

TOTVS S.A.

Interim Financial Statements

June 30, 2019

and Independent auditor's review report on interim financial information

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CONSOLIDATED OPERATING AND FINANCIAL PERFORMANCE

Net Revenue – the 8.8% year-on-year growth is mainly associated with the performance of recurring revenue, which accelerated double-digit organic growth to 12.1%, totaling R\$428.5 million in the quarter and representing 76.0% of the period's Net Revenue. Notable among Non-Recurring Revenue items was License Revenue, which grew 31.0% year on year.

Recurring Revenue – the year-on-year growth in Recurring Revenue was due to higher sales volume across all segments and among new and existing clients. Apart from sales, the decline in the churn rate and the inflationary adjustment in contracts also pushed Recurring Revenue growth above the 9.6% year-on-year growth of Annual Recurring Revenue (ARR), which exceeded R\$1.8 billion in the quarter

Renewal Rate – Client Renewal Rate in 2Q19 remained at 98.7%, the same level registered in 2Q18, which shows the loyalty of existing clients.

Non-Recurring Revenues – remained stable year on year despite the 31.0% growth in License Revenue, due to the reduction in the volume of Non-Recurring Services, resulting from: (i) higher share of franchises in sales, in which the service is not executed by TOTVS; and (ii) higher sales volume of solutions with less demand for services, especially cloud-based and subscription solutions.

Costs – increased 1.8% in 2Q19 from 2Q18, lower than revenue growth during the period, resulting in a 230 basis points increase in Gross Margin. This increase was mainly driven by the higher share of Recurring and License Revenues, which are more profitable.

Research & Development – corresponded to 17.6% of net revenue in 2Q19, compared to 18.2% in 2Q18. Such performance is mainly related to: (i) collective wage increases in São Paulo, which has the largest number of R&D employees; (ii) higher provision for bonus due to the achievement of targets in the period; (iii) higher provision for the Long-Term Incentive Plan (ILP), due to three grants accumulated in force simultaneously, including the grant made this quarter with a higher price of the restricted shares granted; and (iv) adoption of IFRS 16.

Selling and Marketing Expenses – corresponded to 18.1% of Software Revenue in 2Q19, in line with 2Q18.

Allowance for Doubtful Accounts – in 2Q19 corresponded to 1.6% of Software Revenue, down 10 basis points from 2Q18. The decline in provision reflects the reduction in the overall default level of our client portfolio, even though the frequency of court-supervised reorganization proceedings is still above historical levels.

General and Administrative Expenses and Provision for Contingencies – When compared to the 2Q18, the 130 basis points reduction, from 10.9% to 9.6% was mainly due to the reduction in General and Administrative Expenses, explained by: (i) R\$ 1.7 million reduction from the effects of the application of the IFRS 16; (ii) by the reduction in the amount of the provision for contingencies.

Other Operating Income (Expenses) – compared to 2Q18 and the first half of 2018, this line declined 42.9% and 13.1%, respectively, due to the impacts in the previous year of the partial reversal of the obligation arising from the acquisition of equity interest in the amount of R\$5.3 million, relating to the acquisition of 20% of the capital of RJ Consultores.

EBITDA – the greater operational efficiency of the Company, evident from higher net revenue growth compared to the increase in costs and expenses, drove the 40.9% growth in EBITDA compared to 2Q18, with Margin increasing 470 basis points to 20.6%, displaying the consistent progress in the operational results delivered by the Company.

Depreciation and Amortization Expenses – Depreciation expenses increased 86.7% from 2Q18, mainly due to: (i) IFRS 16 adoption, with impact of R\$9.7 million; and (ii) improvements at the Belo Horizonte and Joinville units in 2018, which started being depreciated in 2019. The 29.0% decline in Amortization Expenses when compared to 2Q18 is essentially related to the conclusion of amortization of intangible assets arising from Datasul and Virtual Age.

Financial Result – the decline in the Company's financial expense is due to: (i) the increase in financial income from the investment of proceeds from the follow-on offering held in May 2019; and (ii) the decrease in the Company's gross debt in the periods, partially offset by financial expenses resulting from the application of IFRS 16 on rental agreements held by the Company.

Income Tax and Social Contribution – the effective Income Tax and Social Contribution rate decreased in relation to 2Q18, mainly due to: (i) the effect of exclusion, for the purposes of calculating Income Tax and Social Contribution, of the cost of the follow-on offering; and (ii) the increased utilization of R&D tax incentives as a result of higher investments in technological innovation projects under the relevant laws.

Adjusted EBITDA(*) totaled R\$116,248 million, up 40.9% from 2Q18, as shown in the table below:

	Consolidated		
	2Q19	2Q18	Change
Net Income	57,153	31,354	82.3%
<i>Equity Pickup</i>	-	-	-
<i>Income Tax and Social Contribution</i>	17,743	13,932	27.4%
<i>Financial result</i>	4,115	10,535	-60.9%
<i>Depreciation and amortization</i>	36,887	32,017	15.2%
<i>Net profit from discontinued operation</i>	350	(853)	-141.0%
EBITDA	116,248	86,985	33.6%
<i>Adjustments</i>	-	(4,458)	-100.0%
Adjusted EBITDA	116,248	82,527	40.9%

Adjusted EBITDA grew 40.9% year on year, mainly driven by the higher operational efficiency, as shown by the Net Revenue growth, higher than Costs and Expenses.

(*)EBITDA is a non-accounting measure used by the Company. It consists of net income from the period, plus income tax, financial expenses net of financial income, depreciation and amortization.

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

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

To the Shareholders, Board of Directors and Officers

TOTVS S.A.

São Paulo - SP

Introduction

We have reviewed the individual and consolidated interim financial information of TOTVS S.A., (the “Company”), contained in the Quarterly Information Form (*Informações Trimestrais* - ITR) for the quarter ended June 30, 2019, which comprise the statement of financial position as of June 30, 2019 and the statements of profit or loss and statement of comprehensive income for the three-month and six-month period ended June 30, 2019, and changes in equity and statement of cash flows for the six-month period then ended, including the explanatory information.

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

Scope of review

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

Conclusion on the individual and consolidated interim financial information

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

Other matters

Statements of value added

We have also reviewed the individual and consolidated interim Statements of Value Added for the six-month period ended June 30, 2019, prepared under management's responsibility, whose presentation in the interim financial information is required by the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of the Quarterly Information Form (ITR), and as supplementary information under the IFRS, which do not require Statement of Value Added presentation. This statement has been subject to the same review procedures previously described and, based on our review, nothing has come to our attention that causes us to believe that it has not been prepared, in all material respects, consistently with the accompanying individual and consolidated interim financial information taken as a whole.

São Paulo, August 05, 2019.

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

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

(A free translation of the original in Portuguese)

TOTVS S.A.

Statement of financial position as at June 30, 2019 and December 31, 2018

(In thousands of reais)

Assets	Parent Company		Consolidated		Liabilities and equity	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018		6/30/2019	12/31/2018	6/30/2019	12/31/2018
Current assets	1,718,958	576,321	2,092,456	1,020,134	Current liabilities	504,832	549,151	666,765	709,612
Cash and cash equivalents (Note 4)	1,363,538	228,571	1,494,584	452,799	Payroll and labor liabilities (Note 15)	142,865	125,943	190,874	174,874
Marketable securities (Note 20)	23,276	23,477	45,203	44,909	Trade accounts payable (Note 16)	51,846	71,343	61,544	113,907
Trade accounts receivable (Note 5)	343,137	337,186	476,132	504,056	Taxes payable (Note 17)	37,113	32,577	53,036	47,466
Allowance for doubtful accounts (Note 5)	(88,229)	(88,515)	(110,476)	(118,518)	Commissions payable	37,698	35,721	43,217	43,166
Inventories (Note 6)	-	-	-	41,531	Dividends payable (Note 24)	679	13,737	768	13,902
Recoverable taxes (Note 7)	22,532	23,314	27,877	38,817	Loans and debts (Note 18)	114,215	155,278	130,520	166,154
Other assets (Note 10)	54,704	52,288	61,930	56,540	Debentures (Note 19)	81,964	77,319	81,964	77,319
Assets held for sale (Note 11)	-	-	97,206	-	Liabilities due to investment acquisition (Note 20)	30,551	30,752	52,479	59,597
					Other liabilities	7,901	6,481	8,800	13,227
					Liabilities associated with assets held for sale (Note 11)	-	-	43,563	-
Noncurrent assets	1,721,652	1,621,436	1,545,387	1,371,143	Noncurrent liabilities	530,908	361,564	565,358	393,445
Marketable securities (Note 20)	-	-	3,735	5,334	Loans and debts (Note 18)	188,628	28,914	196,647	35,317
Trade accounts receivable (Note 5)	32,806	18,723	33,544	19,890	Debentures (Note 19)	199,956	199,869	199,956	199,869
Receivables from related parties (Note 9)	2,595	3,956	-	-	Payables to related parties (Note 9)	711	24	-	-
Recoverable taxes (Note 7)	-	-	-	236	Liabilities due to investment acquisition (Note 20)	-	-	15,972	15,464
Financial assets	-	-	68,411	69,171	Provision for contingencies related to legal proceedings (Note 21)	122,868	117,780	133,864	127,792
Deferred income and social contribution taxes (Note 8)	49,219	45,845	104,499	125,124	Other liabilities	18,745	14,977	18,919	15,003
Judicial deposits (Note 18)	55,007	51,171	69,702	65,965					
Other assets (Note 10)	21,828	20,931	29,302	26,340	Equity (Note 23)	2,404,870	1,287,042	2,405,720	1,288,220
Investments (Note 12)	808,197	920,317	3,033	3,129	Capital	1,382,509	1,041,229	1,382,509	1,041,229
Property, plant and equipment (Note 13)	380,251	177,858	402,844	198,826	Treasury shares	(63,515)	(70,026)	(63,515)	(70,026)
Intangible assets (Note 14)	371,749	382,635	830,317	857,128	Capital reserves	867,814	169,907	867,814	169,907
					Other comprehensive income	19,453	20,704	19,453	20,704
					Retained profits reserve	198,609	125,228	198,609	125,228
					Noncontrolling interests	-	-	850	1,178
Total assets	3,440,610	2,197,757	3,637,843	2,391,277	Total liabilities and equity	3,440,610	2,197,757	3,637,843	2,391,277

