)	783	(53,058)
Commissions	(i)	(42,305)	(514)	(41,791)
Allowances for doubtful accounts	(iii)	(12,691)	(3,197)	(9,494)
Income before financial effects and equity pickup		**62,274**	**3,021**	**59,253**
Financial effects and equity pickup		(11,124)	-	(11,124)
Total of Income tax and social contribution	(iv)	(16,840)	(1,027)	(15,813)
Net income for the period		**34,310**	**1,994**	**32,316**

(i) The standard was applied to all existing contracts and generated the following impacts:

- Some contracts with customers offer joint hardware and software solutions, notably Bemacash. However, the Company concluded that the sale of these products reflects two distinct performance obligations, since the customer is benefiting from both products offered separately, since the products are offered separately and the control of both is transferred to the customer in different moments and proportions. Therefore, the Company concluded a positive adjustment to trade accounts receivable of R$5,781 at January 1, 2018 and R$1,185 to “Subscription” revenue for the three month period ended at March 31,2018.

- The recurrent contracts with customers may include discounts subject to a certain grace period. Considering the probability of a significant reversal in the amount of revenues not occurring, the Company estimated and concluded a positive impact of R$832 on trade accounts receivable from January 1, 2018 and impact on revenue of R$1,367 in subscription, R$365 in maintenance and R$261 in services in the three-month period ended March 31, 2018.

- Software implementation and customization services are sold separately in contracts with clients and may be obtained from other suppliers, therefore the Company concluded that these services are differ from other services offered. According to IFRS 15/CPC 47, the Company concluded that revenues from the implementation and customization services contracts are recognized over time and adopted the input method of measurement with the requirements of the standard and determined a negative impact on trade accounts receivable of R$7,155 in January 1, 2018 and in the result of the three-month period ended March 31, 2018 of R$3,501 in services revenue.

- The effects applied to customer contracts generated an increase in commissions of R$2,785 in the opening balance of January 1, 2018 and R$514 in the three-month period ended March 31, 2018.

(ii) Assets for incremental costs related to the variable remuneration paid in the sale of software subscription with impact of R$3,221 on January 1, 2018 and R$783 on the Statement of profit or loss in “Selling expenses” in the three-month period ended March 31, 2018.

(iii) The Company and its subsidiaries, in accordance with the impairment of financial assets requirements of IFRS9/CPC48, applied the simplified approach to the prospective expected losses model. These changes generated an impact of R$10,967 on equity at the January 01, 2018 and R$3,917 in the Income of Statement of the three-month period ended March 31, 2018 under “Allowance for doubtful accounts”.

(iv) The impacts mentioned above related to the application of IFRS15/CPC47 and IFRS9/CPC48 resulted in an equity impact of R$3,467 in the Deferred income and social contribution taxes and R$377 in the tax liabilities on January 01, 2018. For the three-month period ended March 31, 2018 the impact was R$1,027 in the deferred income and social contribution taxes.

2.4. Consolidation basis

The consolidated interim financial information includes the operations of the Company and the following subsidiaries and associate companies. The percentages of the interests held by the Company on the statement of financial position date are summarized below:

Direct interest:

				% Interest	
Corporate Name	**Head office**	**Name used**	**Note**	**3/31/2018**	**12/31/2017**
TOTVS Serviços Ltda.	BRA	TOTVS Serviços		100.00	100.00
TOTVS Nordeste Software Ltda.	BRA	TOTVS Nordeste		100.00	100.00
TOTVS Brasília Software Ltda.	BRA	TOTVS Brasília		100.00	100.00
TQTVD Software Ltda.	BRA	TQTVD		100.00	100.00
TOTVS Ventures Participações Ltda.	BRA	TOTVS Ventures		100.00	100.00
TOTVS Argentina S.A.	ARG	TOTVS Argentina		100.00	100.00
Datasul Argentina S.A.	ARG	Datasul Argentina		100.00	100.00
TOTVS México S.A.	MEX	TOTVS México		100.00	100.00
Datasul S.A. de CV.	MEX	Datasul México		100.00	100.00
TOTVS Corporation	BVI	TOTVS Corporation		100.00	100.00
TOTVS Incorporation	USA	TOTVS Inc.		100.00	100.00
Virtual Age Soluções em Tecnologia Ltda.	BRA	Virtual Age		-	100.00
Neolog Consultoria e Sistemas S.A.	BRA	Neolog		60.00	60.00
Ciashop - Soluções para Comércio Eletrônico S.A.	BRA	Ciashop		70.00	70.00
Bematech S.A.	BRA	Bematech		100.00	100.00
TFS Soluções em software Ltda.	BRA	TFS		100.00	100.00

Indirect Interest:

				% interest	
Corporate Name	**Head office**	**Name used**	**Investor**	**3/31/2018**	**12/31/2017**
DTS Consulting Partner, SA de CV	MEX	Partner	TOTVS México	100.00	100.00
RMS Software S.A.	BRA	RMS	TOTVS Nordeste	100.00	100.00
Webstrategie Software Ltda.	BRA	Webstrategie	RMS	100.00	100.00
Kerina Software Ltda.	BRA	Kerina	TQTVD	100.00	100.00
Bematech Hardware Ltda.	BRA	Bematech Hardware	Bematech S.A.	100.00	100.00
Bematech Ásia Co.Ltd.	TWN	Bematech Ásia	Bematech S.A.	100.00	100.00
Bematech Argentina S.A.	ARG	Bematech Argentina	Bematech S.A. e Bematech Inter. Corp.	100.00	100.00
CMNet Soluções em Informática e Agência de Viagens e Turismo S.A.	BRA	CMNet Soluções	Bematech S.A.	100.00	100.00
Bematech Internacional Corp.	EUA	BIC	Bematech S.A.	100.00	100.00
Logic Controls, Inc	EUA	Logic Controls	BIC	100.00	100.00
FICE - Bematech Foshan Shunde Ltd.	CHN	FICE	Logic Controls, Inc	100.00	100.00
CMNet Participações S.A.	BRA	CMNet Participações	Bematech S.A.	100.00	100.00
CM Soluciones – Argentina	ARG	CMNet Argentina	CMNet Participações	100.00	100.00
CMDIR - Soluções Informática, Lda - Portugal	PRT	CMNet Portugal	CMNet Participações	100.00	100.00
CM Soluciones – Chile	CHL	CMNet Chile	CMNet Participações	100.00	100.00
CMNet España	ESP	CMNet Espanha	CMDIR - Soluções	100.00	100.00
RJ Participações S.A.	BRA	RJ Participações	Bematech S.A.	100.00	100.00
R.J. Consultores en Sistemas de Información S.C.	MEX	RJ México	RJ Participações	100.00	100.00
R.J. Consultores e Informática Ltda.	BRA	RJ Consultores	RJ Participações	100.00	100.00
National Computer Corporation (associate)	RUS	JV Russia	TOTVS México	19.00	19.00

All intercompany balances and transactions were eliminated in consolidation.

