

TOTVS S.A.

Interim Financial Statements

March 31, 2019

and Independent auditor's review report on interim financial information

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CONSOLIDATED OPERATING AND FINANCIAL PERFORMANCE

Net Revenue - the increase of 8.6% compared to 1Q18 is mainly due to Recurring Revenue, which registered double-digit organic growth year on year, surpassing R\$400 million for the first time in a quarter, reaching R\$416,140 million, and accounting for 73.8% of Software Revenue in the period. Non-Recurring Revenue of R\$147,447 million also contributed to the growth in Software Revenue in the quarter, especially License revenue, which was positively affected by the increase in the corporate model.

Recurring Revenue - the year-on-year growth in Recurring Revenue to R\$416,141 million was due to the higher volume of sales and contractual adjustments based on inflation indices (IGP-M and IPC-A) in the last 12 months. Annualized Recurring Revenue totaled R\$1,766 billion in 1Q19, up 8.5% from 1Q18. In 1Q19, this growth led to a net addition of R\$33,0 million, up 15.0% from the net addition in 1Q18.

Renewal Rate - Client Renewal Rate stood at 98.1% in 1Q19, higher than in 1Q18, which showing the loyalty of existing clients.

Non-Recurring Revenue - up 5.1% from 1Q18 to R\$147,447 million, driven by: (i) the 6.5% increase in sales of non-recurring services, and (ii) the 3.1% growth in License sales.

Software Cost - this line increased 5.8% in 1Q19 in relation to 1Q18 to R\$181,547 million, lower than Software Revenue growth. This performance is mainly explained by: (i) the higher number of service employees on vacation due to the lower volume of services; and (ii) the decrease in support costs due to the reduction in the requirements established by new regulations.

Research and Development - the 9.4% increase in relation to 1Q18 to R\$96,236 million is due to: (i) investments in innovation during the period; (ii) the development efforts related to changes in tax laws, already mentioned in previous quarters; and (iii) the effects of foreign exchange variation on the TOTVS Labs structure in California.

Selling and Marketing Expenses - as a percentage of Software Revenue, this expense line fell from 18.5% in 1Q18 to 17.9% in 1Q19. This 60-basis point reduction is mainly due to efficiency gains and the variation in the sales mix between own channels and franchises.

Allowance for Doubtful Accounts - corresponded to 1.6% of Revenue in 1Q19. Compared to 1Q18, as a percentage of revenue, this expense line decreased 40 basis points due to the challenging scenario in early 2019. We believe this percentage may be lower in case of a more solid economic recovery.

General and Administrative Expenses and Provision for Contingencies - equivalent to 11.3% of Revenue in 1Q19, up 50 basis points from 1Q18. This increase reflects: (i) the headcount reduction in the Software segment; (ii) the provision curve for bonus associated with the achievement of financial and individual targets of executives in the period, as well as the provision for the grant of restricted shares under the Long-Term Incentive plan; (iii) the increase in expenses with salaries due to wage increases resulting from collective bargaining agreements in the state of São Paulo; and (iv) the inflation adjustment of provisions for contingencies, given the history of losses and the status of lawsuits in progress.

Other Operating Revenue (Expenses) - in relation to 1Q18, this line increased 24.6%, due to the impacts in the quarter from to the use of PIS/COFINS credits.

Adjusted EBITDA - compared to 1Q18, consolidated EBITDA grew 17.9%, with EBITDA Margin increasing 160 basis points, mainly associated with the higher increase in General and Administrative and R&D Expenses than Revenue growth, both effects explained earlier.

Depreciation and Amortization - Depreciation Expenses increased 96.0% from 1Q18, mainly due to: (i) the impact of the effects of IFRS 16; (ii) the start of depreciation of electronic processing equipment that was replaced during 2018; and (iii) the improvements made at the Belo Horizonte and Joinville units. The 33.8%

decline in Amortization Expenses compared to 1Q18 is essentially related to the end of amortization of intangible assets arising from the merger of Datasul concluded in 2Q18.

Finance Income (Expenses) - the reduction in financial loss in relation to 1Q18 is mainly due to the reduction in the Company's net debt in the periods.

Effective Rate - the effective Income Tax and Social Contribution rate increased in relation to 1Q18. This increase is associated with: (i) the lower share of tax incentive to innovation in relation to net income before income tax, which, despite a more efficient use of the incentive, did not accompany the growth in earnings before taxes; (ii) the increase in loss reported by subsidiaries abroad in relation to the previous year; and (iii) the decline in the tax benefit of economic subsidy.

EBITDA^(*) in the quarter totaled R\$114,794 million, up 18.0% from 1Q18, as shown in the table:

	Consolidated		
	1Q19	1Q18	Variation
Consolidated Net Income	12,118	34,310	- 64.7%
<i>Equity Pickup</i>	130	129	0.8%
<i>Income Tax and Social Contribution</i>	23,774	18,221	30.5%
<i>Finance Income</i>	9,766	11,201	-12.8%
<i>Depreciation and Amortization</i>	37,262	32,263	15.5%
<i>Net Income from Discontinued Operation</i>	31,744	1,189	2,569.8%
EBITDA	114,794	97,313	18.0%

In the year-on-year comparison, EBITDA grew 18.0%, mainly driven by the increase in Software revenue.

() EBITDA is a non-accounting measure used by the Company, which is calculated as net income from the period, plus taxes on profit, financial expenses net of financial income, depreciation and amortization.*

Asset Held for Sale – Hardware – In order to expand the Company's strategic focus on the software operation, management decided to divest the hardware operations. The Company target is to wrap up the selling negotiations with the possible buyers in short term. In light of this scenario, the Company analyzed the recoverable amount of its assets and, consequently, recorded based on fair market value of the investment in the total amount of R\$48,8 million (R\$32,2 million net of taxes) in the quarter.

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

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

To the Shareholders, Board of Directors and Officers

TOTVS S.A.

São Paulo - SP

Introduction

We have reviewed the individual and consolidated interim financial information of TOTVS S.A., (the "Company"), contained in the Quarterly Information Form (*Informações Trimestrais* - ITR) for the quarter ended March 31, 2019, which comprise the statement of financial position as of March 31, 2019 and the statements of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the three-month period then ended, including the 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 the Brazilian Financial Accounting Standards Board (Comitê de Pronunciamentos Contábeis - CPC) 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 the 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 March 31, 2019, 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 the 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 has not been prepared, in all material respects, consistently with the accompanying individual and consolidated interim financial information as a whole.

São Paulo, May 06, 2019.

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

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

(A free translation of the original in Portuguese)

TOTVS S.A.

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

(In thousands of reais)

Assets	Parent Company		Consolidated		Liabilities and equity	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018		3/31/2019	12/31/2018	3/31/2019	12/31/2018
Current assets	698,099	576,321	1,026,741	1,020,134	Current liabilities	547,260	549,151	706,705	709,612
Cash and cash equivalents (Note 4)	315,663	228,571	423,658	452,799	Payroll and labor liabilities (Note 15)	127,646	125,943	168,334	174,874
Marketable securities (Note 20)	22,965	23,477	44,711	44,909	Trade accounts payable (Note 16)	58,314	71,343	70,560	113,907
Trade accounts receivable (Note 5)	363,319	337,186	484,546	504,056	Taxes payable (Note 17)	33,190	32,577	44,757	47,466
Allowance for doubtful accounts (Note 5)	(95,247)	(88,515)	(117,040)	(118,518)	Commissions payable	41,206	35,721	47,429	43,166
Inventories (Note 6)	-	-	-	41,531	Dividends payable (Note 24)	11,964	13,737	12,293	13,902
Recoverable taxes (Note 7)	26,532	23,314	33,674	38,817	Loans and debts (Note 18)	162,604	155,278	178,709	166,154
Other assets (Note 10)	64,867	52,288	69,280	56,540	Debentures (Note 19)	76,238	77,319	76,238	77,319
Assets held for sale (Note 11)	-	-	87,912	-	Liabilities due to investment acquisition (Note 20)	30,240	30,752	59,398	59,597
					Other liabilities	5,858	6,481	6,778	13,227
					Liabilities associated with assets held for sale (Note 11)	-	-	42,209	-
Noncurrent assets	1,690,972	1,621,436	1,559,104	1,371,143	Noncurrent liabilities	535,535	361,564	572,130	393,445
Marketable securities (Note 20)	-	-	4,368	5,334	Loans and debts (Note 18)	194,434	28,914	205,844	35,317
Trade accounts receivable (Note 5)	20,499	18,723	21,672	19,890	Debentures (Note 19)	199,913	199,869	199,913	199,869
Receivables from related parties (Note 9)	4,163	3,956	-	-	Payables to related parties (Note 9)	194	24	-	-
Recoverable taxes (Note 7)	-	-	207	236	Liabilities due to investment acquisition (Note 17)	-	-	14,592	15,464
Financial assets	-	-	69,562	69,171	Provision for contingencies related to legal proceedings (Note 18)	123,079	117,780	133,786	127,792
Deferred income and social contribution taxes (Note 8)	48,779	45,845	110,182	125,124	Other liabilities	17,915	14,977	17,995	15,003
Judicial deposits (Note 18)	55,191	51,171	70,399	65,965					
Other assets (Note 10)	18,260	20,931	22,907	26,340	Equity (Note 23)	1,306,276	1,287,042	1,307,010	1,288,220
Investments (Note 12)	778,416	920,317	3,054	3,129	Capital	1,041,229	1,041,229	1,041,229	1,041,229
Property, plant and equipment (Note 13)	393,222	177,858	416,837	198,826	Treasury shares	(64,866)	(70,026)	(64,866)	(70,026)
Intangible assets (Note 14)	372,442	382,635	839,916	857,128	Capital reserves	168,153	169,907	168,153	169,907
					Other comprehensive income	20,187	20,704	20,187	20,704
					Retained profits reserve	141,573	125,228	141,573	125,228
					Noncontrolling interests	-	-	734	1,178
Total assets	2,389,071	2,197,757	2,585,845	2,391,277	Total liabilities and equity	2,389,071	2,197,757	2,585,845	2,391,277