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

TOTVS S.A.**Statements of profit or loss****For the six-months periods ended June 30, 2019 and 2018**

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

	Parent Company				Consolidated			
	4/1/2019 to 6/30/2019	1/1/2019 to 6/30/2019	4/1/2018 to 6/30/2018	1/1/2019 to 6/30/2019	4/1/2019 to 6/30/2019	1/1/2019 to 6/30/2019	4/1/2018 to 6/30/2018	1/1/2019 to 6/30/2019
Softwares revenue (Note 28)	401,331	804,822	382,104	784,243	564,002	1,127,589	518,276	1,037,264
Cost of software	(133,083)	(267,044)	(134,467)	(277,458)	(186,640)	(368,187)	(183,306)	(354,964)
Gross profit	268,248	537,778	247,637	506,785	377,362	759,402	334,970	682,300
Operating income (expenses)								
Research and development	(68,289)	(134,087)	(69,660)	(137,068)	(99,374)	(195,610)	(94,244)	(182,182)
Selling and marketing expenses	(80,459)	(162,518)	(69,166)	(150,922)	(101,974)	(202,825)	(93,974)	(190,071)
General and administrative expenses	(44,654)	(100,519)	(50,556)	(99,640)	(53,979)	(117,384)	(56,371)	(112,470)
Depreciation and amortization (Note 13 and 14)	(29,307)	(59,362)	(24,701)	(49,513)	(36,887)	(74,149)	(32,017)	(64,280)
Provision for expected credit losses (Note 5)	(5,740)	(11,965)	(4,867)	(11,806)	(8,910)	(17,846)	(8,864)	(19,382)
Other net operating income (expenses)	1,195	3,468	526	1,447	3,123	5,305	5,468	6,103
Income before financial effects and equity pick-up	40,994	72,795	29,213	59,283	79,361	156,893	54,968	120,018
Finance income	12,444	19,271	6,817	13,227	14,727	25,610	10,487	18,760
Finance costs	(16,208)	(33,767)	(18,960)	(36,116)	(18,842)	(39,491)	(21,022)	(40,496)
Equity pickup	22,499	51,304	16,505	36,227	-	(130)	-	(129)
Income before income and social contribution taxes	59,729	109,603	33,575	72,621	75,246	142,882	44,433	98,153
Current income and social contribution taxes	(2,785)	(11,954)	(3,758)	(3,758)	(14,391)	(33,569)	(9,818)	(20,561)
Deferred income and social contribution taxes	442	3,563	623	(3,250)	(3,352)	(7,948)	(4,114)	(11,592)
Total income and social contribution taxes	(2,343)	(8,391)	(3,135)	(7,008)	(17,743)	(41,517)	(13,932)	(32,153)
Net income from continuing operations	57,386	101,212	30,440	65,613	57,503	101,365	30,501	66,000
Net Loss from discontinued operations	(350)	(32,094)	853	(336)	(350)	(32,094)	853	(336)
Net income for the period	57,036	69,118	31,293	65,277	57,153	69,271	31,354	65,664
Net income attributable to controlling shareholders	57,036	69,118	31,293	65,277	57,036	69,118	31,293	65,277
Net income attributable to non-controlling interest	-	-	-	-	117	153	61	387
Basic earnings per thousand shares (in Reais)	0.3361	0.5928	0.1863	0.4015	0.3361	0.5928	0.1863	0.4015
Diluted earnings per thousand shares (in Reais)	0.3333	0.5878	0.1848	0.3984	0.3333	0.5878	0.1848	0.3984

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

TOTVS S.A.**Statements of comprehensive income****For the six-months periods ended June 30, 2019 and 2018**

(In thousands of Reais)

	Company			
	4/1/2019 to 6/30/2019	1/1/2019 to 6/30/2019	4/1/2019 to 6/30/2018	1/1/2018 to 6/30/2018
Profit for the period	57,036	69,118	31,293	65,277
Continuing operations	(1,447)	(1,357)	15,042	(1,147)
Discontinued operations	713	106	(5,114)	6,830
Cumulative translation adjustment	(734)	(1,251)	9,928	5,683
Comprehensive income for the period	56,302	67,867	41,221	70,960

	Consolidated			
	4/1/2019 to 6/30/2019	1/1/2019 to 6/30/2019	4/1/2019 to 6/30/2018	1/1/2018 to 6/30/2018
Profit for the period	57,153	69,271	31,354	65,664
Continuing operations	(1,447)	(1,357)	15,042	(1,147)
Discontinued operations	713	106	(5,114)	6,830
Cumulative translation adjustment	(734)	(1,251)	9,928	5,683
Comprehensive income for the period	56,419	68,020	41,282	71,347
Net income for the year attributable to controlling shareholders	56,302	67,867	41,221	70,960
Attributable to non-controlling interests	117	153	61	387

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

TOTVS S.A.

(A free translation of the original in Portuguese)

Statements of changes in equity
For the periods ended June 30, 2019 and December 31, 2018

(In thousands of reais)

	Capital	Premium on purchase from non-controlling interests	Reserves			Treasury share	Other Comprehensive income	Retained earnings	Proposed additional dividend	Equity	Non-controlling interests	Consolidated equity
			Capital	Legal	Retained profits							
Balance at December 31, 2017	989,841	(25,518)	190,597	84,019	86,780	(71,495)	1,728	-	5,442	1,261,394	183	1,261,577
Capital transactions with partners												
Capital increase	51,388	-	-	-	(51,388)	-	-	-	-	-	373	373
Share-based compensation plan	-	-	6,297	-	-	-	-	-	-	6,297	-	6,297
Dividends of previous year	-	-	-	-	-	-	-	-	(5,442)	(5,442)	(294)	(5,736)
Dividends	-	-	-	-	-	-	-	(17,978)	-	(17,978)	(164)	(18,142)
Interest on equity – distributed	-	-	-	-	-	-	-	(27,785)	-	(27,785)	-	(27,785)
Treasury shares	-	-	(1,469)	-	-	1,469	-	-	-	-	-	-
Total comprehensive income	-	-	-	2,977	2,840	-	18,976	45,763	-	70,556	1,080	71,636
Net income for the year	-	-	-	-	-	-	-	59,548	-	59,548	1,095	60,643
Cumulative adjustment for currency exchange	-	-	-	-	-	-	18,976	-	-	18,976	-	18,976
Opening balance CPC 47 / CPC 48	-	-	-	-	-	-	-	(7,968)	-	(7,968)	(15)	(7,983)
Reserves set up	-	-	-	2,977	2,840	-	-	(5,817)	-	-	-	-
Balance at December 31, 2018	1,041,229	(25,518)	195,425	86,996	38,232	(70,026)	20,704	-	-	1,287,042	1,178	1,288,220
Capital transactions with partners												
Capital increase	341,280	-	696,788	-	-	-	-	-	-	1,038,068	-	1,038,068
Share-based compensation plan	-	-	1,119	-	-	3,809	-	-	-	4,928	-	4,928
Dividends of previous year	-	-	-	-	-	-	-	-	-	-	(494)	(494)
Treasury shares	-	-	-	-	-	2,702	-	-	-	2,702	-	2,702
Total comprehensive income	-	-	-	-	-	-	(1,251)	73,381	-	72,130	166	72,296
Net income for the year	-	-	-	-	-	-	-	69,118	-	69,118	153	69,271
Cumulative adjustment for currency exchange	-	-	-	-	-	-	(1,251)	-	-	(1,251)	-	(1,251)
Opening balance CPC 06 (R2)	-	-	-	-	-	-	-	4,263	-	4,263	13	4,276
Reserves set up	-	-	-	-	-	-	-	-	-	-	-	-
Balance at June 30, 2019	1,382,509	(25,518)	893,332	86,996	38,232	(63,515)	19,453	73,381	-	2,404,870	850	2,405,720

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

TOTVS S.A.
Statement of cash flow
For the six-months periods ended June 30, 2019 and 2018

(In thousands of Reais)