2.5. Significant accounting judgments, estimates and assumptions

Accounting estimates and assumptions are continually assessed, and are based on historical experience and other factors, including expected future events that are considered relevant. Accounting estimates will rarely be equal to the actual results.

For the three-month period ended March 31, 2018, there were no changes in estimates and assumptions entailing a significant risk of causing relevant adjustments to the book values of assets and liabilities for the current financial year, in relation to the latest annual financial statements, except for the effects of applying the change in the method of losses incurred to expected in accordance with IFRS 9/CPC48.

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

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

The table below shows the class of financial instruments of the Company and its subsidiaries based on IFRS9/CPC48 effective January 1, 2018:

	Fair Value through profit		Assets measured at amortized cost		Financial liabilities measured at cost	
	3/31/2017	1/1/2018	3/31/2017	1/1/2018	3/31/2017	1/1/2018
Cash and cash equivalents	-	-	380,705	387,169	-	-
Investment guarantees	-	-	49,882	51,628	-	-
Accounts receivable, net	-	-	459,659	458,414	-	-
Financial assets (i)	57,913	57,645	-	-	-	-
Financial Instruments Assets	**57,913**	**57,645**	**890,246**	**897,211**	-	-
Loans and Financing	-	-	-	-	351,595	402,556
Debentures and non-conversion premium	-	-	-	-	267,661	269,138
Accounts payable and suppliers	-	-	-	-	193,645	195,405
Obligation for acquisition of investments	21,680	28,588	-	-	66,306	60,859
Financial liabilities	**21,680**	**28,588**	**-**	**-**	**879,207**	**927,958**

(i) TOTVS maintains investments in companies whose shareholding is indirectly held through venture capital organization and which is measured at fair value through profit or loss.

3.1. Sensitivity analysis of financial assets and liabilities

The Company's financial instruments are represented by cash and cash equivalents, accounts receivable, accounts payables, debentures, loans and financing, which are recorded at cost plus income or charges incurred or at fair value when applicable, as at March 31, 2018 and December 31, 2017.

The main risks related to the Company’s operations are linked to the variation in the Brazilian

Interbank Deposit Rate (CDI) for financial investments and debentures issued in 2017, the variation in the Long-Term Interest Rate (TJLP) and the Extended Consumer Price Index (IPCA), for financing from the Brazilian Development Bank (BNDES) and for debentures issued in previous years.

a) Financial assets

In order to verify the sensitivity of the index in the financial investments to which Company was exposed as of March 31, 2018, three different scenarios were defined. Based on projections disclosed by financial institutions, the average rate for CDI is 6.39% for 2018, which was defined as a probable scenario (scenario I). Based thereon, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each of these scenarios the "gross finance income" was estimated, with taxes on investment returns not included. The reference date for the portfolio was March 31, 2018, with a one-year projection to check the sensitivity of CDI to each scenario.

Operation	Balances in 3/31/2018	Risk	Probable Scenario (I)	Scenario (II)	Scenario (III)
		Reduction			
Financial investments	R$355,157	CDI (a)	6.39%	4.79%	3.20%
Finance income			**R$22,695**	**R$17,012**	**R$11,365**

(a) Interbank Deposit Certificates

b) Financial liabilities

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

For each scenario, the gross financial expense was calculated, not taking into account the tax and the maturity flow for each agreement scheduled for 2018. The reference date used for the financing and debentures was March 31, 2018, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances in 3/31/2018	Risk	Probable Scenario I	Scenario II	Scenario III
		Increase			
Financing – Consolidated BNDES	R$262,018	TJLP (b)	6.60%	8.25%	9.90%
Estimated Finance expense			**R$ 17,293**	**R$ 21,616**	**R$ 25,940**
		Increase			
Consolidated debentures	R$ 67,567	IPCA (c)	3.95%	4.94%	5.93%
		TJLP (b)	6.60%	8.25%	9.90%
	R$ 200,094	CDI (a)	6.39%	7.99%	9.59%
Estimated Finance expense			**R$ 20,083**	**R$ 23,639**	**R$ 27,194**

(b) Long-term Interest Rate
(c) Brazil's Extended Consumer Price Index

3.2. Financial assets

TOTVS´ investments in startups are made within a medium-term strategy, with output planned for when the expected financial returns are achieved, and are recognized as financial instruments. The fair value for these investments as of March 31, 2018 was R$57,913 (R$57,645 at December 31, 2017).

3.3. Changes in the liabilities of financing activities

Liabilities arising from financing activities are liabilities for which cash flows were or will be future cash flows classified in the statement of cash flows as cash flows from financing activities. The following is a breakdown of liabilities arising from financing activities for the three-month period ended of March 31, 2018:

		Cash flow from financing		Non-cash items			
	12/31/2017	Principal	Interest paid	New Leases	Interest Incurred	Others (i)	3/31/2018
Loans and financing	339,103	(45,135)	(5,537)	-	5,900	-	294,331
Lease	63,453	(6,190)	(2,293)	-	2,294	-	57,264
Debentures	269,138	-	(6,895)	-	5,418	-	267,661
Dividends payable and Others	18,487	(139)	-	-	-	(2,376)	15,972
Total	**690,181**	**(51,464)**	**(14,725)**	**-**	**13,612**	**(2,376)**	**635,228**

(i) Includes deferred income tax credit offset on interest on equity for December 2017.

4. Cash and cash equivalents

Cash and cash equivalents are maintained for meeting short-term cash requirements and for strategic investment or other purposes, and are redeemable within 90 days from the date of the respective transaction.

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Cash	1,564	16,610	25,548	41,537
Cash equivalents	**279,596**	**289,310**	**355,157**	**345,632**
Repurchase agreements	51,437	149,061	60,950	150,291
CDB	228,159	140,249	294,207	195,341
	281,160	**305,920**	**380,705**	**387,169**

The Company has financial investment policies, which establish that the investments focus on low risk securities and investments in top-tier financial institutions, and are remunerated substantially, by reference to the CDI variation, which monthly averaged 98.95% of the CDI for the period ended March 31, 2018 (99.07% as of December 31, 2017).