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

(A free translation of the original in Portuguese)

TOTVS S.A.

Statements of profit or loss

For the three-months periods ended March 31, 2019 and 2018

(In thousands of reais, except for earnings per share)

	Parent Company		Consolidated	
	3/31/2019	3/31/2018	3/31/2019	3/31/2018
Software revenue (Note 28)	403,491	402,139	563,587	518,988
Cost of software	(133,961)	(142,991)	(181,547)	(171,658)
Gross profit	269,530	259,148	382,040	347,330
Operating income (expenses)				
Research and development	(65,798)	(67,408)	(96,236)	(87,938)
Selling and marketing expenses	(82,059)	(81,756)	(100,851)	(96,097)
General and administrative expenses	(55,865)	(49,084)	(63,405)	(56,099)
Depreciation and amortization (Notes 13 and 14)	(30,055)	(24,812)	(37,262)	(32,263)
Provision for expected credit losses (Note 5)	(6,225)	(6,939)	(8,936)	(10,518)
Other net operating income (expenses)	2,273	921	2,182	635
Income before financial effects and equity pick-up	31,801	30,070	77,532	65,050
Finance income (Note 30)	6,827	6,410	10,883	8,273
Finance costs (Note 30)	(17,559)	(17,156)	(20,649)	(19,474)
Equity pick-up (Note 12)	28,805	19,722	(130)	(129)
Income before income and social contribution taxes	49,874	39,046	67,636	53,720
Current income and social contribution taxes	(9,169)	-	(19,178)	(10,743)
Deferred income and social contribution taxes	3,121	(3,873)	(4,596)	(7,478)
Total income and social contribution taxes	(6,048)	(3,873)	(23,774)	(18,221)
Net income from continuing operations	43,826	35,173	43,862	35,499
Net Loss from discontinued operations	(31,744)	(1,189)	(31,744)	(1,189)
Net income for the period	12,082	33,984	12,118	34,310
Net income attributable to controlling shareholders	12,082	33,984	12,082	33,984
Net income attributable to non-controlling interests	-	-	36	326
Basic earnings per thousand shares (in Reais)	0.2680	0.2153	0.2680	0.2153
Diluted earnings per thousand shares (in Reais)	0.2661	0.2136	0.2661	0.2136

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, 2019 and 2018**

(In thousands of Reais)

	Parent Company	
	3/31/2019	3/31/2018
Profit for the period	12,082	33,984
Cumulative translation adjustment		
Continuing operations	90	(5)
Discontinued operations	(607)	(4,240)
Cumulative translation adjustment	(517)	(4,245)
Comprehensive income for the period	11,565	29,739

	Consolidated	
	3/31/2019	3/31/2018
Profit for the period	12,118	34,310
Cumulative translation adjustment		
Continuing operations	90	(5)
Discontinued operations	(607)	(4,240)
Cumulative translation adjustment	(517)	(4,245)
Comprehensive income for the period	11,601	30,065
Net income for the year attributable to controlling shareholders	11,565	29,739
Attributable to non-controlling interests	36	326

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 periods ended March 31, 2019 and December 31, 2018

(In thousands of reais)

	Capital	Premium on purchase from non-controlling interests	Reserves			Treasury share	Other Comprehensive income	Retained earnings	Proposed additional dividend	Equity	Non-controlling interests	Consolidated equity
			Capital	Legal	Retained profits							
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												
Capital increase	51,388	-	-	-	(51,388)	-	-	-	-	-	373	373
Share-based compensation plan	-	-	6,297	-	-	-	-	-	-	6,297	-	6,297
Dividends of previous year	-	-	-	-	-	-	-	-	(5,442)	(5,442)	(294)	(5,736)
Dividends	-	-	-	-	-	-	-	(17,978)	-	(17,978)	(164)	(18,142)
Interest on equity – distributed	-	-	-	-	-	-	-	(27,785)	-	(27,785)	-	(27,785)
Treasury shares	-	-	(1,469)	-	-	1,469	-	-	-	-	-	-
Total comprehensive income	-	-	-	2,977	2,840	-	18,976	45,763	-	70,556	1,080	71,636
Net income for the year	-	-	-	-	-	-	-	59,548	-	59,548	1,095	60,643
Cumulative adjustment for currency exchange	-	-	-	-	-	-	18,976	-	-	18,976	-	18,976
Opening balance CPC 47 / CPC 48	-	-	-	-	-	-	-	(7,968)	-	(7,968)	(15)	(7,983)
Reserves set up	-	-	-	2,977	2,840	-	-	(5,817)	-	-	-	-
Balance at December 31, 2018	1,041,229	(25,518)	195,425	86,996	38,232	(70,026)	20,704	-	-	1,287,042	1,178	1,288,220
Capital transactions with partners												
Capital increase	-	-	-	-	-	-	-	-	-	-	-	-
Share-based compensation plan	-	-	(1,754)	-	-	3,051	-	-	-	1,297	-	1,297
Dividends of previous year	-	-	-	-	-	-	-	-	-	-	(494)	(494)
Treasury shares	-	-	-	-	-	2,109	-	-	-	2,109	-	2,109
Total comprehensive income	-	-	-	-	-	-	(517)	16,345	-	15,828	50	15,878
Net income for the year	-	-	-	-	-	-	-	12,082	-	12,082	36	12,118
Cumulative adjustment for currency exchange	-	-	-	-	-	-	(517)	-	-	(517)	-	(517)
Opening balance CPC 06 (R2)	-	-	-	-	-	-	-	4,263	-	4,263	14	4,277
Reserves set up	-	-	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2019	1,041,229	(25,518)	193,671	86,996	38,232	(64,866)	20,187	16,345	-	1,306,276	734	1,307,010

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, 2019 and 2018

(In thousands of Reais)

	Parent Company		Consolidated	
	3/31/2019	3/31/2018	3/31/2019	3/31/2018
Cash flow from operating activities				
Profit before income and social contribution taxes	49,874	39,046	67,636	53,720
Adjustments for:				
Depreciation and amortization (Notes 13 and 14)	30,055	24,812	37,262	32,264
Share-based payments (Note 25)	1,256	1,231	1,256	1,231
Losses (gains) on disposal of fixed assets	(121)	(522)	(62)	(557)
Allowance for doubtful accounts (Note 5)	6,225	6,939	8,936	10,821
Equity pick-up (Note 12)	(28,805)	(19,722)	130	129
Provision for contingencies (Note 21)	14,275	13,672	15,173	14,151
Provision for (reversal of) other obligations and other	-	(147)	-	(552)
Interest and monetary and exchange variations, net	14,096	15,550	14,016	15,768
Changes in operating assets and liabilities:				
Trade accounts receivable	(27,401)	(11,744)	(48,505)	(37,668)
Recoverable taxes	(3,023)	(9,501)	(1,309)	(18,334)
Judicial deposits	(3,144)	993	(3,442)	1,385
Other assets	(12,318)	(13,003)	(11,954)	13,545
Labor and social security liabilities	1,745	16,646	(468)	(9,844)
Suppliers	(7,205)	(1,721)	(6,019)	(1,718)
Commissions payable	5,485	1,904	5,542	2,826
Taxes payable	(1,813)	9,471	(2,918)	8,633
Other accounts payable	(9,341)	(13,309)	(9,643)	(4,375)
Change in assets and liabilities from discontinued operations	-	-	6,617	2,419
Cash flow from operations	29,840	60,595	72,248	83,844
Interest paid	(13,143)	(14,310)	(13,536)	(14,725)
Income and social contribution taxes paid	(6,743)	(2,629)	(17,217)	(6,547)
Net cash from operating activities	9,954	43,656	41,495	62,572
Cash flow from investing activities				
Capital increase in subsidiaries (Note 12)	79,604	(4,939)	-	-
Dividends received	63,599	497	-	-
Purchases of intangible assets (Note 14)	(4,768)	(4,532)	(4,775)	(5,332)
Purchases of property, plant and equipment (Note 12)	(7,591)	(13,527)	(7,941)	(13,112)
Value of sales of fixed assets	2,013	828	2,060	872
Net cash used in investing activities	132,857	(21,673)	(10,656)	(17,572)
Cash flow from financing activities				
Payment of principal on loans and financing	(42,564)	(42,285)	(45,275)	(45,135)
Payment of finance lease	(13,454)	(6,174)	(14,711)	(6,190)
Receivables from related companies	(37)	1,716	-	-
Dividends and interest on equity paid	(1,773)	-	(2,103)	(139)
Treasury share	2,109	-	2,109	-
Net cash used in financing activities	(55,719)	(46,743)	(59,980)	(51,464)
Increase (decrease) in cash and cash equivalents	87,092	(24,760)	(29,141)	(6,464)
Cash and cash equivalents at beginning of year	228,571	305,920	452,799	387,169
Cash and cash equivalents at end of period	315,663	281,160	423,658	380,705

