

TOTVS S.A.

Interim Financial Statements

September 30, 2019

and Independent auditor's review report on interim financial information

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Consolidated Operating and Financial Performance

Net Revenue – up 7.5% from the same period last year, mainly driven by the 12.2% increase in Recurring Revenue, which stood at 76.1% of Total Net Revenue, reduced by the 5.2% drop in Non-Recurring Revenue.

Recurring Revenue – the positive performance of Recurring Revenue can be noted in year-on-year comparisons. As mentioned in previous quarters, the result was due to higher sales to both new and existing clients, combined with the maintenance of high Client Renewal Rate, which stood at 98.9% in the period, as well as inflation adjustments. Annual Recurring Revenue (ARR) demonstrates this growth, with net addition of R\$44.6 million, from R\$1.816 billion to R\$1.860 billion in the period.

Non-Recurring Revenues – declined 5.2% year-on-year, despite the 18.6% growth in license volume, due to the 16.1% drop in Non-Recurring Services Revenue, caused by: (i) higher share of franchises in sales of this modality; (ii) decrease in services due to higher sales to base clients; and (iii) higher sales of cloud and subscription solutions which have been trending and require a lower volume of services.

Costs – declined 2.2% compared to 3Q18, mainly impacted by: (i) additional efforts to implement e-social during 2018; and (ii) lower costs with Non-Recurring Services, directly related to the drop in Revenue from this modality. This decline led Gross Margin to expand 320 basis points, reaching 68.0% in the quarter.

Research and Development: this line corresponded to 16.9% of Net Revenue in 3Q19, as against 18.4% in 3Q18. The 150 basis points decline is mainly explained by: (i) increased management of R&D investment allocations to drive operational efficiency in this line; (ii) additional expenses in 2018 related to demands arising from the new regulations that came into force, such as e-social.

Selling and Marketing Expenses – corresponded to 18.9% of Software Revenue in 3Q19, up 90 basis points when compared to 3Q18. This increase is related to the higher share of franchises in sales, leading to higher commission expenses in the period.

Allowance for Doubtful Accounts – fell 100 basis points in relation to 3Q18 to 1.0% of the period's Revenue. The reduction in provision shows the process of reducing defaults in our client base, as well as the effect of higher recurrence in the composition of Total Net Revenue.

General and Administrative Expenses and Provision for Contingencies – General and Administrative Expenses combined with Provision for Contingencies corresponded to 10.7% of Software Revenue in 3Q19, compared to 9.8% in 3Q18. This increase is explained by the increase in Provision for Contingencies, stemming from the history of losses and progress of lawsuits, given that General and Administrative Expenses fell as a ratio of Revenue in 3Q19.

Other Operating Income (Expenses) – this line registered growth compared to 3Q18 and 2Q19 due to the non-recurring net effect of the sale of CIASHOP to VTEX for R\$11.7 million, as disclosed to the market on May 9, 2019.

Adjusted EBITDA – the growth in Recurring Revenue plus the operational efficiency gains achieved by the Company drove the growth in Adjusted EBITDA Margin, despite the impact of higher provision for bonuses for achievement of targets established for the year, which stood at 20.9% in 3Q19, up 410 basis points from 3Q18

Depreciation and Amortization Expenses – the 20.5% decline in Amortization Expenses from 3Q18 is essentially related to the conclusion of amortization of assets derived from past acquisitions.

Financial Result – the evolution of the financial results when compared to the 3Q18 was motivated by the financial revenues from the financial investments of the follow-on proceeds.

Income Tax and Social Contribution – the effective Income Tax and Social Contribution rate decreased in relation to 3Q18, mainly due to: (i) higher interest on equity distributed in 3Q19, given the higher taxable income of the parent company in 2019; (ii) increased use of tax incentives on R&D as a result of higher investments in technological innovation projects covered by relevant law; and (iii) expenses related to the follow-on offering.

Adjusted EBITDA(*) totaled R\$120,483 million, up 33.7% from 3Q18, as shown in the table below:

| | Consolidated | | |
|---|-----------------|---------------|----------------|
| | 3Q19 | 3Q18 | Change |
| Net Income | 87,190 | 37,600 | 131.9% |
| <i>Income Tax and Social Contribution</i> | <i>15,697</i> | <i>7,925</i> | <i>98.1%</i> |
| <i>Financial result</i> | <i>(6,780)</i> | <i>10,571</i> | <i>-164.1%</i> |
| <i>Depreciation and amortization</i> | <i>36,073</i> | <i>29,524</i> | <i>22.2%</i> |
| <i>Net profit from discontinued operation</i> | <i>281</i> | <i>(906)</i> | <i>-131.0%</i> |
| EBITDA | 132,461 | 84,714 | 56.4% |
| <i>Adjustments</i> | <i>(11,978)</i> | <i>5,410</i> | <i>-321.4%</i> |
| Adjusted EBITDA | 120,483 | 90,124 | 33.7% |

The growth in Recurring Revenue plus the operational efficiency gains achieved by the Company drove the growth of 33.7% in Adjusted EBITDA Margin, despite the impact of higher provision for bonuses for achievement of targets established for the year.

(*)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 of
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 (ITR), for the quarter ended September 30, 2019, which comprise the statement of financial position as at September 30, 2019 and the statements of profit or loss and of comprehensive income for the three and nine-month periods then ended, and the statements of changes in equity and of cash flows for the nine-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 NBC TG 21 and IAS 34 - Interim Financial Reporting, issued by the International Accounting Standards Board (IASB), as well as for the presentation of this financial information in accordance with the rules issued by the Brazilian Securities and Exchange Commission (CVM) applicable to the preparation of Quarterly Information (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 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity). 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 referred to above was not prepared, in all material respects, in accordance with NBC TG 21 and IAS 34 applicable to the preparation of Quarterly Information (ITR), and presented consistently with the rules issued by the Brazilian Securities and Exchange Commission (CVM).

Other matters

Interim statements of value added

The quarterly information referred to above includes the individual and consolidated statements of value added (SVA) for the nine-month periods ended September 30, 2019, prepared under the responsibility of Company management and presented as supplementary information for IAS 34 purposes. These statements have been subject to review procedures performed in conjunction with the review of the quarterly information to conclude whether they are reconciled with the interim financial information and accounting records, as applicable, and whether their form and content are in accordance with the criteria defined in NBC TG 09 - Statement of Value Added. Based on our review, nothing has come to our attention that causes us to believe that these statements of value added were not prepared, in all material respects, in accordance with the criteria defined in referred to Standard consistently with the individual and consolidated interim financial information taken as a whole.

São Paulo, November 4, 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 September 30, 2019 and December 31, 2018

(In thousands of reais)