5. Trade accounts receivable, net

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

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Domestic market	397,408	390,043	552,102	530,824
Foreign market	941	860	14,843	16,622
Gross trade accounts	**398,349**	**390,903**	**566,945**	**547,446**
(-) allowances for doubtful	(81,741)	(73,469)	(107,286)	(89,032)
Net trade accounts	**316,608**	**317,434**	**459,659**	**458,414**
Current assets	285,860	286,435	427,926	426,513
Noncurrent assets (a)	30,748	30,999	31,733	31,901

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

Below are the receivables in connection with the net amount of allowance for doubtful accounts by aging list as of March 31, 2018 and December 31, 2017:

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Falling due	215,375	229,417	323,599	339,686
Unbilled	67,494	49,762	81,708	59,986
Overdue				
1 to 30 days	13,854	15,370	22,973	24,082
31 to 60 days	4,645	5,799	9,854	9,801
61 to 90 days	2,648	4,466	4,480	6,995
91 to 180 days	3,787	6,984	5,784	10,236
181 to 360 days	2,348	2,281	2,687	3,456
more than 360 days	6,457	3,355	8,574	4,172
Net accounts receivable	**316,608**	**317,434**	**459,659**	**458,414**

Changes in the allowance for doubtful accounts are as follows:

	3/31/2018	
	Parent Company	Consolidated
Balance at beginning of the period	73,469	89,032
Opening balance of IFRS9/CPC48	5,864	10,967
Additional provision in the period	6,939	12,691
Amounts written off of the provision	(4,531)	(5,404)
Balance at end of period	**81,741**	**107,286**

Management believes that the risk related to trade accounts receivable in general is minimized by the fact that the Company's customer portfolio is diluted, except for the distributor of Bematech Hardware which cumulatively accounted for 4.3% of net accounts receivable in consolidated statements as at March 31, 2018. In general, the Company does not require any guarantee on installment sales.

6. Stocks

The breakdown of stocks exclusively set up by Bematech Hardware is as follows:

	Consolidated 3/31/2018	Consolidated 12/31/2017
Finished products	6,705	11,684
Raw material	27,097	24,047
Products for resale and others	6,610	8,218
Parts for technical assistance	812	764
Advances from supplier	954	1,078
(-) Provision for adjustment to realization	(961)	(963)
	41,217	**44,828**

7. Taxes recoverable

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
State Goods and Services Tax (ICMS) (a)	-	-	41,337	42,188
Income tax to offset (b)	32,546	40,332	42,587	50,475
Social contribution tax to offset (b)	19,550	16,177	22,620	19,034
Withholding PIS and COFINS taxes	-	61	1,102	1,350
Other	4	1	729	745
	52,100	**56,571**	**108,375**	**113,792**
Current	52,100	56,571	86,623	93,097
Noncurrent	-	-	21,752	20,695

(a) Refer to accumulated ICMS tax credits of Bematech Hardware. These credits arise from the hardware operation, which enjoys benefits for investments granted by the State of Paraná. The Company and its subsidiary are currently conducting joint studies with their legal advisors to realize said credits.

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

8. Income taxes

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

8.1. Reconciliation of income and social contribution tax expenses

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

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Income before taxes	37,857	38,458	51,150	42,297
Income and social contribution taxes at combined nominal rate of 34%	(12,871)	(13,076)	(17,391)	(14,381)
Adjustments for the statement of effective rate				
Equity pickup	7,473	2,100	20	-
Law No 11,196/05 (Incentive for research and development) (a)	1,936	2,948	2,155	3,052
Subsidy for incentives	-	-	557	896
Effect of subsidiaries subject to special rates	-	-	(1,419)	(1,433)
Management stake	(133)	(487)	(133)	(487)
Accounts receivable deemed uncollectible	-	-	(7)	(50)
Workers' Meal Program (PAT)	-	269	5	364
Other	(278)	(243)	(627)	(96)
Income tax and social contribution expense	**(3,873)**	**(8,489)**	**(16,840)**	**(12,135)**
Current income tax and social contribution	-	(14,967)	(10,743)	(20,870)
Deferred income tax and social contribution	(3,873)	6,478	(6,097)	8,735
	(3,873)	**(8,489)**	**(16,840)**	**(12,135)**
Effective rate	**10.2%**	**22.1%**	**32.9%**	**28.7%**

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

8.2. Breakdown of deferred income and social contribution taxes

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Tax losses and social contribution tax losses carryforwards	-	-	69,847	69,826
Deriving from temporary differences:				
Difference between tax base and book value from goodwill	31,842	36,047	56,007	60,772
Amortization of tax benefit	(81,406)	(79,151)	(121,585)	(117,676)
Intangible asset allocation	(18,394)	(20,903)	(26,710)	(27,668)
Allocation of intangible assets – after Law nº 12973	10,300	9,289	10,300	9,289
Provision for commissions	13,491	11,612	14,352	12,185
Anticipated income or revenues	2,202	5,012	2,260	5,941
Allowance for doubtful accounts	27,792	24,979	31,962	26,303
Provision for contingencies and other liabilities	38,574	37,666	41,015	39,955
Provision for suppliers	7,263	8,012	7,864	8,556
Provision for losses in inventories and guarantees	-	-	1,720	1,754
Provision for share-based payments	3,981	3,503	3,982	3,513
Present value adjustment	2,984	3,076	4,794	3,092
Other	6,336	5,747	2,031	8,873
Net deferred income and social contribution tax	**44,965**	**44,889**	**97,839**	**104,715**

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

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

	Parent Company	Consolidated
At December 31,2017	44,889	104,715
Expense in statement of profit or loss	(3,873)	(6,097)
Tax related to other comprehensive income	2,187	(4,140)
Opening balance of IFRS15/CPC47 and IFRS9/CPC48	1,765	3,467
Other	(3)	(104)
At March 31, 2018	**44,965**	**97,839**

9. Related-party balances and transactions

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

9.1. Credits and liabilities with subsidiaries and associate companies

As of March 31, 2018 and December 31, 2017, significant asset and liability balances and transactions with related parties that influence the profit or loss for the period are as follows:

	Parent Company			
	3/31/2018		12/31/2017	
	Asset	Liability	Asset	Liability
Ciashop	2,334	-	2,284	-
TQTVD	3,234	-	4,139	-
TOTVS Serviços	-	7,606	-	7,332
TOTVS Ventures	-	5,760	-	5,760
Others	1	626	298	336
Total	**5,569**	**13,992**	**6,721**	**13,428**

The amounts in accounts payable and receivable among subsidiaries refer to loan transactions, without remuneration and/or forecast maturity. There were no relevant transactions that have gone through Profit or Loss between the group's companies.

9.2. Transactions or relationships with shareholders and key management personnel

a) Shareholders

The Company maintains property lease agreements with companies, in which some of the shareholders are key management and also hold TOTVS shares, directly or indirectly.

The rental expense with related party, including the new headquarters, recognized at the three-month period ended March 31, 2018 was R$6,046 (R$3,266 as at March 31, 2017). All rental agreements with related parties are subject to adjustment at the IGP-M inflation rate, every 12 months.

Some of the Company's shareholders and key management personnel directly or indirectly hold 17.5% of the Company's shares as of March 31, 2018 (17.6% as of December 31, 2017). The indirect interest is held through LC-EH Empreendimentos e Participações S.A.