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, 2019 and 2018**

(In thousands of Reais)

	Parent Company		Consolidated	
	3/31/2019	3/31/2018	3/31/2019	3/31/2018
1 – REVENUES	451,002	445,672	625,699	571,573
1.1 Sales of goods, products and services	454,967	451,765	632,456	581,619
1.2 Other revenue	2,260	846	2,179	472
1.3 Allowance for doubtful accounts – recording	(6,225)	(6,939)	(8,936)	(10,518)
2 - RAW MATERIALS ACQUIRED FROM THIRD PARTIES				
(includes ICMS and IPI taxes)	(184,232)	(148,410)	(212,959)	(171,035)
2.1 Cost of goods and services sold	(21,449)	(19,145)	(22,871)	(21,057)
2.2 Materials, energy, outsourced services and other	(131,039)	(128,076)	(158,344)	(148,789)
2.3 Loss / Recovery of assets	(31,744)	(1,189)	(31,744)	(1,189)
3 - GROSS VALUE ADDED (1-2)	266,770	297,262	412,740	400,538
4 - DEPRECIATION AND AMORTIZATION	(30,055)	(24,812)	(37,262)	(32,263)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)	236,715	272,450	375,478	368,275
6 - VALUE ADDED RECEIVED IN TRANSFERS	35,632	24,943	10,753	8,144
6.1 Equity pick-up	28,805	19,722	(130)	(129)
6.2 Finance income	6,827	6,410	10,883	8,273
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	272,347	298,582	386,231	376,419
8 - VALUE ADDED DISTRIBUTION	272,347	298,582	386,231	376,419
8.1 Personnel	176,261	176,322	246,838	218,878
8.1.1 Direct compensation	144,510	143,283	203,911	178,422
8.1.2 Benefits	19,920	20,341	26,875	25,226
8.1.3 FGTS (worker's severance pay fund)	11,831	12,698	16,052	15,230
8.2 Taxes and contributions	66,082	62,380	105,642	92,839
8.2.1 Federal	53,739	50,781	88,389	77,662
8.2.2 State	8	9	266	231
8.2.3 Local	12,335	11,590	16,987	14,946
8.3 Interest and rent	17,922	25,896	21,633	30,392
8.3.1 Interest	17,559	17,157	20,649	19,474
8.3.2 Rents	363	8,739	984	10,918
8.4 Equity remuneration	43,826	33,984	43,862	35,499
8.4.3 Retained profits / loss for the year	12,082	33,984	12,082	33,984
8.4.4 Non-controlling interests in retained profits	-	-	36	326

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

b) Operations

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

2. Basis of preparation and presentation of the interim financial statements

2.1. Compliance statement

The individual and consolidated interim financial information was prepared and is presented in accordance with the accounting practices adopted in Brazil, which comprise Brazilian Securities and Exchange Commission (CVM) rules, and Brazilian Financial Accounting Standards Board (CPC) pronouncements, guidance and interpretations, which are in conformity with the standards and procedures of the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB). All significant information in the individual and consolidated interim financial information, and solely such information, is 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 was approved at the Board of Directors' Meeting held on May 06, 2019, after a recommendation by the Audit Committee at a meeting held on April 24, 2019.

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, 2018.

2.3. Basis of preparation

The individual and consolidated Interim financial information was prepared using the historical cost as the base value, except for the valuation of certain assets and liabilities, such as business combinations 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 is 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 disclosures

The following are the new standards and amendments issued by the IASB and CPC effective as of January 1, 2019 and their impact on the Company:

IFRS16/CPC 06(R2) – Leases - IFRS 16, this new standard introduces the principles for recognizing, measuring, reporting and disclosing lease operations and requires lessees to record all leases in accordance with a single statement of financial position template, similar to the accounting of financial leases pursuant to CPC 06 (R1). Certain short-term or low value agreements may be outside the scope of this new standard. At the starting date of a lease, the lessee recognizes a liability to make payments (a lease liability) and an asset representing its right to use the leased asset during the lease term (a right-of-use asset). Lessees must recognize separately interest expenses on the lease liability and depreciation of the right-of-use asset. The criteria for recognizing and measuring leases in financial statements of lessors are substantially maintained.

The Company adopted IFRS16/CPC 06(R2) using the retrospective method with cumulative effect of initially applying this pronouncement as an adjustment to the opening balance.

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

STATEMENT OF FINANCIAL POSITION	Financial Statements disclosed at 12/31/2018	Effects of first adoption of IFRS 16/CPC 06 (R2)	Financial Statements at 01/01/2019
Current assets	1,020,134	-	1,020,134
Other noncurrent assets	1,047,193	-	1,047,193
Deferred income and social contribution taxes	125,124	(2,203)	122,921
Property, plant and equipment	198,826	236,820	435,646
Total assets	2,391,277	234,617	2,625,894
Current lease	13,227	40,013	53,240
Other current liabilities	696,385	(6,480)	689,905
Noncurrent lease	28,962	196,457	225,419
Other noncurrent liabilities	364,483	350	364,833
Equity (i)	1,288,220	4,277	1,292,497
Total liabilities and equity	2,391,277	234,617	2,625,894

- (i) The amount of R\$ 4,277, net of deferred taxes of R\$2,203, refers to the write-off of the deferral of the rental grace granted at the beginning of the rental period of the real estate contracts.

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

STATEMENTS OF PROFIT OR LOSS	Financial Statements disclosed at 31/03/2019	Effects of adoption of IFRS of IFRS 16/CPC 06 (R2)	Financial Statements at 03/31/2019 without effects of IFRS 16/CPC 06(R2)
Software revenue	563,587	-	563,587
Cost of software (i)	(181,547)	4,141	(185,688)
Gross profit	382,040	4,141	377,899
Research and development (i)	(96,236)	3,687	(99,923)
Selling and marketing expenses (i)	(100,851)	1,196	(102,047)
General and administrative expenses (i)	(63,405)	1,325	(64,730)
Depreciation and amortization	(37,262)	(9,144)	(28,118)
Provision for expected credit losses	(8,936)	-	(8,936)
Other net operating income (expenses)	2,182	-	2,182
Income before financial effects and equity pick-up	77,532	1,205	76,327
Finance income (expenses) and equity-pick-up	(9,896)	(3,022)	(6,874)
Finance income	10,883	-	10,883
Finance costs	(20,649)	(3,022)	(17,627)
Equity pick-up	(130)	-	(130)
Income and social contribution taxes	(23,774)	618	(24,392)
Net income from continuing operations	43,862	(1,199)	45,061
Net Loss from discontinued operations	(31,744)	(104)	(31,640)
Net income for the period	12,118	(1,303)	13,421

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

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

There are no other standards, amendments and interpretations for standards issued and not yet adopted that, in Management's opinion, may have a significant impact on the P&L or equity disclosed by the Company.

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	3/31/2019	12/31/2018
TOTVS Serviços Ltda.	BRA	TOTVS Serviços		100.00	100.00
Soluções em Software e Serviços TTS Ltda. (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		74.20	74.20
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 Mexico		100.00	100.00
Datasul S.A. de CV	MEX	Datasul Mexico		100.00	100.00
TOTVS Corporation	BVI	TOTVS Corporation		100.00	100.00
TOTVS Incorporation	USA	TOTVS Inc,		100.00	100.00
Neolog Consultoria e Sistemas S.A.	BRA	Neolog		60.00	60.00
Ciashop - Soluções para Comércio Eletrônico S.A.	BRA	Ciashop		70.00	70.00
Bematech S.A.	BRA	Bematech		100.00	100.00
TFS Soluções em software Ltda.	BRA	TFS		100.00	100.00
Tecnologia em Software Bemacash Ltda.	BRA	Bemacash	(i)	100.00	-

- (i) Company incorporated to segregate the operation referring to the Bemacash solution that inoperative thus far.