| Assets | Parent Company | | Consolidated | | Liabilities and equity | Parent Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|--|------------------|------------------|------------------|------------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 | | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Current assets | 1,652,861 | 576,321 | 2,044,020 | 1,020,134 | Current liabilities | 614,787 | 549,151 | 768,434 | 709,612 |
| Cash and cash equivalents (Note 4) | 1,317,709 | 228,571 | 1,487,702 | 452,799 | Payroll and labor liabilities (Note 15) | 163,421 | 125,943 | 217,227 | 174,874 |
| Marketable securities (Note 20) | 23,404 | 23,477 | 26,188 | 44,909 | Trade accounts payable (Note 16) | 41,044 | 71,343 | 55,512 | 113,907 |
| Trade accounts receivable (Note 5) | 338,995 | 337,186 | 470,151 | 504,056 | Taxes payable (Note 17) | 38,385 | 32,577 | 55,511 | 47,466 |
| Allowance for doubtful accounts (Note 5) | (85,660) | (88,515) | (109,202) | (118,518) | Commissions payable | 38,699 | 35,721 | 44,136 | 43,166 |
| Inventories (Note 6) | - | - | - | 41,531 | Dividends payable (Note 24) | 32,828 | 13,737 | 32,828 | 13,902 |
| Recoverable taxes (Note 7) | 7,715 | 23,314 | 12,161 | 38,817 | Loans and financing (Note 18) | 59,319 | 155,278 | 73,243 | 166,154 |
| Other assets (Note 10) | 50,698 | 52,288 | 58,006 | 56,540 | Debentures (Note 19) | 200,288 | 77,319 | 200,288 | 77,319 |
| Assets held for sale (Note 11) | - | - | 99,014 | - | Liabilities due to investment acquisition (Note 20) | 30,679 | 30,752 | 33,464 | 59,597 |
| | | | | | Other liabilities | 10,124 | 6,481 | 10,485 | 13,227 |
| | | | | | Liabilities associated with assets held for sale (Note 11) | - | - | 45,740 | - |
| Noncurrent assets | 1,758,108 | 1,621,436 | 1,554,149 | 1,371,143 | Noncurrent liabilities | 329,983 | 361,564 | 362,831 | 393,445 |
| Marketable securities (Note 20) | - | - | 2,455 | 5,334 | Loans and financing (Note 18) | 188,019 | 28,914 | 195,314 | 35,317 |
| Trade accounts receivable (Note 5) | 33,911 | 18,723 | 36,401 | 19,890 | Debentures (Note 19) | - | 199,869 | - | 199,869 |
| Receivables from related parties (Note 9) | 3 | 3,956 | - | - | Payables to related parties (Note 9) | 726 | 24 | - | - |
| Recoverable taxes (Note 7) | - | - | - | 236 | Liabilities due to investment acquisition (Note 20) | - | - | 14,824 | 15,464 |
| Financial assets | - | - | 74,341 | 69,171 | Provision for contingencies related to legal proceedings (Note 21) | 124,766 | 117,780 | 136,247 | 127,792 |
| Deferred income and social contribution taxes (Note 8) | 47,454 | 45,845 | 106,412 | 125,124 | Other liabilities | 16,472 | 14,977 | 16,446 | 15,003 |
| Judicial deposits (Note 18) | 58,812 | 51,171 | 73,675 | 65,965 | | | | | |
| Other assets (Note 10) | 51,542 | 20,931 | 51,988 | 26,340 | Equity (Note 23) | 2,466,199 | 1,287,042 | 2,466,904 | 1,288,220 |
| Investments (Note 12) | 835,151 | 920,317 | 3,204 | 3,129 | Capital | 1,382,509 | 1,041,229 | 1,382,509 | 1,041,229 |
| Property, plant and equipment (Note 13) | 367,298 | 177,858 | 388,057 | 198,826 | Treasury shares | (62,728) | (70,026) | (62,728) | (70,026) |
| Intangible assets (Note 14) | 363,937 | 382,635 | 817,616 | 857,128 | Capital reserves | 871,639 | 169,907 | 871,639 | 169,907 |
| | | | | | Other comprehensive income | 25,132 | 20,704 | 25,132 | 20,704 |
| | | | | | Retained profits reserve | 249,647 | 125,228 | 249,647 | 125,228 |
| | | | | | Non-controlling interests | - | - | 705 | 1,178 |
| Total assets | 3,410,969 | 2,197,757 | 3,598,169 | 2,391,277 | Total liabilities and equity | 3,410,969 | 2,197,757 | 3,598,169 | 2,391,277 |

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

TOTVS S.A.**Statements of profit or loss****Nine-month periods ended September 30, 2019 and 2018**

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

| | Parent Company | | | | Consolidated | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 7/1/2019 to 9/30/2019 | 1/1/2019 to 9/30/2019 | 7/1/2018 to 9/30/2018 | 1/1/2018 to 9/30/2018 | 7/1/2019 to 9/30/2019 | 1/1/2019 to 9/30/2019 | 7/1/2018 to 9/30/2018 | 1/1/2018 to 9/30/2018 |
| Software revenue (Note 28) | 412,150 | 1,216,972 | 387,052 | 1,171,295 | 575,243 | 1,702,832 | 535,162 | 1,572,426 |
| Cost of software | (137,410) | (404,454) | (133,511) | (410,969) | (184,208) | (552,395) | (188,316) | (543,280) |
| Gross profit | 274,740 | 812,518 | 253,541 | 760,326 | 391,035 | 1,150,437 | 346,846 | 1,029,146 |
| Operating income (expenses) | | | | | | | | |
| Research and development | (67,230) | (201,317) | (69,219) | (206,287) | (97,229) | (292,839) | (98,374) | (280,556) |
| Selling and marketing expenses | (81,221) | (243,739) | (74,966) | (225,888) | (108,754) | (311,579) | (96,153) | (286,224) |
| General and administrative expenses | (47,524) | (148,043) | (45,964) | (145,604) | (61,600) | (178,984) | (52,488) | (164,958) |
| Depreciation and amortization (Note 13 and 14) | (28,809) | (88,171) | (22,493) | (72,006) | (36,073) | (110,222) | (29,524) | (93,804) |
| Provision for expected credit losses (Note 5) | (4,754) | (16,719) | (7,051) | (18,857) | (6,039) | (23,885) | (10,851) | (30,233) |
| Other net operating income (expenses) | 14,695 | 18,163 | (3,294) | (1,847) | 14,767 | 20,072 | (3,106) | 2,997 |
| Income before financial effects and equity pick-up | 59,897 | 132,692 | 30,554 | 89,837 | 96,107 | 253,000 | 56,350 | 176,368 |
| Finance income | 22,512 | 41,783 | 6,048 | 19,275 | 25,654 | 51,264 | 9,650 | 28,410 |
| Finance costs | (16,243) | (50,010) | (17,007) | (53,123) | (18,874) | (58,365) | (20,221) | (60,717) |
| Equity pickup | 28,083 | 79,387 | 17,208 | 53,435 | - | (130) | (254) | (383) |
| Income before income and social contribution taxes | 94,249 | 203,852 | 36,803 | 109,424 | 102,887 | 245,769 | 45,525 | 143,678 |
| Current income and social contribution taxes | (5,503) | (17,457) | 3,336 | (422) | (17,967) | (51,536) | (4,280) | (24,841) |
| Deferred income and social contribution taxes | (1,765) | 1,798 | (3,236) | (6,486) | 2,270 | (5,678) | (3,645) | (15,237) |
| Total income and social contribution taxes | (7,268) | (15,659) | 100 | (6,908) | (15,697) | (57,214) | (7,925) | (40,078) |
| Net income from continuing operations | 86,981 | 188,193 | 36,903 | 102,516 | 87,190 | 188,555 | 37,600 | 103,600 |
| Net income (loss) from discontinued operations | 281 | (31,813) | (906) | (1,242) | 281 | (31,813) | (906) | (1,242) |
| Net income for the period | 87,262 | 156,380 | 35,997 | 101,274 | 87,471 | 156,742 | 36,694 | 102,358 |
| Net income attributable to controlling interest | 87,262 | 156,380 | 35,997 | 101,274 | 87,262 | 156,380 | 35,997 | 101,274 |
| Net income attributable to non-controlling interest | - | - | - | - | 209 | 362 | 697 | 1,084 |
| Basic earnings per thousand shares (in Reais) | 0.4564 | 1.0605 | 0.2258 | 0.6273 | 0.4564 | 1.0605 | 0.2258 | 0.6273 |
| Diluted earnings per thousand shares (in Reais) | 0.4520 | 1.0514 | 0.2239 | 0.6223 | 0.4520 | 1.0514 | 0.2239 | 0.6223 |

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

TOTVS S.A.