	Parent Company		Consolidated	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Cash flow from operating activities				
Profit before income and social contribution taxes	109,603	72,621	142,882	98,153
Adjustments for:				
Depreciation and amortization (Notes 13 and 14)	59,362	49,513	74,149	64,280
Share-based payments (Note 25)	4,928	2,821	4,928	2,821
Losses (gains) on disposal of fixed assets	(259)	(475)	(710)	(275)
Allowance for doubtful accounts (Note 5)	11,965	11,806	17,846	19,382
Equity pick-up (Note 12)	(51,304)	(36,227)	130	129
Provision for contingencies (Note 21)	22,710	26,403	24,426	24,965
Provision for (reversal of) other obligations and other	-	(294)	-	(5,287)
Interest and monetary and exchange variations, net	27,061	29,591	27,344	29,844
Changes in operating assets and liabilities:				
Trade accounts receivable	(32,285)	(2,231)	(68,052)	(47,857)
Recoverable taxes	977	(12,290)	4,645	7,794
Judicial deposits	(2,462)	(2,021)	(2,157)	(1,833)
Other assets	(6,085)	(33,888)	(10,862)	(22,707)
Labor and social security liabilities	16,922	38,239	22,849	24,336
Suppliers	(16,655)	(3,502)	(17,936)	(2,916)
Commissions payable	1,977	(1,121)	2,461	462
Taxes payable	1,022	9,307	354	7,504
Other accounts payable	(17,594)	(23,320)	(16,186)	(13,465)
Change in assets and liabilities from discontinued operations	-	-	1,486	14,193
Cash flow from operations	129,883	124,932	207,597	199,523
Interest paid	(18,638)	(20,867)	(19,385)	(21,661)
Income and social contribution taxes paid	(8,440)	(2,629)	(26,513)	(17,194)
Net cash from operating activities	102,805	101,436	161,699	160,668
Cash flow from investing activities				
Capital increase in subsidiaries (Note 12)	71,239	(33,147)	-	-
Dividends received	63,959	497	-	-
Purchases of intangible assets (Note 14)	(13,353)	(7,031)	(13,367)	(11,541)
Payment of liabilities due to investment acquisition	-	-	(5,433)	-
Purchases of property, plant and equipment (Note 12)	(12,347)	(19,329)	(13,387)	(19,683)
Value of sales of fixed assets	2,832	1,478	3,080	1,787
Net cash used in investing activities	112,330	(57,532)	(29,107)	(29,437)
Cash flow from financing activities				
Payment of principal on loans and financing	(85,188)	(84,631)	(90,612)	(90,422)
Payment of finance lease	(27,889)	(12,544)	(30,487)	(12,576)
Capital increase	1,041,217	-	1,041,217	-
Receivables from related companies	2,048	(5,704)	-	-
Dividends and interest on equity paid	(13,058)	(20,468)	(13,627)	(20,940)
Treasury share	2,702	-	2,702	-
Net cash used in financing activities	919,832	(123,347)	909,193	(123,938)
Increase (decrease) in cash and cash equivalents	1,134,967	(79,443)	1,041,785	7,293
Cash and cash equivalents at beginning of year	228,571	305,920	452,799	387,169
Cash and cash equivalents at end of period	1,363,538	226,477	1,494,584	394,462

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

TOTVS S.A.**Statement of Value Added****For the six-months periods ended June 30, 2019 and 2018**

(In thousands of Reais)

	Parent Company		Consolidated	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
1 – REVENUES	902,503	872,296	1,258,097	1,149,712
1.1 Sales of goods, products and services	908,647	882,757	1,268,645	1,163,459
1.2 Other revenue	5,821	1,345	7,298	5,635
1.3 Allowance for doubtful accounts – recording	(11,965)	(11,806)	(17,846)	(19,382)
2 - RAW MATERIALS ACQUIRED FROM THIRD PARTIES				
(includes ICMS and IPI taxes)	(334,183)	(272,376)	(400,673)	(347,560)
2.1 Cost of goods and services sold	(43,531)	(38,074)	(48,838)	(46,329)
2.2 Materials, energy, outsourced services and other	(258,558)	(233,966)	(319,741)	(300,895)
2.3 Loss / Recovery of assets	(32,094)	(336)	(32,094)	(336)
3 - GROSS VALUE ADDED (1-2)	568,320	599,920	857,424	802,152
4 - DEPRECIATION AND AMORTIZATION	(59,362)	(49,513)	(74,149)	(64,280)
5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4)	508,958	550,407	783,275	737,872
6 - VALUE ADDED RECEIVED IN TRANSFERS	70,575	49,454	25,480	18,631
6.1 Equity pick-up	51,304	36,227	(130)	(129)
6.2 Finance income	19,271	13,227	25,610	18,760
7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	579,533	599,861	808,755	756,503
8 - VALUE ADDED DISTRIBUTION	579,533	599,861	808,755	756,503
8.1 Personnel	346,523	357,430	490,541	445,736
8.1.1 Direct compensation	282,168	290,822	403,712	364,103
8.1.2 Benefits	40,610	40,775	54,205	50,200
8.1.3 FGTS (worker's severance pay fund)	23,745	25,833	32,624	31,433
8.2 Taxes and contributions	129,367	123,593	208,193	183,137
8.2.1 Federal	104,380	100,294	172,820	152,181
8.2.2 State	30	20	593	520
8.2.3 Local	24,957	23,279	34,780	30,436
8.3 Interest and rent	34,525	53,561	40,750	61,966
8.3.1 Interest	33,767	36,116	39,491	40,496
8.3.2 Rents	758	17,445	1,259	21,470
8.4 Equity remuneration	69,118	65,277	69,271	65,664
8.4.3 Retained profits / loss for the year	69,118	65,277	69,118	65,277
8.4.4 Non-controlling interests in retained profits	-	-	153	387

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

TOTVS S.A.

Notes to the financial statements

(In thousands of Reais, unless otherwise stated)

1. The Company and its operations

a) General Information

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

b) Operations

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

Through its subsidiaries, the Company also has hardware manufacturing and sale activities, combining specialized solutions for system management, point of sale (POS), commercial automation and tax solutions. With the objective of maintaining its strategic focus on the software business, the Company decided to hold these subsidiaries for sale and classified their assets and liabilities as available for sale in this interim financial information.

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

2.1. Compliance statement

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

2.2. Basis of presentation

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

TOTVS's individual and consolidated Interim Financial Information was approved at the Board of Directors' Meeting held on August 05, 2019, after a recommendation by the Audit Committee at a meeting held on July 30, 2019.

Significant accounting policies applied in preparing this interim financial information have been consistently applied to the years presented. This interim financial information does not include all of the information required for annual or complete financial statements, and therefore should be read together with the Company's complete financial statements for the year ended December 31, 2018.

2.3. Basis of preparation

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

(a) Consolidated interim financial information

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

(b) Individual interim financial information

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

(c) Changes in accounting policies and disclosures

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

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

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

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

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

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

For purposes of comparability, we present below the reconciliation of impacts on the consolidated statement of profit or loss for the six-month period ended June 30, 2019 disregarding the effects of the new standards:

STATEMENTS OF PROFIT OR LOSS	Financial Statements disclosed at 6/30/2019	Effects of adoption of IFRS 16/CPC 06 (R2)	Financial Statements at 6/30/2019 without effects of IFRS 16/CPC 06(R2)
Software revenue	1,127,589	-	1,127,589
Cost of software (i)	(368,187)	(8,144)	(376,331)
Gross profit	759,402	8,144	751,258
Research and development (i)	(195,610)	(7,859)	(203,469)
Selling and marketing expenses (i)	(202,825)	(2,559)	(205,384)
General and administrative expenses (i)	(117,384)	(3,032)	(120,416)
Depreciation and amortization	(74,149)	18,814	(55,335)
Provision for expected credit losses	(17,846)	-	(17,846)
Other net operating income (expenses)	5,305	-	5,305
Income before financial effects and equity pick-up	156,893	(2,780)	154,113
Finance income (costs) and equity-pick-up	(14,011)	6,037	(7,974)
Income and social contribution taxes	(41,517)	(1,107)	(42,624)
Net income from continuing operations	101,365	2,150	103,515
Net loss from discontinued operations	(32,094)	208	(31,886)
Net income for the period	69,271	2,358	71,629

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

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

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

2.4. Consolidation basis

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

Direct interest:				% Interest	
Corporate Name	Head office	Name used	Note	6/30/2019	12/31/2018
TOTVS Serviços Ltda.	BRA	TOTVS Serviços		100.00	100.00
Soluções em Software e Serviços TTS Ltda.	BRA	TOTVS Nordeste		100.00	100.00
TOTVS Brasília Software Ltda.	BRA	TOTVS Brasília		100.00	100.00
TQTVD Software Ltda.	BRA	TQTVD		74.20	74.20
TOTVS Ventures Participações Ltda,	BRA	TOTVS Ventures		100.00	100.00
TOTVS Argentina S.A.	ARG	TOTVS Argentina		100.00	100.00
Datasul Argentina S.A.	ARG	Datasul Argentina		100.00	100.00
TOTVS México S.A.	MEX	TOTVS Mexico		100.00	100.00
Datasul S.A. de CV	MEX	Datasul Mexico		100.00	100.00
TOTVS Corporation	BVI	TOTVS Corporation		100.00	100.00
TOTVS Incorporation	USA	TOTVS Inc,		100.00	100.00
Neolog Consultoria e Sistemas S.A.	BRA	Neolog		60.00	60.00
Ciashop - Soluções para Comércio Eletrônico S.A.	BRA	Ciashop	(i)	70.47	70.00
TOTVS Large Enterprise Tecnologia S.A. (Bematech S.A.)	BRA	TOTVS Large		100.00	100.00
TFS Soluções em software Ltda.	BRA	TFS		100.00	100.00
Tecnologia em Software Bemacash Ltda.	BRA	Bemacash	(ii)	100.00	-

(i) Company held for sale mentioned in Note 11.2.

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

Indirect Interest:				% interest		
Corporate Name	Head office	Name used	Investor	Note	6/30/2019	12/31/2018
DTS Consulting Partner, S.A. de CV	MEX	Partner	TOTVS México		100.00	100.00
Webstrategie Software Ltda.	BRA	Webstrategie	TOTVS Nordeste		100.00	100.00
Kerina Software Ltda.	BRA	Kerina	TQTV		100.00	100.00
Bematech Hardware Ltda.	BRA	Bematech Hardware	TOTVS Large	(iii)	100.00	100.00
Bematech Ásia Co. Ltda.	TWN	Bematech Ásia	TOTVS Large		100.00	100.00
			TOTVS Large and			
Bematech Argentina S.A.	ARG	Bematech Argentina	Bematech Inter. Corp.		100.00	100.00
Bematech Internacional Corp.	EUA	BIC	TOTVS Large	(iv)	100.00	100.00
Logic Controls, Inc	EUA	Logic Controls	BIC	(iv)	100.00	100.00
FICE - Bematech Foshan Shunde Ltda.	CHN	FICE	Logic Controls, Inc	(iv)	100.00	100.00
CMNet Participações S.A.	BRA	CMNet Participações	TOTVS Large		100.00	100.00
CM Soluciones – Argentina	ARG	CMNet Argentina	CMNet Participações		100.00	100.00
CMDIR - Soluções Informática, Lda - Portugal	PRT	CMNet Portugal	CMNet Participações		100.00	100.00
CM Soluciones – Chile	CHL	CMNet Chile	CMNet Participações		100.00	100.00
CMNet Espanha	ESP	CMNet Espanha	CMDIR - Soluções		100.00	100.00
RJ Participações S.A.	BRA	RJ Participações	TOTVS Large		100.00	100.00
R.J. Consultores en Sistemas de Información S.C.	MEX	RJ México	RJ Participações		100.00	100.00
R.J. Consultores e Informática Ltda.	BRA	RJ Consultores	RJ Participações		100.00	100.00
TQTV Software Ltda.	BRA	TQTV	TOTVS Large		25.80	25.80
National Computer Corporation (associate)	RUS	JV Russia	TOTVS México		19.00	19.00

(iii) Company held for sale, which is pending CADE approval mentioned in Note 11.1.