Indirect Interest:				% interest	
Corporate Name	Head office	Name used	Investor	3/31/2019	12/31/2018
DTS Consulting Partner, S.A. 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	TQTV	100.00	100.00
Bematech Hardware Ltda.	BRA	Bematech Hardware	Bematech Hardware	100.00	100.00
Bematech Ásia Co. Ltda.	TWN	Bematech Ásia	Bematech Hardware	100.00	100.00
Bematech Argentina S.A.	ARG	Bematech Argentina	Bematech S.A. e Inter. Corp.	100.00	100.00
Bematech Internacional Corp.	EUA	BIC	Bematech Hardware	100.00	100.00
Logic Controls, Inc	EUA	Logic Controls	BIC	100.00	100.00
FICE - Bematech Foshan Shunde Ltda.	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 Espanha	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
TQTV Software Ltda.	BRA	TQTV	Bematech S.A.	25.80	25.80
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 equal the actual results.

For the three-month period ended March 31, 2019, there were no changes in estimates and assumptions entailing a significant risk of causing relevant adjustments, except for the evaluation of assets of the hardware operations that were classified as held for sale as described in note 11.

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.

3.1. Sensitivity analysis of financial assets and liabilities

The Company's financial instruments are represented by cash and cash equivalents, accounts receivable, accounts payable, debentures, loans and debts, which are recorded at cost plus income or charges incurred or at fair value when applicable, as at March 31, 2019 and December 31, 2018.

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

- (i) Brazilian Interbank Deposit Rate (CDI) for financial investments and debentures issued in 2017;
- (ii) Long-Term Interest Rate (TJLP) for financing from the Brazilian Development Bank (BNDES) and for debentures issued in previous years; and
- (iii) Extended Consumer Price Index (IPCA), 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, 2019, three different scenarios were defined. Based on projections disclosed by financial institutions, the average rate for CDI is 6.40% for 2019, 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, 2019, with a one-year projection to check the sensitivity of CDI to each scenario.

Operation	Balances at 3/31/2019	Risk	Probable Scenario (I)	Scenario (II)	Scenario (III)
		Reduction			
Consolidated financial investments	R\$ 397,167	CDI (a)	6.40%	4.80%	3.20%
Finance income, estimated			R\$ 25,419	R\$ 19,064	R\$ 12,709

(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, 2019, three different scenarios were created. Based on the TJLP and IPCA rates in force as of March 31, 2019, the most probable scenario (scenario I) was determined for 2018 and, from this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

The gross finance cost was calculated for each scenario, not taking into account the tax and the maturity flow for each agreement scheduled for 2019. The reference date used for the financing and debentures was March 31, 2019, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances at 3/31/2019	Risk	Probable Scenario I	Scenario II	Scenario III
		Increase			
Financing – Consolidated BNDES	R\$ 100,608	TJLP (a)	6.26%	7.83%	9.39%
Estimated finance expense			R\$ 6,298	R\$ 7,878	R\$ 9,447

		Increase			
Consolidated debentures	R\$ 75,891	IPCA (b)	3.89%	4.86%	5.84%
		TJLP (a)	6.26%	7.83%	9.39%
	R\$ 200,260	CDI	6.40%	8.00%	9.60%
Estimated finance expense			R\$ 21,703	R\$ 24,907	R\$ 28,111

(a) Long-term Interest Rate

(b) 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 at March 31, 2019 was R\$69,562 (R\$69,171 as at December 31, 2018).

3.3. Changes in the liabilities of financing activities

Liabilities arising from financing activities are liabilities for which cash flows were or will be 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, 2019:

		Cash flow from financing activities		Non-cash items			
	12/31/2018	Principal	Interest paid	New leases	Interest incurred	Other (i)	3/31/2019
Loans and financing	159,282	(45,275)	(2,399)	-	2,645	-	114,253
Lease	42,189	(14,711)	(4,634)	242,736	4,720	-	270,300
Debentures	277,188	-	(6,465)	-	5,428	-	276,151
Dividends payable and other	13,902	(2,103)	-	-	-	494	12,293
Total	492,561	(62,089)	(13,498)	242,736	12,793	494	672,997

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

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	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Cash	582	10,571	26,491	44,925
Cash equivalents	315,081	218,000	397,167	407,874
Repurchase agreements	146,555	92,942	201,062	225,894
CDB	168,526	125,058	196,105	181,980
	315,663	228,571	423,658	452,799

The Company financial investments policies are based on low risk approach in top-tier institutions, remunerated substantially, by reference to the CDI variation, which monthly averaged 96.4% of the CDI for the period ended March 31, 2019 (99.22% as of December 31, 2018).

5. Trade accounts receivable, net

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

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Domestic market	383,150	355,384	499,971	508,394
Foreign market	668	525	6,247	15,552
Gross trade accounts receivable	383,818	355,909	506,218	523,946
(-) provision of expected credit losses	(95,247)	(88,515)	(117,040)	(118,518)
Net trade accounts receivable	288,571	267,394	389,178	405,428
Current assets	268,072	248,671	367,506	385,538
Noncurrent assets (a)	20,499	18,723	21,672	19,890

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

Below are the receivables in connection with the net amount of provision of expected credit losses accounts by aging list as of March 31, 2019 and December 31, 2018:

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Falling due	197,525	181,288	254,317	288,890
Unbilled	54,069	57,464	83,103	73,627
Overdue				
1 to 30 days	13,316	8,607	18,357	13,758
31 to 60 days	6,278	3,896	10,191	7,216
61 to 90 days	2,513	2,346	4,209	3,785
91 to 180 days	3,498	2,834	5,138	4,919
181 to 360 days	2,131	2,264	2,426	2,924
More than 360 days	9,241	8,695	11,437	10,309
Net accounts receivable	288,571	267,394	389,178	405,428

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

	3/31/2019	
	Parent Company	Consolidated
Balance at beginning of period	88,515	118,518
Provision of expected credit losses discontinued operation	-	(10,601)
Additional provision in the period	6,225	8,936
Amounts written off due to	507	187
Balance at end of period	95,247	117,040

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

6. Inventories

The balances below are related to Bematech Hardware which at March, 31 2019 were classified as held for sale:

	Consolidated	
	3/31/2019	12/31/2018
Finished products	-	11,155
Raw material	-	19,157
Products for resale and other	-	8,539
Parts for technical assistance	-	962
Advances from supplier	-	2,872
(-) Provision for adjustment to realization	-	(1,154)
	-	41,531

7. Recoverable Taxes

The amounts of recoverable taxes are as follows:

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
State Goods and Services Tax (ICMS) (a)	-	-	-	6,284
Income tax to offset (b)	11,972	10,805	17,510	18,172
Social contribution tax to offset (b)	14,183	12,490	15,159	13,764
Withholding PIS and COFINS taxes	377	18	415	212
Other	-	1	797	621
	26,532	23,314	33,881	39,053
Current	26,532	23,314	33,674	38,817
Noncurrent	-	-	207	236

- (a) The accumulated ICMS tax credits of Bematech Hardware were classified as held for sale on the consolidated statement of financial position for the period ended March 31, 2019 (see more details note 11).
- (b) Refers 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 and social contribution taxes are calculated on income 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	
	3/31/2019	3/31/2018	3/31/2019	3/31/2018
Income before taxes	49,874	39,046	67,636	53,720
Income and social contribution taxes at combined nominal rate of 34%	(16,957)	(13,276)	(22,996)	(18,265)
Adjustments for the statement of effective rate				
Equity pick-up	10,790	7,878	-	20
Law No. 11196/05 (Incentive for research and development)	1,279	1,936	2,373	2,155
Effect of subsidiaries subject to special rates	-	-	(2,195)	(1,376)
Management stake	(1,084)	(133)	(1,084)	(133)
Workers' Meal Program (PAT)	165	-	329	5
Other	(241)	(278)	(201)	(627)
Income and social contribution tax expense	(6,048)	(3,873)	(23,774)	(18,221)
Current income and social contribution taxes	(9,169)	-	(19,178)	(10,743)
Deferred income and social contribution taxes	3,121	(3,873)	(4,596)	(7,478)
Effective rate	12.1%	9.9%	35.1%	33.9%

