TOTVS S.A.

Financial statements at
December 31, 2012
and independent auditor's report

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MANAGEMENT REPORT / PERFORMANCE COMMENTS

Dear Shareholders,

Pursuant to legal provisions, TOTVS S.A., Latin America's largest developer of application software, the world's 6th largest ERP developer, the leader in emerging markets and the absolute leader in Brazil, submits for the appreciation of its shareholders the Management Report and corresponding Financial Statements, accompanied by the independent auditor's opinion for the fiscal years ended December 31, 2012 and 2011, prepared in accordance with the Brazilian accounting practices.

MESSAGE FROM MANAGEMENT

2012 was another year of achievements for TOTVS, being able to combine growth, loyalty and margin, the three strategic pillars that guide the Management's agenda, seeking the goal to make TOTVS a global benchmark of enterprise management solutions, with flexible and scalable solutions for companies in different maturity stages.

Despite the complex macroeconomic scenario of the year, the Company presented growth in all revenue lines and deepened its vertical segmentation process in 2012, which involved from development to distribution of its solutions, making its channels increasingly prepared to explore market potential.

It's Important to highlight that this growth was achieved while paying attention to the loyalty of our customers, reflected in maintenance revenue growth and the stability of recurring revenues over the year. Besides the attention to loyalty, this growth also came accompanied by margin expansion and cash generation which, among others, resulted in efficiency gains in different company areas, in particular in services and development areas, and also the payroll tax relief resulting from "Brazil Maior" Plan.

Envisioning the continuity of the presented evolution in the growth, loyalty and margin pillars, from February 1st, 2013, TOTVS will be able to additionally count with a Systems & Segments Vice-Presidency, which will be responsible for all strategic operating segments, establishing the connection between systems development and clients, making suggestions for improving software development and supporting the strategy for developing systems and services; a Clients & Remote Services Vice-Presidency, responsible for the Company's client support and services, cloud computing and the management of software development quality processes ; a Business Vice-Presidency, responsible for the strategic businesses that complement the Company's

traditional management systems solutions, such as cloud solutions as social ECM, corporate social network and mall and marketplace of by You; and a Human Relations & Infrastructure Vice-Presidency, responsible for managing the Shared Services Center and internal IT support, as well as all matters related to human resources, such as climate, training, compensation and benefits.

The management sees that TOTVS begins 2013 stronger and better prepared to reinforce its leadership and capture the growth of the Brazilian and Latin American enterprise software solutions market.

ECONOMIC SCENARIO

In 2012, the European economic crisis deepened, the Chinese economy reduced its growth rate and the United States began to give signs of economic recovery, however still surrounded by uncertainty regarding the treatment of its public debt. In the Latin American economy, Mexico, Colombia, Peru and Chile have excelled for their growth.

In Brazil, the government continued the reduction of interest rates initiated in the second half of 2011, ending the year with the Selic rate at 7.25% per year, the lowest level ever recorded by the country. Similarly, the federal state banks also reduced their interest rates charged on loans, leading to the reduction of banking spreads charged by the market.

Even with the interest rate reduction and the maintenance of a low level of unemployment, the delinquency rates rose and the Brazilian economy slowed its growth rate, ending the year with an estimated GDP growth of 1.0%, lower than the 2.7% recorded in 2011. In addition to a slower growth rate, the economy resumed to present an inflation level above the target established by the government.

This low growth and higher inflation scenario shows that the Brazilian economy recovery does not solely relies on the internal consumption, fueled by higher credit offer. Initiatives as the payroll relief brought by the Federal Government thought the “Brasil Maior” Plan (with will cover over 25 industry sectors by 2013), summed with measures that also leads to higher investments on infrastructure and education as well as investments in technology are key to a higher enterprise productivity.

CONSOLIDATED FINANCIAL AND OPERATING PERFORMANCE

The Company ended 2012 with net income of R$207,148 thousand once again breaking the record set the previous year, up 22% from 2011. TOTVS achieved EBITDA* (earnings before

interest, taxes, depreciation and amortization) of R$378,048 thousand in 2012, the highest in its history. The Company maintained its steady growth in all revenue lines despite the unfavorable economic moment.

In 2012 the Company's results were affected by the inclusion of the Information Technology sector in the "Brasil Maior" Plan, which changed the social contribution tax from a contribution of 20% over wages into a tax over the Company gross revenue deducting its cancellations. This contribution was 2.5% from April to June, then it was reduced to 2.0%, therefore this change should be accounted when comparing 2012 with the previous year.

In 2012, considering the impact of the new social contribution tax, the Company net revenue totaled R$1,413,976 thousand, an increase of 10.5% over 2011. The low penetration of software market significantly contributed to this performance.

License fees increased by 7.3% between 2011 and 2012. In 2012, the growth in license fees was concentrated in sales to new customers, which grew by 31.3% over 2011, this increase in sales was primarily due to the growth in the average ticket of new customers by 30.3%. It is noteworthy that this increase in the average ticket in 2012 does not represent a change in the Company's target market, since it’s mainly due to a lower frequency of license sales to larger sized new customers in 2011.

Services increased 13.6% in comparison to 2011, totaling R$414,871 thousand. Growth driven primarily by the increased contribution of services not directly related to software implementation, which grew by 18.3% yoy, representing 30.1% of total revenue from services in 2012, compared to 29.3% in 2011.

Maintenance fee totaled R$669,681 thousand in 2012, 10.3% higher than the previous year. The growth in maintenance fee revenue is mainly due to license sales in previous quarters and the retention of maintenance agreements, which are subjected to annual adjusted based on the average accumulated inflation index, mostly IGP-M.

The operating costs and expenses excluding depreciation and amortization increased by 6.7% between 2012 and 2011, lower than the 10.5% growth in net revenue, reflecting the gain in operational efficiency generated by the constant process improvement in several areas of the Company, as well as the contribution of the tax relief in payroll plan originated by the “Brasil Maior” plan.

The cost of license fees amounted R$55,969 thousand, an increase of 23.0% compared to 2011. This line is mainly influenced by the composition of sales for the period, presenting higher

growth when there is a greater participation of third party solutions over the license sales in the period.

Cost of services and sales increased by 6.7% then compared to 2011, which is lower than the 13.6% growth in service revenue during the period. This lower growth compared to the revenue shows the gain in gross margin in the Company service operations and is mainly explained by: (i) efficiency gain of teams implementing solutions marketed by the Company, (ii) the payroll tax relief _ by the "Brasil Maior" plan, (iii) the higher participation of value-added services in the revenue.

Research and Development expenses amounted R$174,332 thousand in 2012, a decrease of 0.5% compared to 2011. This decrease is mainly related to the unburdening in payroll and does not represent a deceleration of investments in innovation for the solutions developed by the Company.

Advertising expenses increased 20.0% in 2012. This growth is related to the reacceleration in the marketing investments after the communication plan revision announced in 2011, maintaining the historical values as percentage of the Company's net revenues.

Selling expenses amounted R$88,058 thousand, 1.5% over 2011. This growth, is lower than the Company's sales growth is chiefly due to the efficiency gains over the sales internal teams, as well as the impact of the "Brasil Maior" plan.

The commission expenses 10.4% compared to 2011, in line with the growth net revenues growth. This line consists of the commissions on sales from TOTVS distribution channels, consisted of proprietaries channels and franchises.

General and administrative expenses (G&A) grew 6.0% over 2011, less than the growth in net revenues. Such growth in G&A is mainly a consequence of wage adjustments, increase of headcount and the impact of the "Brasil Maior" plan.

Between 2011 and 2012, management fees increased 2.4%, mainly due to the adjustments in the executive structure and the additional provision of bonuses for goal achievements in the period.

The allowance for doubtful accounts totaled R$23,234 thousand in 2012, an increase of 43.9% when compared to 2011. This increase is mainly related to delayed payments of implementation and consultancy services provided to larger clients, although the delinquency with customers of medium and small size also rose over the year. It is important to mention that the increase in

provisions for doubtful accounts, differently from the previous years, is primarily related to operations in the domestic market

Depreciation and amortization in 2012 totaled R$81,228 thousand, compared to R$82,484 thousand in 2011, a decrease of 1.5%. This decrease in the level of is chiefly due to smaller amortization of intangible assets resulting from acquisitions given the completion of the amortization cycle of some of this assets.

The net financial expenses reached R$8.623 thousand, a decrease of 51.4% compared to the amount of R$17.747 thousand in 2011. This decrease is mainly due to the reduction of the Company´s debt, both in balance of loans/financing and debentures.

TOTVS' cash balance in 2012 was R$412,408 thousand, 43.7% more than the R$287,079 thousand in 2011. The Company reiterates that it has a conservative financial management policy for its debit and credit operations and that it did not carry out any speculative operations in the financial market, the Company's strong operational cash flow generation is the main reason for this increase.

Net income reached a record of R$207,148 thousand in 2012, an increase of 22.3% compared to 2011. The growth in net income mainly reflected the increase in EBITDA* and the reduction of financing expenses in the period as a result of the decrease in the Company's debt.

(*) EBITDA is a non-accounting measure used by the Company, calculated in accordance with CVM Instruction 527/2012, which corresponds to the period's net profit, added from taxes over income, financial expenses net from the financial revenues and the depreciation, amortization and exhaustions.

CAPITAL MARKETS

Free float on December 31, 2012 was 68.4%. The remaining shares are held by the Company's administrators, including related persons and companies controlled by them (17.8%), BNDES Participacoes (3.9%), and by Fundação Petrobas de Seguridade Social – PETROS (9,9%).

In 2012, TOTVS' shares (BM&FBovespa: TOTS3) appreciated by 21.4%, compared to the Ibovespa's 7.4%.

Average daily financial volume in 2012 was R$17.1 million compared to R$9.0 million in 2011, a 90.0% increase.

Interest on equity for the year 2012: On December 20, 2012, the Company announced to its shareholders its decision to pay interest on equity in the total amount of R$40,200 thousand, relating to the year 2012. Holders of shares issued by TOTVS as on December 20, 2012 were entitled to the interest on equity, which was paid on January 17, 2013.

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

Interest on equity for the year 2011: On December, 20, 2011 the Company approved the payment of interest on equity for fiscal year 2011 in the total amount of R$35,000 thousand. Were entitled to interest on equity the shareholders registered as such on December 21, 2011 which was paid on January 18, 2012.

The payment is related to the fiscal year 2011 and will be imputed to the minimum mandatory

Dividends for the year 2011: Dividends proposed by the Board of Directors on January 30, 2012, and approved in the Annual Shareholders Meeting of March 21,2012, amounted R$64,511 thousand. Were entitled to dividends the shareholders registered as such on March 21, 2012 which was paid on April 25, 2012.

CORPORATE GOVERNANCE

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

Board of Directors: TOTVS' Board of Directors is composed of 7 members, 6 of them external and independent members, in accordance with Novo Mercado regulations. The Executive Board is composed by 27 officers. The list containing the names, position and a brief resume of the Board members and Executive Officers is available at www.totvs.com/ri.

Audit Committee: aids the Board of Directors in conducting the Company's business in the best possible manner and, in accordance with the best market practices, the Company's internal and external audit. Its members are elected by the Board of Directors and meet at least 8 times a year. The committee currently has 3 members.

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

Arbitration: according to Novo Mercado Regulations and the Company's Bylaws, the controlling shareholder, administrators, the Company and the Fiscal Council members should undertake to resolve all and any dispute or controversy arising from or relating to Novo Mercado Regulations, the Novo Mercado Adhesion Agreement, Arbitration Clauses, especially, regarding the application, validity, effectiveness, interpretation, breach and their effects through arbitration. Disputes regarding the sale of the Company's control shall also be solved through arbitration.

Management Statement: in accordance with subparagraphs V and VI, Article 25 - CVM Instruction 480/09, the officers of TOTVS declare that they discussed, reviewed and agreed with the views expressed in the independent auditors' report and financial statements for the fiscal year ended December 31, 2012.

RELATIONSHIP WITH INDEPENDENT AUDITORS

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

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

In the fiscal year of 2012, the Company has not contracted with these auditors any other works that are not directly linked to the auditing of the annual financial statements.

ACKNOWLEDGEMENTS

We thank all those who contributed to the Company's success in 2012, especially our employees, our clients, our partners and our shareholders.

(A free translation of the original in Portuguese)

Independent auditor's report on the financial statements

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

We have audited the accompanying financial statements of TOTVS S.A. ("Parent Company"), which comprise the balance sheet as at December 31, 2012 and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of TOTVS S.A. and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

PricewaterhouseCoopers, Av. Francisco Matarazzo 1400, Torre Torino, São Paulo, SP, Brasil 05001-903, Caixa Postal 61005
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In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on the parent company financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of TOTVS S.A. as at December 31, 2012, and its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TOTVS S.A. and its subsidiaries as at December 31, 2012, and their financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil.

Emphasis of matter

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

Other matters

Supplementary information

Statements of value added

We also have audited the parent company and consolidated statements of value added for the year ended December 31, 2012, which are the responsibility of the Company's management. The presentation of these statements is required by the Brazilian corporate legislation for listed companies, but they are considered supplementary information for IFRS. These statements were subject to the same audit procedures

described above and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

Audit of prior-year information

The financial statements of the Company for the year ended December 31, 2011 were audited by another firm of auditors whose report, dated January 30, 2012, expressed an unqualified opinion on those statements.

Sao Paulo, January 24, 2013

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

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

TOTVS S.A.