(iv) Company held for sale according TOTVS strategy mentioned in Note 11.1 and Note 33 about subsequent events.

All intercompany balances and transactions were eliminated in consolidation.

2.5. Significant accounting judgments, estimates and assumptions

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

For the six-month period ended June 30, 2019, there were no changes in estimates and assumptions entailing a significant risk of causing relevant adjustments, except for the evaluation of assets of the hardware operations that were classified as held for sale as described in Note 11.1.

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

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

3.1. Sensitivity analysis of financial assets and liabilities

The Company's financial instruments are represented by cash and cash equivalents, accounts receivable, accounts payable, debentures, loans and debts, which are recorded at cost plus income or charges incurred or at fair value when applicable, as at June 30, 2019 and December 31, 2018.

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

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

a) Financial assets

In order to verify the sensitivity of the index in the financial investments to which Company was exposed as of June 30, 2019, three different scenarios were defined. Based on projections disclosed by financial institutions, the average rate for CDI is 6.40% for 2019, which was defined as a probable scenario (scenario I). Based thereon, variations of 25% (scenario II) and 50% (scenario III) were calculated.

For each of these scenarios the "gross finance income" was estimated, with taxes on investment returns not included. The reference date for the portfolio was June 30, 2019, with a one-year projection to check the sensitivity of CDI to each scenario.

Operation	Balances at 6/30/2019	Risk Reduction	Probable Scenario (I)	Scenario (II)	Scenario (III)
Consolidated financial investments	R\$1,469,685	CDI (a)	6.40%	4.80%	3.20%
Finance income, estimated			R\$94,060	R\$70,545	R\$47,030

(a) *Interbank Deposit Certificates*

b) Financial liabilities

To check the sensitivity of the indexes to which the Company is exposed when estimating the debts as of June 30, 2019, three different scenarios were created. Based on the TJLP and IPCA rates in force as of June 30, 2019, the most probable scenario (scenario I) was determined for 2019 and, from this, variations of 25% (scenario II) and 50% (scenario III) were calculated.

The gross finance cost was calculated for each scenario, not taking into account the tax and the maturity flow for each agreement scheduled for 2019. The reference date used for the financing and debentures was June 30, 2019, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	Balances at 6/30/2019	Risk	Probable Scenario I	Scenario II	Scenario III
		Increase			
Financing – Consolidated BNDES	R\$59,763	TJLP (a)	5.95%	7.44%	8.92%
Estimated finance costs			R\$3,556	R\$4,446	R\$5,331
		Increase			
Consolidated debentures	R\$78,347	IPCA (b)	3.80%	4.75%	5.70%
		TJLP (a)	5.95%	7.44%	8.92%
	R\$203,573	CDI	6.40%	8.00%	9.60%
Estimated finance costs			R\$21,863	R\$25,489	R\$29,114

(a) Long-term Interest Rate

(b) Brazil's Extended Consumer Price Index

3.2. Financial assets

TOTVS' investments in startups are made within a medium-term strategy, with output planned for when the expected financial returns are achieved, and are recognized as financial instruments. The fair value for these investments as at June 30, 2019 was R\$68,411 (R\$69,171 as at December 31, 2018).

3.3. Changes in the liabilities of financing activities

Liabilities arising from financing activities are liabilities for which cash flows were or will be classified in the statement of cash flows as cash flows from financing activities. The following is a breakdown of liabilities arising from financing activities for the six-month period ended of June 30, 2019:

		Consolidated					
		Cash flow from financing activities		Non-cash items			
	12/31/2018	Principal	Interest paid	New leases	Interest incurred	Other (i)	6/30/2019
Loans and financing	159,282	(90,612)	(4,145)	-	4,265	-	68,790
Lease	42,189	(30,487)	(8,775)	246,905	8,545	-	258,377
Debentures	277,188	-	(6,465)	-	11,197	-	281,920
Dividends payable and other	13,902	(13,627)	-	-	-	493	768
Total	492,561	(134,726)	(19,385)	246,905	24,007	493	609,855

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

4. Cash and cash equivalents

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

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Cash	389	10,571	24,899	44,925
Cash equivalents	1,363,149	218,000	1,469,685	407,874
Repurchase agreements	99,105	92,942	139,558	225,894
CDB	1,264,044	125,058	1,330,127	181,980
	1,363,538	228,571	1,494,584	452,799

The Company financial investments policies are based on low risk approach in top-tier institutions, remunerated substantially, by reference to the CDI variation, which monthly averaged 94.46% of the CDI for the period ended June 30, 2019 (99.22% as of December 31, 2018).

5. Trade accounts receivable, net

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

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Domestic market	374,591	355,384	502,736	508,394
Foreign market	1,352	525	6,940	15,552
Gross trade accounts receivable	375,943	355,909	509,676	523,946
(-) Provision for expected credit losses	(88,229)	(88,515)	(110,476)	(118,518)
Net trade accounts receivable	287,714	267,394	399,200	405,428
Current assets	254,908	248,671	365,656	385,538
Noncurrent assets (a)	32,806	18,723	33,544	19,890

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

Below are the receivables in connection with the net amount of provision of expected credit losses accounts by aging list as of June 30, 2019 and December 31, 2018:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Falling due	205,751	181,288	273,913	288,890
Unbilled	45,653	57,464	73,124	73,627
Overdue				
1 to 30 days	15,265	8,607	21,890	13,758
31 to 60 days	4,352	3,896	7,299	7,216
61 to 90 days	3,270	2,346	4,944	3,785
91 to 180 days	3,132	2,834	4,711	4,919
181 to 360 days	2,455	2,264	3,052	2,924
More than 360 days	7,836	8,695	10,267	10,309
Net accounts receivable	287,714	267,394	399,200	405,428

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

	6/30/2019	
	Parent Company	Consolidated
Balance at beginning of period	(88,515)	(118,518)
Provision for expected credit losses discontinued operation	-	10,927
Additional provision in the period	(11,965)	(17,846)
Amounts written off due to	12,251	14,961
Balance at end of period	(88,229)	(110,476)

Management believes that the risk related to trade accounts receivable in general is minimized by the fact that the Company's customer portfolio is diluted. At December 31, 2018, an exception was the distributor of Bematech Hardware which cumulatively accounted for 5.5% of net accounts receivable in the consolidated statements. As at June 30, 2019 the assets of the hardware operation were classified as held for sale. In general, the Company does not require any guarantee on installment sales.

6. Inventories

The balances below are related to Bematech Hardware which at June 30, 2019 were classified as held for sale:

	Consolidated	
	6/30/2019	12/31/2018
Finished products	-	11,155
Raw material	-	19,157
Products for resale and other	-	8,539
Parts for technical assistance	-	962
Advances from supplier	-	2,872
(-) Provision for adjustment to realization	-	(1,154)
	-	41,531

7. Recoverable Taxes

The amounts of recoverable taxes are as follows:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
State Goods and Services Tax (ICMS) (a)	-	-	-	6,284
Income tax to offset (b)	13,717	10,805	17,424	18,172
Social contribution tax to offset (b)	8,815	12,490	9,884	13,764
Withholding PIS and COFINS taxes	-	18	16	212
Other	-	1	553	621
	22,532	23,314	27,877	39,053
Current	22,532	23,314	27,877	38,817
Noncurrent	-	-	-	236

- (a) The accumulated ICMS tax credits of Bematech Hardware were classified as held for sale on the consolidated statement of financial position for the period ended June 30, 2019 (see more details in Note 11).
- (b) Refers to withholding income and social contribution tax credits in the current year and income and social contribution tax credits to offset from previous years, as well as payments of estimated taxes in the current year.

8. Income taxes

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

8.1. Reconciliation of income and social contribution tax expenses

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

	Parent Company		Consolidated	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Income before taxes	109,603	72,621	142,882	98,153
Income and social contribution taxes at combined nominal rate of 34%	(37,265)	(24,691)	(48,580)	(33,372)
Adjustments for the statement of effective rate				
Equity pick-up	19,379	14,661	-	-
Law No. 11196/05 (Incentive for research and development)	3,062	4,444	5,360	5,017
Share issuance expenses	8,676	-	8,676	-
Effect of subsidiaries subject to special rates	-	-	(5,136)	(2,028)
Management stake	(1,930)	(601)	(1,930)	(615)
Workers' Meal Program (PAT)	215	60	574	214
Other	(528)	(881)	(481)	(1,369)
Income and social contribution tax expense	(8,391)	(7,008)	(41,517)	(32,153)
Current income and social contribution taxes	(11,954)	(3,758)	(33,569)	(20,561)
Deferred income and social contribution taxes	3,563	(3,250)	(7,948)	(11,592)
Effective rate	7.7%	9.7%	29.1%	32.8%