8.2. Breakdown of deferred income and social contribution taxes

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Income and social contribution tax losses carryforwards	-	-	65,769	71,620
Deriving from temporary differences:				
Difference between tax base and book value from goodwill	20,068	21,308	41,336	43,531
Amortization of tax benefit	(88,170)	(86,828)	(136,360)	(132,612)
Intangible asset allocation	(12,637)	(13,491)	(19,737)	(20,835)
Allocation of intangible assets – after Law No. 12973	14,330	13,334	14,330	13,334
Provision for commissions	14,266	12,426	15,880	14,099
Anticipated income or revenues	4,546	5,253	2,564	9,705
Allowance for doubtful accounts	32,384	30,095	38,249	36,285
Provision for contingencies and other liabilities	41,847	40,045	45,486	43,447
Provision for suppliers	7,096	7,902	8,949	10,396
Provision for impairment	1,792	-	16,592	14,760
Provision for share-based payments	5,024	5,550	5,025	5,720
Present value adjustment	2,868	2,766	4,933	4,803
Other	5,365	7,485	7,166	10,871
Net deferred income and social contribution taxes	48,779	45,845	110,182	125,124

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

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

	Parent Company	Consolidated
At December 31, 2018	45,845	125,124
Expense in statement of profit or loss	3,121	(4,596)
Tax related to other comprehensive income	1,792	(8,016)
Opening balance of IFRS16/CPC06 (R2)	(1,980)	(2,203)
Other	1	(127)
At March 31, 2019	48,779	110,182

9. Related-party balances and transactions

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

9.1. Credits and liabilities with subsidiaries and associate companies

As of March 31, 2019 and December 31, 2018, significant asset and liability balances and transactions with related parties that influence the profit or loss for the period are as follows:

	Parent Company			
	3/31/2019		12/31/2018	
	Asset	Liability	Asset	Liability
Ciashop	2,535	-	2,484	-
TOTVS Serviços	1,416	-	1,472	-
Other	212	194	-	24
Total	4,163	194	3,956	24

The subsidiary Ciashop has a loan agreement with TOTVS S.A. with interest computed by reference to Selic. Other accounts payable and receivable among subsidiaries refer to short-term current account operations, without remuneration.

There were no significant transactions that have gone through Profit or Loss between the group companies.

9.2. Transactions or relationships with shareholders and key management personnel

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

The amount paid for the rental and condominium fees with related party, including the new headquarters, recognized at the three-month period ended March 31, 2019 was, R\$6,347 (R\$6,046 as at March 31, 2018). 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, 2019 (17.6% as of December 31, 2018). The indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company still incurred expenses and revenues of low value over the quarter with related parties where the total amount of expenditures was R\$254 and receipts in the amount of R\$48.

9.3. Management fees

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

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Short-term benefits to managing officers				
Salaries, fees and payroll charges	3,688	3,263	3,955	3,778
Direct and indirect benefits	226	62	226	68
Variable bonus (i)	3,189	390	3,429	390
Share-based payments	1,391	1,026	1,391	1,026
	8,494	4,741	9,001	5,262

(i) This includes the estimated provision for the 2019 discretionary bonus that will be realized upon achievement of individual performance targets.

Management are also entitled to vehicles that are replaced every 3 years. The depreciation expenses of vehicles granted to management for the period ended March 31, 2019 is R\$202 (R\$156 as of March 31, 2018).

10. Other assets

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

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Prepaid expenses	50,420	38,515	53,037	41,863
Franchises loan	16,355	17,668	20,285	21,689
Advances to employees	9,597	7,444	10,954	8,431
Advances to suppliers	910	1,331	1,235	1,535
Dividends receivable	494	2,174	-	-
Other assets	5,351	6,087	6,676	9,362
	83,127	73,219	92,187	82,880
Current assets	64,867	52,288	69,280	56,540
Noncurrent assets	18,260	20,931	22,907	26,340

11. Hardware business – going concern

Based on TOTVS business strategy, focused on Software business, the Company decided to hold for sale the hardware operations. The Company target is to wrap up the selling negotiations with the possible buyers in short term. As IFRS 5 / CPC 31, hardware operations assets were classified and measured such fair market value as held for sale as of March, 31 2019.

Set out below are the losses for three months ended in March 31, 2019 and 2018:

	Consolidated	
	3/31/2019	3/31/2018
Net revenue	46,254	44,009
(-) Costs of goods and sold	(31,659)	(29,252)
Gross profit	14,595	14,757
Research and development	(2,398)	(3,866)
Selling and marketing expenses	(9,662)	(7,987)
General and administrative expenses	(2,672)	(3,879)
Depreciation and amortization	(1,069)	(1,394)
Provision for expected credit losses	(355)	(2,173)
Government subsidy	867	1,639
Other net operating income	174	129
Loss before financial effects and equity pick-up	(520)	(2,774)
Finance income (loss)	150	204
Income and social contribution taxes	834	1,381
Profit (losses) for the period	464	(1,189)
Fair market value accrual, net of taxes (i)	(32,208)	-
Net Loss from discontinued operations	(31,744)	(1,189)

- (i) This amount includes provision for loss on investment amounting to R\$43,528 at Bematech S.A. and provision for write-off of trademark amounting to R\$5,272 at TOTVS S.A., net of taxes.

	Consolidated	
	3/31/2019	3/31/2018
Comprehensive loss from discontinued operations		
Net loss from the Period	(31,744)	(1,189)
Cumulative translation adjustments	(607)	(4,240)
Comprehensive income from the period	(32,351)	(5,429)

The main classes of assets and liabilities from held-for-sale hardware operations on March 31, 2019 were as under:

	Consolidated
	3/31/2019
Assets	
Accounts receivable, net	40,614
Inventories	41,399
Recoverable taxes	6,098
Property, plant and equipment and intangible assets	21,550
Deferred income tax and social contribution	25,178
Other assets	1,873
Provision for losses from available-for-sale assets	(48,800)
Assets classified as held-for-sale	87,912
Liabilities	
Payroll and related charges	(4,425)
Trade payables	(26,768)
Tax liabilities	(1,850)
Leases	(5,284)
Commissions	(1,143)
Other liabilities	(2,739)
Obligations directly associated with assets classified as held-for-sale	(42,209)
Net assets directly associated with the group of assets held for sale	45,703

Net cash flows incurred by Bematech Hardware are as follows:

	Consolidated	
	3/31/2019	3/31/2018
Operating activities	7,201	6,015
Investment activities	(432)	(3,596)
Financing activities	(152)	-
Net cash generated from (used in) discontinued operations	6,617	2,419

Fair market value

As mentioned above, consolidated assets and liabilities from the hardware operations were classified as available-for-sale operations on March 31, 2019 and, as such, an impairment loss was recognized in the total amount of R\$43,528 (R\$28,728 net of taxes) at the parent company Bematech S.A. and R\$5,272 (R\$3,480 net of taxes) related to the write-off of the brand at TOTVS S.A. so that the book value of the held-for-sale assets was reduced to the fair sales value. The amount was recognized in the statement of profit or loss under loss from the period from discontinued operation.

12. Investments

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

	Summarized financial statements of affiliate companies and subsidiaries as at March 31, 2019					Equity pick-up (parent Company) for periods ended:		Balance of investments as of:	
	Assets	Liabilities	Net Equity	Gross profit	Profit or loss	3/31/2019	3/31/2018	3/31/2019	12/31/2018
Bematech S.A. (a)	418,093	55,190	362,903	15,273	(27,198)	(1,395)	(859)	433,856	493,626
TOTVS Brasília	114,307	15,944	98,363	34,758	9,876	9,876	3,996	98,363	143,487
TOTVS Nordeste	83,173	15,439	67,734	7,210	2,546	2,546	838	67,734	75,188
TOTVS Serviços	50,673	15,004	35,669	51,290	15,615	15,615	14,072	35,670	49,055
TOTVS Inc.	75,168	3,463	71,705	58	(4,898)	(4,898)	(2,783)	71,705	72,030
Neolog (a)	3,379	2,468	911	2,668	84	(420)	105	17,779	18,920
TQTV D	37,695	10,271	27,424	14,472	2,931	2,174	243	20,347	17,876
TOTVS Ventures	5,168	1	5,167	-	35	35	31	5,167	5,132
Ciashop (a)	5,840	4,607	1,233	2,390	5	5	(674)	5,328	5,323
TOTVS Mexico	10,619	5,105	5,514	4,641	(1,991)	(1,991)	(2,111)	5,513	4,571
TOTVS Argentina	11,477	6,225	5,252	7,024	638	638	936	5,252	5,027
Datasul Argentina	-	-	-	-	-	-	(58)	-	-
TFS	29,398	17,760	11,638	28,976	6,620	6,620	5,986	11,637	30,017
NCC	-	-	-	-	-	-	-	65	65
						28,805	19,722	778,416	920,317

- (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 pick-up refers to the amortization of intangible assets in the determination of fair value of assets of the respective acquired companies.