Balance sheet December 31

In thousands of reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
Assets	**2012**	**2011**	**2012**	**2011**
Current assets				
Cash and cash equivalents (Note 5)	398,753	221,898	412,408	287,079
Marketable securities (Note 6)	10,168	28,354	10,168	28,502
Trade accounts receivable (Note 7)	306,644	234,837	333,609	295,094
Allowance for doubtful accounts (Note7)	(39,166)	(21,306)	(44,014)	(31,812)
Taxes recoverable (Note 8)	13,993	23,434	19,506	30,267
Other assets	10,154	7,721	13,303	12,210
	700,546	494,938	744,980	621,340
Non-current assets				
Long-term receivables				
Marketable securities (Note 6)	13,123	28,853	13,123	29,148
Trade accounts receivable (Note 7)	38,070	20,451	39,583	23,361
Receivables from related companies (Note 10.1)	2,251	18,122		
Deferred income and social contribution taxes (Note 9)	37,818	25,786	58,001	49,368
Judicial deposits (Note 18)	7,831	4,459	7,831	4,459
Other assets	10,607	9,475	11,458	10,620
Investments (Note 11)	65,979	137,599		
Property, plant and equipment (Note 12)	53,961	47,286	58,089	53,793
Intangible assets (Note 13)	477,027	522,506	487,556	545,759
	706,667	814,537	675,641	716,508
Total assets	1,407,213	1,309,475	1,420,621	1,337,848

	Parent company		Consolidated	
Liabilities and equity	**2012**	**2011**	**2012**	**2011**
Current liabilities				
Labor and social security liabilities (Note 14)	88,639	60,792	95,072	72,985
Trade accounts payable	26,277	13,051	30,281	19,535
Taxes payable	3,091	2,712	3,518	6,544
Loans and financing (Note 15)	53,851	58,043	54,399	58,999
Leasing financing		169		181
Debentures (Note 16)	42,930	39,385	42,930	39,385
Commissions payable	44,872	41,117	45,382	43,197
Dividends and interest on equity payable (Note 20)	49,681	40,470	49,681	40,470
Liabilities from investment acquisition (Note 17)	11,399	31,477	11,399	31,625
Other liabilities	1,312	1,841	1,354	2,610
	322,052	289,057	334,016	315,531
Non-current liabilities				
Loans and financing (Note 15)	51,068	102,799	51,068	103,969
Debentures (Note 16)	99,747	131,203	99,747	131,203
Provision for losses on investments (Note 11)	1,365	1,948		
Provision for contingencies and legal obligations related to legal proceedings (Note 18)	6,370	2,588	6,370	2,588
Liabilities from investment acquisition (Note 17)	13,465	32,014	13,465	32,309
Other liabilities		(1)	2,809	2,381
	172,015	270,551	173,459	272,450
Total liabilities	494,067	559,608	507,475	587,981
Equity				
Capital (Note 19)	480,598	443,702	480,598	443,702
Capital reserve (Note 19)	103,759	76,275	103,759	76,275
Other comprehensive Income results	(2,213)	(2,558)	(2,213)	(2,558)
Income reserve	262,199	173,052	262,199	173,052
Proposed additional dividend	68,803	59,396	68,803	59,396
Total equity	913,146	749,867	913,146	749,867
Total liabilities and equity	1,407,213	1,309,475	1,420,621	1,337,848

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

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Net revenue from services and sales (Note 27)	1,221,576	1,050,612	1,413,976	1,279,160
License fees	269,107	237,993	329,424	306,965
Services	299,238	224,801	414,871	365,320
Maintenance	653,231	587,818	669,681	606,875
Cost of goods sold/services rendered	(363,807)	(287,699)	(456,820)	(421,106)
Cost of license fees	(50,837)	(40,980)	(55,969)	(45,506)
Cost of services and maintenance	(312,970)	(246,719)	(400,851)	(375,600)
Gross profit	857,769	762,913	957,156	858,054
Operating income (expenses)	(581,897)	(529,181)	(660,336)	(631,855)
Research and development	(146,700)	(138,587)	(174,332)	(175,247)
Advertising expenses	(30,110)	(25,500)	(33,942)	(28,290)
Selling expenses	(67,366)	(58,528)	(88,058)	(86,717)
Commissions	(134,762)	(118,950)	(141,014)	(127,707)
General and administrative expenses	(72,277)	(69,410)	(82,875)	(78,176)
Management fees (Note 10.3)	(34,247)	(31,287)	(35,046)	(34,220)
Depreciation and amortization (Notes 12 and 13)	(75,324)	(75,649)	(81,228)	(82,484)
Allowance for doubtful accounts	(20,787)	(8,727)	(23,234)	(16,145)
Other net operating income (expenses)	(324)	(2,543)	(607)	(2,869)
Income before financial effects and equity pickup	275,872	233,732	296,820	226,199
Financial income (Note 23)	40,699	34,318	45,415	40,527
Financial expenses (Note 23)	(51,802)	(55,560)	(54,038)	(58,274)
Equity pickup (Note 11)	9,343	(7,025)		
Income before income and social contribution taxes	274,112	205,465	288,197	208,452
Income tax and social contribution (Note 9)	(66,964)	(36,562)	(81,049)	(39,069)
Net income for the year before non-controlling interest	207,148	168,903	207,148	169,383
Non-controlling interest				(480)
Net income for the year	207,148	168,903168,903	207,148	168,903
Number of shares at year end (Note 19)	161,629,945	159,466,791	161,629,945	159,466,791
Basic earnings per thousand shares (in reais) (Note 25)	1.29	1.07	1.29	1.07
Diluted earnings per thousand shares (in reais) (Note 25)	1.25	1.02	1.25	1.02

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

TOTVS S.A.

Statement of comprehensive income
Years ended December 31
In thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Net income for the year	207,148	168,903	207,148	169,383
Exchange variation on foreign investments	528	(563)	528	(563)
Deferred income tax	(183)	191	(183)	191
Exchange variation on foreign investments, net of taxes effects	345	(372)	345	(372)
Comprehensive income for the period	207,493	168,531	207,493	169,011
Net income for the year attributed to controlling shareholders			207,493	168,531
Attributed to non-controlling interest				480

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

TOTVS S.A.

Statements of changes in shareholder's equity - consolidated

In thousands of reais (A free translation of the original in Portuguese)

	Capital	Premium on purchase from non-controlling shareholders	Reserve			Other comprehensive Income results	Retained earnings	Additional proposal for dividend distribution	Shareholder's equity	Non-controlling shareholders	Shareholder's equity - consolidated
			Of capital	Legal	Profit retention						
At December 31, 2010	406,489	(28,310)	60,406	18,885	110,293	(2,186)		54,285	619,862	11,714	631,576
Capital transactions with partners											
Share issue through exercise of stock option	7,211								7,211		7,211
Stock option plan			9,599						9,599		9,599
Dividends							(5,115)	(54,285)	(59,400)		(59,400)
Proposed additional dividend - exceeding minimum mandatory							(59,396)	59,396			
Interest on equity - distributed							(35,000)		(35,000)		(35,000)
Debentures converted into shares	30,002		6,270						36,272		36,272
Premium on purchase from non-controlling shareholders		2,792							2,792		2,792
Reduction due the purchase minority interest										(12,194)	(12,194)
Total other comprehensive income											
Net income for the year							168,903		168,903	480	169,383
Cumulative translation adjustments						(372)			(372)		(372)
Reserves set up				8,445	60,947		(69,392)				
At December 31, 2011	443,702	(25,518)	76,275	27,330	171,240	(2,558)		59,396	749,867		749,867
Capital transactions with partners											
Share issue through exercise of stock option	6,898								6,898		6,898
Stock option plan			9,004						9,004		9,004
Dividends previous year								(59,396)	(59,396)		(59,396)
Minimum mandatory dividend											
Dividens							(8,998)		(8,998)		(8.998)
Interest on equity - distributed							(40,200)		(40,200)		(40,200)
Proposed additional dividend - exceeding							(68,803)	68.803			
Debentures converted into shares	29,998		18,480						48,478		48,478
Net income for the year							207,148		207,148		207,148
Total other comprehensive income											
Cumulative translation adjustments						345			345		345
Reserves set up				10,357	78,790		(89,147)				
At December 31, 2011	480,598	(25,518)	103,759	37,687	250,030	(2,213)		68.803	913,146		913,146

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

TOTVS S.A.

Statement of cash flows
Years ended December 31

In thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash flow provided by operating activities				
Net income for the year before income tax and social contribuition	274,112	205,465	288,197	208,452
Adjustments				
Depreciation and amortization (Note 12 and 13)	75,324	75,649	81,228	82,484
Share-based payment (Note 22)	9,004	9,599	9,004	9,599
Gains on the sale of permanent assets	(1,280)	2,670	7,259	2,680
Allowance for doubtful accounts (Note 7)	20,787	8,727	23,234	16,145
Equity pick-up (Note 11)	(9,343)	7,025		
Provision for contingencies and legal obligations related to legal proceedings	3,782	(3,288)	3,782	(3,288)
Interest and monetary and exchange variations, net	33,600	33,337	33,680	41,603
Changes in operating assets and liabilities	(48,512)	(36,319)	(68,533)	(59,413)
Trade accounts receivable	(58,814)	(47,446)	(65,769)	(44,852)
Other assets	(1,750)	11,307	(1,310)	8,267
Judicial deposits	(3,372)	1,457	(3,372)	1,457
Labor and social security liabilities	21,916	8,651	22,087	3,913
Taxes recoverable	12,128	1,203	10,761	(373)
Suppliers	9,971	3,816	10,746	2,172
Commissions payable	3,592	4,521	2,185	4,616
Taxes payable	(31,346)	(19,134)	(43,033)	(33,730)
Other accounts payable	(837)	(694)	(828)	(883)
Cash flow provided by operation	357,474	302,865	377,851	298,262
Interest paid	(21,104)	(27,307)	(21,104	(27,307)
Income tax and social contribuition paid	(48,922)	(6,808)	(49,951)	(6,808)
Net cash provided by operating activities	287,448	268,750	306,796	264,147
Cash flow provided by investing activities				
Addition of investments on subsidiaries (Note 11)	(27,817)	(43,892)		
Increase intangible assets	(8.466)	(33,226)	(9,999)	(35,436)
Value of fixed assets sale (Note 13)	1,042		1,042	
Dividends received	11,909			
Acquisition of fixed assets (Note 12)	(17,031)	(32,097)	(25,834)	(33,569)
Net cash used in investing activities	(40,363)	(109,215)	(34,791)	(69,005)
Cash flow from financing activities				
Payment of principal on loans and financing	(52,914)	(51,227)	(54,010)	(60,677)
Receivables from related companies	23,908	3,749		
Dividends paid	(99,383)	(84,280)	(99,383)	(85,249)
Obligations related on leasing	(169)	(1,775)	(181)	(1,856)
Paid in capital	6,898	7,211	6,898	7,211
Net cash used in financing activities	(121,660)	(126,322)	(146,676)	(140,571)
Increase in cash and cash equivalents	125,425	33,213	125,329	54,571
Cash and equivalents provided by incorporated subsidiaries	51,430	11,410		
Cash and cash equivalents at the beginning of the year	221,898	177,275	287,079	232,508
Cash and cash equivalents at the end of the year	398,753	221,898	412,408	287,079

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

TOTVS S.A.

Statement of value added
Years ended December 31
In thousands of reais (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
1 - Revenues	1,309,604	1,111,981	1,513,303	1,349,692
1.1 Sale of goods, products and services	1,330,738	1,121,434	1,537,144	1,366,681
1.2 Other revenues	(347)	(725)	(607)	(802)
1.3 Allowance for doubtful accounts - reversal/ (recording)	(20,787)	(8,728)	(23,234)	(16,187)
2 - Raw material acquired from third-party (includes ICMS and IPI taxes)	(390,661)	(329,869)	(480,154)	(441,549)
2.1 Cost of services sold	(56,158)	(31,508)	(62,155)	(37,655)
2.2 Materials, energy, outsourced services and other	(334,503)	(298,361)	(417,999)	(403,894)
3 - Gross value added (1-2)	918,943	782,112	1,033,149	908,143
4 - Depreciation and amortization	(75,324)	(75,650)	(81,228)	(82,484)
5 - Net value added produced by the entity	843,619	706,462	951,921	825,659
6 - Value added received from transfer	46,900	24,400	42,273	37,635
6.1 Equity in the earnings of subsidiaries	9,343	(7,025)		
6.2 Financial income	37,557	31,425	42,273	37,635
7 - Total value added to distribute (5+6)	890,519	730,862	994,194	863,294
8 - Value added distribution	890,519	730,862	994,194	863,294
8.1 Personnel	407,605	286,644	473,051	377,649
8.1.1 Direct compensation	341,951	235,493	397,985	311,928
8.1.2 Benefits	39,620	30,275	45,553	39,805
8.1.3 FGTS (worker's severance fund)	26,034	20,876	29,513	25,916
8.2 Taxes, fees and contributions	210,680	176,986	244,911	213,639
8.2.1 Federal	176,253	149,167	205,377	179,083
8.2.2 State	71	85	356	319
8.2.3 Municipal	34,356	27,734	39,178	34,237
8.3 Interest and rentals	65,086	98,329	69,084	102,623
8.3.1 Interest	45,301	80,544	47,290	82,755
8.3.2 Rentals	19,785	17,785	21,794	19,814
8.3.3 Other				54
8.4 Remuneration on equity capital	207,148	168,903	207,148	169,383
8.4.1 Interest on equity	40,200	35,000	40,200	35,000
8.4.2 Dividends paid or credited to partners	77,801	64,511	77,801	64,511
8.4.3 Retained earnings for the year	89,147	69,392	89,147	69,392
8.4.4 Minority interest in retained earnings				480

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

1 Operational context

TOTVS S.A. and subisidiaries (hereinafter referred to as "Parent company", "TOTVS", or "the Company") is a publicly-held corporation, headquartered at Av. Braz Leme, 1631 - 2nd floor, in the city and State of São Paulo, whose shares are traded on BM&FBOVESPA - Securities, Commodities and Futures Exchange.