Statements of comprehensive income

Nine-month periods ended September 30, 2019 and 2018

(In thousands of Reais)

| | Company | | | |
|--|--------------------------|--------------------------|--------------------------|--------------------------|
| | 7/1/2019 to 9/30/2019 | 1/1/2019 to 9/30/2019 | 7/1/2018 to 9/30/2018 | 1/1/2018 to 9/30/2018 |
| Profit for the period | 87,262 | 156,380 | 35,997 | 101,274 |
| Continuing operations | 4,124 | 2,767 | (2,014) | 6,596 |
| Discontinued operations | 1,555 | 1,661 | 4,645 | 1,718 |
| Cumulative translation adjustment | 5,679 | 4,428 | 2,631 | 8,314 |
| Comprehensive income for the period | 92,941 | 160,808 | 38,628 | 109,588 |

| | Consolidated | | | |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
| | 7/1/2019 to 9/30/2019 | 1/1/2019 to 9/30/2019 | 7/1/2018 to 9/30/2018 | 1/1/2018 to 9/30/2018 |
| Profit for the period | 87,471 | 156,742 | 36,694 | 102,358 |
| Continuing operations | 4,124 | 2,767 | (2,014) | 6,596 |
| Discontinued operations | 1,555 | 1,661 | 4,645 | 1,718 |
| Cumulative translation adjustment | 5,679 | 4,428 | 2,631 | 8,314 |
| Comprehensive income for the period | 93,150 | 161,170 | 39,325 | 110,672 |
| Net income for the year attributable to controlling interests | 92,941 | 160,808 | 38,628 | 109,588 |
| Attributable to non-controlling interests | 209 | 362 | 697 | 1,084 |

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

TOTVS S.A.

(A free translation of the original in Portuguese)

Statements of changes in equity
Periods ended September 30, 2019 and December 31, 2018

(In thousands of reais)

| | | Premium on | Reserves | | | | Other | | Proposed | | Non- | Consolidated |
|---|------------------|---|----------------|---------------|------------------|-----------------|----------------------|-------------------|---------------------|------------------|-----------------------|------------------|
| | Capital | purchase from non-controlling interests | Capital | Legal | Retained profits | Treasury share | Comprehensive income | Retained earnings | additional dividend | Equity | controlling interests | equity |
| 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 shareholders | | | | | | | | | | | | |
| Capital increase | 51,388 | - | - | - | (51,388) | - | - | - | - | - | 373 | 373 |
| Share-based compensation plan | - | - | 6,297 | - | - | - | - | - | - | 6,297 | - | 6,297 |
| Prior-year dividends | - | - | - | - | - | - | - | - | (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 | - | - | - | - | - | - |
| Opening balance CPC 47 / CPC 48 | - | - | - | - | - | - | - | (7,968) | - | (7,968) | (15) | (7,983) |
| Total comprehensive income | - | - | - | - | - | - | 18,976 | 59,548 | - | 78,524 | 1,095 | 79,619 |
| Net income for the year | - | - | - | - | - | - | - | 59,548 | - | 59,548 | 1,095 | 60,643 |
| Cumulative adjustment for currency exchange | - | - | - | - | - | - | 18,976 | - | - | 18,976 | - | 18,976 |
| 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 shareholders | | | | | | | | | | | | |
| Capital increase | 341,280 | - | 696,278 | - | - | - | - | - | - | 1,037,558 | - | 1,037,558 |
| Share-based compensation plan | - | - | 5,454 | - | - | 3,726 | - | - | - | 9,180 | - | 9,180 |
| Prior-year dividends | - | - | - | - | - | - | - | - | - | - | (494) | (494) |
| Sale of non-controlling interests | - | - | - | - | - | - | - | - | - | - | (354) | (354) |
| Interest on equity – distributed | - | - | - | - | - | - | - | (36,224) | - | (36,224) | - | (36,224) |
| Treasury shares | - | - | - | - | - | 3,572 | - | - | - | 3,572 | - | 3,572 |
| Opening balance CPC 06 (R2) | - | - | - | - | - | - | - | 4,263 | - | 4,263 | 13 | 4,276 |
| Total comprehensive income | - | - | - | - | - | - | 4,428 | 156,380 | - | 160,808 | 362 | 161,170 |
| Net income for the year | - | - | - | - | - | - | - | 156,380 | - | 156,380 | 362 | 156,742 |
| Cumulative adjustment for currency exchange | - | - | - | - | - | - | 4,428 | - | - | 4,428 | - | 4,428 |
| Reserves set up | - | - | - | - | - | - | - | - | - | - | - | - |
| Balance at September 30, 2019 | 1,382,509 | (25,518) | 897,157 | 86,996 | 38,232 | (62,728) | 25,132 | 124,419 | - | 2,466,199 | 705 | 2,466,904 |

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

TOTVS S.A.
Statements of cash flows
Nine-month periods ended September 30, 2019 and 2018

(In thousands of Reais)

| | Parent Company | | Consolidated | |
|---|-----------------------|------------------|---------------------|------------------|
| | 9/30/2019 | 9/30/2018 | 9/30/2019 | 9/30/2018 |
| Cash flow from operating activities | | | | |
| Income before income and social contribution taxes | 203,852 | 109,424 | 245,769 | 143,678 |
| Adjustments for: | | | | |
| Depreciation and amortization (Notes 13 and 14) | 88,171 | 72,006 | 110,222 | 93,804 |
| Share-based payments (Note 25) | 9,180 | 4,795 | 9,180 | 4,795 |
| | | (931) | (13,318) | (763) |
| Losses (gains) on disposal of fixed assets | (12,630) | | | |
| Allowance for doubtful accounts (Note 5) | 16,719 | 18,857 | 23,885 | 30,233 |
| Equity pick-up (Note 12) | (79,387) | (53,435) | 130 | 383 |
| Provision for contingencies (Note 21) | 36,997 | 34,954 | 41,554 | 33,973 |
| Provision for (reversal of) other obligations and other | (94) | 343 | (94) | (4,590) |
| Interest monetary variations and foreign exchange | 39,924 | 46,157 | 41,517 | 46,962 |
| differences, net | | | | |
| Changes in operating assets and liabilities: | | | | |
| Trade accounts receivable | (36,571) | 5,611 | (72,231) | (56,490) |
| Recoverable taxes | 15,794 | 21,275 | 20,361 | 23,521 |
| Judicial deposits | (5,826) | 7 | (5,595) | 348 |
| Other assets | (16,610) | (14,741) | (17,191) | (5,626) |
| Labor and social security liabilities | 37,478 | 30,370 | 49,179 | 45,539 |
| Trade accounts payable | (18,143) | (224) | (14,725) | 3,955 |
| Commissions payable | 2,978 | (2,046) | 3,570 | (113) |
| Taxes payable | (3,209) | 12,256 | (6,421) | 10,598 |
| Other accounts payable | (36,553) | (33,584) | (38,464) | (21,836) |
| Change in assets and liabilities from discontinued operations | - | - | (1,036) | 11,826 |
| Cash flow from operations | 242,070 | 251,094 | 376,292 | 360,197 |
| Interest paid | (112,210) | (33,497) | (113,250) | (34,633) |
| Income and social contribution taxes paid | (8,440) | (2,629) | (35,224) | (22,013) |
| Net cash from operating activities | 121,420 | 214,968 | 227,818 | 303,551 |
| Cash flow from investing activities | | | | |
| Capital increase in subsidiaries (Note 12) | 70,778 | (29,827) | - | - |
| Dividends received | 66,034 | 15,481 | - | - |
| Purchases of intangible assets (Note 14) | (20,844) | (19,445) | (20,859) | (19,633) |
| Payment of liabilities due to investment acquisition | - | - | (5,433) | (12,754) |
| Purchases of property, plant and equipment (Note 12) | (17,670) | (34,546) | (19,008) | (35,443) |
| Value received on the sale of investments | 7,531 | - | 7,531 | - |
| Value of sales of fixed assets | 2,186 | 2,236 | 2,441 | 2,585 |
| Net cash used in investing activities | 108,015 | (66,101) | (35,328) | (65,245) |
| Cash flow from financing activities | | | | |
| Payment of principal on loans and financing | (127,825) | (127,032) | (135,963) | (135,526) |
| Payment of finance lease | (41,218) | (19,431) | (45,056) | (19,480) |
| Capital increase | 1,037,652 | - | 1,037,652 | - |
| Receivables from related companies | 4,655 | (5,571) | - | - |
| Dividends and interest on equity paid | (17,133) | (20,468) | (17,792) | (20,863) |
| Treasury share | 3,572 | - | 3,572 | - |
| Net cash used in financing activities | 859,703 | (172,502) | 842,413 | (175,869) |
| Increase (decrease) in cash and cash equivalents | 1,089,138 | (23,635) | 1,034,903 | 62,437 |
| Cash and cash equivalents at beginning of year | 228,571 | 305,920 | 452,799 | 387,169 |
| Cash and cash equivalents at end of period | 1,317,709 | 282,285 | 1,487,702 | 449,606 |

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

TOTVS S.A.