9.3. Management fees

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

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Short-term benefits to managing officers				
Salaries, fees and payroll charges	3,263	3,077	3,778	3,786
Private pension plan	38	107	44	113
Variable bonus	390	1,433	390	1,361
	3,691	4,617	4,212	5,260
Share-based payments	1,026	638	1,026	638
	4,717	**5,255**	**5,238**	**5,898**

10. Investments

The breakdown of investments in subsidiaries and affiliates is shown below:

	Summarized financial statements of affiliate companies and subsidiaries as at March 31, 2018					Equity pickup (parent Company) for years ended:		Balance of investments as of:	
	Assets	Liabilities	Net Equity	Gross profit	Profit or loss	3/31/2018	3/31/2017	3/31/2018	12/31/2017
Bematech (a)	527,878	72,001	455,877	14,800	411	(2,048)	3,012	536,672	547,330
TOTVS Brasília	152,954	11,463	141,491	29,535	3,996	3,996	3,513	141,491	138,692
TOTVS Nordeste	84,315	15,498	68,817	1,415	838	838	(313)	68,817	67,908
TOTVS Serviços	31,737	(3,085)	34,822	28,440	14,072	14,072	136	34,822	20,725
TOTVS Inc,	60,192	309	59,883	11	(2,783)	(2,783)	(2,082)	59,883	59,801
Virtual Age (b)	-	-	-	-	-	-	(386)	-	-
Neolog (a)	3,233	1,202	2,031	4,227	1,031	105	(171)	20,466	20,681
TQTVD	13,949	3,249	10,700	544	243	243	(829)	10,700	10,461
TOTVS Ventures	5,028	(5,759)	10,787	-	31	31	(414)	10,787	10,756
Ciashop (a)	3,343	4,609	(1,266)	2,617	(287)	(674)	(556)	5,866	6,339
TOTVS México	8,340	3,257	5,083	3,160	(2,111)	(2,111)	(1,035)	5,083	5,472
TOTVS Argentina	8,762	4,421	4,341	6,392	936	936	491	4,341	4,624
Datasul Argentina	-	-	-	-	(58)	(58)	-	-	62
TFS	8,095	1,319	6,776	9,869	5,985	5,986	-	6,776	799
NCC	-	-	-	-	-	-	-	38	38
						18,533	**1,366**	**905,742**	**893,688**

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

(b) Merged company as at December 31, 2017.

Changes in the investment accounts for the three-month period ended March 31, 2018 were as follows:

				Equity Pick-up					
	12/31/2017	Addition	Dividends	Equity Pick-up	Intangible amortization	Foreign Exchange	Opening balance of CPC47/48 (i)	Reclassification	3/31/2018
Bematech	547,330	-	-	411	(2,459)	(6,425)	(2,185)	-	536,672
TOTVS Brasília	138,692	-	-	3,996	-	-	(1,197)	-	141,491
TOTVS Nordeste	67,908	-	-	838	-	-	71	-	68,817
TOTVS Serviços	20,725	-	-	14,072	-	-	25	-	34,822
TOTVS Inc.	59,801	2,599	-	(2,783)	-	266	-	-	59,883
Neolog	20,681	-	(317)	619	(514)	-	(3)	-	20,466
TQTVD	10,461	-	-	243	-	-	(4)	-	10,700
TOTVS Ventures	10,756	-	-	31	-	-	-	-	10,787
Ciashop	6,339	350	-	(201)	(473)	-	(29)	(120)	5,866
TOTVS México	5,472	1,644	-	(2,111)	-	450	(372)	-	5,083
TOTVS Argentina	4,624	346	-	936	-	(719)	(846)	-	4,341
Datasul Argentina	62	-	-	(58)	-	(4)	-	-	-
NCC	38	-	-	-	-	-	-	-	38
TFS	799	-	-	5,986	-	-	(9)	-	6,776
Sum of Investments	**893,688**	**4,939**	**(317)**	**21,979**	**(3,446)**	**(6,432)**	**(4,549)**	**(120)**	**905,742**
Ciashop	(1,005)	-	-	-	-	-	-	120	(885)
Sum of provision for losses	**(1,005)**	**-**	**-**	**-**	**-**	**-**	**-**	**120**	**(885)**
Total investments	**892,683**	**4,939**	**(317)**	**21,979**	**(3,446)**	**(6,432)**	**(4,549)**	**-**	**904,857**

(i) Effects on equity in the subsidiaries as at January 01, 2018 refering to first-time adoption of IFRS 15/CPC 47 and IFRS 9/CPC 48 (note 2.3).

11. Property, plant and equipment

The Company's property, plant and equipment is broken down as follows:

	Parent Company							
	Computers And electronics equip.	**Vehicles**	**Furniture and Fixtures**	**Facilities machinery and equipment**	**Leasehold improve ments**	**Property, plant and equipment in progress (ii)**	**Others (iii)**	**Total Property, plants and equipment**
Cost								
Balance as of December 31, 2016	110,166	7,362	13,517	18,801	-	65,500	41,415	256,761
Additions	26,406	3,015	619	98	6,956	18,314	171	55,579
Mergers	629	1,095	178	-	-	-	129	2,031
Transfers (i)	16,882	102	9,574	11,897	66,126	(80,100)	(29,654)	(5,173)
Write-offs	(739)	(2,146)	(2,316)	(4,816)	-	(188)	(8,550)	(18,755)
Balance as of December 31,2017	**153,344**	**9,428**	**21,572**	**25,980**	**73,082**	**3,526**	**3,511**	**290,443**
Additions	9,720	259	585	159	2.733	46	25	13,527
Transfers	2,885	117	2	-	83	(3,572)	(159)	(644)
Write-offs	(492)	(1,022)	-	(5)	-	-	-	(1,519)
Balance as of March 31,2018	**165,457**	**8,782**	**22,159**	**26,134**	**75,898**	**-**	**3,377**	**301,807**
Depreciation								
Balance as of December 31, 2016	(64,736)	(2,015)	(7,019)	(8,846)	-	-	(20,019)	(102,635)
Depreciation in the year	(20,577)	(2,561)	(3,310)	(2,869)	(6,148)	-	(1,468)	(36,933)
Mergers	(224)	(535)	(71)	-	-	-	(86)	(916)
Transfers (i)	(1,324)	(102)	(171)	(33)	(10,014)	-	10,009	(1,635)
Write-offs	684	1,328	1,696	3,081	-	-	8,721	15,510
Balance as of December 31,2017	**(86,177)**	**(3,885)**	**(8,875)**	**(8,667)**	**(16,162)**	**-**	**(2,843)**	**(126,609)**
Depreciation in the period	(5,927)	(928)	(796)	(805)	(2,017)	-	(274)	(10,747)
Write-offs	478	735	-	1	-	-	-	1,214
Balance as of March 31,2018	**(91,626)**	**(4,078)**	**(9,671)**	**(9,471)**	**(18,179)**	**-**	**(3,117)**	**(136,142)**
Residual value								
Balance as of March 31,2018	**73,831**	**4,704**	**12,488**	**16,663**	**57,719**	**-**	**260**	**165,665**
Balance as of December 31,2017	**67,167**	**5,543**	**12,697**	**17,313**	**56,920**	**3,526**	**668**	**163,834**
Average annual depreciation rate	**20% to 25%**	**33%**	**10% to 25%**	**6,7% to 25%**	**5% to 20%**	**-**	**20%**	