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

TOTVS parent Company and consolidated financial statements were approved at the Board of Directors' Meeting held on January 24, 2013.

All amounts presented in these financial statements are expressed in thousands of reais, except when indicated otherwise. Due to rounding, figures presented throughout this document may not precisely correspond to actual figures.

During the year ended December 31, 2012, the Company carried out important transactions involving incorporation of subsidiaries as disclosed in Note 3.

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

2 Significant accounting practices

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

2.1 Basis of preparation

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

The preparation of financial statements requires the use of certain critical accounting estimates and exercise of judgment by management of the Company in the process of applying the Company's accounting policies. The areas that require greater judgment and have greater complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 2.23.

(a) Consolidated financial statements

The consolidated financial statements were prepared and presented in accordance with accounting practices adopted in Brazil, including the pronouncements issued by the Accounting Pronouncements Committee (CPC) and the rules issued by the Brazilian Securities Commission (CVM), and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

(b) Individual financial statements

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

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

(c) Changes in accounting policies and disclosures

There are no new pronouncements or interpretations of CPCs/IFRS effective from 2012 that could have a significant impact on the Company's financial statements.

2.2 Consolidation

The following accounting policies are applied in preparing the consolidated financial statements:

(a) Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights.

(b) The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are not consolidated from the date that the Company ceases to have control.

(c) The fiscal years and periods of closure of subsidiaries included in the consolidation are coincident with those of the parent and practices and accounting policies have been consistently applied in the consolidated companies and are consistent with those applied in the previous year.

(d) All intercompany balances and transactions were eliminated in consolidation. Transactions between the Parent Company and the subsidiaries are conducted under conditions and prices established between the parties.

(e) The Company uses the acquisition method to account business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of assets transferred, liabilities incurred and equity instruments issued by the Company. The consideration transferred includes the fair value of

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

(f) The results of subsidiaries acquired/ incorporated during the year ended December 31, 2012 and December 31, 2011 are included in the consolidated results since the date of acquisition/merger. Therefore, for purposes of comparing the results of the Company and consolidated between 2012 and 2011, should be considered the dates of acquisition and incorporation of the results of each subsidiary.

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

			Interest - %	
Corporate name	**Head office**		**2012**	**2011**
TOTVS Rio Software Ltda.	BRA	TOTVS Rio	100,00	100,00
TOTVS Nordeste Software Ltda.	BRA	TOTVS Nordeste	100,00	100,00
TOTVS Brasília Software Ltda.	BRA	TOTVS Brasilia	100,00	100,00
TQTVD Software Ltda.	BRA	TQTVD	100,00	100,00
TOTVS Argentina S.A.	ARG	Microsiga Argentina	100,00	100,00
Datasul Argentina S.A.	ARG	Datasul Argentina	100,00	100,00
TOTVS México S.A.	MEX	Microsiga Mexico	100,00	99,99
Datasul S.A. de CV	MEX	Datasul Mexico	100,00	100,00
DTS Consulting Partner. AS de CV	MEX	Partner (i)	100,00	100,00
EuroTOTVS Lda.	POR	Eurototvs	100,00	100,00
TOTVS Corporation	USA	Microsiga Corporation	100,00	100,00
Datasul Incorporation	USA	Datasul USA	100,00	100,00
Setware Informática Ltda	BRA	Setware (ii)		100,00
BCS Comércio e Serviços de Informática Ltda	BRA	BCS Comercio (ii)		100,00
Midbyte Informática S.A.	BRA	Midbyte (ii)		100,00
TOTVS Serviços em Informática e Consultoria S.A.	BRA	TOTVS Serviços (ii)		100,00
Gens Tecnologia da Informação Ltda	BRA	Gens (ii)		100,00
Gens Tecnologia e Informática Ltda	BRA	Gens FDES (ii)		100,00
YMF Arquitetura Financeira de Negócios S.A.	BRA	YMF (ii)		100,00
Tools Arquitetura Financeira de Negócios S.A.	BRA	Tools (ii)		100,00
Hery Participações Ltda	BRA	Hery (ii)		100,00
TotalBanco Consultoria e Sistemas Ltda	BRA	TotalBanco (ii)		100,00
TotalBanco Participações S.A.	BRA	TotalBanco Participações (ii)		100,00
M2S Serviços de Suporte Ltda	BRA	M2S (ii)		100,00
Mafipa Serviços de Informática Ltda	BRA	Mafipa (ii)		100,00
Inteligência Organizacional Serviços. Sistemas e Tecnologia em Software Ltda.	BRA	IOSSTS (ii)		100,00

(i) Indirect interest.
(ii) Incorporated in 2012.

2.3 Translation of foreign currency-denominated balances

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

Assets and liabilities of subsidiaries located abroad that Management concluded have administrative, financial and operational independence are translated into Reais at the exchange rate on the balance sheet closing dates and the results are translated into Reais at the monthly average rates of the periods. The restatement of investment accounts deriving from exchange variation is recognized as cumulative translation adjustment in equity of the Parent company.

2.4 Information per segment

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

2.5 Cash and cash equivalents

These include cash, cash account balances and financial investments redeemable within 90 days of the transaction dates and with insignificant risk of change in its market value. Short-term investments included in cash and cash equivalents are mostly classified as "Financial assets at fair value through profit or loss". Breakdown of these financial investments by type of classification is shown in Note 5.

2.6 Financial instruments

(a) Classification

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

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are presented as current assets, except for those with maturities

greater than 12 months after the issue date of the balance sheet (these are classified as noncurrent assets). The Company's loans and receivables comprise mainly "Accounts receivable and other receivables" and "Cash and cash equivalents."

(b) Recognition and measurement

Purchases and sales of financial assets are usually recognized on the trade date. Investments are initially recognized at fair value plus transaction costs for all financial assets not classified as at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred, in which case, provided that the Company has transferred substantially all risks and rewards of ownership. Financial assets available for sale and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost, using the effective interest rate.

Gains or losses arising from changes in fair value of financial assets at fair value through profit or loss are recorded in the statement of income in "Other gains (losses), net" in the period they occur.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available for sale are divided between translation differences resulting from changes in amortized cost of title and other changes in the carrying value of the security. Exchange differences on monetary securities are recognized in income. Exchange differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity.

When securities classified as available for sale are sold or suffer loss (impairment), the accumulated fair value adjustments recognized in equity are included in the income statement as "Financial income and expenses".

Interest on available for sale securities, calculated by the method of effective interest rate are recognized in the income statement as part of other income.

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

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

(c) Offsetting of financial instruments

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

2.7 Accounts receivable from customers

Are shown at realizable value, and accounts receivable in foreign markets are adjusted based on the exchange rates in effect on the date of the financial statements. A provision in an amount considered sufficient by management to loans whose recovery is considered doubtful, based on the assessment of each individual customer with overdue installments (see Note 7).

2.8 Investments in subsidiaries

The Company's investments in subsidiaries are valued based on the equity method, in accordance with CPC 18-R1 (IAS 28), for purposes of the Financial Statements of the Parent company.

Based on the equity method, the investment in the subsidiary is accounted for in the balance sheet of the Company at cost plus changes after the acquisition of equity interest in the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortized. Due goodwill be based on future profitability (goodwill) integrarintegra the carrying value of investment in associate (this is not recognized separately), and it is tested for impairment considering the cash-generating unit to which it belongs.

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

Where necessary, adjustments are made to the accounting policies are consistent with those adopted by the Company.

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

2.9 Property, plant and equipment

These are recorded at acquisition cost. The depreciation of assets is calculated by the straight-line method at rates mentioned in Note 12 and takes into account the estimated economic-useful life of assets.

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

The residual value and useful life of assets and the depreciation methods are reviewed at the closing of each fiscal year and are adjusted prospectively whenever necessary.

After calculating the residual value of property, plant and equipment for purposes of preparing the financial statements of the parent Company and its subsidiaries, the Company determines whether or not it is necessary to record an additional loss in the value of property, plant and equipment in conjunction with other assets, such as investments and intangible assets in cash-generating units.

Considerations for adoption of the cost method: (i) the cost method, minus allowances for losses, is the best method for evaluating the Company's property, plant and equipment; (ii) the Company's property, plant and equipment are broken down into well-defined classes, related to its only operating activity, which is the provision of software development and maintenance services; (iii) the infrastructure used in the industry in which the TOTVS operates is significantly affected by the technological development, new products with increased capacity at lower prices are made available, requiring frequent updates of operating equipment and review of the recoverable values and useful life estimates of property, plant and equipment assets, which the Company has been doing over the years; (iv) the Company has effective controls over property, plant and equipment items that allow it to identify impairment losses and changes in useful life estimates; and (v) the depreciation rates used adequately represent the useful life of equipment, which leads to the conclusion that the value of property, plant and equipment approximates fair value.

2.10 Intangible assets

Intangible assets acquired separately are measured at cost at the time of their initial recognition. The cost of intangible assets acquired in a business combination corresponds to the fair value on the acquisition date. After the initial recognition, intangible assets are presented at cost, minus accumulated amortization and impairment losses. Intangible assets generated internally, excluding capitalized development costs (TQTVD - product's development (as presented on Note 13.1(b)), are not capitalized and the expense is reflected in the income statement for the fiscal year when they are incurred.

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

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

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

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

2.11 Provision for asset impairment

Management annually reviews the net book value of assets with a view to evaluating events or changes in economic, operating or technological circumstances that may indicate deterioration or impairment. In case this evidence is identified and the net book value exceeds the recoverable value, a provision is established for the impairment, adjusting the net book value to the recoverable value.

The recoverable value of an asset or a certain cash-generating unit is defined as being the higher of value in use and net sales value.

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

The following criterion is also applied to evaluate impairment losses:

(a) Goodwill paid for expected future profitability

This goodwill is tested annually for impairment (at December 31) or when circumstances indicate loss due to depreciation of its book value.

(b) Intangible assets

Indefinite-life intangible assets are tested annually (at December 31) for impairment, either individually or at the level of the cash-generating unit, depending on the case, or when circumstances indicate loss due to depreciation of their book value.

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

2.12 Loans and financing

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

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

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

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

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

2.13 Share-based payment

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

2.14 Other employee benefits

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

2.15 Provisions

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

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

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

2.16 Dividens an interest on equity

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

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

2.17 Other assets and liabilities

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

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

2.18 Present value adjustment of assets and liabilities

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

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

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

Discount rates used during the 2012 fiscal year stood between 6.6% e 11.2%, (between 10.75% and 12% in 2011). The main accounts subject to present value adjustments are: Clients, Suppliers, Commissions and Liabilities due to Investment Acquisitions (all of which have long-term maturities).

2.19 Capital

The Company's capital is composed solely of common shares. Within the limit of authorized capital, the Company may, by resolution of the Board of Directors to increase the share capital regardless of statutory. The Board of Directors shall determine the issue conditions, including price and payment term. Within the limit of authorized capital, the Board of Directors may decide to issue warrants.

2.20 Revenues and expenses

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

Revenues related to licenses of use are recognized when all items below are cumulatively achieved:

(a) Execution of the agreement and software delivery to the client.

(b) The value thereof may be measured reliably (pursuant to the terms of the agreement).

(c) All risks and rewards inherent to the license are transferred to buyer.

(d) The Company no longer holds effective control over the license.

(e) It is probable that economic benefits will be generated to the benefit of the Company. Revenues from use license resulting from subscription are recognized on a monthly basis, for a term set forth in the agreement.

Revenues from services are billed separately and recognized as the services are rendered. Revenues related to technological upgrade and help desk services are billed and recognized on a monthly basis, during the term of the agreement with clients. Booked revenues which do not meet the mentioned recognition criteria are reversed from the revenues account, and written off from their respective Totvs accounts receivable Company. Revenues are computed in net income for the year by their net value, i.e., they exclude taxes levied thereon.

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

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

2.21 Taxation

(a) Taxes on sales

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

. Social Contribution on Gross Revenue for Social Integration Program (PIS) - 0.65% and 1.65%
. Social Contribution on Gross Revenue for Social Security Financing (COFINS) - 3.0% and 7.6%
. Service Tax (ISSQN) - between 2% and 5%
. National Security Institute (INSS) - 2.5% from April - (2% since August)

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

(b) Income and social contribution taxes - current

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

(c) Deferred taxes

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

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

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

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

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

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

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

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

(d) Contribution to the INSS - the payroll tax relief

The Law 12,546, of December 14, 2011, among other changes, reduced costs related to payroll of companies in the sector of Information Technology, among other areas, modifying the calculation basis of the INSS (National Institute of Social Insurance), passing this taxes to focus on the gross revenues of the services at the rate of 2.5% from April 2012 and 2.0% from August 2012, which were levied previously on the payroll of the Company at the rate of 20%. In light of the changes introduced by the Act, the Company believes that the INSS has become a tax on sales and, consequently, for purposes of disclosure of financial information ended on December 31, 2012, the sales revenue is presented net of tax, as described in note number 28. The adjustment made considers the values calculated from the effective date of the Act, i.e., April 1, 2012.