Statements of Value Added

Nine-month periods ended September 30, 2019 and 2018

(In thousands of Reais)

| | Parent Company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 9/30/2019 | 9/30/2018 | 9/30/2019 | 9/30/2018 |
| 1 – REVENUES | 1,375,656 | 1,298,749 | 1,914,699 | 1,737,440 |
| 1.1 Sales of goods, products and services | 1,373,261 | 1,319,583 | 1,917,132 | 1,765,250 |
| 1.2 Other revenue | 19,114 | (1,977) | 21,452 | 2,423 |
| 1.3 Allowance for doubtful accounts – recording | (16,719) | (18,857) | (23,885) | (30,233) |
| 2 - RAW MATERIALS ACQUIRED FROM THIRD PARTIES | (484,276) | (418,503) | (596,790) | (521,512) |
| (includes ICMS and IPI taxes) | | | | |
| 2.1 Cost of goods and services sold | (66,779) | (58,854) | (73,906) | (65,365) |
| 2.2 Materials energy outsourced services and other | (385,684) | (358,407) | (491,071) | (454,905) |
| 2.3 Loss / Recovery of assets | (31,813) | (1,242) | (31,813) | (1,242) |
| 3 - GROSS VALUE ADDED (1-2) | 891,380 | 880,246 | 1,317,909 | 1,215,928 |
| 4 - DEPRECIATION AND AMORTIZATION | (88,171) | (72,006) | (110,222) | (93,804) |
| 5 - NET VALUE ADDED PRODUCED BY THE ENTITY (3-4) | 803,209 | 808,240 | 1,207,687 | 1,122,124 |
| 6 - VALUE ADDED RECEIVED IN TRANSFER | 121,170 | 72,710 | 51,134 | 28,027 |
| 6.1 Equity pick-up | 79,387 | 53,435 | (130) | (383) |
| 6.2 Finance income | 41,783 | 19,275 | 51,264 | 28,410 |
| 7 - TOTAL VALUE ADDED TO DISTRIBUTE (5+6) | 924,379 | 880,950 | 1,258,821 | 1,150,151 |
| 8 - VALUE ADDED DISTRIBUTION | 924,379 | 880,950 | 1,258,821 | 1,150,151 |
| 8.1 Personnel | 519,617 | 518,345 | 732,744 | 684,964 |
| 8.1.1 Direct compensation | 422,989 | 418,314 | 601,826 | 560,514 |
| 8.1.2 Benefits | 61,472 | 61,877 | 81,972 | 76,849 |
| 8.1.3 FGTS (Unemployment Compensation Fund) | 35,156 | 38,154 | 48,946 | 47,601 |
| 8.2 Taxes and contributions | 197,384 | 181,651 | 309,349 | 269,983 |
| 8.2.1 Federal | 159,912 | 146,467 | 255,652 | 222,534 |
| 8.2.2 State | 32 | (20) | 951 | 794 |
| 8.2.3 Local | 37,440 | 35,204 | 52,746 | 46,655 |
| 8.3 Interest and rent | 50,998 | 79,680 | 59,986 | 92,846 |
| 8.3.1 Interest | 50,010 | 53,123 | 58,365 | 60,717 |
| 8.3.2 Rents | 988 | 26,557 | 1,621 | 32,129 |
| 8.4 Equity remuneration | 156,380 | 101,274 | 156,742 | 102,358 |
| 8.4.1 Interest on equity | 36,224 | 14,709 | 36,224 | 14,709 |
| 8.4.3 Retained profits / loss for the year | 120,156 | 86,565 | 120,156 | 86,565 |
| 8.4.4 Non-controlling interests in retained profits | - | - | 362 | 1,084 |

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

TOTVS S.A.

Notes to the interim 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. Statement of compliance

The individual and consolidated interim financial information was prepared and is presented in accordance with the accounting practices adopted in Brazil, which comprise the rules issued by the Brazilian Securities and Exchange Commission (CVM), and Brazil's 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 November 04, 2019, after a recommendation by the Audit Committee at a meeting held on October 29, 2019.

Significant accounting policies 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 and 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) and IAS 34, 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 | 196,458 | 225,420 |
| Other noncurrent liabilities | 364,483 | 350 | 364,833 |
| Equity (i) | 1,288,220 | 4,276 | 1,292,496 |
| Total liabilities and equity | 2,391,277 | 234,617 | 2,625,894 |

- (i) The amount of R\$ 4,276, 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 nine-month period ended September 30, 2019 disregarding the effects of the new standards:

| STATEMENTS OF PROFIT OR LOSS | Financial Statements disclosed at 9/30/2019 | Effects of adoption of IFRS of IFRS 16/CPC 06 (R2) | Financial Statements at 9/30/2019 without effects of IFRS 16/CPC 06(R2) |
|---|--|---|--|
| Software revenue | 1,702,832 | - | 1,702,832 |
| Cost of software (i) | (552,395) | (12,141) | (564,536) |
| Gross profit | 1,150,437 | (12,141) | 1,138,296 |
| Research and development (i) | (292,839) | (12,093) | (304,932) |
| Selling and marketing expenses (i) | (311,579) | (3,965) | (315,544) |
| General and administrative expenses (i) | (178,984) | (4,772) | (183,756) |
| Depreciation and amortization | (110,222) | 28,099 | (82,123) |
| Provision for expected credit losses | (23,885) | - | (23,885) |
| Other net operating income (expenses) | 20,072 | - | 20,072 |
| Income before financial effects and equity pick-up | 253,000 | (4,872) | 248,128 |
| Finance income (costs) and equity-pick-up | (7,231) | 8,844 | 1,613 |
| Income and social contribution taxes | (57,214) | (1,350) | (58,564) |
| Net income from continuing operations | 188,555 | 2,622 | 191,177 |
| Net loss from discontinued operations | (31,813) | 315 | (31,498) |
| Net income for the period | 156,742 | 2,937 | 159,679 |

- (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 | 9/30/2019 | 12/31/2018 |
| TOTVS Serviços Ltda. | BRA | TOTVS Serviços | (i) | - | 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 |
| TOTVS Hospitality Ltda. (previously TQTV D Software Ltda) | BRA | TOTVS Hospitality | | 74.20 | 74.20 |
| VT Comércio Digital S.A. (previously TOTVS Ventures) | BRA | VT Digital | (ii) | 50.00 | 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 | (iii) | - | 70.47 |
| 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 | (iv) | 100.00 | - |

- (i) On July 31, 2019, subsidiary TOTVS Serviços was merged into subsidiary TOTVS Large Enterprise Company with net assets of R\$46,906. The net assets were valued by experts who issued a valuation report on June 30, 2019. Any changes in the net assets after the reporting date until the effective merger date were absorbed by TOTVS Large.
- (ii) On July 31, 2019, The Company announced a conclusion of the contractual conditions between TOTVS and Companhia Brasileira de Tecnologia para E-commerce (VTEX) for the creation of VT Comércio Digital SA., a company in which TOTVS and VTEX hold each 50% interest in its capital for the purposes of joint operation.
- (iii) On May 9, 2019, the Company entered into an agreement to sell the 70.47% interest in Ciashop's capital stock to VTEX S.A. for the amount of R\$21,175. The conclusion of this transaction took place

on July 31, 2019, after the approval of the Brazilian competition authorities (CADE - Administrative Council for Economic Defense), which announced its approval decision on June 14, 2019. The net gain from the sale of Ciashop was recorded under “Other operating income and expenses” in the statement of profit or loss.