	Consolidated							
	Computers and electronics equip.	**Vehicles**	**Furniture and Fixtures**	**Facilities machinery and equipment**	**Leasehold improve ments**	**Property, plant and equipment in progress (ii)**	**Others (iii)**	**Total Property, plant and equipment**
Cost								
Balance as of December 31, 2016	127,816	10,395	18,985	27,932	-	65,500	48,974	299,602
Additions	29,413	3,470	1,404	1,212	10,619	18,478	242	64,838
Transfers (i)	10,273	102	7,421	16,471	70,553	(80,351)	(33,625)	(9,156)
Write-offs	(4,339)	(2,788)	(3,409)	(5,733)	-	-	(11,670)	(27,939)
Exchange variation	2,126	26	623	(334)	405	-	71	2,917
Balance as of December 31,2017	**165,289**	**11,205**	**25,024**	**39,548**	**81,577**	**3,627**	**3,992**	**330,262**
Additions	10,116	294	799	1,250	4,808	-	20	17,287
Transfers	2,912	117	2	-	83	(3,627)	(131)	(644)
Write-offs	(538)	(1,022)	(32)	(6)	-	-	(15)	(1,613)
Exchange variation	43	25	15	16	38	-	(1)	136
Balance as of March 31,2018	**177,822**	**10,619**	**25,808**	**40,808**	**86,506**	**-**	**3,865**	**345,428**
Depreciation								
Balance as of December 31, 2016	(75,493)	(2,994)	(9,111)	(12,508)	-	-	(23,226)	(123,332)
Depreciation in the year	(23,132)	(3,398)	(3,963)	(4,648)	(9,562)	-	(1,608)	(46,311)
Transfers (i)	1,978	(229)	622	1,807	(13,040)	-	11,061	2,199
Write-offs	3,923	1,706	2,276	3,963	-	-	10,716	22,584
Exchange variation	(1,628)	(8)	(1,089)	(403)	(274)		22	(3,380)
Balance as of December 31,2017	**(94,352)**	**(4,923)**	**(11,265)**	**(11,789)**	**(22,876)**	**-**	**(3,035)**	**(148,240)**
Depreciation in the period	(6,525)	(1,017)	(934)	(1,158)	(2,619)	-	(120)	(12,373)
Write-offs	522	735	25	2	-		13	1,297
Exchange variation	(29)	(33)	(23)	28	(69)		-	(126)
Balance as of March 31,2018	**(100,384)**	**(5,238)**	**(12,197)**	**(12,917)**	**(25,564)**	**-**	**(3,142)**	**(159,442)**
Residual value								
Balance as of March 31,2018	**77,438**	**5,381**	**13,611**	**27,891**	**60,942**	**-**	**723**	**185,986**
Balance as of December 31,2017	**70,937**	**6,282**	**13,759**	**27,759**	**58,701**	**3,627**	**957**	**182,022**
Average annual depreciation rate	**20% to 25%**	**20% to 33%**	**10% to 25%**	**6,7% to 25%**	**5% to 20%**	**-**	**20%**	

(i) Includes the transfer of assets with residual value of the subsidiary RMS to the parent company for R$258 and the transfer of R$6,957 to intangible assets, both at the parent company and consolidated.

(ii) The "Property, plant and equipment under construction" column includes assets related to the construction of the new headquarters, which staterd to be depreciated from 2017 and other assets in progress.

(iii) Includes the write-off of the residual value of leasehold improvements of the previous headquarters and the transfer between lines and "Others" to enhance disclosure.

12. Intangible assets

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

	Parent Company					
	Software	**Trademarks & patents**	**Customer portfolio**	**Other (i)**	**Goodwill**	**Total Intangible assets**
Cost						
Balance as of December 31, 2016	265,925	63,149	208,969	16,337	233,811	788,191
Additions	25,728	-	-	-	-	25,728
Subsidiary merger	26,244	-	4,011	2,413	46,497	79,165
Transfers	6,957	-	-	-	-	6,957
Balance as of December 31, 2017	**324,854**	**63,149**	**212,980**	**18,750**	**280,308**	**900,041**
Additions	1,834	-	-	-	-	1,834
Transfers	644	-	-	-	-	644
Balance as of March 31, 2018	**327,332**	**63,149**	**212,980**	**18,750**	**280,308**	**902,519**
Amortization						
Balance as of December 31, 2016	(171,335)	(35,421)	(179,119)	(15,815)	-	(401,690)
Amortization in the year	(36,554)	(4,202)	(19,752)	(283)	-	(60,791)
Subsidiary merger	(17,245)	-	(1,575)	(2,413)	-	(21,233)
Balance as of December 31, 2017	**(225,134)**	**(39,623)**	**(200,446)**	**(18,511)**	-	**(483,714)**
Amortization in the period	(8,575)	(1,051)	(4,370)	(69)	-	(14,065)
Balance as of March 31, 2018	**(233,709)**	**(40,674)**	**(204,816)**	**(18,580)**	**-**	**(497,779)**
Residual value						
Balance as of March 31, 2018	**93,623**	**22,475**	**8,164**	**170**	**280,308**	**404,740**
Balance as of December 31, 2017	**99,720**	**23,526**	**12,534**	**239**	**280,308**	**416,327**
Average annual amortization rates	**10% to 20%**	**6.7% to 8%**	**10% to 12.5%**	**10% to 50%**		

	Consolidated						
	Software	**Trademarks & patents**	**Customer portfolio**	**R&D**	**Others (i)**	**Goodwill**	**Total Intangible assets**
Cost							
Balance as of December 31, 2016	333,444	99,440	360,890	42,661	49,523	653,496	1,539,454
Additions	30,192	189	-	-	-	-	30,381
Transfers (ii)	6,957	-	-	-	-	-	6,957
Write-offs (iii)	(88)	-	-	(13,902)	-	-	(13,990)
Exchange variation	(10)	(7)	2	(118)	3	551	421
Balance as of December 31, 2017	**370,495**	**99,622**	**360,892**	**28,641**	**49,526**	**654,047**	**1,563,223**
Additions	2,012	45	-	-	-	-	2,057
Transfers	644	-	-	-	-	-	644
Write-offs	(731)	(5)	(162)	-	(212)	-	(1,110)
Exchange variation	(3)	25	-	-	-	178	200
Balance as of March 31, 2018	**372,417**	**99,687**	**360,730**	**28,641**	**49,314**	**654,225**	**1,565,014**
Amortization							
Balance as of December 31, 2016	(202,088)	(46,566)	(207,362)	(9,711)	(45,591)	-	(511,318)
Amortization in the year	(52,472)	(7,982)	(32,743)	(8,004)	(3,382)	-	(104,583)
Write-offs (iii)	112	-	-	13,902	-	-	14,014
Exchange variation	(309)	(42)	-	(14)	(3)	-	(368)
Balance as of December 31, 2017	**(254,757)**	**(54,590)**	**(240,105)**	**(3,827)**	**(48,976)**	**-**	**(602,255)**
Amortization in the period	(10,734)	(1,965)	(7,089)	(2,054)	(279)	-	(22,121)
Write-offs	731	5	162	-	212	-	1,110
Exchange variation	110	(51)	-	-	-	-	59
Balance as of March 31, 2018	**(264,650)**	**(56,601)**	**(247,032)**	**(5,881)**	**(49,043)**	**-**	**(623,207)**
Residual value							
Balance as of March 31, 2018	**107,767**	**43,086**	**113,698**	**22,760**	**271**	**654,225**	**941,807**
Balance as of December 31, 2017	**115,738**	**45,032**	**120,787**	**24,814**	**550**	**654,047**	**960,968**
Average annual amortization rates	**10% to 20%**	**6.7% to 8%**	**10% to 12.5%**	**20%**	**10% to 50%**		