2.22 Earnings per share

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

2.23 Judgments, estimates and significant accounting assumptions

(a) Judgments

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

(b) Estimates and assumptions

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

(i) Impairment of non-financial assets

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

(ii) Share-based payment transactions

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

(iii) Taxes

There are uncertainties regarding the interpretation of complex tax regulations and the value and timing of future taxable results. Given the comprehensive aspect of international business relationships, and the long-term nature and the complexity of existing contracts, differences between the actual results and the adopted assumptions or future changes in such assumptions could require future adjustments to taxable income and tax expenses already recorded. The Company sets up provisions, based on applicable estimates, for possible consequences of auditing by tax authorities of the respective jurisdictions where it operates. The amount of such provisions is based on several factors, like prior experiences with tax

audits and different interpretations of the tax regulations by the taxable entity and by the tax authority in question. Such differences in interpretation may arise for the most diverse matters, depending on the conditions in force in the respective domicile of the Company.

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

(iv) Fair value of financial instruments

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

(v) Provisions for tax, civil and labor risks

The Company recognizes a provision for civil and labor lawsuits. The assessment on the probability of loss includes the analysis of available evidence, the hierarchy of laws, the available jurisprudence, the latest decisions of courts of law and their relevance in the legal system, as well as the opinion of external legal advisers. The provisions are revised and adjusted to take into account changes in circumstances, such as the applicable statute-barring periods, conclusions of tax audits, or additional exposures that may be identified based on new matters or court decisions.

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

2.24 IFRS: new standards and interpretations of the IASB

The following new standards, amendments and interpretations to existing standards were issued by the IASB/IFRIC but are not effective for the financial year 2012. Early adoption of these standards, though encouraged by the IASB, was not allowed in Brazil by the Accounting Pronouncements Committee (CPC).

. IAS 1 - "Presentation of Financial Statements." The main change is the separation of components of other comprehensive income into two Companies: those that will be made against income and those who remain in equity. The amended standard is applicable from January 1, 2013. This application does not result in significant changes in the Company's financial statements.

. IAS 19 - "Employee Benefits", as amended in June 2011. The main impacts of this rule in the Company are: (i) elimination of the corridor approach, (ii) recognition of actuarial gains and losses in other comprehensive income as they occur, (iii) immediate recognition of past service costs in the income statement, and (iv) the replacement cost of participation and expected return on plan assets for an amount of net equity, calculated by applying the discount rate to the asset (liability) of defined benefit net. The Company doesn't maintain post-employment, termination benefits or other long therm benefits Management is assessing the full impact of these changes on the Company. The standard is applicable from January 1, 2013.

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

. IFRS 10 - "Consolidated Financial Statements" supported on existing principles already by identifying the concept of control as a major factor in determining whether an entity should or should not be included in consolidated financial statements of the Parent Company. The standard provides additional guidance for determining the control. The standard is applicable from January 1, 2013. This application does not result in significant changes in the Company's financial statements.

. IFRS 11 - "Joint Agreements," issued in May 2011. The standard provides a more realistic approach to joint agreements by focusing on the rights and obligations of the agreement rather than its legal form. There are two types of joint agreements: (i) operations together - which occurs when an operator has rights to the assets and contractual obligations and as a result shall record its share of assets, liabilities, revenues and expenses, and (ii) shared control - occurs when an operator has rights to the net assets of the investment contract and accounted by the equity method. The proportionate consolidation method is no longer permitted in conjunction with control. The standard is applicable from January 1, 2013. This application does not result in significant changes in the Company's financial statements.

. IFRS 12 - "Disclosure of Interests in Other Entities", attending with the disclosure requirements for all forms of interests in other entities, including joint arrangements, associations, participation with specific purposes and other equity-balance sheet arrangements. The Company is assessing the full impact of IFRS 12. The standard is applicable from January 1st, 2013.

. IFRS 13 - "Fair Value Measurement", issued in May 2011. The objective of IFRS 13 is to improve consistency and reduce complexity of fair value measurement, providing a more precise definition and a single source of fair value measurement and disclosure requirements for its use in IFRS. The requirements, which are well aligned between IFRS and US GAAP, do not extend the use of fair value accounting, but provide guidance on how to apply it when its use is already required or permitted by other IFRS or US GAAP. The Company is still evaluating the full impact of IFRS 13. The standard is applicable from January 1, 2013.

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

3 Business combination

3.1 Acquisition of controlling interest

In 2012 there was no acquisition of equity interest.

On January 4, 2011, the Company entered into an agreement for acquisition of 100% of the shares of Gens Tecnologia e Informática Ltda. ("GENS"), a Company owning assets related to the operation of GENS S.A., a software development franchise focused on the health segment.

The amount of this transaction is R$ 17,810, as detailed below:

Company	Gens Tecnologia e Informática Ltda.
Operating segment	Software development in the health segment.
Acquisition date	January 4, 2011
Equity interest acquired - %	100
Company interest after operation - %	100
Amount of operation - R$	17,810
Amount paid - R$	5,685
Amount payable (*)- R$	12,125
Intangible assets allocation (customers portfolio) - R$	1,470
Goodwill allocation - R$	16,340

(*) The amount will be paid in five annual installments maturing February 28, 2012 to 2016.

3.2 Acquisition of minority interest in subsidiaries

In 2012 there was no acquisition of equity interest.

On March 31, 2011, the Company, through the exercise of call option provided for in the Share Purchase Agreement and Other Covenants executed on October 13, 2009 for R$ 10,539, shares representing thirty percent (30%) of TOTALBANCO Consultoria e Sistemas S.A.'s capital stock ("TOTALBANCO"), a privately-held corporation operating in the software development segment for the financial industry, of which TOTVS already indirectly held 70% capital stock. With this acquisition, TOTVS now holds 100% of TOTALBANCO's capital.

On August 30, 2011 the Company entered into a transfer of shares agreement in which it acquired 10% stake in TOTVS Argentina S.A. and 10% stake in Datasul Argentina S.A. for a total of R$ 521, thus it now holds all of the shares of both companies.

3.3 Incorporation of companies

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

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

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

On September 2, 2011 the Company incorporated the net assets, the book value of the subsidiaries shown in the table below:

	Currents assets	Total assets	Currents liabilities	Non-current liabilities	Net worth incorporated by the Company
RO	6,274	6,593	383	166	6,044
Look					
BCS Sistemas		32			32
BCSFLEX		100			100
HBA	4	4			4
Datasul Paranaense	6,623	6,770	3		6,767
SRC					

As the merger agreement approved at the EGM of December 31, 2011, the net assets of the subsidiaries were evaluated by a specialized Company that issued their appraisals of equity to book value of companies with a base date of August 31, 2011. The equity variations between August 31, 2011 and the effective date of incorporation were absorbed by TOTVS.

4 Financial instruments and sensitivity analysis of financial assets and liabilities

(a) Financial instrument analysis

The Company and its subsidiaries evaluated their financial assets and liabilities in relation to the market value through the information available and the appropriate evaluation methodologies. However, the interpretation of market data and the selection of evaluation methods require extensive judgment and estimates to calculate the most appropriate realizable value. Consequently, estimates presented do not necessarily show the amounts that may be realized in the market. The use of different market assumptions and/or methods may have a material effect on the estimated realizable values.

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

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

	Book value		Fair value		Financial liabilities measured on amortizated cost	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Financial assets						
Cash and cash equivalents	412,408	412,408	287,079			
Securities				23,291	57,650	
Accounts receivable, net	329,178	329,178	286,643			
Other assets				24,761	22,830	
	741,586	741,586	573,722	48,052	80,480	
Financial liabilities						
Loans and financing					105,467	163,149
Debentures and premiums from non-conversion					130,369	157,111
Fair value of convertible debentures					12,308	13,477
Accounts payable and suppliers					100,527	126,666
Other liabilities					4,163	4,991
					352,834	465,394

The fair value of financial assets and liabilities is included in the amount for which the instrument could be exchanged in a transaction where the parties are willing to negotiate and not in an enforced sale or settlement. The methods and assumptions below were used to estimate the fair value.

. Securities, trade accounts receivable, trade accounts payable and other short-term liabilities approximate their respective book value mainly due to the short-term maturity of these instruments.

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

. The book value of the convertible debentures portion and debentures was adjusted to their fair value, according to Note 16.

(b) Measurement at fair value

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

. Level 1 - the measurement of fair value derives from prices (not restated) in active markets based on identical assets and liabilities.

. Level 2 - the measurement of fair value derives from other priced inputs included in Level 1 through an asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices).

. Level 3 - the measurement of fair value derives from evaluation techniques that include asset or liability not traded in an active market.

	Level 1	Level 2	Level 3
Financial assets			
Short-term investments		381,055	

	Level 1	Level 2	Level 3
Financial liabilities			
Loans and financing		105,467	
Debentures			130,369
Fair value of future translations		12,308	

(c) Sensitivity analysis of financial assets and liabilities

The Company's financial instruments are represented by cash and cash equivalents, accounts receivable, payable, debentures, loans and financing, and are recorded at cost plus income or charges incurred, which at December 31, 2012 and December 31, 2011 approximate their market values.

During the financial year 2012, as described in Note 16, the Company recognized the impact of fair value of stock issued to debenture holders, according to the mandatory conversion of the debentures (3rd tranch - 15%) in Company stock, and projected the impact of the fair value of future conversion H(4th and final installment - 15% in 2013). So the premium for non-conversion of 60% of debentures (% maximum conversion) was reversed, leaving only the accrued premium of non-conversion of the debentures not converted into shares (40%).

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

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

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

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

As an attempt to check the sensitivity of the index for the financial investments the Company was exposed to at December 31, 2012, three different scenarios were created. Based on the forecast by

financial institutions, we arrived at a 12-month forecast for Interbank Deposit Certificates (CDI), with an average of 7.25% for the fiscal year of 2013 - this being the most probable scenario; from this rate, we assessed variations from 25% to 50%.

For each of these scenarios the "gross financial revenue" was estimated, with taxes on investments return not included. The reference date for the portfolio was December 31, 2012, with a one-year projection to check the CDI's sensitivity to each scenario.

Operation	Balances at 2012	Risk	Probable scenario (I)	Scenario II	Scenario III
Financial investments	381.055	CDI	7.25%	5.44%	3.63%
Financial income			27,626	20,729	13,832

Aiming at checking the sensitivity of the index the Company is exposed to when estimating our debts as of December 31, 2012, three different scenarios were created. Based on long-term interest rates and the IPCA in force as of December 31, 2012, the most probable scenario was determined for 2013 and, from this, variations from 25% to 50% were estimated.

For each scenario, the gross financial expense was calculated, not taking into account the tax levy and the maturities flow for each agreement scheduled for 2012. The reference date used for the financing and debentures was December 31, 2012, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances at 2012	Risk	Probable scenario (I)	Scenario II	Scenario III
Financing	105,467		6,855	8,174	9,492
Rate subject to variation		TJLP	5.00%	6.25%	7.50%
Debentures	130,369		12,788	13,410	14,032
Rate/index subject to variation		IPCA	5.50%	6.87%	8.25%
		TJLP	5.00%	6.25%	7.50%

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

(d) Financial risk management

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

(i) Liquidity risk

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

The Company's and its subsidiaries' liquidity and cash flow control is monitored on a daily basis by the Company's management, in order to assure that cash flow from operations and the previous funding, when necessary, are sufficient to meet their cash commitment schedule, not generating liquidity risks for the Company and its subsidiaries.

The table below analyzes non-derivative financial liabilities of the Company, by maturity corresponding to the remaining period between the balance sheet date and the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash.

	Parent company			
	Less than one year	**Between one and two years (*)**	**Between two and five years (*)**	**Over five years (*)**
On December 31, 2012				
Suppliers	26,277			
Loans and financing		54,643		
Debentures	42,930		99,747	
Liabilities from investment acquisition	11,399	5,044	8,421	
Other liabilities	1,312			
On December 31, 2011				
Suppliers	13,051			
Loans and financing	51,678			
Debentures	39,395		116,274	14,929
Liabilities from investment acquisition	31,477	23,648	8,366	
Other liabilities	1,840			

	Consolidated			
	Less than one year	**Between one and two years (*)**	**Between two and five years (*)**	**Over five years (*)**
On December 31, 2012				
Suppliers	30,281			
Loans and financing		54,643		
Debentures			99,747	
Liabilities from investment acquisition	11,399	5,044	8,421	
Other liabilities	4,163			
On December 31, 2011				
Suppliers	19,535			
Loans and financing	52,848			
Debentures	39,395		116,274	14,929
Liabilities from investment acquisition	31,625	23,943	8,366	
Other liabilities	1,354	2,809		

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

(ii) Credit risk

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

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

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

As regards the credit risk associated with financial institutions, the Company and its subsidiaries operate so as to distribute this exposure among first-tier financial institutions.

(iii) Market risk

. Interest rate and inflation risk - interest rate risk arises from the portion of the debt related to TJLP, IPCA and financial investments in CDI, which can adversely affect the financial income or expenses in case of unfavorable changes in the interest rate and inflation.

. Exchange rate risk -this risk arises from the possibility of losses due to exchange rate fluctuations that increase the liabilities resulting from loans and foreign currency purchase commitments or that reduce assets resulting from trade accounts receivable in foreign currency.

The Company and its subsidiaries do not have hedging derivative financial instruments given that they do not have any significant operations denominated in foreign currencies.