Changes in the investment accounts for the three-month period ended March 31, 2019 were as follows:

	12/31/2018	Addition	Dividends	Equity pick-up		Assets held for sales	Foreign qxchange/ Inflation (ii)	Opening balance of CPC 06 (R2) (i)	3/31/2019
				Equity pick-up	Intangible amortizati on				
Bematech S.A.	493,626	(29,607)	-	1,066	(2,461)	(28,264)	(607)	103	433,856
TOTVS Brasília	143,487	(47,000)	(8,000)	9,876	-	-	-	-	98,363
TOTVS Nordeste	75,188	(10,000)	-	2,546	-	-	-	-	67,734
TOTVS Serviços	49,055	-	(29,000)	15,615	-	-	-	-	35,670
TOTVS Inc.	72,030	4,142	-	(4,898)	-	-	431	-	71,705
Neolog	18,920	-	(741)	51	(471)	-	-	20	17,779
TQTV D	17,876	-	-	2,174	-	-	-	297	20,347
TOTVS Ventures	5,132	-	-	35	-	-	-	-	5,167
Ciashop	5,323	-	-	5	-	-	-	-	5,328
TOTVS Mexico	4,571	2,861	-	(1,991)	-	-	72	-	5,513
TOTVS Argentina	5,027	-	-	638	-	-	(413)	-	5,252
TFS	30,017	-	(25,000)	6,620	-	-	-	-	11,637
NCC	65	-	-	-	-	-	-	-	65
Sum of investments	920,317	(79,604)	(62,741)	31,737	(2,932)	(28,264)	(517)	420	778,416

- (i) Effects on equity in the subsidiaries as at January 01, 2019 referring to first-time adoption of IFRS 16/CPC 06 (R2) (note 2.3).
- (ii) Includes the inflation adjustments of Argentine subsidiaries.

13. 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	Right to use (i)	Others	Total Property, plants and equipment
Cost								
Balance as of December 31, 2018	184,096	10,201	22,877	26,403	86,099	-	11,133	340,809
Opening balance of IFRS 16/CPC 06 (R2)	-	-	-	-	-	217,111	-	217,111
Additions	2,412	325	2,229	299	2,306	11,562	21	19,154
Transfers	59	(201)	329	(13)	3,655	-	(3,829)	-
Write-offs	(1,789)	(225)	(503)	(16)	(26)	-	-	(2,559)
Balance as of March 31, 2019	184,778	10,100	24,932	26,673	92,034	228,673	7,325	574,515
Depreciation								
Balance as of December 31, 2018	(106,265)	(3,966)	(11,783)	(11,841)	(24,728)	-	(4,368)	(162,951)
Depreciation in the period	(6,798)	(857)	(740)	(799)	(2,617)	(7,939)	(616)	(20,366)
Transfers	-	-	(60)	-	60	-	-	-
Write-offs	1,330	214	457	11	12	-	-	2,024
Balance as of March 31, 2019	(111,733)	(4,609)	(12,126)	(12,629)	(27,273)	(7,939)	(4,984)	(181,293)
Residual value								
Balance as of March 31, 2019	73,045	5,491	12,806	14,044	64,761	220,734	2,341	393,222
Balance as of December 31, 2018	77,831	6,235	11,094	14,562	61,371	-	6,765	177,858
Average annual depreciation rate	20% to 25%	33%	10% to 25%	6.7% to 25%	10% to 20%	10% to 33%	20%	

Consolidated								
	Computers and electronics equip,	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improve ments	Right to use (i)	Others	Total Property, plant and equipment
Cost								
Balance as of December 31, 2018	204,541	12,756	28,861	34,377	101,000	-	11,927	393,462
Opening balance of IFRS 16/CPC 06 (R2)	-	-	-	-		236,820	-	236,820
Additions	2,618	402	2,286	304	2,306	11,562	25	19,503
Assets held for sale	(3,162)	(763)	(1,427)	(5,519)	(4,479)	(5,646)	(173)	(21,169)
Transfers	538	(201)	379	(520)	3,655	-	(3,809)	42
Write-offs	(2,204)	(409)	(505)	(35)	(26)	-	(4)	(3,183)
Exchange variation (ii)	(49)	4	(11)	(2)	(5)	(29)	-	(92)
Balance as of March 31, 2019	202,282	11,789	29,583	28,605	102,451	242,707	7,966	625,383
Depreciation								
Balance as of December 31, 2018	(120,437)	(5,342)	(14,995)	(16,704)	(33,117)	-	(4,041)	(194,636)
Depreciation in the period	(7,299)	(947)	(837)	(836)	(3,074)	(9,143)	(473)	(22,609)
Assets held for sale	1,985	107	396	3,147	440	-	52	6,127
Transfers	(452)	-	(94)	460	60	-	(16)	(42)
Write-offs	1,730	326	458	13	12	-	3	2,542
Exchange variation (ii)	46	(3)	12	3	4	7	3	72
Balance as of March 31, 2019	(124,427)	(5,859)	(15,060)	(13,917)	(35,675)	(9,136)	(4,472)	(208,546)
Residual value								
Balance as of March 31, 2019	77,855	5,930	14,523	14,688	66,776	233,571	3,494	416,837
Balance as of December 31, 2018	84,104	7,414	13,866	17,673	67,883	-	7,886	198,826
Average annual depreciation rate	20% to 25%	20% to 33%	10% to 25%	6.7% to 25%	10% a 20%	10% a 33%	20%	

(i) The Company applied exceptions to the standard for short-term and immaterial value contracts, booked in rental expense in the amount of R\$363 and R\$1,480 in the Parent Company and Consolidated, respectively as of March 31, 2019. The addition of the period refers to the annual update of installments of some contracts according to the indexer established in the agreement.

(ii) Includes the inflation adjustments of Argentine subsidiaries.

14. Intangible assets

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

	Parent Company					Total Intangible assets
	Software	Trademarks & patents	Customer portfolio	Other (ii)	Goodwill	
Cost						
Balance as of December 31, 2018	339,590	63,149	212,980	18,750	280,308	914,777
Additions	4,768	-	-	-	-	4,768
Balance as of March 31, 2019	344,358	63,149	212,980	18,750	280,308	919,545
Amortization						
Balance as of December 31, 2018	(258,748)	(43,825)	(210,819)	(18,750)	-	(532,142)
Amortization in the period	(8,434)	(1,050)	(205)	-	-	(9,689)
Provision for assets held for sale	-	(5,272)	-	-	-	(5,272)
Balance as of March 31, 2019	(267,182)	(50,147)	(211,024)	(18,750)	-	(547,103)
Residual value						
Balance as of March 31, 2019	77,176	13,002	1,956	-	280,308	372,442
Balance as of December 31, 2018	80,842	19,324	2,161	-	280,308	382,635
Average annual amortization rates	10% to 20%	6.7% to 8%	10% to 12.5%			

	Consolidated						Total Intangible assets
	Software	Trademarks & patents	Customer portfolio	R&D	Others (ii)	Goodwill	
Cost							
Balance as of December 31, 2018	384,898	100,832	360,730	28,107	49,848	668,804	1,593,219
Additions	4,775	-	-	-	-	-	4,775
Assets held for sale	(5,484)	(6,494)	-	(13,496)	-	-	(25,474)
Exchange variation (i)	(26)	-	-	-	-	-	(26)
Balance as of March 31, 2019	384,163	94,338	360,730	14,611	49,848	668,804	1,572,494
Amortization							
Balance as of December 31, 2018	(295,876)	(62,990)	(261,159)	(22,826)	(49,629)	(43,611)	(736,091)
Amortization in the period	(9,593)	(1,402)	(2,900)	(723)	(35)	-	(14,653)
Assets held for sale	2,338	4,730	-	16,349	-	-	23,417
Provision for assets held for sale	-	(5,272)	-	-	-	-	(5,272)
Exchange variation (i)	21	-	-	-	-	-	21
Balance as of March 31, 2019	(303,110)	(64,934)	(264,059)	(7,200)	(49,664)	(43,611)	(732,578)
Residual value							
Balance as of March 31, 2019	81,053	29,404	96,671	7,411	184	625,193	839,916
Balance as of December 31, 2018	89,022	37,842	99,571	5,281	219	625,193	857,128
Average annual amortization rates	10% to 20%	6.7% to 8%	10% to 12.5%	20%	10% to 50%		

(i) Includes the inflation adjustments of Argentine subsidiaries.

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

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

study by an independent specialist firm.

14.1. Changes in goodwill

The breakdown of goodwill as of March 31, 2019 and December 31, 2018 is as follows:

	Consolidated
Bematech Software	218,695
RM	90,992
W&D	64,070
Virtual Age	46,497
RMS	35,740
SRC	33,688
Datasul	30,084
Gens FDES	16,340
Seventeen	15,463
TOTVS Agroindústria	13,128
Neolog	12,565
BCS	11,821
TotalBanco	6,008
Logo Center	5,703
Ciashop	4,465
Others	19,934
	625,193

14.2. Test for impairment of assets

The Company annually assesses the recoverability of the book value of goodwill using the “value in use” methodology, through the discounted cash flow model of the cash generating units, representing the tangible and intangible assets used in the development and sale of different solutions to its clients. The Company constantly monitors its operations based on the projections adopted for the fiscal year ended December 31, 2018.