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

(ii) The balance of R$6,957 refers to transfers from "property, plant and equipment under construction" to software under intangible assets (Note 11).

(iii) Write-off of software developed by a subsidiary and fully amortized.

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

12.1. Changes in goodwill

The breakdown and addition/write-off of goodwill as of March 31, 2018 and December 31, 2017 is as follows:

	12/31/2017	Foreign exchange (a)	3/31/2018
Bematech (a)	255,927	178	256,105
RM	90,992	-	90,992
W&D	64,070	-	64,070
Virtual Age	46,497	-	46,497
RMS	35,740	-	35,740
SRC	33,688	-	33,688
Datasul	30,084	-	30,084
Gens FDES	16,340	-	16,340
Seventeen	15,463	-	15,463
TOTVS Agroindústria	13,128	-	13,128
Neolog	12,565	-	12,565
BCS	11,821	-	11,821
TotalBanco	6,008	-	6,008
Logo Center	5,703	-	5,703
Ciashop	4,465	-	4,465
Others	11,556	-	11,556
	654,047	**178**	**654,225**

(a) Exchange variation of goodwill recognized in overseas subsidiary.

12.2. Test for impairment of assets

The Company annually tests goodwill for impairment using the value-in-use concept in the discounted cash flow models for cash-generating units that represent the group of tangible and intangible assets used to develop and sell different solutions to customers. Company management identified no events for the period ended March 31, 2018 that could indicated a need for interim impairment test.

13. Payroll and labor obligations

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

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Labor liabilities:				
Salaries payable and IRRF	32,018	32,696	37,138	40,291
Vacations payable	59,923	61,354	74,851	78,305
Profit sharing and bonus	7,071	11,780	7,964	13,343
13th monthly salary payable	10,899	-	13,719	-
Other	1,758	1,729	2,652	3,164
	111,669	**107,559**	**136,324**	**135,103**
Payroll liabilities				
FGTS (Workers´severance pay fund) payable	3,180	4,747	3,815	5,779
INSS (Brazilian Social Security Institute) payable	5,312	5,329	7,392	7,954
	8,492	**10,076**	**11,207**	**13,733**
	120,161	**117,635**	**147,531**	**148,836**

14. Tax liabilities

Salaries and charges payable balances are broken down as follows:

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Tax liabilities				
INSS payable	6,471	7,454	8,227	8,814
ISS payable	3,882	3,808	5,076	4,737
PIS and COFINS payable	8,776	8,031	10,960	9,956
IRPJ and CSLL payable	-	-	4,570	548
Other taxes	7,832	1,525	11,632	4,670
Total	**26,961**	**20,818**	**40,465**	**28,725**

15. Loans and financing

The loan and financing operations are as follows:

		Parent Company		Consolidated	
	Annual financial charges	3/31/2018	12/31/2017	3/31/2018	12/31/2017
BNDES PROSOFT	TJLP + 1.5 to 1.52% p.y.	244,314	282,387	257,142	296,565
BNDES PSI	3.5% to 4.0% p.y.	23,178	26,838	32,086	36,701
Financial lease	15.12% to 17.24%	57,109	63,287	57,264	63,454
BNDES – Social	TJLP	1,350	1,562	1,350	1,560
BNDES Inovação	TJLP + 0.52% p.y.	-	-	3,526	3,897
Secured accounts and other		-	-	227	379
		325,951	**374,074**	**351,595**	**402,556**
Current liabilities		188,441	191,810	199,566	220,215
Noncurrent liabilities		137,510	182,264	152,029	182,341

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

Amounts recorded in noncurrent liabilities as at March 31, 2018 and December 31, 2017, have the following maturity schedule:

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Between 12 and 24 mo.	117,442	160,990	128,296	161,017
Between 24 and 36 mo.	20,068	21,274	23,733	21,324
Noncurrent liabilities	**137,510**	**182,264**	**152,029**	**182,341**

Below is the breakdown of loans and financing as at March 31, 2018:

	3/31/2018	
	Parent Company	Consolidated
Opening balance	374,074	402,556
Interest incurred	7,751	8,194
Amortizations	(55,874)	(59,155)
Closing balance	**325,951**	**351,595**

a) Finance lease

Lease obligations are guaranteed by fiduciary sale of leased assets. The table below shows gross liabilities of finance leases as at March 31, 2018 anda December 31, 2017:

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Gross liabilities of Finance lease – minimum lease payments				
Less than one year	18,521	20,741	18,589	20,804
More than one year and less than five years	40,872	49,685	40,963	49,790
	59,393	**70,426**	**59,552**	**70,594**
Future financing charges in Finance leases	(2,284)	(7,139)	(2,287)	(7,140)
Present value of liabilities of Finance lease	**57,109**	**63,287**	**57,265**	**63,454**

16. Debentures

As at March 31, 2018 and December 31, 2017, this balance was broken down as follows:

					Parent Company and Consolidated	
Issue	**Debentures**	**Annual financial charges**	**Unit price**		**3/31/2018**	**12/31/2017**
Single series	200,000	105.95% of CDI	1,00	(a)(i)	200,094	203,524
		Premium due to non-conversion		(c)	67,567	65,614
		Total			**267,661**	**269,138**
		Current liabilities			356	3,841
		Noncurrent liabilities			267,305	265,297

(i) The amount of debentures issue is presented net of transactions costs of R$437 as at March 31, 2018 (R$481 as of December 31, 2017).

Maturity of noncurrent amounts is as follows:

	Parent Company and Consolidated	
	3/31/2018	12/31/2017
Between 12 and 24 months	67,393	65,449
Between 24 and 36 months	199,912	199,848
	267,305	**265,297**

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

	Parent Company and Consolidated	
Debentures and premiums from non-conversions	**3/31/2018**	**12/31/2017**
Balance at beginning of year	269,138	90,661
Debenture issue	-	199,475
Interest incurred	5,418	13,772
Amortization	(6,895)	(34,770)
Balance at end of period	**267,661**	**269,138**

a) Issue of Debentures

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

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

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

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

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

Premium for non-conversion of 1st series debentures will be restated by IPCA plus 8.0% py, while the 2nd series debentures will be restated at TJLP plus 5.0% py. The premium for non-conversion will be paid by August 19, 2019.