8.2. Breakdown of deferred income and social contribution taxes

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Income and social contribution tax losses carryforwards	-	-	63,651	71,620
Deriving from temporary differences:				
Difference between tax base and book value from goodwill	18,867	21,308	39,178	43,531
Amortization of tax benefit	(89,502)	(86,828)	(139,682)	(132,612)
Intangible asset allocation	(12,022)	(13,491)	(18,877)	(20,835)
Allocation of intangible assets – after Law No. 12973	15,269	13,334	15,269	13,334
Provision for commissions	13,579	12,426	15,000	14,099
Anticipated income or revenues	6,043	5,253	2,731	9,705
Allowance for doubtful accounts	29,998	30,095	35,373	36,285
Provision for contingencies and other liabilities	41,775	40,045	45,510	43,447
Provision for suppliers	7,736	7,902	9,492	10,396
Provision for impairment	1,792	-	16,592	14,760
Provision for share-based payments	6,000	5,550	6,000	5,720
Present value adjustment	3,003	2,766	5,075	4,803
Other	6,681	7,485	9,187	10,871
Net deferred income and social contribution taxes	49,219	45,845	104,499	125,124

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

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

	Parent Company	Consolidated
At December 31, 2018	45,845	125,124
Expense in statement of profit or loss	3,563	(7,948)
Tax related to other comprehensive income	1,792	(10,666)
Opening balance of IFRS16/CPC06 (R2)	(1,980)	(2,203)
Other	(1)	192
At June 30, 2019	49,219	104,499

9. Related-party balances and transactions

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

9.1. Credits and liabilities with subsidiaries and associate companies

As of June 30, 2019 and December 31, 2018, significant asset and liability balances and transactions with related parties that influence the profit or loss for the period are as follows:

	Parent Company			
	6/30/2019		12/31/2018	
	Asset	Liability	Asset	Liability
Ciashop	2,587	-	2,484	-
TOTVS Serviços	-	710	1,472	-
Other	8	1	-	24
Total	2,595	711	3,956	24

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

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

9.2. Transactions or relationships with shareholders and key management personnel

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

The amount paid for the rental and condominium fees with related party, including the new headquarters, recognized at the six-month period ended June 30, 2019 was R\$13,678 (R\$12,075 as at June 30, 2018). All rental agreements with related parties are subject to adjustment at the IGP-M inflation rate, every 12 months.

Some of the Company's shareholders and key management personnel directly or indirectly hold 15.2% of the Company's shares as of June 30, 2019 (17.6% as of December 31, 2018). The indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company still incurred expenses and revenues of low value over the quarter with related parties where the total amount of expenditures was R\$401 and receipts in the amount of R\$106.

9.3. Management fees

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

	Parent Company		Consolidated	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Short-term benefits to managing officers				
Salaries, fees and payroll charges	5,728	6,979	6,267	7,984
Direct and indirect benefits	416	126	416	139
Variable bonus (i)	5,677	1,767	5,917	1,808
Share-based payments	3,845	1,943	3,845	1,943
	15,666	10,815	16,445	11,874

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

Management are also entitled to vehicles that are replaced every 3 years. The depreciation expenses of vehicles granted to management for the period ended June 30, 2019 is R\$332 (R\$309 as of June 30, 2018).

10. Other assets

The breakdown of other assets at June 30, 2019 and December 31, 2018 is follows:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Prepaid expenses	39,790	38,515	41,041	41,863
Franchises loan	16,608	17,668	20,464	21,689
Advances to employees	13,286	7,444	18,011	8,431
Advances to suppliers	762	1,331	981	1,535
Dividends receivable	134	2,174	-	-
Other assets	5,952	6,087	10,735	9,362
	76,532	73,219	91,232	82,880
Current assets	54,704	52,288	61,930	56,540
Noncurrent assets	21,828	20,931	29,302	26,340

11. Held for sale

11.1 Hardware business

Based on TOTVS business strategy, focused on Software business, the Company decided to hold for sale its hardware operations. The Company target is to wrap up the selling negotiations with the possible buyers in short term.

As of May 08, 2019, the Company announced a binding Memorandum of Understanding for the sale, of its hardware operations in Brazil to ELGIN S.A., conducted through its subsidiary Bematech Hardware Ltda for the amount of R\$25,000. This amount will be subject to adjustments based on the determination of the assets and liabilities between the date of the Memorandum and the date of the closing of the transaction. The conclusion of this transaction depends on its approval by the Brazilian antitrust authorities and as of June 30, 2019 awaits such decision.

Through this scenario, hardware operations assets were classified and measured such fair market value as held for sale in the interim financial statements ended June 30, 2019, according IFRS 5 / CPC 31.

Set out below are the losses for six months ended June 30, 2019 and 2018:

	Consolidated	
	6/30/2019	6/30/2018
Net revenue	84,920	100,524
(-) Costs of goods and sold	(57,223)	(67,575)
Gross profit	27,697	32,949
Research and development	(4,994)	(6,877)
Selling and marketing expenses	(17,500)	(17,519)
General and administrative expenses	(5,450)	(7,168)
Depreciation and amortization	(1,653)	(3,110)
Provision for expected credit losses	(340)	(4,406)
Government subsidy	1,464	3,946
Other net operating income	337	(109)
Loss before financial effects and equity pick-up	(439)	(2,294)
Finance income (costs)	(127)	737
Income and social contribution taxes	680	1,221
Profit (losses) for the period	114	(336)
Fair market value accrual, net of taxes (i)	(32,208)	-
Net Loss from discontinued operations	(32,094)	(336)

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

	Consolidated	
	6/30/2019	6/30/2018
Comprehensive loss from discontinued operations		
Net loss for the period	(32,094)	(336)
Cumulative translation adjustments	106	3,858
Comprehensive income from the period	(31,988)	3,522

The main classes of assets and liabilities from held-for-sale hardware operations on June 30, 2019 were as under:

	Consolidated
Assets	6/30/2019
Accounts receivable, net	33,977
Inventories	47,773
Recoverable taxes	5,063
Property, plant and equipment and intangible assets	21,866
Deferred income tax and social contribution	25,043
Other assets	1,644
Provision for losses from available-for-sale assets	(48,800)
Assets classified as held-for-sale	86,566
Liabilities	
Payroll and related charges	(3,963)
Trade payables	(26,904)
Tax liabilities	(859)
Leases	(5,272)
Commissions	(869)
Other liabilities	(744)
Obligations directly associated with assets classified as held-for-sale	(38,611)
Net assets directly associated with the group of assets held for sale	47,955

Net cash flows incurred by Bematech Hardware are as follows:

	Consolidated	
	6/30/2019	6/30/2018
Operating activities	5,622	20,966
Investment activities	(1,594)	(6,773)
Financing activities	(24)	-
Net cash generated from (used in) discontinued operations	4,004	14,193

Fair market value

As mentioned above, consolidated assets and liabilities from the hardware operations were classified as available-for-sale operations as of June 30, 2019 and, as such, an impairment loss was recognized in the total amount of R\$43,528 (R\$28,728 net of taxes) at the parent company TOTVS Large and R\$5,272 (R\$3,480 net of taxes) related to the write-off of the brand at TOTVS S.A. so that the book value of the held-for-sale assets was reduced to the fair sales value. The amount was recognized in the statement of profit or loss under loss from the period from discontinued operation.

11.2 Ciashop

On May 9, 2019, the Company entered into an agreement to sell 70.47% of the capital stock of Ciashop to VTEX S.A. for R\$21,175, subject to a price adjustment to be paid at the close of the transaction. The conclusion of this transaction depends on its approval by the Brazilian antitrust authorities (CADE - Administrative Council for Economic Defense), which issued its approval decision on June 14, 2019. Such approval is subject to compliance with the legal deadline of fifteen days from next business day for appeal or challenge by the Court of CADE. If there is no appeal or request of the process within such period, the operations will be considered formally approved by CADE.

Thus, the Company discloses the assets and liabilities of Ciashop held for sales in this interim financial statements as of June 30, 2019:

Assets	6/30/2019
Cash and cash equivalents	2,518
Accounts receivable, net	615
Property, plant and equipment and intangible assets	256
Deferred income tax and social contribution	2,649
Other assets	137
Goodwill	4,465
Assets classified as held-for-sale	10,640
Liabilities	
Payroll and related charges	(818)
Trade payables	(137)
loan agreement	(2,587)
Leases	(184)
Commissions	(1,131)
Other liabilities	(95)
Obligations directly associated with assets classified as held-for-sale	(4,952)
Net assets directly associated with the group of assets held for sale	5,688

12. Investments

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

	Summarized financial statements of affiliate companies and subsidiaries as at June 30, 2019					Equity pick-up (parent Company) for periods ended:		Balance of investments as of:	
	Assets	Liabilities	Net Equity	Gross profit	Profit or loss	6/30/2019	6/30/2018	6/30/2019	12/31/2018
TOTVS Large (a)	439,393	47,332	392,061	31,662	(25,767)	(2,719)	2,632	431,976	493,626
TOTVS Brasília	126,678	17,465	109,213	70,590	20,726	20,726	10,748	109,213	143,487
TOTVS Nordeste	86,194	16,046	70,148	14,497	4,960	4,960	2,842	70,148	75,188
TOTVS Serviços	64,851	17,944	46,907	101,985	26,852	26,852	16,281	46,907	49,055
TOTVS Inc.	74,233	2,887	71,346	177	(10,295)	(10,295)	(6,942)	71,346	72,030
Neolog (a)	3,357	2,148	1,209	5,861	383	(690)	(288)	17,510	18,920
TQTVD	39,027	10,435	28,592	28,564	4,099	3,041	511	21,214	17,876
TOTVS Ventures	5,217	3	5,214	-	82	82	67	5,214	5,132
Ciashop (a)	6,175	4,952	1,223	5,006	(4)	(2)	(1,195)	5,321	5,323
TOTVS Mexico	11,636	5,869	5,767	9,349	(3,994)	(3,994)	(2,837)	5,766	4,571
TOTVS Argentina	11,436	6,257	5,179	15,022	22	22	2,897	5,179	5,027
Datasul Argentina	-	-	-	-	-	-	(58)	-	-
TFS	38,473	20,133	18,340	59,973	13,321	13,321	11,569	18,338	30,017
NCC	-	-	-	-	-	-	-	65	65
						51,304	36,227	808,197	920,317