- (iv) Company created to segregate the operation inoperative so far.

| Indirect Interest: | | | | %Equity 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 | (v) | - | 100.00 |
| TOTVS Reservas Ltda. (previously Kerina Software Ltda) | BRA | TOTVS Reservas | TOTVS Hospitality | | 100.00 | 100.00 |
| Bematech Hardware Ltda. | BRA | Bematech Hardware | TOTVS Large | (vi) | 100.00 | 100.00 |
| Bematech Ásia Co. Ltda. | TWN | Bematech Ásia | TOTVS Large | | 100.00 | 100.00 |
| Bematech Argentina S.A. | ARG | Bematech Argentina | TOTVS Large and Bematech Inter. Corp. | | 100.00 | 100.00 |
| Bematech Internacional Corp. | EUA | BIC | TOTVS Large | (vi) | 100.00 | 100.00 |
| Logic Controls, Inc | EUA | Logic Controls | BIC | (vi) | 100.00 | 100.00 |
| FICE - Bematech Foshan Shunde Ltda. | CHN | FICE | Logic Controls, Inc | (vi) | 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 España | 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 |
| TOTVS Hospitality Ltda. | BRA | TOTVS Hospitality | TOTVS Large | | 25.80 | 25.80 |
| National Computer Corporation (associate) | RUS | JV Russia | TOTVS México | | 19.00 | 19.00 |

- (v) Company shutdown on July 18, 2019.

- (vi) Companies held for sale according to TOTVS strategy mentioned in Note 11.

Joint operations are accounted for in the financial statements to represent the Company's contractual rights and obligations. Accordingly, assets, liabilities, revenues and expenses related to their interests in joint operation are accounted for individually in the financial statements.

Investments in associates are accounted for under the equity method and are initially recognized at cost.

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 nine-month period ended September 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.

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 financing, which are recorded at cost plus income or charges incurred or at fair value when applicable, as at September 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
- (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 September 30, 2019, three different scenarios were defined. Based on projections disclosed by financial institutions, the average rate for CDI is 5.40% 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 September 30, 2019, with a one-year projection to check the sensitivity of CDI to each scenario.

| Operation | Balances at 9/30/2019 | Risk | Probable Scenario (I) | Scenario (II) | Scenario (III) |
|------------------------------------|--------------------------|-----------|--------------------------|------------------|------------------|
| | | Reduction | | | |
| Consolidated financial investments | R\$ 1,471,774 | CDI (a) | 5.40% | 4.05% | 2.70% |
| Estimated finance income | | | R\$79,476 | R\$59,607 | R\$39,738 |

(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 September 30, 2019, three different scenarios were created. Based on the TJLP and IPCA rates in force as of September 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 September 30, 2019, projecting the rates for one year and checking their sensitivity in each scenario.

| Operation | Balances at 9/30/2019 | Risk | Probable Scenario I | Scenario II | Scenario III |
|-----------------------------------|--------------------------|-----------------|------------------------|------------------|------------------|
| | | Increase | | | |
| Financing – Consolidated BNDES | R\$18,917 | TJLP (a) | 5.57% | 6.96% | 8.36% |
| Estimated finance costs | | | R\$1,054 | R\$1,317 | R\$1,581 |
| | | Increase | | | |
| Debentures | R\$200,288 | CDI | 5.40% | 6.75% | 8.10% |
| Estimated finance costs | | | R\$10,816 | R\$13,519 | R\$16,223 |

(a) Long-term Interest Rate

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 September 30, 2019 was R\$74,341 (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 nine-month period ended September 30, 2019:

| | | Consolidated | | | | | |
|-----------------------------|----------------|-------------------------------------|------------------|----------------|-------------------|---------------|----------------|
| | | Cash flow from financing activities | | Non-cash items | | | |
| | 12/31/2018 | Principal | Interest paid | New leases | Interest incurred | Other (i) | 9/30/2019 |
| Loans and financing | 159,282 | (135,963) | (5,038) | - | 5,052 | - | 23,333 |
| Lease | 42,189 | (45,056) | (12,010) | 248,952 | 11,149 | - | 245,224 |
| Debentures | 277,188 | - | (96,202) | - | 19,302 | - | 200,288 |
| Dividends payable and other | 13,902 | (17,792) | - | - | - | 36,718 | 32,828 |
| Total | 492,561 | (198,811) | (113,250) | 248,952 | 35,503 | 36,718 | 501,673 |

(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 | |
|-------------------------|------------------|----------------|------------------|----------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Cash | 1,306 | 10,571 | 15,928 | 44,925 |
| Cash equivalents | 1,316,403 | 218,000 | 1,471,774 | 407,874 |
| Investment fund | 1,127,930 | - | 1,267,107 | - |
| CDB | 146,710 | 125,058 | 160,157 | 181,980 |
| Repurchase agreements | 41,763 | 92,942 | 44,510 | 225,894 |
| | 1,317,709 | 228,571 | 1,487,702 | 452,799 |

The Company financial investments policies are based on low risk approach in top-tier institutions.

This quarter, the Company began to concentrate its investments in an investment fund for TOTVS and its subsidiaries. The fund is composed of investment fund quotas whose portfolio is comprised of fixed-income assets and immediate liquidity. The eligible assets in the portfolio composition structure are mainly government debt securities, which present low credit risk and volatility. The Company investments are remunerated substantially, by reference to the CDI variation, which monthly averaged 97.34% of the CDI for the period ended September 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 | |
|--|----------------|----------------|----------------|----------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Domestic market | 371,572 | 355,384 | 500,449 | 508,394 |
| Foreign market | 1,334 | 525 | 6,103 | 15,552 |
| Gross trade accounts receivable | 372,906 | 355,909 | 506,552 | 523,946 |
| (-) Provision for expected credit losses | (85,660) | (88,515) | (109,202) | (118,518) |
| Net trade accounts receivable | 287,246 | 267,394 | 397,350 | 405,428 |
| Current assets | 253,335 | 248,671 | 360,949 | 385,538 |
| Noncurrent assets (a) | 33,911 | 18,723 | 36,401 | 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 September 30, 2019 and December 31, 2018:

| | Parent Company | | Consolidated | |
|--|-----------------------|-------------------|---------------------|-------------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Falling due | 222,420 | 189,294 | 300,386 | 310,953 |
| Unbilled | 44,384 | 57,464 | 61,478 | 73,627 |
| Overdue | | | | |
| 1 to 30 days | 8,873 | 9,636 | 17,353 | 15,566 |
| 31 to 60 days | 4,701 | 5,561 | 7,954 | 9,729 |
| 61 to 90 days | 4,630 | 4,549 | 7,102 | 6,852 |
| 91 to 180 days | 10,754 | 9,578 | 16,266 | 14,378 |
| 181 to 360 days | 18,026 | 14,943 | 25,482 | 21,327 |
| More than 360 days | 59,118 | 64,884 | 70,531 | 71,514 |
| Gross trade accounts receivable | 372,906 | 355,909 | 506,552 | 523,946 |
| (-) Provision for expected credit losses | (85,660) | (88,515) | (109,202) | (118,518) |
| Net accounts receivable | 287,246 | 267,394 | 397,350 | 405,428 |

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

| | 9/30/2019 | |
|-------------------------------------|-----------------------|---------------------|
| | Parent Company | Consolidated |
| Opening balance | (88,515) | (118,518) |
| Balance from discontinued operation | - | 10,927 |
| Additional provision in the period | (16,719) | (23,885) |
| Amounts written off due to | 19,574 | 22,274 |
| Balance at end of period | (85,660) | (109,202) |

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 September 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

Following is the inventory breakdown, which is formed exclusively by subsidiary Bematech Hardware and is classified as available for sale in the financial statements for the period ended September 30, 2019:

| | Consolidated | |
|--------------------------------|---------------------|-------------------|
| | 9/30/2019 | 12/31/2018 |
| Finished products | - | 11,155 |
| Raw material | - | 19,157 |
| Products for resale and other | - | 8,539 |
| Parts for technical assistance | - | 962 |
| Advances to suppliers | - | 2,872 |
| (-) Provision for loss | - | (1,154) |
| | - | 41,531 |