(iv) Operations with derivatives

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

(e) Capital management

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

TOTVS controls its capital structure by adjusting itself to current economic conditions. To maintain this structure, the Company may pay dividends, return on shareholders' capital, take out new loans, issue debentures, issue promissory notes and contract operations with derivatives. As of the year ended December 31, 2008, there have been no changes in the capital structure's goals, policies or processes.

5 Cash and cash equivalents

Cash equivalents are maintained for the purpose of meeting short-term cash requirements and not for investments or other purposes. The Company's cash equivalents include financial investments in DI

funds, Interbank Deposit Certificates and repurchase agreements, and are redeemable in a period of up to 90 days from the date of the respective transactions.

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Cash equivalents	25,732	15,802	31,353	33,169
Cash and cash equivalents	373,021	206,096	381,055	253,910
Repurchase agreements	278,839	132,125	286,474	166,429
CDB	93,672	73,971	94,071	87,034
DI Funds	510		510	447
Cash equivalents	398,753	221,898	412,408	287,079

The Company has financial investment policies which establish that the investments focus on low risk securities and investments in first-tier financial institutions and they are significantly remunerated by reference to Interbank Deposit Certificates (CDI) variation.

6 Marketable securities

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

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
YMF Participações		2,383		2,383
Gens		578		578
Tech Prod	450	889	450	1,332
Tools	1,711	1,548	1,711	1,548
Datasul MG	2,012	1,802	2,012	1,802
Datasul Saude MG	641	641	641	641
TOTALBANCO	1,383	1,900	1,383	1,900
Hery	2,549	3,505	2,549	3,505
ERP Cedente	261	476	261	476
SRC	4,325	32,390	4,325	32,390
Mafipa	1,302	2,614	1,302	2,614
Gens FDES	8,361	7,677	8,361	7,677
Others	296	804	296	804
	23,291	57,207	23,291	57,650
Current assets	10,168	28,354	10,168	28,502
Non-current assets	13,123	28,853	13,123	29,148

7 Trade accounts receivable

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

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Domestic market	344,714	255,288	364,100	305,004
Foreign market			9,092	13,451
	344,714	255,288	373,192	318,455
Current assets	306,644	234,837	333,609	295,094
Non-current assets	38,070	20,451	39,583	23,361

The accounts receivable refers to the external market, mainly by sales of its foreign subsidiaries as follow: Argentina - R$ 3,986; México - R$ 4,508; Portugal - R$ 532; e USA R$ 66. (In 2011, Argentina - R$ 4,430; México - R$ 8,346; Portugal - R$ 616 e USA - R$ 59), converted end of the period rate.

Below are the net receivables in connection with the allowance for doubtful accounts by aging, at December 31, 2012 and 2011:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Falling due	268,514	206,382	287,946	243,826
Overdue				
1 to 30 days	17,631	11,104	19,208	13,545
31 to 60 days	7,810	3,610	8,243	5,330
61 to 90 days	4,822	2,623	5,760	2,109
91 to 180 days	5,428	7,140	6,189	9,921
181 to 360 days	1,343	2,607	1,786	9,350
More than 360 days		516	46	2,562
	305,548	233,982	329,178	286,643

Changes in allowance for doubtful accounts are as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Balance at the beginning of the year	21,306	16,221	31,812	20,900
Additional provision in the year	20,787	8,727	23,234	16,145
Written off from the provision	(2,927)	(3,642)	(11,032)	(5,233)
Balance at December 31	39,166	21,306	44,014	31,812

Management believes that the risk related to the trade accounts receivable is minimized by the fact that the Company's customer portfolio is highly diluted. The Company has more than 26,000 active customers in its portfolio, and, at December 31, 2012 and 2011, no customer accounted for 5% or more of the revenue or the accounts receivable. The Company does not require any guarantee on sales in installments.

8 Taxes recoverable

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Recoverable taxes				
Withholding income tax	11,357	20,538	12,730	24,578
Withholding social contribution tax	3,201	3,039	4,249	4,749
Withholding PIS and COFINS taxes	22	48	91	335
Other	(587)	(191)	2,436	605
	13,993	23,434	19,506	30,267

9 Income and social contribution taxes

Income and social contribution taxes, current and deferred, were recorded pursuant to the current rates in force. Deferred income tax and social contribution are calculated over temporary differences and income and social contribution tax loss carryforwards.

9.1 Reconciliation of income and social contribution tax expenses

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

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Income before taxes	274,112	205,465	288,197	208,452
Income and social contribution taxes at combined nominal rate of 34%	(93,198)	(69,858)	(97,987)	(70,874)
Adjustments for the statement of effective rate				
Equity pick-up	3,176	(2,389)		
Law 11196/05 (incentive for research and development)(*)	18,902	28,633	19,400	29,801
Effect of subsidiary's taxable income based on a percentage of gross sales			(4,328)	(5,169)
Interest on equity	13,668	11,900	13,668	11,900
Management stake	(2,304)	(41)	(2,304)	(82)
Accounts receivable deemed uncollectible	(40)	(205)	(56)	(205)
Pat	1,410	476	1,573	525
Stock options	(3,062)	(3,264)	(3,062)	(3,264)
Fair value - debentures	(6,282)	(2,312	(6,282)	(2,312)
Other	766	498	(1,671)	611
Income tax and social contribution expense	(66,964)	(36,562)	(81,049)	(39,069)
Effective rate - %	24.4	17.8	28.1	18.7

(*) The Brazilian tax legislation current provides a mechanism to promote technological development of the country, regulated by Law 11196 of November 21, 2005, which grants tax incentives to companies to develop Research and Development (R&D) technological

innovation. The treatment adopted by the Company in recognition of this tax benefit takes into account the regulations of this law occurred in August 2011. Certain expenses used in calculating the income tax and social contribution provided in the regulations may be give interpretations for the taxpayer which may be different from the collecting entity. Management believes that there is no more than possible risks of questioning the tax treatment adopted in the deductibility of expenses following the tax benefit mentioned above.

Income and social contribution tax expenses recorded in the consolidated income statement for the period ended December 31, 2012 and year ended December 31, 2011 are broken down as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Income and social contribution taxes	(78,489)	(26,496)	(89,958)	(41,179)
Deferred income and social contribution taxes	11,525	(10,066)	8,909	2,110
	(66,964)	(36,562)	(81,049)	(39,069)

9.2 Breakdown of deferred income and social contribution taxes

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Assets				
Deriving from temporary differences				
Goodwill in business combination	85,033	88,823	86,263	91,287
Provision for commissions	16,036	14,584	16,237	15,379
Anticipated income or revenues	4,423	2,045	5,238	4,777
Allowance for doubtful accounts	13,316	7,244	14,025	8,435
Provision for contingencies and other liabilities	2,166	880	2,166	880
Tax losses and social contribution tax loss carry forward			16,710	18,030
Provision for premium due to non-conversion of debentures	10,897	9,658	10,897	9,658
Present value adjustment	2,387	1,865	2,387	1,865
Other	7,767	3,599	8,824	3,843
Total deferred income and social contribution tax assets	142,025	128,698	162,747	154,154
Liabilities				
Deriving from temporary differences				
Intangible assets allocation	103,442	101,688	103,778	103,134
Other	765	1,224	968	1,652
Total deferred income and social contribution tax liabilities	104,207	102,912	104,746	104,786
Net deferred income and social contribution tax	37,818	25,786	58,001	49,368

Company is presenting the deferred income tax in the non-current assets in liquid bases.

9.3 Estimated tax credit recovery

Based on projections of deferred income approved by the Board of Directors, for December 31, 2012, the Company expects to recover tax credits recorded in non-current assets and realize non-current liabilities in the following years:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Deferred tax asset				
Deferred tax asset to be recovered until 12 months	33,999	27,472	35,379	50,464
Deferred tax asset to be recovered after 12 months	108,026	101,226	127,368	103,690
	142,025	128,698	162,747	154,154
Deferred tax liability				
Deferred tax liability to be recovered until 12 months	33,052	19,683	33,255	20,036
Deferred tax liability to be recovered after 12 months	71,155	83,229	71,491	84,750
	104,207	102,912	104,746	104,786
Net deferred tax liability	37,818	25,786	58,001	49,368

During the period ended December 31, 2011, no material event has occurred that indicates a limitation for full recovery of deferred taxes recognized.

Changes in Income Tax and Social Contribution:

	Parent company	Consolidated
On January 1	25,786	49,368
Expense in the income statement	11,525	8,909
Tax related to other comprehensive income	(183)	(183)
Acquisition of subsidiary	685	
Others	5	(93)
On December 31	37,818	58,001

10 Related-party balances and transactions

Transactions among the Parent Company and its subsidiaries are carried out under market conditions and prices established by the parties, which are eliminated for consolidation purposes.

10.1 Receivables from related companies

At December 31, 2012 and 2011, the balance of transactions with related parties classified as receivables from related parties in non-current assets may be stated as follows:

	Parent company	
	2012	**2011**
TOTVS Brasília Software		3,741
TOTVS Nordeste Software	2,275	3,935
BCS Comércio		36
Hery Software		8
Gens		3,660
TOTVS Rio Software		6,766
Others	(24)	(24)
	2,251	18,122

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

10.2 Transactions or relationships with shareholders

The Company maintains property lease agreements, including the facilities where its headquarters are located, which are owned by one of its shareholders (LC-EH Empreendimentos e Participações S.A.). Rental paid was R$ 7,079 for the period ended December 31, 2012 (R$ 6,345 for the period ended December 31, 2011), in line with market values. The agreements are effective for 60 months and are adjusted by General Price Index - Market (IGP-M), every 12 months.

Some Company officers directly or indirectly hold 17.8% of the Company's shares at December 31, 2012 (17.92% at December 31, 2011), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company maintains loans and financing operations (Note 15) and debentures (Note 16), transactions substantially carried out with the National Bank for Economic and Social Development (BNDES). On December 31, held 3.91% of the share capital of the Company (Note 19).

10.3 Management fees

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

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Short-term benefits to employees				
Salaries, fees and variable bonus payroll charges	18,026	21,115	18,787	24,048
Private pension plan (Note 24)	440	573	440	573
Variable bonus	6,777		6,815	
	25,243	21,688	26,042	24,621
Share-based payments (Note 22)	9,004	9,599	9,004	9,599
	34,247	31,287	35,046	34,220

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

11 Investiments

The breakdown of investments in subsidiaries is shown below:

	Summarized financial statements of affiliate companies and subsidiaries at December 31, 2012					Equity pick-up (Parent company) for periods ended		Balance of investments as of	
	Assets	Liabilities	Equity	Gross revenue	P&L for the year	2012	2011	2012	2011
TOTVS Rio	25,642	2,271	23,371	44,719	5,808	5,808	(4,445)	23,371	17,563
TOTVS Argentina	7,680	2,864	4,816	12,552	(4,038)	(4,038)	(3,740)	4,816	4,063
TOTVS México	4,151	5,516	(1,365)	8,842	(4,910)	(4,910)	(9,501)		
TOTVS Corporation					4	4	4		2,212
TOTVS Nordeste	11,914	3,731	8,183	9,164	(746)	(746)	(872)	8,183	8,929
TOTVS Brasília	6,185	1,254	4,931	11,205	(2,231)	(2,231)	(896)	4,931	599
IOSSTS (*)				6,470	4,159	4,159	3,218		6,358
EuroTOTVS	260	1	259	37	(1,276)	(1,276)	(2,603)	259	
RO							4,108		
Midbyte (*)				2,309	1,066	1,066	2,536		5,564
TQTVD	20,734	1,826	18,908	12,214	(3,168)	(3,168)	(8,061)	18,908	17,786
BCS Comércio (*)				1,833	996	996	(1,145)		5,752
BCS Sistemas (*)							(42)		
HBA							(28)		
TOTVS Serviços				5,516	(1,245)	(1,245)	(2,638)		13,907
Gens				3,762	779	779	2,366		880
YMF (*)				44,883	7,215	7,215	9,328		33,909
Tools (*)				16,464	4,301	4,301	2,603		6,741
DTSL							93		
Datasul S.A. de CV	2,794	1,700	1,094		34	34	(116)	1,094	900
Datasul Incorporation	3,216	17	3,199		(2,557)	(2,557)	(24)	3,199	1,079
Datasul Argentina	1,228	10	1,218	56	48	48	(317)	1,218	1,334
Hery (a)				12,582	1,620	1,620	417		2,856
TOTALBANCO (*)				18,463	3,484	3,484	2,691		7,167
Gens FDES (*)							39		
						9,343	(7,025)	65,979	137,599

(*) Incorporated companies during 2012 (as presented on Note 3.3).

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

	Parent company	
	2012	**2011**
TOTVS México	1,365	1,846
EuroTOTVS		102
	1,365	1,948

The Company has prepared a profitability recovery plan for operations in Mexico which is in its implementation stage.

As regards operations in Europe, management decided to cease its operations and start managing its business there through its structured located in Brazil.