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

Changes in the investment accounts for the six-month period ended June 30, 2019 were as follows:

	12/31/2018	Addition /(reduction)	Dividends	Equity pick-up		Assets held for sales	Foreign exchange/ Inflation (ii)	Opening balance of CPC 06 (R2) (i)	6/30/2019
				Equity pick-up	Intangible amortization				
TOTVS Large	493,626	(29,583)	-	2,054	(4,773)	(28,614)	(837)	103	431,976
TOTVS Brasília	143,487	(47,000)	(8,000)	20,726	-	-	-	-	109,213
TOTVS Nordeste	75,188	(10,000)	-	4,960	-	-	-	-	70,148
TOTVS Serviços	49,055	-	(29,000)	26,852	-	-	-	-	46,907
TOTVS Inc.	72,030	10,133	-	(10,295)	-	-	(522)	-	71,346
Neolog	18,920	-	(741)	230	(920)	-	-	21	17,510
TQTVD	17,876	-	-	3,041	-	-	-	297	21,214
TOTVS Ventures	5,132	-	-	82	-	-	-	-	5,214
Ciashop	5,323	-	-	(2)	-	-	-	-	5,321
TOTVS Mexico	4,571	5,211	-	(3,994)	-	-	(22)	-	5,766
TOTVS Argentina	5,027	-	-	22	-	-	130	-	5,179
TFS	30,017	-	(25,000)	13,321	-	-	-	-	18,338
NCC	65	-	-	-	-	-	-	-	65
Sum of investments	920,317	(71,239)	(62,741)	56,997	(5,693)	(28,614)	(1,251)	421	808,197

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

- (ii) Includes the inflation adjustments of Argentine subsidiaries.

13. Property, plant and equipment

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

	Parent Company						
	Computers and electronics equip,	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improve ments (i)	Others	Total Property, plants and equipment
Cost							
Balance as of December 31, 2018	184,096	10,201	22,877	26,403	86,099	11,133	340,809
Opening balance of IFRS 16/CPC 06 (R2)	-	-	-	-	217,111	-	217,111
Additions	3,173	2,841	2,959	336	3,028	10	12,347
Contract remeasurement	-	-	-	-	14,545	-	14,545
Transfers	(418)	(128)	295	-	4,607	(4,356)	-
Write-offs	(2,184)	(2,792)	(877)	(16)	(3,633)	(28)	(9,530)
Balance as of June 30, 2019	184,667	10,122	25,254	26,723	321,757	6,759	575,282
Depreciation							
Balance as of December 31, 2018	(106,265)	(3,966)	(11,783)	(11,841)	(24,728)	(4,368)	(162,951)
Depreciation in the period	(13,322)	(1,657)	(1,521)	(1,580)	(21,173)	(1,142)	(40,395)
Transfers	-	-	(60)	-	60	-	-
Write-offs	1,662	2,188	824	11	3,619	11	8,315
Balance as of June 30, 2019	(117,925)	(3,435)	(12,540)	(13,410)	(42,222)	(5,499)	(195,031)
Residual value							
Balance as of June 30, 2019	66,742	6,687	12,714	13,313	279,535	1,260	380,251
Balance as of December 31, 2018	77,831	6,235	11,094	14,562	61,371	6,765	177,858
Average annual depreciation rate	20% to 25%	33%	10% to 25%	6.7% to 25%	10% to 33%	20%	

Consolidated							
	Computers and electronics equip,	Vehicles	Furniture and Fixtures	Facilities machinery and equipment	Leasehold improve ments (i)	Others	Total Property, plant and equipment
Cost							
Balance as of December 31, 2018	204,541	12,756	28,861	34,377	101,000	11,927	393,462
Opening balance of IFRS 16/CPC 06 (R2)	-	-	-	-	236,820	-	236,820
Additions	3,625	3,337	3,034	338	3,028	25	13,387
Contract remeasurement	-	-	-	-	15,915	-	15,915
Assets held for sale	(3,641)	(852)	(1,565)	(5,549)	(10,360)	(190)	(22,157)
Transfers	43	(204)	345	(503)	4,607	(4,246)	42
Write-offs	(3,777)	(3,289)	(1,089)	(275)	(3,633)	(31)	(12,094)
Exchange variation (ii)	117	1	21	3	(43)	1	100
Balance as of June 30, 2019	200,908	11,749	29,607	28,391	347,334	7,486	625,475
Depreciation							
Balance as of December 31, 2018	(120,437)	(5,342)	(14,995)	(16,704)	(33,117)	(4,041)	(194,636)
Depreciation in the period	(14,288)	(2,000)	(1,715)	(1,651)	(24,844)	(940)	(45,438)
Assets held for sale	2,441	196	489	3,170	493	68	6,857
Transfers	(452)	-	(94)	460	60	(16)	(42)
Write-offs	3,240	2,589	1,029	247	3,619	16	10,740
Exchange variation (ii)	(83)	5	(17)	(3)	(14)	-	(112)
Balance as of June 30, 2019	(129,579)	(4,552)	(15,303)	(14,481)	(53,803)	(4,913)	(222,631)
Residual value							
Balance as of June 30, 2019	71,329	7,197	14,304	13,910	293,531	2,573	402,844
Balance as of December 31, 2018	84,104	7,414	13,866	17,673	67,883	7,886	198,826
	20% to	20% to	10% to	6.7% to	10% a 33%	20%	
Average annual depreciation rate	25%	33%	25%	25%			

(i) The Company applied exceptions to the standard for short-term and immaterial value contracts, booked in rental expense in the amount of R\$758 and R\$1,259 in the Parent Company and Consolidated, respectively as of June 30, 2019. The remeasurement of the period refers to the annual update of installments of some contracts according to the indexer established in the agreement.

(ii) Includes the inflation adjustments of Argentine subsidiaries.

14. Intangible assets

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

	Parent Company					
	Software	Trademarks & patents	Customer portfolio	Other (ii)	Goodwill	Total Intangible assets
Cost						
Balance as of December 31, 2018	339,590	63,149	212,980	18,750	280,308	914,777
Additions	12,005	-	1,348	-	-	13,353
Balance as of June 30, 2019	351,595	63,149	214,328	18,750	280,308	928,130
Amortization						
Balance as of December 31, 2018	(258,748)	(43,825)	(210,819)	(18,750)	-	(532,142)
Amortization in the period	(16,443)	(2,100)	(424)	-	-	(18,967)
Provision for assets held for sale	-	(5,272)	-	-	-	(5,272)
Balance as of June 30, 2019	(275,191)	(51,197)	(211,243)	(18,750)	-	(556,381)
Residual value						
Balance as of June 30, 2019	76,404	11,952	3,085	-	280,308	371,749
Balance as of December 31, 2018	80,842	19,324	2,161	-	280,308	382,635
Average annual amortization rates	10% to 20%	6.7% to 8%	10% to 12.5%			

	Consolidated						
	Software	Trademarks & patents	Customer portfolio	R&D	Others (ii)	Goodwill	Total Intangible assets
Cost							
Balance as of December 31, 2018	384,898	100,832	360,730	28,107	49,848	668,804	1,593,219
Additions	12,019	-	1,348	-	-	-	13,367
Assets held for sale	(5,484)	(6,494)	-	(13,496)	-	(4,465)	(29,939)
Exchange variation (i)	(8)	-	-	-	-	-	(8)
Balance as of June 30, 2019	391,425	94,338	362,078	14,611	49,848	664,339	1,576,639
Amortization							
Balance as of December 31, 2018	(295,876)	(62,990)	(261,159)	(22,826)	(49,629)	(43,611)	(736,091)
Amortization in the period	(18,750)	(2,654)	(5,814)	(1,445)	(48)	-	(28,711)
Assets held for sale	2,338	4,730	-	16,349	343	-	23,760
Provision for assets held for sale	-	(5,272)	-	-	-	-	(5,272)
Exchange variation (i)	(8)	-	-	-	-	-	(8)
Balance as of June 30, 2019	(312,296)	(66,186)	(266,973)	(7,922)	(49,334)	(43,611)	(746,322)
Residual value							
Balance as of June 30, 2019	79,129	28,152	95,105	6,689	514	620,728	830,317
Balance as of December 31, 2018	89,022	37,842	99,571	5,281	219	625,193	857,128
Average annual amortization rates	10% to 20%	6.7% to 8%	10% to 12.5%	20%	10% to 50%		

(i) Includes the inflation adjustments of Argentine subsidiaries.

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

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

14.1. Changes in goodwill

The breakdown of goodwill as of June 30, 2019 and December 31, 2018 is as follows:

	Consolidated		
	12/31/2018	Held for sale	6/30/2019
Bematech Software	218,695	-	218,695
RM	90,992	-	90,992
W&D	64,070	-	64,070
Virtual Age	46,497	-	46,497
RMS	35,740	-	35,740
SRC	33,688	-	33,688
Datasul	30,084	-	30,084
Gens FDES	16,340	-	16,340
Seventeen	15,463	-	15,463
TOTVS Agroindústria	13,128	-	13,128
Neolog	12,565	-	12,565
BCS	11,821	-	11,821
TotalBanco	6,008	-	6,008
Logo Center	5,703	-	5,703
Ciashop (i)	4,465	(4,465)	-
Others	19,934	-	19,934
	625,193	(4,465)	620,728

(i) Goodwill classified as held for sale according note 11.2.

14.2. Test for impairment of assets

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

As described in Note 11, assets from the hardware operation were classified and measured at their recoverable amount and consequently resulted in the classification of the respective assets as available-for-sale in the interim financial statements of March 31, 2019. Therefore, in accordance with IFRS5/CPC 31, the Company analyzed the recoverable amount of its assets and, consequently, recorded based on fair market value of the investment in the total amount of R\$43,528 at the parent company TOTVS Large and R\$5,272 related to the write-off of the brand in TOTVS S.A. (Note 11.1).