7. Recoverable Taxes

The amounts of recoverable taxes are as follows:

| | Parent Company | | Consolidated | |
|--|----------------|---------------|---------------|---------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Value-Added Tax on Sales and Services (ICMS) (a) | - | - | - | 6,284 |
| Income tax to offset (b) | 2,488 | 10,805 | 5,837 | 18,172 |
| Social contribution tax to offset (b) | 5,227 | 12,490 | 5,612 | 13,764 |
| Withholding PIS and COFINS taxes | - | 18 | 9 | 212 |
| Other | - | 1 | 703 | 621 |
| | 7,715 | 23,314 | 12,161 | 39,053 |
| Current | 7,715 | 23,314 | 12,161 | 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 September 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 | |
|--|-----------------|----------------|-----------------|-----------------|
| | 9/30/2019 | 9/30/2018 | 9/30/2019 | 9/30/2018 |
| Income before taxes | 203,852 | 109,424 | 245,769 | 143,678 |
| Income and social contribution taxes at combined nominal rate of 34% | (69,310) | (37,204) | (83,561) | (48,851) |
| Adjustments for the statement of effective rate | | | | |
| Equity pick-up | 29,866 | 21,682 | (44) | 45 |
| Law No. 11196/05 (Incentive for research and development) | 5,382 | 5,554 | 9,578 | 7,365 |
| Interest on equity | 11,708 | 5,001 | 12,317 | 5,001 |
| Share issue costs | 9,840 | - | 9,840 | - |
| Effect of subsidiaries subject to special rates | - | - | (7,173) | (1,817) |
| Management stake | (2,693) | (837) | (2,693) | (856) |
| Workers' Meal Program (PAT) | 314 | - | 884 | 387 |
| Other | (766) | (1,104) | 3,638 | (1,352) |
| Income and social contribution tax expense | (15,659) | (6,908) | (57,214) | (40,078) |
| Current income and social contribution taxes | (17,457) | (422) | (51,536) | (24,841) |
| Deferred income and social contribution taxes | 1,798 | (6,486) | (5,678) | (15,237) |
| Effective rate | 7.7% | 6.3% | 23.3% | 27.9% |

8.2. Breakdown of deferred income and social contribution taxes

| | Parent Company | | Consolidated | |
|--|----------------|---------------|----------------|----------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Income and social contribution tax losses carryforwards | - | - | 63,843 | 71,620 |
| Deriving from temporary differences: | | | | |
| Difference between tax base and book value from goodwill | 14,460 | 21,308 | 33,815 | 43,531 |
| Tax benefit from goodwill amortization | (90,835) | (86,828) | (143,394) | (132,612) |
| Intangible asset allocation | (11,527) | (13,491) | (18,136) | (20,835) |
| Allocation of intangible assets – after Law No. 12973 | 16,208 | 13,334 | 16,208 | 13,334 |
| Provision for commissions | 14,124 | 12,426 | 15,650 | 14,099 |
| Anticipated income or revenues | 5,080 | 5,253 | 5,015 | 9,705 |
| Allowance for expected credit losses | 29,124 | 30,095 | 34,840 | 36,285 |
| Provision for contingencies and other obligations | 42,420 | 40,045 | 46,322 | 43,447 |
| Provision for trade accounts payable | 7,113 | 7,902 | 10,104 | 10,396 |
| Provision for impairment | 1,792 | - | 16,592 | 14,760 |
| Provision for share-based payments | 7,533 | 5,550 | 7,534 | 5,720 |
| Present value adjustment | 3,036 | 2,766 | 5,125 | 4,803 |
| Other | 8,926 | 7,485 | 12,894 | 10,871 |
| Net deferred income and social contribution taxes | 47,454 | 45,845 | 106,412 | 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 | 1,798 | (5,678) |
| IRPJ and CSLL from discontinued operations | 1,792 | (10,666) |
| Opening balance of IFRS16/CPC06 (R2) | (1,980) | (2,203) |
| Other | (1) | (165) |
| At September 30, 2019 | 47,454 | 106,412 |

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 September 30, 2019 and December 31, 2018, significant asset and liability balances are as follows:

| | Parent Company | | | |
|---------------------|----------------|------------|--------------|-----------|
| | 9/30/2019 | | 12/31/2018 | |
| | Asset | Liability | Asset | Liability |
| Ciashop (i) | - | - | 2,484 | - |
| TOTVS Serviços (ii) | - | - | 1,472 | - |
| TOTVS Brasília | - | 720 | - | - |
| Other | 3 | 6 | - | 24 |
| Total | 3 | 726 | 3,956 | 24 |

- (i) With the sale of Ciashop, the loan assumed by third parties no longer refers to a related party of the group, therefore it was reclassified to "Other assets".
- (ii) On July 31, 2019, subsidiary TOTVS Serviços was merged into subsidiary TOTVS Large as mentioned in note 2.4.

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 nine-month period ended September 30, 2019 was R\$20,646 (R\$18,120 as at September 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 15.04% of the Company's shares as of September 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\$409 and receipts in the amount of R\$166.

9.3. Management fees

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

| | Parent Company | |
|--|-----------------------|------------------|
| | 9/30/2019 | 9/30/2018 |
| Short-term benefits to managing officers | | |
| Salaries, fees and payroll charges | 8,832 | 10,750 |
| Direct and indirect benefits | 635 | 189 |
| Variable bonus (i) | 7,921 | 2,461 |
| Share-based payments | 6,208 | 3,303 |
| | 23,596 | 16,703 |

(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 September 30, 2019 was R\$509 (R\$423 as of September 30, 2018).

10. Other assets

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

| | Parent Company | | Consolidated | |
|--------------------------------------|-----------------------|-------------------|---------------------|-------------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Prepaid expenses | 38,284 | 38,515 | 39,868 | 41,863 |
| Franchises loan | 24,606 | 17,668 | 24,606 | 21,689 |
| Advances to employees | 19,407 | 7,444 | 23,420 | 8,431 |
| Advances to suppliers | 291 | 1,331 | 992 | 1,535 |
| Dividends receivable | - | 2,174 | - | - |
| Receivables for investments sold (I) | 16,762 | 2,531 | 16,762 | 3,234 |
| Other assets | 2,890 | 3,556 | 4,346 | 6,128 |
| | 102,240 | 73,219 | 109,994 | 82,880 |
| Current assets | 50,698 | 52,288 | 58,006 | 56,540 |
| Noncurrent assets | 51,542 | 20,931 | 51,988 | 26,340 |

(i) Includes the amount receivable for the sale of Ciashop as mentioned in note 2.4.

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. As of September 30, 2019, the Company awaited steps for approval by the Brazilian antitrust authorities and expects to conclude final negotiations in the short term.

On July 2, 2019, a contract was entered into 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. As of September 30, 2019, the negotiations were in progress and the Company expects to conclude in the short term.