As described in Note 11, assets from the hardware operation were classified and measured at their recoverable amount and consequently resulted in the classification of the respective assets as available-for-sale in the interim financial statements of March 31, 2019. Therefore, in accordance with CPC 31, the Company analyzed the recoverable amount of its assets and, consequently, recorded based on fair market value of the investment in the total amount of R\$43,528 (at the parent company Bematech S.A. and R\$5,272 related to the write-off of the brand in TOTVS S.A. (Note 11).

15. Payroll and labor liabilities

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

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Labor liabilities:				
Salaries payable	20,889	20,618	27,193	28,782
Vacation payable	57,371	58,568	78,067	81,704
13th monthly salary payable	10,375	192	14,305	332
Profit sharing and bonus	17,950	23,109	21,109	30,492
Withholding tax on payroll	9,854	12,303	12,274	16,656
Pension plan payable (i)	1,336	1,287	1,336	1,287
Other	1,799	197	2,815	1,364
	119,574	116,274	157,099	160,617
Payroll liabilities				
FGTS (Workers' severance pay fund) payable	3,043	4,581	4,049	6,203
INSS (Brazilian Social Security Institute) payable	5,029	5,088	7,186	8,054
	8,072	9,669	11,235	14,257
	127,646	125,943	168,334	174,874

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

16. Trade accounts payable

The following is a breakdown of suppliers for the periods ended March 31, 2019 and December 31, 2018:

	Parent Company		Consolidated	
	03/31/2019	12/31/2018	03/31/2019	12/31/2018
Domestic Suppliers	19,271	32,110	24,462	52,325
Foreign suppliers	15,827	13,568	16,064	19,378
Supplier accrual	23,216	25,665	29,144	38,203
Other liabilities	-	-	890	4,001
Total	58,314	71,343	70,560	113,907

17. Tax liabilities

Salaries and charges payable balances are broken down as follows:

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Tax liabilities				
Federal Social Security Tax on Gross Revenue (CPRB)	12,678	12,041	9,061	14,583
ISS payable	5,279	5,376	5,630	7,267
PIS and COFINS payable	12,111	12,487	13,092	15,589
IRPJ and CSLL payable	-	-	2,187	4,632
Other taxes	3,122	2,673	14,787	5,395
Total	33,190	32,577	44,757	47,466

18. Loans and debts

Loans are initially recognized at fair value, net of transaction costs incurred, and are shown at amortized cost. Any difference between the borrowed amounts (net of transaction costs) and the total amount payable is recognized in the statement of profit or loss during the period when the loans are due, using the effective interest rate method.

The loan and debts transactions are as follows:

	Annual financial charges	Parent Company		Consolidated	
		3/31/2019	12/31/2018	3/31/2019	12/31/2018
BNDES PROSOFT	TJLP + 1.5% to 1.52% p.y.	90,691	129,194	98,077	137,940
BNDES PSI	3.5% to 4.0% p.y.	8,539	12,197	13,630	18,224
Finance lease	15.12% to 17.24%	257,307	42,087	270,300	42,189
BNDES – Social	TJLP	501	714	501	714
BNDES Inovação	TJLP + 0.52% p.y.	-	-	2,030	2,404
Secured accounts and other		-	-	15	-
		357,038	184,192	384,553	201,471
Current liabilities		162,604	155,278	178,709	166,154
Noncurrent liabilities		194,434	28,914	205,844	35,317

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

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

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Between 12 and 24 months	30,422	13,173	37,426	19,583
Between 24 and 36 months	27,782	15,741	30,351	15,734
Between 36 and 48 months	26,954	-	28,339	-
More than 48 months	109,276	-	109,728	-
Noncurrent liabilities	194,434	28,914	205,844	35,317

Below is the breakdown of loans and debts as of March 31, 2019:

	3/31/2019	
	Parent Company	Consolidated
Opening balance	184,192	201,471
Arrendamento mercantil – IFRS 16/CPC 06 (R2)	217,111	236,470
Lease	11,562	11,562
Interest incurred	6,869	7,365
Liabilities related to assets held for sale	-	(5,296)
Interest amortization	(6,678)	(7,033)
Principal amortization	(56,018)	(59,986)
Closing balance	357,038	384,553

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, 2019 and December 31, 2018:

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Gross liabilities of finance lease – minimum lease payments				
Less than one year	75,892	13,173	81,697	13,227
More than one year and less than five years	173,735	36,203	181,808	36,262
More than five years	56,591	-	56,589	-
	306,218	49,376	320,094	49,489
Future financing charges in finance leases	(48,911)	(7,289)	(49,794)	(7,300)
Present value of liabilities of finance lease	257,307	42,087	270,300	42,189
Current liabilities	62,873	13,173	68,150	13,228
Noncurrent liabilities	194,434	28,914	202,150	28,961

19. Debentures

As of March 31, 2019 and December 31, 2018 the balances were broken down as follow:

				Parent Company and Consolidated	
Issue	Debentures	Annual financial charges	Unit price	3/31/2019	12/31/2018
Single series	200,000	105.95% of CDI	1.00 (a)(i)	200,260	203,431
		Premium due to non-conversion	(c)	75,891	73,757
		Total		276,151	277,188
		Current liabilities		76,238	77,319
		Noncurrent liabilities		199,913	199,869

- (i) The amount of debentures issue is presented net of transactions costs of R\$262 as at March 31, 2019 (R\$306 as of December 31, 2018).

Debentures are initially recognized at fair value, net of transaction costs incurred, and are shown at amortized cost. Any difference between the borrowed amounts (net of transaction costs) and the total amount payable is recognized in the statement of profit or loss during the period when the loans are due, using the effective interest rate method.

Maturity of noncurrent amounts is as follows:

Parent Company and Consolidated	
	3/31/2019
Between 12 and 24 months	199,913
	199,913

The changes occurred in the period considered were as follows:

Parent Company and Consolidated	
Debentures and premiums from non-conversions	
	3/31/2019
Balance at beginning of year	277,188
Interest incurred	5,428
Amortization interest	(6,465)
Balance at end of period	276,151

a) Issue of Debentures

As of 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 at the 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 fall 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.

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

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

Premium for non-conversion of 1st series debentures will be restated by IPCA plus 8.0% p.a., while the 2nd series debentures will be restated at TJLP plus 5.0% p.a.. The premium for non-conversion will be paid by August 19, 2019. The non-conversion premium may be paid in common shares issued by the Company or in cash, at the sole discretion of the Debenture holders, considering for that purpose the average price weighted by volume of the Company's shares traded in the last 30 (thirty) trading sessions at the date payment.

20. 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 noncurrent liabilities, as follows:

	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
RMS	-	-	14,123	13,920
Virtual Age	15,042	15,293	15,042	15,293
RJ Participações	-	-	17,636	17,542
Neolog	7,187	7,187	7,187	7,187
Bematech Sistemas	-	-	7,364	7,256
Seventeen	2,915	2,873	2,915	2,873
Datasul MG	4,496	4,429	4,496	4,429
Ciashop	-	366	-	366
W&D Participações	-	-	260	256
Outros	600	604	4,967	5,939
Total	30,240	30,752	73,990	75,061
Current liabilities	30,240	30,752	59,398	59,597
Noncurrent liabilities	-	-	14,592	15,464

As of March 31, 2019 and December 31, 2018, 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	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Investment guarantees in current liabilities	22,965	23,477	44,711	44,909
Investment guarantees in noncurrent	-	-	4,368	5,334
Total	22,965	23,477	49,079	50,243

21. 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	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Tax	2,642	2,337	3,260	2,946
Labor	89,048	88,394	95,841	94,832
Civil	31,389	27,049	34,685	30,014
	123,079	117,780	133,786	127,792

The breakdown of provisions in the year ended March 31, 2019 is as follows:

	Parent Company			
	Tax	Labor	Civil	Total
Balances at December 31, 2018	2,337	88,394	27,049	117,780
(+) Additional provision	271	13,579	7,430	21,280
(+) Monetary restatement	37	2,051	590	2,678
(-) Reversal of provision not used	(1)	(5,672)	(1,332)	(7,005)
(-) Write-off due to payment	(2)	(9,304)	(2,348)	(11,654)
Balances at March 31, 2019	2,642	89,048	31,389	123,079

	Consolidated			
	Tax	Labor	Civil	Total
Balances at December 31, 2018	2,946	94,832	30,014	127,792
(+) Additional provision	271	14,781	7,760	22,812
(+) Monetary restatement	46	2,205	718	2,969
(-) Reversal of provision not used	(1)	(6,190)	(1,447)	(7,638)
(-) Write-off due to payment	(2)	(9,532)	(2,352)	(11,886)
(-) Liabilities related assets held for sale	-	(255)	(8)	(263)
Balances at March 31, 2019	3,260	95,841	34,685	133,786

The Company has two labor suits, whose amounts restated as of March 31, 2019, are deemed individually significant. They are:

- (i) Lawsuit filed in 2000, whereby a former sales executive claims the payment of severance payments, including the difference in commissions. The suit was filed against a company absorbed by TOTVS and is in the execution phase. The lawsuit amount on March 31, 2019 is R\$5,366 (R\$4,403 as of December 31, 2018).
- (ii) Lawsuit filed in 2003 by a former sales executive of a company, whose controlling interest was held by Datasul prior to its merger with TOTVS. TOTVS claims that a part of the suit is illegitimate and the suit is in the execution phase, with the restated amount on March 31, 2019 being R\$5,111 (R\$4,224 as of December 31, 2018).