15. Payroll and labor liabilities

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

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Labor liabilities:				
Salaries payable	20,601	20,618	27,328	28,782
Vacation payable	60,720	58,568	82,625	81,704
13th monthly salary payable	19,703	192	26,502	332
Profit sharing and bonus	22,466	23,109	27,677	30,492
Withholding tax on payroll	7,762	12,303	10,183	16,656
Pension plan payable (i)	1,385	1,287	1,385	1,287
Other	1,680	197	2,857	1,364
	134,317	116,274	178,557	160,617
Payroll liabilities				
FGTS (Workers' severance pay fund) payable	3,636	4,581	4,958	6,203
INSS (Brazilian Social Security Institute) payable	4,912	5,088	7,359	8,054
	8,548	9,669	12,317	14,257
Total	142,865	125,943	190,874	174,874

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

16. Trade accounts payable

The following is a breakdown of suppliers for the periods ended June 30, 2019 and December 31, 2018:

	Parent Company		Consolidated	
	06/30/2019	12/31/2018	06/30/2019	12/31/2018
Domestic Suppliers	9,798	32,110	12,577	52,325
Foreign suppliers	16,537	13,568	16,777	19,378
Supplier accrual	25,511	25,665	31,009	38,203
Other liabilities	-	-	1,181	4,001
Total	51,846	71,343	61,544	113,907

17. Tax liabilities

Salaries and charges payable balances are broken down as follows:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Tax liabilities				
Federal Social Security Tax on Gross Revenue (CPRB)	13,396	12,041	16,047	14,583
ISS payable	5,476	5,376	7,433	7,267
PIS and COFINS payable	14,796	12,487	17,545	15,589
IRPJ and CSLL payable	-	-	4,680	4,632
Other taxes	3,445	2,673	7,331	5,395
Total	37,113	32,577	53,036	47,466

18. Loans and debts

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

The loan and debts transactions are as follows:

	Annual financial charges	Parent Company		Consolidated	
		6/30/2019	12/31/2018	6/30/2019	12/31/2018
BNDES PROSOFT	TJLP + 1.5% to 1.52% p.y.	51,825	129,194	57,827	137,940
BNDES PSI	3.5% to 4.0% p.y.	4,878	12,197	9,013	18,224
Leases (a)	15.12% to 17.24%	245,853	42,087	258,377	42,189
BNDES – Social	TJLP	287	714	286	714
BNDES Inovação	TJLP + 0.52% p.y.	-	-	1,650	2,404
Secured accounts and other		-	-	14	-
		302,843	184,192	327,167	201,471
Current liabilities		114,215	155,278	130,520	166,154
Noncurrent liabilities		188,628	28,914	196,647	35,317

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

Amounts recorded in noncurrent liabilities as at June 30, 2019 and December 31, 2018 have the following maturity schedule:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
2019	-	13,173	-	19,583
2020	22,848	15,741	26,770	15,734
2021	28,100	-	30,813	-
2022	27,288	-	28,672	-
2023 onwards	110,392	-	110,392	-
Noncurrent liabilities	188,628	28,914	196,647	35,317

Below is the breakdown of loans and debts as of June 30, 2019:

	6/30/2019	
	Parent Company	Consolidated
Opening balance	184,192	201,471
Leasing – IFRS 16/CPC 06 (R2)	217,111	236,470
Additions	14,545	15,915
Interest incurred	12,245	12,810
Liabilities related to assets held for sale	-	(5,480)
Interest amortization	(12,173)	(12,920)
Principal amortization	(113,077)	(121,099)
Closing balance	302,843	327,167

a) Leases

Lease obligations are guaranteed by fiduciary sale of leased assets. The table below shows gross liabilities of finance leases as at June 30, 2019 and December 31, 2018:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Gross liabilities of finance lease – minimum lease payments				
Less than one year	67,776	13,173	73,797	13,227
More than one year and less than five years	164,276	36,203	171,522	36,262
More than five years	57,077	-	57,077	-
	289,129	49,376	302,396	49,489
Future financing charges in finance leases	(43,276)	(7,289)	(44,019)	(7,300)
Present value of liabilities of finance lease	245,853	42,087	258,377	42,189
Current liabilities	57,225	13,173	62,717	13,228
Noncurrent liabilities	188,628	28,914	195,660	28,961

19. Debentures

As of June 30, 2019 and December 31, 2018 the balances were broken down as follows:

				Parent Company and Consolidated	
Issue	Debentures	Annual financial charges	Unit price	6/30/2019	12/31/2018
Single series	200,000	105.95% of CDI	1.00 (a)(i)	203,573	203,431
		Premium due to non-conversion	(c)	78,347	73,757
		Total		281,920	277,188
		Current liabilities		81,964	77,319
		Noncurrent liabilities		199,956	199,869

- (i) The amount of debentures issue is presented net of transactions costs of R\$218 as at June 30, 2019 (R\$306 as of December 31, 2018).

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

Maturity of noncurrent amounts is as follows:

	Parent Company and Consolidated	
	6/30/2019	12/31/2018
Between 12 and 24 months	199,956	199,869
	199,956	199,869

The changes occurred in the period considered were as follows:

Debentures and premiums from non-conversions	Parent Company and Consolidated	
	6/30/2019	12/31/2018
Balance at beginning of year	277,188	269,138
Interest incurred	11,197	21,734
Amortization of interest	(6,465)	(13,684)
Balance at end of period	281,920	277,188

a) Issue of Debentures

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

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

The Debentures will bear interest corresponding to 105.95% of the accumulated variation of the daily average DI (interbank) rates. Interest will be paid semiannually.

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

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

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

20. Liabilities due to investment acquisition

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

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
RMS	-	-	14,341	13,920
Virtual Age	15,231	15,293	15,231	15,293
RJ Participações	-	-	12,237	17,542
Neolog	7,187	7,187	7,187	7,187
Bematech Sistemas	-	-	7,446	7,256
Seventeen	2,958	2,873	2,958	2,873
Datasul MG	4,566	4,429	4,566	4,429
Ciashop	-	366	-	366
W&D Participações	-	-	140	256
Other	609	604	4,345	5,939
Total	30,551	30,752	68,451	75,061
Current liabilities	30,551	30,752	52,479	59,597
Noncurrent liabilities	-	-	15,972	15,464

As of June 30, 2019 and December 31, 2018, the liabilities for the acquisition of investments had guarantees in the form of marketable securities, which consisted of CDB operations in the amounts mentioned below:

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Investment guarantees in current assets	23,276	23,477	45,203	44,909
Investment guarantees in noncurrent assets	-	-	3,735	5,334
Total	23,276	23,477	48,938	50,243

21. Provision for contingencies related to legal proceedings

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

	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Tax	2,659	2,337	3,706	2,946
Labor	89,536	88,394	96,439	94,832
Civil	30,673	27,049	33,719	30,014
	122,868	117,780	133,864	127,792

The breakdown of provisions in the year ended June 30, 2019 is as follows:

	Parent Company			
	Tax	Labor	Civil	Total
Balances at December 31, 2018	2,337	88,394	27,049	117,780
(+) Additional provision	337	25,817	9,714	35,868
(+) Monetary restatement	109	3,336	1,714	5,159
(-) Reversal of provision not used	(28)	(10,954)	(2,176)	(13,158)
(-) Write-off due to payment	(96)	(17,057)	(5,628)	(22,781)
Balances at June 30, 2019	2,659	89,536	30,673	122,868

	Consolidated			
	Tax	Labor	Civil	Total
Balances at December 31, 2018	2,946	94,832	30,014	127,792
(+) Additional provision	747	28,030	10,208	38,985
(+) Monetary restatement	137	3,596	1,922	5,655
(-) Reversal of provision not used	(28)	(11,753)	(2,778)	(14,559)
(-) Write-off due to payment	(96)	(18,011)	(5,639)	(23,746)
(-) Liabilities related assets held for sale	-	(255)	(8)	(263)
Balances at June 30, 2019	3,706	96,439	33,719	133,864

The Company has two labor suits, whose amounts restated as of June 30, 2019, are deemed individually significant. They are:

- (i) Lawsuit filed in 2000, whereby a former sales executive claims the payment of severance payments, including the difference in commissions. The suit was filed against a company absorbed by TOTVS and is in the execution phase. The lawsuit amount on June 30, 2019 is R\$5,453 (R\$4,403 as of December 31, 2018).
- (ii) Lawsuit filed in 2003 by a former sales executive of a company, whose controlling interest was held by Datasul prior to its merger with TOTVS. TOTVS claims that a part of the suit is illegitimate and the suit is in the execution phase, with the restated amount on June 30, 2019 being R\$5,241 (R\$4,224 as of December 31, 2018).

- (iii) Lawsuit filed in 2015, whereby a former employee claims the payment of labor sums including salary differences. The lawsuit is in the execution phase and the amount on June 30, 2019 is R\$6,818 (R\$3,348 as of December 31, 2018).

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

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

Judicial deposits	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Tax	8,507	8,320	18,084	17,755
Labor	33,436	30,241	37,736	34,794
Civil	13,064	12,610	13,882	13,416
	55,007	51,171	69,702	65,965

22. Contingent liabilities

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

Nature	Parent Company		Consolidated	
	6/30/2019	12/31/2018	6/30/2019	12/31/2018
Tax	124,357	118,507	163,329	154,953
Labor	105,462	151,820	113,063	160,326
Civil	265,041	295,108	281,853	315,507
	494,860	565,435	558,245	630,786

In January 2019, the Company received a tax deficiency notice for ISS tax underpayment in 2014, under the allegation of an error in the assignment of tax rates for the services it provides, in the amount of R\$16,366, whose likelihood of loss is assessed as possible. The Company submitted its defense, which is pending judgment in the lower administrative courts. The amount as of June 30, 2019 is R\$17,761.