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

Following are the losses for the nine-month period ended September 30, 2019 and 2018:

| | Consolidated | |
|---|-----------------|----------------|
| | 9/30/2019 | 9/30/2018 |
| Net revenue | 130,099 | 154,913 |
| (-) Costs | (89,345) | (105,851) |
| Gross profit | 40,754 | 49,062 |
| Research and development | (8,627) | (10,493) |
| Selling and marketing expenses | (25,161) | (28,176) |
| General and administrative expenses | (8,062) | (10,800) |
| Depreciation and amortization | (2,508) | (4,561) |
| Provision for expected credit losses | (269) | (5,626) |
| Government subsidy | 2,144 | 5,764 |
| Other operating income (expenses) | 343 | (381) |
| Loss before financial effects and equity pick-up | (1,386) | (5,211) |
| Finance income (costs) | (185) | 1,306 |
| Income and social contribution taxes | 1,966 | 2,663 |
| Net income (loss) for the period | 395 | (1,242) |
| Provision for loss on investment, net of taxes (i) | (32,208) | - |
| Net Loss from discontinued operations | (31,813) | (1,242) |

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

| | Consolidated | |
|--|---------------------|------------------|
| | 9/30/2019 | 9/30/2018 |
| Comprehensive loss from discontinued operations | | |
| Net loss for the period | (31,813) | (1,242) |
| Cumulative translation adjustments | 1,661 | 1,718 |
| Comprehensive income from the period | (30,152) | 476 |

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

| | Consolidated |
|--|---------------------|
| Assets | 9/30/2019 |
| Accounts receivable, net | 41,005 |
| Inventories | 53,549 |
| Recoverable taxes | 4,280 |
| Property, plant and equipment and intangible assets | 21,068 |
| Deferred income tax and social contribution | 26,492 |
| Other assets | 1,420 |
| Provision for losses on available-for-sale assets | (48,800) |
| Assets classified as held-for-sale | 99,014 |
| Liabilities | |
| Payroll and related charges | (4,528) |
| Trade accounts payable | (32,321) |
| Tax liabilities | (1,077) |
| Leases | (5,587) |
| Commissions | (529) |
| Other liabilities | (1,698) |
| Obligations directly associated with assets classified as held-for-sale | (45,740) |
| Net assets directly associated with the group of assets held for sale | 53,274 |

Net cash flows incurred by Bematech Hardware are as follows:

| | Consolidated | |
|--|---------------------|------------------|
| | 9/30/2019 | 9/30/2018 |
| Operating activities | 2,460 | 24,135 |
| Investment activities | (1,611) | (7,524) |
| Financing activities | (388) | - |
| Net cash generated from (used in) discontinued operations | 461 | 16,611 |

Impairment loss upon sale

As mentioned above, consolidated assets and liabilities from the hardware operations were classified as available-for-sale operations as of September 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 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 for the period from discontinued operation.

12. Investments

The breakdown of investments in subsidiaries and associate companies is shown below:

| | Summarized financial statements of associate companies and subsidiaries as at September 30, 2019 | | | | | Equity pick-up (parent Company) for periods ended: | | Balance of investments as of: | |
|-------------------|--|-------------|------------|--------------|----------------|---|---------------|-------------------------------|----------------|
| | Assets | Liabilities | Net Equity | Gross profit | Profit or loss | 9/30/2019 | 9/30/2018 | 9/30/2019 | 12/31/2018 |
| | | | | | | | | | |
| TOTVS Large (a) | 488,070 | 63,179 | 424,891 | 80,964 | (12,493) | 8,754 | 2,899 | 491,223 | 493,626 |
| TOTVS Brasília | 137,812 | 17,388 | 120,424 | 107,365 | 31,937 | 31,937 | 17,999 | 120,424 | 143,487 |
| TOTVS Nordeste | 76,420 | 4,546 | 71,874 | 21,429 | 6,686 | 6,686 | 5,178 | 71,874 | 75,188 |
| TOTVS Serviços | - | - | - | 117,406 | 27,310 | 27,310 | 20,525 | - | 49,055 |
| TOTVS Inc. | 79,819 | 4,456 | 75,363 | 225 | (15,286) | (15,286) | (11,939) | 75,363 | 72,030 |
| Neolog (a) | 3,545 | 1,783 | 1,762 | 9,041 | 936 | (809) | (771) | 17,391 | 18,920 |
| TOTVS Hospitality | 41,545 | 10,996 | 30,549 | 43,186 | 6,056 | 4,493 | 751 | 22,665 | 17,876 |
| VT Digital | 311 | 18 | 293 | - | 73 | 73 | 99 | 293 | 5,132 |
| Ciashop | - | - | - | 5,790 | (42) | (29) | (87) | - | 5,323 |
| TOTVS Mexico | 11,768 | 6,498 | 5,270 | 19,571 | (6,291) | (6,291) | (4,986) | 5,270 | 4,571 |
| TOTVS Argentina | 11,053 | 5,537 | 5,516 | 24,231 | 1,908 | 1,908 | 3,959 | 5,515 | 5,027 |
| Datasul Argentina | - | - | - | - | - | - | (58) | - | - |
| TFS | 45,370 | 20,300 | 25,070 | 92,103 | 20,641 | 20,641 | 19,866 | 25,068 | 30,017 |
| NCC | - | - | - | - | - | - | - | 65 | 65 |
| | | | | | | 79,387 | 53,435 | 835,151 | 920,317 |

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

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

| | 12/31/2018 | Addition /(reducti on) | Dividends | Equity pick-up | | Assets held for sales | Foreign exchange/ Inflation (ii) | Write-offs / Merges | Opening balance of CPC 06 (R2) (i) | 9/30/2019 |
|--------------------|----------------|------------------------------|-----------------|-------------------|-------------------------|--------------------------|--|------------------------|--|----------------|
| | | | | Equity pick-up | amortizati on of PPA | | | | | |
| TOTVS Large | 493,626 | (29,506) | - | 15,839 | (7,085) | (28,332) | 413 | 46,165 | 103 | 491,223 |
| TOTVS Brasília | 143,487 | (47,000) | (8,000) | 31,937 | - | - | - | - | - | 120,424 |
| TOTVS Nordeste | 75,188 | (10,000) | - | 6,686 | - | - | - | - | - | 71,874 |
| TOTVS Serviços | 49,055 | - | (30,200) | 27,310 | - | - | - | (46,165) | - | - |
| TOTVS Inc. | 72,030 | 13,394 | - | (15,286) | - | - | 5,225 | - | - | 75,363 |
| Neolog | 18,920 | - | (741) | 561 | (1,370) | - | - | - | 21 | 17,391 |
| TOTVS Hospitality | 17,876 | - | - | 4,493 | - | - | - | - | 296 | 22,665 |
| VT Digital | 5,132 | (4,446) | (151) | 73 | - | - | - | (315) | - | 293 |
| Ciashop | 5,323 | - | - | (29) | - | - | - | (5,294) | - | - |
| TOTVS Mexico | 4,571 | 6,780 | - | (6,291) | - | - | 210 | - | - | 5,270 |
| TOTVS Argentina | 5,027 | - | - | 1,908 | - | - | (1,420) | - | - | 5,515 |
| TFS | 30,017 | - | (25,590) | 20,641 | - | - | - | - | - | 25,068 |
| NCC | 65 | - | - | - | - | - | - | - | - | 65 |
| Sum of investments | 920,317 | (70,778) | (64,682) | 87,842 | (8,455) | (28,332) | 4,428 | (5,609) | 420 | 835,151 |

- (i) Impacts on equity of 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 | | | | | | | Total Property, plants and equipment |
|---|---|----------------|------------------------------|---|-----------------|-----------------------------------|----------------|---|
| | Computers and electronics equip, | Vehicles | Furniture and Fixtures | Facilities machinery and equipment | Right of use | Leasehold improve ments (i) | Others | |
| 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 | 7,245 | 3,396 | 3,431 | 343 | 16,466 | 3,090 | 165 | 34,136 |
| Transfers | (2,496) | 188 | 1 | (4) | - | 4,893 | (2,582) | - |
| Write-offs | (3,853) | (3,533) | (882) | (16) | - | (3,633) | (31) | (11,948) |
| Balance as of September 30, 2019 | 184,992 | 10,252 | 25,427 | 26,726 | 233,577 | 90,449 | 8,685 | 580,108 |
| 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 | (19,784) | (2,500) | (2,310) | (2,355) | (23,835) | (7,782) | (1,667) | (60,233) |
| Transfers | - | - | (60) | - | - | 60 | - | - |
| Write-offs | 3,316 | 2,585 | 829 | 11 | - | 3,619 | 14 | 10,374 |
| Balance as of September 30, 2019 | (122,733) | (3,881) | (13,324) | (14,185) | (23,835) | (28,831) | (6,021) | (212,810) |
| Residual value | | | | | | | | |
| Balance as of September 30, 2019 | 62,259 | 6,371 | 12,103 | 12,541 | 209,742 | 61,618 | 2,664 | 367,298 |
| 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% | 10% to 33% | 20% | |