17. Liabilities due to investment acquisition

These are payables due to investment acquisitions carried out by the Company and its subsidiaries, negotiated with payment in installments. These are recorded in current and non-current liabilities, as follows:

	Parent Company		Consolidated	
	3/31/2018	**12/31/2017**	**3/31/2018**	**12/31/2017**
RMS	-	-	15,946	15,826
Virtual Age	15,138	15,368	15,138	15,368
RJ Participações	-	-	21,680	21,397
Neolog	13,297	14,441	13,297	14,441
Seventeen	7,461	7,560	7,461	7,560
Bematech Sistemas	-	-	7,175	7,191
Datasul MG	4,225	4,281	4,225	4,281
Mafipa	1,420	1,398	1,420	1,398
Ciashop	353	698	353	698
Hery	673	662	673	662
TotalBanco	119	121	119	121
W&D Participações	-	-	270	277
SRC	229	227	229	227
Total	**42,915**	**44,756**	**87,986**	**89,447**
Current liabilities	42,915	31,459	87,986	47,561
Noncurrent liabilities	-	13,297	-	41,886

As of March 31, 2018 and December 31, 2017, the liabilities for the acquisition of investments had guarantees in the form of marketable securities, which consisted of CDB operations in the amounts mentioned below:

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Investment guarantees in current liabilities	26,671	28,512	49,882	44,615
Investment guarantees in non-current	-	-	-	7,013
Total	**26,671**	**28,512**	**49,882**	**51,628**

18. Provision for contingencies related to legal proceedings

In the ordinary course of their operations, the Company and its subsidiaries are parties to various legal proceedings relating to tax, social security, labor and civil matters. Provision for contingencies is set up by management, supported by its legal counsel and an analysis of judicial proceedings pending judgment, at an amount considered sufficient to cover probable losses, as shown below:

	Parent Company		Consolidated	
	3/31/2018	12/31/2017	3/31/2018	12/31/2017
Tax	3,562	2,257	4,133	2,827
Labor	81,497	73,762	86,739	78,945
Civil	28,393	34,763	29,770	35,998
	113,452	**110,782**	**120,642**	**117,770**

The breakdown of provisions in the year ended March 31, 2018 is as follows:

	Parent Company			
	Tax	Labor	Civil	Total
Balances at December 31, 2017	**2,257**	**73,762**	**34,763**	**110,782**
(+) Additional provision	1,277	12,251	4,122	17,650
(+) Monetary restatement	34	1,557	1,234	2,825
(-) Reversal of provision not used	-	(2,871)	(1,107)	(3,978)
(-) Write-off due to payment	(6)	(3,202)	(10,619)	(13,827)
Balances at March 31, 2018	**3,562**	**81,497**	**28,393**	**113,452**

	Consolidated			
	Tax	Labor	Civil	Total
Balances at December 31, 2017	**2,827**	**78,945**	**35,998**	**117,770**
(+) Additional provision	1,320	12,714	4,297	18,331
(+) Monetary restatement	36	1,799	1,262	3,097
(-) Reversal of provision not used	-	(3,053)	(1,129)	(4,182)
(-) Write-off due to payment	(50)	(3,666)	(10,658)	(14,374)
Balances at March 31, 2018	**4,133**	**86,739**	**29,770**	**120,642**

There are no other significant changes or individually significant changes, in lawsuits pending judgment classified as probable losses as of March 31, 2018. The breakdown of the main lawsuits pending judgment is as detailed in Note 19 to the financial statements at December 31, 2017.

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

	Parent Company		Consolidated	
Judicial deposits	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**
Tax	8,637	8,719	17,882	17,897
Labor	27,482	27,722	29,145	29,823
Civil	12,543	12,766	13,163	13,407
	48,662	**49,207**	**60,190**	**61,127**

19. Contingencies liabilities

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

	Parent Company		Consolidated	
Nature	**3/31/2018**	**12/31/2017**	**3/31/2018**	**12/31/2017**
Tax	112,509	107,517	143,178	137,140
Labor	139,461	127,544	169,623	161,978
Civil	252,315	245,092	281,239	272,499
	504,285	**480,153**	**594,040**	**571,617**

A breakdown of the main lawsuits pending judgment through December 31, 2017 is given in Note 19.2 to the financial statements for 2017.

There were no significant changes, or individually significant changes, in lawsuits pending judgment classified as possible losses by the Company for the period ended March 31, 2018.

20. Equity

a) Capital

As at March 31, 2018 and December 31, 2017, the Company's capital was composed of 165,637,727 shares issued and fully paid common registered shares, with no par value, as follows:

	3/31/2018		12/31/2017	
Shareholders	**Shares**	**%**	**Shares**	%
LC-EH Empreendimentos e Participações S,A,	26,760,990	16.16%	26,760,990	16.16%
Fundação Petrobrás de Seguridade Social - Petros	16,042,359	9.69%	16,042,359	9.69%
Genesis Asset Managers LLP	8,436,429	5.09%	8,436,429	5.09%
Laércio José de Lucena Cosentino	1,956,123	1.18%	1,950,616	1.18%
CSHG Senta Pua Fia	43,500	0.03%	43,500	0.03%
Ernesto Mário Haberkorn	16,810	0.01%	16,810	0.01%
Others	110,170,181	66.51%	110,155,056	66.50%
Outstanding shares	**163,426,392**	**98.66%**	**163,405,760**	**98.65%**
Treasury Shares	2,211,335	1.34%	2,231,967	1.35%
Total in units	**165,637,727**	**100.00%**	**165,637,727**	**100.00%**

b) Capital reserves

The balance of capital reserves at March 31, 2018 and December 31, 2017 was broken down as follows:

	3/31/2018	12/31/2017
Goodwill reserve	99,260	99,260
Goodwill reserve for merger	14,330	14,330
Premium on acquisition of non-controlling interest	(25,518)	(25,518)
Debentures converted into shares (fair value)	44,629	44,629
Stock option plan	32,948	32,378
	165,649	**165,079**

c) Treasury shares

As at March 31, 2018, the "Treasury Shares" item was as follows:

	Number of shares (units)	Value (in thousand)	Average price per share (in reais)
Balance at December 31, 2017	**2,231,967**	**R$71,495**	**R$32.03**
Used	(20,632)	(R$661)	R$32.03
Balance at March 31, 2018	**2,211,335**	**R$70,834**	**R$32.03**

21. Dividends and Interest on Equity

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

The balance of dividends and interest on equity payable in the statement of financial position was of R$15,972 as of March 31, 2018.