	2011	Additions	Equity pic-up	Foreign exchange	Dividends	Incorporation	Reclassification	2012
TOTVS Rio	17,563		5,808					23,371
TOTVS Nordeste	8,929		(746)					8,183
TOTVS Argentina	4,063	4,665	(4,038)	126				4,816
TOTVS Corporation	2,212		4	184	(2,399)		(1)	
TOTVS Inc.	1,079	4,615	(2,557)	62				3,199
EuroTOTVS							259	259
IOSSTS	6,358		4,159		(3,358)	(7,159)		
Midbyte	5,564		1,066		(3,664)	(2,965)	(1)	
BCS Comércio	5,752		996		(2,488)	(4,260)		
Datasul Argentina	1,334		48	(164				1,218
YMF	33,909		7,215			(41,124)		
Tools	6,741		4,301			(11,043)	1	
TQTVD	17,786	4,290	(3,168)					18,908
TOTALBANCO	7,167		3,484			(10,652)	1	
TOTVS Brasília	599	6,562	(2,231)				1	4,931
Hery	2,856		1,620			(4,475)	(1)	
TOTVS Serviços	13,907	817	(1,245)			(13,479)		
Datasul México	900		34	160				1,094
Gens	880		779			(1,659)		
Total investiments	137,599	20,949	15,529	368	(11,909)	(96,816)	259	65,979
TOTVS México	(1,846)	5,273	(4,910)	118				(1,365)
EuroTOTVS	(102)	1,595	(1,276)	42			(259)	
Provision for losses on investments	(1,948)	6,868	(6,186)	160			(259)	(1,365)
Total investiments	135,651	27,817	9,343	528	(11,909)	(96,816)		64,614

12 Property, plant and equipment

Breakdown of the Company's property, plant and equipment is shown below:

	Parent company					
	Computers and softwares	**Vehicles**	**Furniture and fixtures**	**Facilities machinery and equipaments**	**Others**	**Total property, plants and equipments**
Cost or valuation						
Balance at December 31, 2010	47,297	7,122	6,832	4,340	6,950	72,541
Additions	19,584	1,271	1,562	6,849	6,753	36,019
Write-off	(4,041)	(1,791)	(453)	(707)	(1)	(6,993)
Transfer	(9,775)	1			(1)	(9,775)
Balance at December 31, 2011	53,065	6,603	7,941	10,482	13,701	91,792
Additions	9,588	3,237	508	1,895	1,803	17,031
Incorporation	5,595	139	738	131	303	6,906
Write-off	(1,979)	(1,909)	(66)	(5)	15	(3,959)
Balance at December 31, 2012	66,269	8,070	9,121	12,503	15,807	111,770
Depreciation						
Balance at December 31, 2010	(29,549)	(3,013)	(3,090)	(2,681)	(4,416)	(42,749)
Depreciation in the year	(8,516)	(1,200)	(632)	(565)	(1,003)	(11,916)
Write-off	3,384	911	357	641	(1)	5,292
Transfer	4,867	(1)			1	4,867
Balance at December 31, 2011	(29,814)	(3,303)	(3,365)	(2,605)	(5,419)	(44,506)
Depreciation in the year	(8,679)	(1,170)	(775)	(1,067)	(952)	(12,643)
Incorporation	(3,951)	(85)	(377)	(23)	(78)	(4,514)
Write-off	2,567	1,007	214	17	49	3,854
Balance at December 31, 2012	(39,877)	(3,551)	(4,303)	(3,678)	(6,400)	(57,809)
Residual value						
Balance at December 31, 2012	26,392	4,519	4,818	8,825	9,407	53,961
Balance at December 31, 2011	23,251	3,300	4,576	7,877	8,282	47,286
Balance at December 31, 2010	17,748	4,109	3,742	1,659	2,534	29,792
Average annual depreciation rate - %	20	20	10	10	4 to 10	

	Consolidated					
	Computers and softwares	**Vehicles**	**Furniture and Fixtures**	**Facilities machinery and equipaments**	**Others**	**Total property, plants and equipments**
Cost or valuation						
Balance at December 31, 2010	55,376	7,845	8,504	5,594	7,983	85,302
Additions	21,892	1,362	1,529	6,029	6,577	37,389
Write-off	(4,289)	(1,876)	(434)	(706)	(1)	(7,306)
Transfer	(10,442)			1	(2)	(10,443)
Balance at December 31, 2011	62,537	7,331	9,599	10,918	14,557	104,942
Additions	15,961	3,686	1,478	2,102	2,607	25,834
Write-off	(7,707)	(2,209)	(858)	(179)	(305)	(11,258)
Exchange variation	(76)	9	41		24	(2)
Balance at December 31, 2012	70,715	8,817	10,260	12,841	16,883	119,516
Depreciation						
Balance at December 31, 2010	(33,393)	(3,321)	(3,769)	(3,535)	(4,749)	(48,767)
Depreciation in the year	(10,926)	(1,370)	(831)	133	(1,133)	(14,127)
Write-off	4,007	1,027	416	653	268	6,371
Transfer	5,455	(23)	(70)	12		5,374
Balance at December 31, 2011	(34,857)	(3,687)	(4,254)	(2,737)	(5,614)	(51,149)
Depreciation in the year	(9,947)	(1,277)	(978)	(1,109)	(1,036)	(14,347)
Write-off	2,648	1,146	266	43	1	4,104
Transfer	(132)	7	108	(18)		(35)
Balance at December 31, 2012	(42,288)	(3,811)	(4,858)	(3,821)	(6,649)	(61,427)
Residual value						
Balance at December 31, 2012	28,427	5,006	5,402	9,020	10,234	58,089
Balance at December 31, 2011	27,680	3,644	5,345	8,181	8,943	53,793
Balance at December 31, 2010	21,983	4,524	4,735	2,059	3,234	36,535
Average annual depreciation rate - %	20	20	10	10	4 to 10	

The Company and its subsidiaries have periodically assessed these assets' useful and economic life, and there are no significant adjustments or changes to be recognized at December 31, 2012, The book value of property, plant and equipment kept under finance lease agreements at December 31, 2011 was R$ 169, from December 31, 2011 to December 31, 2012, no items under finance lease agreements were added to property, plant and equipment.

13 Intangible assets

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

	Parent company						
	Software	Trademarks & patents	Franchising	Customer portfolio	Others	Goodwill	Total intangible assets
Cost/valuation							
Balance at December 31, 2010	157,399	61,987	83,222	192,639	14,701	322,896	832,844
Additions	2,252			8,405		16,538	27,195
Write-off					(686)	(1)	(687)
Transfer	9,775			(1)		2	9,776
Balance at December 31, 2011	169,426	61,987	83,222	201,043	14,015	339,435	869,128
Additions	5,289				3,000		8,289
Incorporation	9,973	1,624		3,273			14,870
Write-off	(2,757)	(462)			(2,086)		(5,305)
Transfer	1				(1)		
Balance at December 31, 2012	181,932	63,149	83,222	204,316	14,928	339,435	886,982
Amortization							
Balance at December 31, 2010	(37,445)	(10,416)	(45,077)	(44,450)	(6,419)	(134,214)	(278,021)
Amortization in the year	(16,039)	(4,093)	(18,652)	(22,494)	(2,455)		(63,733)
Write-off							
Transfer	(4,867)	1			(2)		(4,868)
Balance at December 31, 2011	(58,351)	(14,508)	(63,729)	(66,944)	(8,876)	(134,214)	(346,622)
Amortization in the year	(18,892)	(4,165)	(14,469)	(22,335)	(2,820)		(62,681)
Incorporation	(4,600)	(433)		(1,267)			(6,300)
Write-off	3,072	489			2,086		5,647
Transfer	1			(1)	1		1
Balance at December 31, 2012	(78,770)	(18,617)	(78,198)	(90,547)	(9,609)	(134,214)	(409,955)
Residual value							
Balance at December 31, 2012	103,162	44,532	5,024	113,769	5,319	205,221	477,027
Balance at December 31, 2011	111,075	47,479	19,493	134,099	5,139	205,221	522,506
Balance at December 31, 2010	119,954	51,571	38,145	148,189	8,282	188,682	554,823
Average annual amortization rates - %	10 to 16.7	8	20 a 50	10 to 12.5	10 to 20		

	Consolidated						
	Software	**Trademarks & patents**	**Franchising**	**Customer portfolio**	**Others**	**Goodwill**	**Total intangible assets**
Cost/valuation							
Balance at December 31, 2010	168,805	63,651	83,221	205,469	29,907	331,058	882,111
Additions	261	(3)		6,331	358	9,964	16,911
Write-off	1,875	(37)		(1,046)	(1,024)	(3)	(235)
Transfer	10.443		1	(1)	(2)	2	10,443
Balance at December 31, 2011	181,384	63,611	83,222	210,753	29,239	341,021	909,230
Additions	6,022			800	3,000		9,822
Write-off	(3,419)	(521)		(800)	(2,086)		(6,826)
Transfer	(849)	70		459			(320)
Balance at December 31, 2012	183,138	63,160	83,222	211,212	30,153	341,021	911,906
Amortization							
Balance at December 31, 2010	(40,292)	(10,681)	(45,077)	(46,685)	(10,673)	(134,830)	(288,238)
Amortization in the year	(16,940)	(4,201)	(18,652)	(23,251)	(5,313)		(68,357)
Write-off	(1,654)	4		148			(1,502)
Transfer	(5,374)				(1)	1	(5,374)
Balance at December 31, 2011	(64,260)	(14,878)	(63,729)	(69,788)	(15,987)	(134,829)	(363,471)
Amortization in the year	(19,333)	(4,255)	(14,469)	(23,224)	(5,601)		(66,882)
Write-off	3,072	521			2,086		5,679
Exchange variation	589	(5)		(261)			323
Balance at December 31, 2012	(79,932)	(18,617)	(78,198)	(93,272)	(19,502)	(134,829)	(424,350)
Residual value							
Balance at December 31, 2012	103,206	44,543	5,024	117,940	10,651	206,192	487,556
Balance at December 31, 2011	117,124	48,733	19,493	140,965	13,252	206,192	545,759
Balance at December 31, 2010	128,513	52,970	38,144	158,784	19,234	196,228	593,873
Average annual amortization rates - %	10 to 16.7	8.00	20 to 50	10 to 12.5	10 to 20		

13.1 Goodwill

There was no change in goodwill in fiscal year 2012. The composition at December 31, 2012 and 2011 and the movement in the year 2011 are presented as follows:

Incorporated	2010	Aditions	Reavaliations	2011	2012
RM	90,992			90,992	90,992
Logo Center	5,703			5,703	5,703
TOTVS BMI	2,053			2,053	2,053
Midbyte	1,765			1,765	1,765
IOSSTS	2,643			2,643	2,643
BCS	11,821			11,821	11,821
Datasul	30,084			30,084	30,084
Setware	961			961	961
Hery	2,927			2,927	2,927
TOTALBANCO (ii)	7,523		(1,515)	6,008	6,008
M2S	12			12	12
SRC	33,688			33,688	33,688
Mafipa (ii)	6,056		(4,861)	1,195	1,195
Gens FDES (i)		16,340		16,340	16,340
	196,228	16,340	(6,376)	206,192	206,192

(i) Business combination in 2011.
(ii) Company acquired at the end of 2010 with intangible assets allocated in 2011.

For measurement of others identified intangibles assets in business combinations, measured at fair values, were used discounted cash flows methodologies on present value and replacement cost. To estimate the value of the methodology discounted cash flow were used the rates from 6.25% to 14.32% per year (in real terms), varying according to the intangible asset analyzed. The intangible assets amortization is based on their estimated useful lives. Intangible assets identified and recognized values and useful lives of assets are based on a technical study of an independent specialized Company.

The column of "Other intangibles"present on the table above is consist basically of comprises the right to explore areas and the development of new products with the following characteristics:

(a) Rights of area exploration

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

(b) New product development;

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

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

13.2 Provision for impairment of assets

The Company assesses the recoverable book value of goodwill by employing the value-in-use concept through discounted cash flow models of cash generating units representing the group of tangible and intangible assets used in the development and sale of different solutions to its customers.

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

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

Growth rates used to extrapolate projections as of December 31, 2011, in addition to the five-year period range from 0% and 2%. Estimated future cash flows were discounted at rates ranging from 6.25% to 14.32% p.a. for each cash-generating unit analyzed.

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

. Revenues - revenues were projected between 2011 and 2015, taking into account the growth of the customer base of different cash generating units.

. Operating costs and expenses - costs and expenses were projected in line with the Company's historical performance, as well as with revenues historical growth.

. Capex - investments in capital goods were estimated taking into account the technological infrastructure required to make the provision of services feasible, based on the Company's history.

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

The Company's impairment test of intangible assets for the year ended December 31, 2012, resulted in the need for recognizing losses in the TQTVD subsidsince the estimated market value is higher than its net book value as of the valuation date. The recovery test is performed annually.

14 Payroll and labor obligations

Salaries and charges payable balances are broken down as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Labor liabilities				
Salaries payable	18,666	8,687	19,694	10,578
Pension plan payable	602	618	623	651
Vacations payable	39,108	34,790	41,922	40,948
Profit sharing and bônus	18,259	1,299	18,264	1,317
Other	2,718	5,957	4,668	8,371
	79,353	51,351	85,171	61,865
Payroll liabilities				
Government Severance Indemnity Fund for Employees (FGTS) payable	3,107	2,409	3,325	2,881
Brazilian Social Security Institute (INSS) payable	6,179	7,032	6,576	8,239
	9,286	9,441	9,901	11,120
	88,639	60,792	95,072	72,985

15 Loans and financing

The operations of loans and financings are as follows:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
BNDES (a)	104,495	157,956	104,495	157,956
FINEP (b)	424	2,886	424	2,886
Secured accounts and other			548	2,126
	104,919	160,842	105,467	162,968
Current liabilities	53,851	58,043	54,399	58,999
Non-current liabilities	51,068	102,799	51,068	103,969

Amounts recorded in non-current liabilities at December 31, 2012 and December 31, 2011, present the following maturity schedule:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
2013		51,678		52,848
2014	51,068	51,121	51,068	51,121
Non-current liabilities	51,068	102,799	51,068	103,969

Below, the breakdown of loans and financing at December 31, 2011 and December 31, 2010:

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Balance at beginning of year	160,842	215,519	162,968	218,259
Interest incurred	7,455	10,889	6,973	11,946
Amortizations	(63,378)	(65,566)	(64,474)	(67,237)
Balance at December 31	104,919	160,842	105,467	162,968

(a) National Bank for Economic and Social development (BNDES)

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

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

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

(b) Software Development - Research and Project Financing (FINEP)

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

16 Debentures

(a) Description of operations

On August 19, 2008, shareholders approved raising R$ 200,000 by the issue of up to 100,000 Units, represented by Brazilian Depositary Receipts, comprised by two non-detachable debentures, one of which is first series convertible and the other second series convertible.