Details of other main ongoing lawsuits are in Note 20 to the financial statements as of December 31, 2018.

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

Judicial deposits	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Tax	8,424	4,678	17,930	14,113
Labor	33,577	33,883	38,465	38,436
Civil	13,190	12,610	14,004	13,416
	55,191	51,171	70,399	65,965

22. Contingent 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:

Nature	Parent Company		Consolidated	
	3/31/2019	12/31/2018	3/31/2019	12/31/2018
Tax	138,273	118,507	175,960	154,953
Labor	118,199	151,820	125,040	160,326
Civil	278,300	295,108	295,965	315,507
	534,772	565,435	596,965	630,786

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

In 2015, the Company received a tax enforcement notice to pay ISS tax in the period between 1996 and 2001. The Company appealed claiming the statute of limitations on the collection and the records are awaiting the expert's report. The amount involved as of March 31, 2019 is R\$10,308 (R\$9,608 as of December 31, 2018).

The breakdown of the main ongoing lawsuits until March 31, 2019 is in Note 20.2 to the financial statements for the year ended December 31, 2018.

23. Equity

a) Capital

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

Shareholders	3/31/2019		12/31/2018	
	Shares	%	Shares	%
LC-EH Empreendimentos e Participações S,A,	26,760,990	16.16%	26,760,990	16.16%
Genesis Asset Managers LLP	10,019,640	6.05%	10,560,540	6.38%
Laércio José de Lucena Cosentino	2,053,890	1.24%	2,186,091	1.32%
CSHG Senta Pua Fia	45,400	0.03%	45,400	0.03%
Ernesto Mário Haberkorn	16,810	0.01%	16,810	0.01%
Others	124,715,994	75.29%	123,881,805	74.79%
Outstanding shares	163,612,724	98.78%	163,451,636	98.68%
Treasury shares	2,025,003	1.22%	2,186,091	1.32%
Total in units	165,637,727	100.00%	165,637,727	100.00%

b) Capital reserves

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

	3/31/2019	12/31/2018
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	35,452	37,206
	168,153	169,907

c) Treasury shares

As at March 31, 2019, the "Treasury Shares" item was as follows:

	Number of shares (units)	Value (in thousand)	Average price per share (in reais)
Balance at December 31, 2018	2,186,091	R\$70,026	R\$32.03
Used	(161,088)	(R\$5,160)	R\$32.03
Balance at March 31, 2019	2,025,003	R\$64,866	R\$32.03

24. 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\$12,293 as of March 31, 2019 (R\$13,902 as at December 31, 2018).

25. Stock option plan and restricted shares

The main events associated with the stock option plan are described in Note 23 to the Financial Statements for the year ended December 31, 2018.

There are no new share-based payment plan grants for the three-month period ended March 31, 2019.

Changes in options and restricted shares in the year are shown below:

	March 31, 2019			
	Stock options		Restricted shares	Total
	Average Price (in reais)		Amount (units)	
Balance of options at beginning of year	34.11	212,225	1,081,639	1,293,864
Transactions:				
Exercised	33.63	(79,968)	(118,216)	(198,184)
Cancelled	-	-	(50,232)	(50,232)
Expired	33.47	(42,628)	-	(42,628)
Balance of shares at end of period	34.95	89,629	913,191	1,002,820

The amount recorded for stock options for the three-month period ended March 31, 2019 was R\$1,341 (R\$1,231 as of March 31, 2018).

As of March 31, 2019, there were 91,315 exercisable options, since the 36-month terms of grants had already elapsed.

26. 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 two business units until December 31, 2018: software and hardware.

As of March 31, 2019, the Company classified the assets of the hardware business unit as held for sale and, consequently, started to evaluate the business in a single cash generating unit that is Software. As a result, the result of the hardware operation was presented as a discontinued operation. See note 11.

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

	Information by geographical location – net revenue	
	3/31/2019	3/31/2018
Brazil	550,408	508,107
International market	13,179	10,881
Total	563,587	518,988

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

27. Earnings per share

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

	Consolidated	
	3/31/2019	3/31/2018
Net income for the period assigned to the Company's shareholders		
Continuing operations	43,826	35,173
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	163,507	163,391
Basic earnings per share – in reais	0.2680	0.2153

	Consolidated	
	3/31/2019	3/31/2018
Net income for the period assigned to the Company's shareholders		
Continuing operations	43,826	35,173
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	163,507	163,391
Weighted average number of stock options	1,189	1,281
Weighted average number of common shares adjusted according to dilution effect	164,696	164,672
Diluted earnings per share – in reais	0.2661	0.2136

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.

28. Gross sales revenue

The gross revenue and the deductions used for the calculation of net revenue in the statement of profit and loss as at March 31, 2019 and 2018 were as follows:

	Parent Company		Consolidated	
	3/31/2019	3/31/2018	3/31/2019	3/31/2018
Gross revenue	458,950	453,629	639,482	585,184
Software				
License fees	52,637	51,738	65,373	63,993
Recurring software	318,669	299,313	421,427	385,569
Service	87,644	102,578	152,682	135,622
Deductions	(55,459)	(51,490)	(75,895)	(66,196)
Sales canceled	(3,626)	(4,071)	(5,476)	(6,071)
Sales tax	(51,833)	(47,419)	(70,419)	(60,125)
Net revenues	403,491	402,139	563,587	518,988

29. Expenses by nature

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

<u>Nature</u>	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>3/31/2019</u>	<u>3/31/2018</u>	<u>3/31/2019</u>	<u>3/31/2018</u>
Salaries, benefits and payroll charges	176,261	176,322	246,838	218,878
Outsourced services and other inputs	101,254	94,998	126,097	113,468
Commissions	42,230	38,550	45,215	42,215
Depreciation and amortization (i)	30,055	24,812	37,262	32,263
Provision for contingencies	14,275	13,672	15,174	14,149
Rents (i)	363	8,739	984	10,918
Allowance for doubtful accounts	6,225	6,939	8,936	10,518
Other	1,027	8,037	5,549	11,529
Total	371,690	372,069	486,055	453,938

(i) Depreciation and amortization and rent expenses are impacted for IFRS 16 /CPC 06 (R2). See note 2.3 (c).

30. Finance income and costs

The finance income and costs incurred for the years ended March 31, 2019 and 2018 were as follows:

	<u>Parent Company</u>		<u>Consolidated</u>	
	<u>3/31/2019</u>	<u>3/31/2018</u>	<u>3/31/2019</u>	<u>3/31/2018</u>
<u>Finance income</u>				
Short-term investment yield	3,654	5,018	6,751	6,461
Interest received	1,332	1,556	1,558	1,740
Inflation adjustment gains	1,349	448	2,141	555
Adjustment to present value	197	552	226	611
Exchange gains	570	(683)	619	(536)
Other finance income	(275)	(481)	(412)	(558)
	6,827	6,410	10,883	8,273
<u>Finance costs</u>				
Interest incurred	(12,457)	(15,110)	(13,344)	(14,481)
Inflation adjustment losses	(3,063)	(1,351)	(4,088)	(3,608)
Bank expenses	(1,234)	(752)	(1,619)	(1,057)
Adjustment to present value of liabilities	(155)	(263)	(253)	(559)
Exchange losses	(650)	774	(850)	725
Other finance costs (i)	-	(454)	(495)	(493)
	(17,559)	(17,156)	(20,649)	(19,474)
Net finance income (costs)	(10,732)	(10,746)	(9,766)	(11,201)

(i) Includes inflation adjustments of Argentine subsidiaries.

31. Private pension plan – defined contribution

The Company offers the TOTVS Private Pension Plan, managed by Bradesco Seguros, which receives contributions from the employees and the Company, as 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.

32. 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.

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