22. Insurance coverage

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

23. Stock option plan and restricted shares

The main events associated with the stock option plan are described in Note 22 to the Financial Statements for the year ended December 31, 2017.

There were no new grants in the period ended March 31, 2018.

Changes in options in the year are shown below:

	Parent Company and Consolidated			
	March 31, 2018		December 31, 2017	
	Amount (units)	Average Price (in reais)	Amount (units)	Average Price (in reais)
Balance of options at beginning of year	**1,274,638**	**19.26**	**1,247,565**	**21.87**
Transactions:				
Exercised	(22,231)	31.73	(59,209)	38.61
Granted	-	-	220,472	23.54
Cancelled	(11,835)	30.89	(76,016)	29.78
Expired	(338,538)	11.89	(58,174)	14.03
Balance of shares at end of year	**902,034**	**10.53**	**1,274,638**	**19.26**

The amount recorded for stock options for the three-month period ended March 31, 2018 was R$1,231 (R$790 as of March 31, 2017).

As of March 31, 2018, there were 256,428 exercisable options, since the 36-month terms of grants had already elapsed.

24. Segment information

The presentation of information by operating segment is consistent with the internal report provided to the main operational decision-makers, and the Company's Management evaluates the business into three business units: software, services and hardware.

Information on the results of each reportable segment is in the table below:

	Software		Services		Hardware		Total	
	3/31/2018	3/31/2017	3/31/2018	3/31/2017	3/31/2018	3/31/2017	3/31/2018	3/31/2017
Net revenue	**398,354**	**374,143**	**120,635**	**128,645**	**44,009**	**57,345**	**562,998**	**560,133**
(-) Costs	(56,593)	(53,285)	(115,065)	(127,699)	(29,252)	(35,898)	(200,910)	(216,882)
(+) Government subsidy	-	-	-	-	1,639	2,637	1,639	2,637
Gross profit	**341,761**	**320,858**	**5,570**	**946**	**16,396**	**24,084**	**363,727**	**345,888**
(-) Research and development	(87,949)	(83,343)	-	-	(3,855)	(2,579)	(91,804)	(85,922)
Contribution margin	**253,812**	**237,515**	**5,570**	**946**	**12,541**	**21,505**	**271,923**	**259,966**

	Information by Geographical Location – Net Revenue	
	3/31/2018	3/31/2017
Brazil	541,648	539,431
International market	21,350	20,702
Total	**562,998**	**560,133**

Information on assets and liabilities by segment is not divided by business unit and is not regularly presented to the Management.

25. Earnings per share

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

	Parent Company and Consolidated	
	3/31/2018	3/31/2017
Basic earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	33,984	29,969
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	163,391	163,345
Basic earnings per share – in reais	**0.2080**	**0.1835**

	Parent Company and Consolidated	
	3/31/2018	3/31/2017
Diluted earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	33,984	29,969
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	163,391	163,345
Weighted average number of stock options	1,281	1,374
Weighted average number of common shares adjusted according to dilution effect	**164,672**	**164,719**
Diluted earnings per share – in reais	**0.2064**	**0.1819**

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

26. Gross sales revenue

The gross revenue and the deductions used for the calculation of net revenue in the statement of profit and loss as of March 31, 2018 and 2017 were as follows:

	Parent Company		Consolidated	
	3/31/2018	3/31/2017	3/31/2018	3/31/2017
Gross revenue	**453,629**	**454,546**	**640,081**	**641,210**
License fees	51,738	47,055	63,993	55,817
Maintenance	228,737	243,526	279,220	287,757
Subscription	70,576	46,661	106,349	77,040
Service	102,578	117,304	135,622	148,761
Hardware	-	-	54,897	71,835
Deductions	**(51,490)**	**(54,022)**	**(77,083)**	**(81,077)**
Cancellations of sales	(4,071)	(4,381)	(7,761)	(8,327)
Sales tax	(47,419)	(49,641)	(69,322)	(72,750)
Net revenues	**402,139**	**400,524**	**562,998**	**560,133**

27. Expenses by nature

The Company presents below the information on operating expenses by nature for the periods ended March 31, 2018 and 2017.

	Parent Company		Consolidated	
Nature	**3/31/2018**	**3/31/2017**	**3/31/2018**	**3/31/2017**
Salaries, benefits and payroll charges	176,322	176,154	225,179	233,687
Outsourced services and other inputs	94,998	96,439	148,548	163,130
Commissions	38,550	32,804	42,305	37,327
Depreciation and amortization	24,812	20,922	34,494	34,416
Provision for contingencies	13,673	4,304	14,149	3,944
Rents	8,739	7,165	11,791	10,999
Allowance for doubtful accounts	6,939	5,792	12,691	8,833
Other	8,036	9,452	11,567	13,969
Total	**372,069**	**353,032**	**500,724**	**506,305**

28. Finance income and expenses

The finance income and expenses incurred for the years ended March 31, 2018 and 2017 were as follows:

	Parent Company		Consolidated	
	3/31/2018	**3/31/2017**	**3/31/2018**	**3/31/2017**
Finance income				
Short-term investments yield	5,018	3,610	6,553	6,759
Interest received	1,556	1,889	1,906	2,013
Inflation adjustment gains	448	2,652	555	3,878
Adjustment to present value	552	729	611	731
Exchange gains	(683)	1	(288)	181
Other finance income	(481)	(206)	(539)	(260)
	6,410	**8,675**	**8,798**	**13,302**
Finance expenses				
Interest incurred	(15,110)	(13,824)	(16,029)	(16,529)
Inflation adjustment losses	(1,351)	(3,202)	(2,068)	(4,041)
Bank expenses	(752)	(1,271)	(1,144)	(1,834)
Discounts granted	(283)	(154)	(416)	(701)
Adjustment to present value of liabilities	(263)	(501)	(559)	(804)
Exchange losses	774	(123)	624	(878)
Other finance expenses	(171)	-	(201)	(46)
	(17,156)	**(19,075)**	**(19,793)**	**(24,833)**
Net finance income (expenses)	**(10,746)**	**(10,400)**	**(10,995)**	**(11,531)**

29. Private pension plan – defined contribution

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

- Basic Contribution – corresponds to 2% of the employee's salary; in case of executive officers, the contribution ranges from 2% to 5%.

- Voluntary Contribution – made exclusively by employees, with no matching contribution by the Company.

- Company Contribution – corresponds to 100% of the basic contribution. The Company is allowed to make extraordinary contributions, in the amounts and at the frequency it chooses.

30. Subsequent events

On April 5, 2018, the distribution and payment of dividends for the year ended December 31, 2017, in the amount of R$ 5,442, to be paid as from May 9, 2018, were approved at the Annual Shareholders' Meeting.

On the same date, the following Extraordinary General Meeting matters were approved: (i) Capital increase of the Company without issuance of shares, through capitalization of the retained earnings reserve, from R$989,841 to R$1,041,229, and (ii) Changes in the current Incentive and Retention Plan based on Shares.

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