On August 26, 2009, with a view to breaking down the mode of calculation and adjustment: (a) remuneration of debentures convertible into shares of both series of the first private issue of the Company ("Debentures"); (b) premium due to non-conversion of Debentures; (c) conversion percentage; (d) premium over price in the event of mandatory conversion of Debentures. The Company executed the second amendment to the private deed of first issue of debentures.

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

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

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

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

Conversion price, should that happen, will also be the average price weighted by the volume of the Company's shares, calculated at the Bovespa's trading sessions for the base period, increased by 50% premium of the weighted value of shares in said period, for the possible conversions to be carried out as from 2012, dropping to 46%, 42% and 40% in the subsequent years. For assessment purposes of the weighted value of shares in the reference period, historical values will be restated based on indices set forth at bookkeeping of debentures.

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

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

Bookkeeping of debentures shall take place early, should they not comply with certain financial and non-financial conditions, in addition to other ancillary obligations. At December 31, 2010 and 2011, the Company met all the established conditions.

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

(b) "Non-conversion of debentures" clause

Should there not be a conversion, debentures will be entitled to a non-conversion premium, for first series debentures equivalent to the difference between IPCA increased by 8.0% p.a. and the compensation abovementioned, and for second series debentures equivalent to interest of 3.5% p.a. Premium due to non-conversion of first series debentures will be restated by IPCA increased by 8.0% p.a., and second series debentures will be restated at TJLP increased by 5.0% p.a.

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

(c) Balance at December 31, 2012 and December 31, 2011

At December 31, 2011 and December 31, 2010, balance was broken down as follows:

				Parent company e Consolidated	
Issue	**Debentures**	**Annual financial charges - %**	**Unit price**	**2012**	**2011**
First series	100,000	IPCA (*) + 3.5 limited to TJLP + 1.5	1,00	55,313	71,091
Second series	100,000	TJLP + 1.5	1,00	55,313	71,091
		Sub-total		110,626	142,182
		Premium due to non-conversion		19,743	14,929
		Fair value - convertible debentures		12,308	13,477
		Total		142,677	170,588
		Current liabilities		42,930	39,385
		Non-current liabilities		99,747	131,203

(*) Brazil's Extended Consumer Price Index.

Maturity of non-current amounts is as follows:

	2012	**2011**
August 2013		36,273
August 2015	32,002	32,000
August 2016	48,002	48,001
After February 2017	19,743	14,929
	99,747	131,203

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

(i) Debentures and premiums from non-conversions

	Parent company e Consolidated	
	2012	**2011**
Balance at beginning of year	157,111	183,527
Interest incurred	13,896	16,554
Amortization	(40,638)	(42,970)
Balance at December 31	130,369	157,111

(ii) Fair value of future conversions

	Parent company e Consolidated	
	2012	**2011**
Balance at the beginning of the year	13,477	14,423
Restatement at market value	17,311	5,324
Amortization	(18,480)	(6,270)
Balance at December 31	12,308	13,477

(d) Debentures conversion

(i) First conversion of debêntures (2010)

On August 19, 2010 the average price over the last 360 days of the Company's shares outperformed the weighted average price of the "base period" corrected according to the contractual clauses, hence the parameters have been achieved and required debenture holders to convert 15% of the Units. Based on this conversion the Board of Directors approved, within the authorized capital of TOTVS, the issuance of 306,870 registered common shares, with no par value, at an issue price of R$ 97,747683 per share, consequently increase the share capital of TOTVS by R$ 29,996 by amortizing the principal balance of that value (Units) of debentures (Note 16(a)).

Due to the issuance of shares to debenture holders at contract value, which is below market price, the Company recorded on August 19, 2010, a discount on issue of shares amounting to R$ 7,448, recorded as financial expense for the year since the likelihood of conversion became probable.

(ii) Second conversion of debentures (2011)

On August 19, 2011, the average price over the last 360 days of the Company's shares outperformed the weighted average price of the "base period" restated according to the contractual clauses, hence the

parameters have been achieved which required debenture holders to convert 30% of the Units. Based on this conversion, the Board of Directors approved, within the authorized capital of TOTVS, the issuance of 1,389,191 registered common shares, with no par value, at an issue price of R$ 21,596713 per share, consequently increase the share capital of TOTVS by R$ 30,002 by amortizing the principal balance of that value (Units) of debentures (Note 16(a)).

(iii) Third conversion of debentures (2012)

On August 19, 2012, the average price over the last 360 days of the Company's shares outperformed the weighted average price of the "base period" restated according to the contractual clauses, hence the parameters have been achieved which required debenture holders to convert 45% of the Units. Based on this conversion, the Board of Directors approved, within the authorized capital of TOTVS, the issuance of 1,267,849 registered common shares, with no par value, at an issue price of R$ 23,66052 per share, consequently increase the share capital of TOTVS by R$ 29,998 by amortizing the principal balance of that value (Units) of debentures (Note 16(a)).

Due to the issuance of shares to debenture holders at the contract value, which is below the market price, the Company recorded, on August 19, 2011, a discount on issue of shares amounting to R$ 6,270, recorded as financial expense for the year, since the likelihood of conversion became probable.

The balance remaining in the liability until to the occurrence of conversion was transferred to an "shareholders's account" totaling R$ 12,308 on December 31, 2012 (R$ 13,477 at December 31, 2011).

(e) Assessment of future conversions

Considering the clauses of the deed of debenture issue, an assessment was carried out, using the fair value, for the conversion option defined in that deed, and the amount was recognized after the assessment of probable conversion of options into shares of the Company in all tranches, based on the best estimate resulting from the model used for this economic evaluation which considers the future price of shares compared to prices established for the conversion ("strike price") and other variables set forth in the debentures using the Monte Carlo method for pricing options) on the financial statements closing date, CPC 38 (IAS 39) and 39 (IAS 32) were considered in assessing transactions and recognition of the amounts involved. On December 31, 2012 the Company has a liability of R$ 12,308 related unexercised tranches (R$ 13,477 at December 31, 2011), which has a counterpart in the financial result.

Due to the assumptions used for these calculations may vary over time of the estimated amounts that may range was recorded compared with the actual values in the future.

17 Liabilities due to investment acquisition

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

	Parent Company		Consolidated	
	2012	**2011**	**2012**	**2011**
YMF (*)		2,450		2,450
Tools (*)	1,711	1,577	1,711	1,577
Gens (*)		588		588
Techprod (*)	450	905	450	905
Techserv (*)	296		296	443
TotalBanco	1,383	1,977	1,383	1,977
Hery	2,549	3,612	2,549	3,612
Datasul MG	2,012	1,876	2,012	1,876
Datasul Saúde MG	641	641	641	641
ERP Cedente	261	481	261	481
TQTVD	380	4,836	380	4,836
SRC	4,325	33,214	4,325	33,214
Mafipa	1,302	2,668	1,302	2,668
Gens FDES	8,954	8,407	8,954	8,407
Others (*)	600	259	600	259
Total	24,864	63,491	24,864	63,934
Current liabilities	11,399	31,477	11,399	31,625
Non-current liabilities	13,465	32,014	13,465	32,309

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

Installments recorded as non-current liabilities mature as follows:

	Parent company		Consolidated	
Year	**2012**	**2011**	**2012**	**2011**
2013	-	18,070	-	18,365
2014	4,763	5,578	4,763	5,578
2015	3,526	3,835	3,526	3,835
2016	5,176	4,531	5,176	4,531
Non-current liabilities	13,465	32,014	13,465	32,309

Values recorded in non current liabilities are adjusted to present value at the rate of 11.2% p.a. in 2012 (11% in 2011).

18 Provision for legal obligations related to legal proceedings

(a) Ongoing proceedings with recorded provision for contingencies and legal liabilities related to legal proceedings

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

	Parent company and Consolidated	
Provision for contingencies	**2012**	**2011**
Tax	687	686
Civil	958	621
Labor	4,725	1,281
	6,370	2,588

Breakdown of provisions in the period ended December 31, 2011 and year ended December 31, 2010 is as follows:

	Tax	Labor	Civil	Total
Balances at December 31, 2010	545	3,603	1,728	5,876
(+) Additional provision	18	124	551	693
(+) Monetary restatement	123	512	130	765
(-) Reversal of provision not used		(2,958)	(1,788)	(4,746)
Balances at December 31, 2011	686	1,281	621	2,588
(+) Additional provision		3,201	316	3,517
(+) Monetary restatement	1	243	21	265
(-) Reversal of provision not used				
Balances at December 31, 2012	687	4,725	958	6,370

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

	Parent company and Consolidated	
Judicial deposits	**2012**	**2011**
Social Security	2,575	3,470
Tax	1,956	792
Labor	2,689	197
Civil	611	
	7,831	4,459

Breakdown of main lawsuits whose provision was recorded in the accounting books is as follows:

(i) Tax

The Company's Belo Horizonte branch is discussing, into two shares for payment allocation filed against the cities of Uberlândia and Vitória, if they are entitled to demand payment of Tax on Any Sort of Services (ISSQN) at rates ranging from 2% to 5%, or if the tax is payable to the municipality of Belo Horizonte in which the rate is 2%. The Company believes that the ISSQN is due to the city of Belo Horizonte where service's development occurs. Accordingly, the Company has made escrow deposits under those lawsuits considering the rates required by municipalities and recording a provision for contingency in the amount equivalent to 3%. On December 31, 2012, the provision recorded for these lawsuits totaling R$ 533 (R$ 465 at December 31, 2011), and the judicial deposits made until December 31, 2012 totaled R$ 870 (R$ 771 in 2011).

(ii) Civil

The Company is a defendant in actions for damages filed by customers for contract termination, cumulated with compensation for damages as well as compensation claims filed by business agents, for contract terminations combined with billing and claims. On December 31, 2012, the provision for these claims totals the amount of R$ 958 (R$ 621 updated December 31, 2011).

(iii) Labor

The Company has recorded a provision related to lawsuits filed by former employees and service providers, which claim reducing their commissions on sales and services, overtime and wage parity. The provisioned amount is R$ 4,725 at December 31, 2012 (R$ 1,281 at December 31, 2011).

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

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

	Parent company and Consolidated	
Type	**2012**	**2011**
Social security	17,935	17,218
Tax	20,018	21,146
Civil	52,841	37,000
Labor	8,466	8,997
	99,260	84,361

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

(i) Social security

The Company continued in discussion of a motion to stay the tax enforcement of execution the unenforceability of NFLD, originally drawn up against Datasul S.A., whose initial value is R$ 3,862 (R$ 9,014 as of December 31, 2012 and R$ 8,762 updated to December 31, 2011). The notification was imposed by the INSS due to alleged irregularities in outsourcing services. A discussion of the merits of embargoes is suspended still undecided first degree.

On June 28, 2010, were issued notices of violation by inspectors of the Federal Revenue Secretariat of Brazil, in the amount of R$ 5,113 (R$ 6,382 updated until December 31, 2012 and R$ 6,031 updated to December 31, 2011) that focused in summary: (i) an alleged characterization of corporations as autonomous and insured employees, and (ii) joint liability for services provided by temporary employment agency.

The Company filed the respective objections to the tax assessment notices and is awaiting the IRS's decision.

(ii) Tax

As a result of inspection procedures of the Internal Revenue Service in 2008, was issued by the Internal Revenue Service Notice of Infraction in the amount of R$ 3,628 (R$ 5,123 updated to December31, 2012, US$ 4,869 updated to December31, 2011) relating to inquiries for failing to add to your taxable income share of the profits it allegedly provided by a subsidiary abroad and amortization improper, in the calculation of taxable income, the amount of goodwill ABR1 cleared the merger of the Company in calendar years 2003 to 2006. The Company filed appeal in the face of this notice, which currently awaits consideration by the administrative judges of the Internal Revenue Service.

The Company suffered eight assessments by the municipality of São Paulo to demand the ISSQN, for the period 1996 to 2000, amounting to R$ 804 (R$ 7,297 updated until December 31, 2012 and R$ 6,847 updated to December 31, 2011). The assessments were maintained at the administrative level, since the Municipality of São Paulo

(iii) Cíveis

The Civil Lawsuit classified as possible losses are related mainly to actions filed by customer under the allegation of issues in providing implementation services of the system acquired. The amount of these suits totaling R$ 52,841 on December 2012 (R$ 37,000 in 2011), with the resources already filed by the Company.

(c) Legislation in force

According to the legislation in force in Brazil, federal taxes, state and local payroll taxes and are subject to examination by the respective authorities for periods ranging from 5 to 30 years. The laws in other countries in which the subsidiaries operate have different prescriptive periods.