In 2015, the Company received a tax enforcement notice to pay ISS tax in the period between 1996 and 2001. The Company appealed claiming the statute of limitations on the collection and the records are awaiting the expert's report. The amount involved as of June 30, 2019 is R\$10,465 (R\$9,608 as of December 31, 2018).

The breakdown of the main ongoing lawsuits until June 30, 2019 is in Note 20.2 to the financial statements for the year ended December 31, 2018.

23. Equity

a) Capital

As at June 30, 2019 the Company's capital was composed of 192,637,727 shares issued and fully paid common registered shares (165,637,727 as of December 31, 2018), with no par value, as follows:

Shareholders	6/30/2019		12/31/2018	
	Shares	%	Shares	%
LC-EH Empreendimentos e Participações S,A,	26,760,990	13.89%	26,760,990	16.16%
Genesis Investment Management	14,502,935	7.53%	10,560,540	6.38%
Constellation	10,253,927	5.32%	1,960,000	1.18%
Laércio José de Lucena Cosentino	2,053,890	1.07%	2,186,091	1.32%
CSHG Senta Pua Fia	45,400	0.02%	45,400	0.03%
Others	137,037,754	71.14%	121,938,615	73.62%
Outstanding shares	190,654,896	98.97%	163,451,636	98.68%
Treasury shares	1,982,831	1.03%	2,186,091	1.32%
Total in units	192,637,727	100.00%	165,637,727	100.00%

As of May 16, 2019, the Extraordinary General Meeting approved an increase in the authorized Capital limit for R\$2,500,000.

As of May 22, 2019, the Board of Directors approved the pricing of the primary public offering with restricted efforts which price per share was R\$39.50 and the total amount of R\$1,066,500. It was determined that the price per share of R\$39.50 would be earmarked as follows: (i) R\$12.64 earmarked for capital stock, in the total amount of R\$341,280; and (ii) the balance, of R\$26.86 per share, earmarked for capital reserve, in the total amount of R\$725,220. As a result of the capital increase, 27,000,000 new subscription common shares, with no par value, were issued, and the capital stock increased from R\$1,041,229, divided into 165,637,727 common shares, to R\$1,382,509, divided into 192,637,727 common shares, all registered, book-entry shares with no par value.

b) Capital reserves

The balance of capital reserves at June 30, 2019 and December 31, 2018 was broken down as follows:

	6/30/2019	12/31/2018
Goodwill reserve	796,048	99,260
Goodwill reserve for merger	14,330	14,330
Premium on acquisition of non-controlling interest	(25,518)	(25,518)
Debentures converted into shares (fair value)	44,629	44,629
Stock option plan	38,325	37,206
	867,814	169,907

The increase of goodwill reserve of R\$696,788 is relating the subscription capital destined to capital reserve of R\$725,220, with funding costs net of the R\$28,432.

c) Treasury shares

As at June 30, 2019, the "Treasury Shares" item was as follows:

	Number of shares (units)	Value (in thousand)	Average price per share (in reais)
Balance at December 31, 2018	2,186,091	R\$70,026	R\$32.03
Used	(203,260)	(R\$6,511)	R\$32.03
Balance at June 30, 2019	1,982,831	R\$63,515	R\$32.03

24. Dividends and Interest on Equity

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

The balance of dividends and interest on equity payable in the statement of financial position was of R\$768 as of June 30, 2019 (R\$13,902 as at December 31, 2018).

25. Stock option plan and restricted shares

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

There are two new share-based payment plan grants for the six-month period ended June 30, 2019, which the premises are follows:

Fair value premises					
Plans	Date	Market value	Dividends	Term Maturity	Fair Value
Regular	04/26/19	40.19	1.4%	3 year	38.48
Partners	04/26/19	40.19	1.4%	3 year	38.48

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

	June 30, 2019			
	Stock options	Restricted shares	Total	
	Average Price (in reais)	Amount (units)		
Balance of options at beginning of year	34.11	212,225	1,081,639	1,293,864
Transactions:				
Granted	-	-	904,030	904,030
Exercised	33.78	(85,716)	(168,453)	(254,169)
Cancelled	-	-	(81,865)	(81,865)
Expired	33.47	(42,628)	-	(42,628)
Balance of shares at end of period	34.90	83,881	1,735,351	1,819,232

The amount recorded for stock options for the six-month period ended June 30, 2019 was R\$4,928 (R\$2,821 as of June 30, 2018) and comprises the share-based compensation amount that will be paid in cash and does not include the restricted shares balance as at June 30, 2019.

As of June 30, 2019, there were 86,352 exercisable options, since the 36-month terms of grants had already elapsed.

26. Segment information

The presentation of information by operating segment is consistent with the internal report provided to the main operational decision-makers, and the Company's Management evaluates the business into two business units until December 31, 2018: software and hardware.

As of June 30, 2019, the Company classified the assets of the hardware business unit as held for sale and, consequently, started to evaluate the business in a single cash generating unit that is Software. As a result, the result of the hardware operation was presented as a discontinued operation. See Note 11.

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

	Information by geographical location – net revenue	
	6/30/2019	6/30/2018
Brazil	1,099,723	1,012,501
International market	27,866	24,763
Total	1,127,589	1,037,264

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

27. Earnings per share

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

	6/30/2019	6/30/2018
Net income for the period attributable to the Company's shareholders		
Continuing operations	101,212	65,613
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	170,734	163,422
Basic earnings per share – in reais	0.5928	0.4015

	<u>6/30/2019</u>	<u>6/30/2018</u>
Net income for the period attributable to the Company's shareholders		
Continuing operations	101,212	65,613
Denominator (in thousands of shares)		
Weighted average number of common shares outstanding	170,734	163,422
Weighted average number of stock options	<u>1,442</u>	<u>1,260</u>
Weighted average number of common shares adjusted according to dilution effect	<u>172,176</u>	<u>164,682</u>
Diluted earnings per share – in reais	<u>0.5878</u>	<u>0.3984</u>

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

28. Gross sales revenue

The gross revenue and the deductions used for the calculation of net revenue in the statement of profit and loss as at June 30, 2019 and 2018 were as follows:

	Parent Company		Consolidated	
	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Gross revenue	917,441	890,811	1,282,900	1,174,263
Software				
License fees	97,588	83,147	122,120	107,428
Recurring software	702,897	660,782	958,666	862,275
Non recurring services	116,956	146,882	202,114	204,560
Deductions	(112,619)	(106,568)	(155,311)	(136,999)
Sales canceled	(8,471)	(10,024)	(13,339)	(13,150)
Sales tax	(104,148)	(96,544)	(141,972)	(123,849)
Net revenues	804,822	784,243	1,127,589	1,037,264

29. Costs and expenses by nature

The Company presents below the information on operating expenses by nature for the periods ended June 30, 2019 and 2018.

	Parent Company		Consolidated	
<u>Nature</u>	<u>6/30/2019</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2018</u>
Salaries, benefits and payroll charges	346,523	357,430	490,541	445,736
Outsourced services and other inputs	199,226	173,504	257,479	244,615
Commissions	80,153	72,133	86,674	77,980
Depreciation and amortization (i)	59,362	49,513	74,149	64,280
Provision for contingencies	22,710	26,403	24,426	24,965
Rents (i)	758	17,445	1,259	21,470
Allowance for doubtful accounts	11,965	11,806	17,846	19,382
Other	11,330	16,726	18,322	18,818
Total	732,027	724,960	970,696	917,246

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

30. Finance income and costs

The finance income and costs incurred for the years ended June 30, 2019 and 2018 were as follows:

	Parent Company		Consolidated	
	6/30/2019	6/30/2018	6/30/2019	6/30/2018
Finance income				
Short-term investment yield	14,513	9,258	19,449	12,466
Interest received	2,425	3,020	2,841	3,383
Inflation adjustment gains	2,203	1,421	3,291	3,212
Adjustment to present value	409	976	461	1,063
Exchange gains	579	(679)	651	(424)
Other finance income	(858)	(769)	(1,083)	(940)
	19,271	13,227	25,610	18,760
Finance costs				
Interest incurred	(24,150)	(26,002)	(26,016)	(27,692)
Inflation adjustment losses	(5,797)	(5,191)	(7,569)	(6,530)
Bank expenses	(2,691)	(1,856)	(3,534)	(2,491)
Adjustment to present value of liabilities	(323)	(447)	(458)	(992)
Exchange losses	(802)	772	(1,043)	715
Other finance costs (i)	(4)	(3,392)	(871)	(3,506)
	(33,767)	(36,116)	(39,491)	(40,496)
Net finance income (costs)	(14,496)	(22,889)	(13,881)	(21,736)

(i) Includes inflation adjustments of Argentine subsidiaries.

31. Private pension plan – defined contribution

The Company offers the TOTVS Private Pension Plan, managed by Bradesco Seguros, which receives contributions from the employees and the Company, as described in the Program Membership Agreement. The three types of contribution are:

- Basic Contribution – corresponds to 2% of the employee's salary; in case of executive officers, the contribution ranges from 2% to 5%.
- Voluntary Contribution – made exclusively by employees, with no matching contribution by the Company.
- Company Contribution – corresponds to 100% of the basic contribution. The Company is allowed to make extraordinary contributions, in the amounts and at the frequency it chooses.

32. Insurance coverage

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

33. Subsequent events

On July 2, 2019, a contract was signed for the sale of Bematech International Corporation's (BIC) interest to Reason Capital Group LLC. for the amount of US\$5 million, subject to certain contractual adjustments. This transaction follows the Company's strategic plan for the sale of the hardware operation described in Note 11.

As of July 31, 2019, the Company the Company announced the conclusion of the conditions set forth in the agreement between TOTVS and the Companhia Brasileira de Tecnologia para E-Commerce (VTEX) for the creation of VT Comércio Digital S.A., a company in which TOTVS and VTEX hold each 50% of its capital stock, to act as a joint business between TOTVS and VTEX, as well as the sale of the equity interest of subsidiary CIASHOP to VTEX for the amount of R\$ 21,175, subject to settings.

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