19 Equity

(a) Capital

At December 31, 2012, the Company's capital comprised 161,629,945 issued and fully paid common registered shares, with no par value (159,466,791 shares at December 31, 2011), as follows:

	2012		2011	
Shareholders	**Shares**	**Percent**	**Shares**	**Percent**
LC-EH Empreendimentos e Participações S.A.	26,760,990	16.56	26,760,990	16.78
Fundação Petrobras de Seguridade Social - Petros	16,042,359	9.93	14,520,987	9.11
BlackRock Inc.	8,102,220	5.01	8,408,600	5.27
BNDES Participações S.A.	6,319,048	3.91	8,344,447	5.23
Laércio José de Lucena Cosentino	1,766,265	1.09	1,580,180	0.99
Ernesto Mário Haberkorn	16,810	0.01	16,810	0.01
CSHG Senta Pua Fia	43,500	0.03	43,500	0.03
Others	102,578,753	63.47	99,791,277	62.58
	161,629,945	100.00	159,466,791	100.00

Authorized capital at December 31, 2011 is R$ 540.000. Additionally, within the authorized capital limit and pursuant to the plans approved by the General Meeting, the Board of Directors may grant stock options to the Company's executives and employees, and to executives and employees of other companies that are directly or indirectly controlled by the Company, with no preemptive right to shareholders.

As mentioned in Note 16, given the conversion of debentures into shares of the Company on August 19, 2012, the board of directors approved the issuance by TOTVS of 1,267,849 book entry shares with no par value, at the price of R$ 23,66052 per share, with the resulting increase in TOTVS capital by R$ 29,998.

(b) Capital reserves

The balance of capital reserves at December 31, 2011 and December 31, 2010 was broken down as follows:

	2012	2011
Goodwill reserve (*)	31,557	31,557
Goodwill reserve for merger	14,330	14,330
Debentures converted into shares (fair value) (Note 16)	32,198	13,718
Stock option plan (Note 22)	25,674	16,670
	103,759	76,275

(*) Goodwill reserve amount of R$ 31,557 is a result of payments made in the 2005.

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

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

(c) Legal reserve

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

20 Dividendos

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

On December 20, 2012, the Board of Directors authorized distribution of IOE to the Company's shareholders amounting to R$ 40,200 (R$ 35,000 in 2011), to be added to the minimum mandatory dividend for the year ended December 31, 2012.

	Parent company	
	2012	**2011**
Net income for the year - Company	207,148	168,903
Establishment of a legal reserve (article 193 of Law 6404)	(10,357)	(8,445)
Net income after legal reserve allocation	196,791	160,458
Minimum mandatory dividend - 25%	49,198	40,115
Additional dividends proposed by management	68,803	59,396
Dividends proposed by management	118,001	99,511
Payment		
Interest on capital	40,200	35,000
Dividends	77,801	64,511
	118,001	99,511
Changes in dividends in equity		
Prior-year dividends	(59,396)	(54,285)
Minimum mandatory dividend for the year	49,198	40,115
Total dividends deducted from equity	(10,198)	(14,170)
Number of share at December 31	161,629,945	159,466,791
Dividends and IOE per thousand shares (in reais)	0,73	0,62

The amount of dividends and interest on equity payable of R$ 48,681 at December 31, 2012 (R$ 40,470 at December 31, 2011) includes the distribution of the year, as well as the residual balance of previous years.

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

Mandatory minimum dividends are shown in the balance sheet as legal obligations (provisions in current liabilities), and dividends in excess of this minimum as online booking of special dividends in the statement of equity.

The proposed capital budget of December 31, 2012 of the Board of Directors of the Company approved by the Board of Directors on January 24, 2013, ad referendum of the General Meeting, the intended total balance of the reserve account to retained earnings in amount of R$ 250,030 (R$ 171,240 in 2011), for the applications shown below:

	2012	2011
Aplications		
Expansion projects, replacement of assets and research and development.	424,379	348,988
Total of aplications	424,379	348,988
Fonts		
Retained earnings at December 31	250,027	171,240
Estimated cash to be generated from operating activities of next year (unaudited)	174,352	177,748
Total of fonts	424,379	348,988

21 Insurance coverage

The Company and its subsidiaries, based on the opinion of their advisors, keep insurance coverage in amounts deemed sufficient to cover risks on their own and leased assets, and civil liability risks.

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

Insured assets include own and leased vehicles. and the building where the Company and its subsidiaries operate.

At December 31, 2012, main insurances taken out are:

		Effective			
Type	**Insurance Company**	**From**	**To**	**Type**	**Total insured**
Comprehensive corporate	Itaú Seguros S.A.	06.13.12	06.13.13	50,000	149,770
General civil liability	Itaú Seguros S.A.	06.13.12	06.13.13	4,000	18,000
Vehicles	Liberty Seguros	01.07.12	01.07.13	1.150/per vehicle	Chart FIPE (*)

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

22 Plan for granting stock options

The Incentive Plan based on shares of the Company have for goal to establish rules for certain employees and directors of TOTVS S.A. or other companies under its control so they can to acquire shares of the Company by the grant of option to purchase shares, aiming thereby generate the alignment in the medium and long term interests of the beneficiaries with shareholder interests, broaden the sense of ownership and commitment of the executives through the concept of investment risk, tying the granting of long-term incentives with the result of short-term within the Company and the executive and introduce the concept of "Partners Program" which strengthens the power of retention of a strategic group selected.

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

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

		Grant			Fair value assumptions			
					Expectation			
Number	Date	Number of options (*)	Exercise price - reais (*)	Pricing of options (*)	Dividends - %	Volatility - %	Free interest rate risk - %	Term maturity - years
First	30.01.08	1,350,285	9,23	3.17	2.40	37.94	11.75	Three
Second	22.01.09	912,775	7,21	2.24	3.30	38.54	11.25	Three
Third	22.01.10	1,776,575	23,36	7.96	1.97	37.37	10.75	Three
Fourth	30.11.10	1,854,210	30,38	13.29 e 14.85	2.00	37.37	10.75	Two e four
Fifth	12.08.12	500,000	25,67	7.41. 8.98 e 10.23	2.00	34.60	10.75	Two e four
Sixth	13.02.12	50,000	30,47	10.83	1.92	32.82	10.00	Three
Seventh	01.06.12	40,000	35,00	12.00	1.92	32.82	10.00	Three

(*) Values after split on March 21, 2011.

Changes in the period of the options is shown below:

	Parent company and Consolidated (*)			
	2012		2011	
	Amount	Average cost - reais	Amount	Average cost - reais
Balance of options at beginning of year	4,091,480	8,86	5,190,780	8,35
Transactions				
Exercised	(882,020)	2,46	(779,380)	3,17
Granted	90,000	11,35	500,000	9,46
Cancelled	(159,805)	10,03	(819,920)	11,47
Balance of shopping options at end of year	3,139,655	10,67	4,091,480	8,86

On December 31, 2012 there were 119,530 options exercisable, once they've passed the deadline of 36 months from date of first grant.

The cumulative effect for the period ended December 31, 2012 is R$ 9,004 (R$ 9,599 at December 31, 2011), recorded as expense for the grant of options to purchase share.

23 Financial income and expenses

The financial income and expenses incurred for the periods ended December 31, 2012 and December 31, 2011 were as follows:

	Parent company		Consolidated	
	2012	2011	2012	2011
Financial income				
Short-term investments yield	24,234	23,060	27,343	27,215
Exchange gains	74	1,600	542	2,213
Discounts obtained	7,830	3,497	7,830	3,497
Adjustment to market value	3,145	2,891	3,145	2,891
Interest received	4,517	2,805	4,517	2,805
Other financial income	899	465	2,038	1,906
	40,699	34,318	45,415	40,527
Financial expenses				
Interest paid or incurred	(21,539)	(33,053)	(21,946)	(33,477)
Exchange losses	(29)	(552)	(408)	(1,103)
Bank commissions and fees	(3,356)	(5,372)	(3,603)	(5,835)
Premium from non-conversions	(3,645)	(4,387)	(3,645)	(4,387)
Discounts granted	(3,790)	(2,924)	(3,790)	(2,924)
Adjustment to market value - debentures	(18,477)	(6,801)	(18,477)	(6,801)
Other financial expenses	(966)	(2,471)	(2,169)	(3,747)
	(51,802)	(55,560)	(54,038)	(58,274)
Net financial income (expenses)	(11,103)	(21,242)	(8,623)	(17,747)

24 Private pension plan - defined contribution

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

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

. Volunteer contribution - made exclusively by the employees, with no matching contribution by the Company;

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

25 Earnings per share

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

Diluted earnings per share are calculated by dividing net income assigned to the holders of the Parent company's common shares by the weighted average number of common shares available during the year plus the weighted average number of common shares that would be issued when converting all potentially dilutive common shares into common shares:

	Parent company and Consolidated	
	2012	**2011**
Basic earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	207,148	169,383
Denominator (in thousands of shares)		
Weighted average number of common shares	160,563	158,073
Basic earnings per share - R$	1,29	1,07

	Parent company and Consolidated	
	2012	**2011**
Diluted earnings per share		
Numerator		
Net income for the year assigned to the Company's shareholders	207,148	169,383
Denominator (in thousands of shares)		
Weighted average number of common shares	160,563	158,073
Dilution effect	3,392	4,761
Stock options	1,944	3,336
Debentures		
Weighted average number of common shares adjusted according to dilution effect	165,899	166,170
Diluted earnings per share - R$	1,25	1,02

26 Expenses by nature

In compliance with CPC 26 (IAS 1) (approved by CVM Rule 595 - "Presentation of Financial Statements"), the Company presents below the information on operating expenses by nature for the periods ended December 31, 2012 and December 31, 2011.

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Raw material and consumables used	390,661	329,869	480,154	441,549
Employee benefits expense	407,605	286,644	473,051	377,649
Depreciation and amortization expenses	75,324	75,649	81,228	82,484
Rents	19,785	17,784	21,794	19,815
Allowance for doubtful accounts	20,787	8,727	23,234	16,145
Others expenses	31,542	98,204	37,695	115,319
	945,704	816,877	1,117,156	1,052,961

27 Gross revenue

In compliance with Brazilian Corporation Law (article 187 of Law 6404/76), the Company presents below the information about gross revenue and deductions for calculation of net revenues presented in the Company's income statements for the periods ended December 31, 2012 and December 31, 2011.

	Parent company		Consolidated	
	2012	**2011**	**2012**	**2011**
Gross revenue	1,330,918	1,139,449	1,539,108	1,386,802
License fees	294,207	256,419	357,789	328,877
Service	328,633	253,705	455,211	408,545
Maintenance	708,078	629,325	726,108	649,380
Deductions	(109,342)	(88,837)	(125,132)	(107,642)
(-) Cancellations of sales	(180)	(17,353)	(1,964)	(19,456)
(-) Sales tax	(109,162)	(71,484)	(123,168)	(88,186)
PIS/COFINS/ISSQN	(88,239)	(71,484)	(99,733)	(88,186)
INSS	(20,923)		(23,435)	
Net revenues	1,221,576	1,050,612	1,413,976	1,279,160

Accumulated sales for the year refer to operations in Mexico and Argentina amounting to R$ 21,450 as of December 31, 2012 (R$ 16,946 at December 31, 2011).

28 Subsequent events

On January 24, 2013, the Company acquired, through its fully owned subsidiary TOTVS Brasilia Software Ltda., 100% the share capital of W&D PARTICIPAÇÕES S.A. which owns the company PC SISTEMAS S.A. and PC INFORMÁTICA S.A. (together "PC Sistemas"), for R$ 80.000 and may reach a maximum value of R$ 95.000, linked to compliance, by companies acquired, to certain operating and financial goals established by the Company. This transaction strengthens the Company's position in this segment, adding to its portfolio solutions that integrate both the market and distributors attacked as the retail sector including the so-called "atacarejo".

The acquired company had a net revenue of approximately R$ 52,000 in 2012. The accounting practices adopted in Brazil, as well as IFRSs require the disclosure of certain information to the acquisitions of control in investees (business combination) occurring between the date of the financial statements and the date of your authorization to use such as: (i) specific considerations regarding business combinations, (ii) the fair value of identifiable assets and liabilities in the transaction and (iii) goodwill or gains made during the operation. Given the proximity of the dates of close of the transaction and authorization for the use of financial statements, the survey was not feasible for these information, which will be released upon presentation of quarterly financial information of the Company.

* * *

TOTVS S.A. Audit Committee Opinion

According to its Charter the Audit Committee is responsible to ensure the adequate operation of Company's processes, for the activities, independence and quality of the services rendered by the independent and the internal auditors, for the quality and effectiveness of the internal controls and risk management systems, for the compliance of the financial policies with the strategy of the Company and the related its business risk profile, and for the quality and integrity of the financial statements of the Company.

The Committee met 12 (twelve) times in the period from January 2012 to January 2013.

The Committee, with due consideration to its responsibilities and to the natural limitations due to the scope of its activities, analyzed the processes for preparing individual and consolidated balance sheets, notes to the financial statements and financial reports published together with the consolidated financial statements for the period ended on December, 31 2012 and the proposed dividends. It discussed this subject with PricewaterhouseCoopers and with Senior Management of the Company and verified that they are in conformity in all aspects with the generally accepted accounting principles. The Committee recommends, by unanimity, to the Board of Directors the approval of the consolidated financial statements of TOTVS S.A. and the addressing to Annual General Meeting, under the terms of the applicable law in Brazil, Lei das Sociedades por Ações.

São Paulo, January, 24 2013

Marília Artimonte Rocca
Chairwoman of the Audit Committee

Gilberto Mifano
Member of the Audit Committee

Charles Barnsley Holland
Member of the Audit Committee