| | Consolidated | | | | | | | Total Property, plant and equipment |
|---|---|----------------|------------------------------|---|-----------------|-----------------------------------|----------------|--|
| | Computers and electronics equip, | Vehicles | Furniture and Fixtures | Facilities machinery and equipment | Right of use | Leasehold improve ments (i) | Others | |
| 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 | 7,868 | 3,949 | 3,550 | 346 | 22,016 | 3,090 | 205 | 41,024 |
| Assets held for sale | (3,162) | (763) | (1,427) | (5,519) | (5,645) | (4,479) | (173) | (21,168) |
| Transfers | (2,107) | 188 | 380 | (507) | - | 4,564 | (2,476) | 42 |
| Write-offs | (6,587) | (4,832) | (1,779) | (525) | (4,172) | (3,686) | (51) | (21,632) |
| Exchange variation (ii) | (156) | 43 | (2) | (8) | (284) | 3 | (2) | (406) |
| Balance as of September 30, 2019 | 200,397 | 11,341 | 29,583 | 28,164 | 248,735 | 100,492 | 9,430 | 628,142 |
| 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 | (21,172) | (3,336) | (2,592) | (2,460) | (28,037) | (8,973) | (1,405) | (67,975) |
| Assets held for sale | 1,985 | 107 | 396 | 3,147 | - | 440 | 52 | 6,127 |
| Transfers | (452) | - | (94) | 460 | - | 60 | (16) | (42) |
| Write-offs | 5,848 | 4,184 | 1,365 | 428 | 854 | 3,460 | 34 | 16,173 |
| Exchange variation (ii) | 140 | 7 | 10 | 6 | 111 | (7) | 1 | 268 |
| Balance as of September 30, 2019 | (134,088) | (4,380) | (15,910) | (15,123) | (27,072) | (38,137) | (5,375) | (240,085) |
| Residual value | | | | | | | | |
| Balance as of September 30, 2019 | 66,309 | 6,961 | 13,673 | 13,041 | 221,663 | 62,355 | 4,055 | 388,057 |
| Balance as of December 31, 2018 | 84,104 | 7,414 | 13,866 | 17,673 | - | 67,883 | 7,886 | 198,826 |
| Average annual depreciation rate | 20% to 25% | 20% to 33% | 10% to 25% | 6.7% to 25% | 10% a 33% | 10% a 33% | 20% | |

(i) Line "Additions" includes the annual restatement of rental applied to the right of use according to the index established in the agreement. The Company applied exceptions to the standard for short-term and low value contracts, recorded in rental expense in the amount of R\$988 and R\$1,621 in the Parent Company and Consolidated, respectively as of September 30, 2019.

(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 | 13,164 | - | 1,348 | - | - | 14,512 |
| Write-offs | (6,989) | (2,151) | (166) | (123) | - | (9,429) |
| Balance as of September 30, 2019 | 345,765 | 60,998 | 214,162 | 18,627 | 280,308 | 919,860 |
| Amortization | | | | | | |
| Balance as of December 31, 2018 | (258,748) | (43,825) | (210,819) | (18,750) | - | (532,142) |
| Amortization in the period | (24,119) | (3,150) | (669) | - | - | (27,938) |
| Provision for assets held for sale | - | (5,272) | - | - | - | (5,272) |
| Write-offs | 6,989 | 2,151 | 166 | 123 | - | 9,429 |
| Balance as of September 30, 2019 | (275,878) | (50,096) | (211,322) | (18,627) | - | (555,923) |
| Residual value | | | | | | |
| Balance as of September 30, 2019 | 69,887 | 10,902 | 2,840 | - | 280,308 | 363,937 |
| 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 | 13,179 | - | 1,348 | - | - | - | 14,527 |
| Assets held for sale | (5,482) | (6,494) | - | (13,496) | - | - | (25,472) |
| Write-offs | (7,139) | (2,157) | (166) | (721) | (123) | (4,465) | (14,771) |
| Exchange variation (i) | (27) | - | - | - | - | - | (27) |
| Balance as of September 30, 2019 | 385,429 | 92,181 | 361,912 | 13,890 | 49,725 | 664,339 | 1,567,476 |
| 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 | (27,359) | (3,905) | (8,754) | (2,168) | (61) | - | (42,247) |
| Assets held for sale | 2,338 | 4,730 | - | 16,349 | - | - | 23,417 |
| Provision for assets held for sale | - | (5,272) | - | - | - | - | (5,272) |
| Write-offs | 7,139 | 2,157 | 166 | 721 | 123 | - | 10,306 |
| Exchange variation (i) | 27 | - | - | - | - | - | 27 |
| Balance as of September 30, 2019 | (313,731) | (65,280) | (269,747) | (7,924) | (49,567) | (43,611) | (749,860) |
| Residual value | | | | | | | |
| Balance as of September 30, 2019 | 71,698 | 26,901 | 92,165 | 5,966 | 158 | 620,728 | 817,616 |
| 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 purchase price allocation 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 September 30, 2019 and December 31, 2018 is as follows:

| | Consolidated | | |
|---------------------|----------------|----------------|----------------|
| | 12/31/2018 | Held for sale | 9/30/2019 |
| 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) Write-off of goodwill for the sale of Ciashop concluded on July 31, 2019.

14.2. Impairment test of assets

The Company annually tests goodwill for impairment 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).

15. Payroll and labor liabilities

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

| | Parent Company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Labor liabilities: | | | | |
| Salaries payable | 24,153 | 19,332 | 32,652 | 27,600 |
| Vacation payable | 58,603 | 58,568 | 79,524 | 81,704 |
| 13th monthly salary payable | 29,197 | 192 | 39,197 | 332 |
| Profit sharing and bonus | 32,896 | 23,109 | 40,691 | 30,492 |
| Withholding Income Tax (IRRF) payable | 7,370 | 12,303 | 9,664 | 16,552 |
| Actuarial liability due to health care plan and retirement benefits (i) | 1,433 | 1,287 | 1,433 | 1,287 |
| Other | 1,770 | 1,483 | 2,884 | 2,650 |
| | 155,422 | 116,274 | 206,045 | 160,617 |
| Payroll liabilities | | | | |
| FGTS (Unemployment Compensation Fund) payable | 3,054 | 4,581 | 4,111 | 6,203 |
| INSS (Social Security Tax) payable | 4,945 | 5,088 | 7,071 | 8,054 |
| | 7,999 | 9,669 | 11,182 | 14,257 |
| Total | 163,421 | 125,943 | 217,227 | 174,874 |

(i) Refers to the actuarial provision for the health care plan of the participants who contributed or still contribute with fixed installments to the plan costing and who will be entitled to remain in the plan after retirement.

16. Trade accounts payable

Trade accounts payable for the periods ended September 30, 2019 and December 31, 2018 are broken down as follows:

| | Parent Company | | Consolidated | |
|--------------------------------------|----------------|---------------|---------------|----------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Domestic Suppliers | 13,608 | 32,110 | 17,759 | 52,325 |
| Foreign suppliers | 2,689 | 13,568 | 2,689 | 19,378 |
| Provision for trade accounts payable | 24,747 | 25,665 | 34,190 | 38,203 |
| Other liabilities | - | - | 874 | 4,001 |
| Total | 41,044 | 71,343 | 55,512 | 113,907 |

17. Tax liabilities

Salaries and charges payable balances are broken down as follows:

| | Parent Company | | Consolidated | |
|---|----------------|---------------|---------------|---------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Tax liabilities | | | | |
| Federal Social Security Tax on Gross Revenue (CPRB) | 13,676 | 12,041 | 16,867 | 14,583 |
| ISS payable | 5,328 | 5,376 | 7,492 | 7,268 |
| PIS and COFINS payable | 15,047 | 12,487 | 18,261 | 15,589 |
| IRPJ and CSLL payable | - | - | 6,023 | 4,632 |
| Withholding IR and CSLL | 707 | 880 | 2,666 | 3,677 |
| Other taxes | 3,627 | 1,793 | 4,202 | 1,717 |
| Total | 38,385 | 32,577 | 55,511 | 47,466 |

18. Loans and financing

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 financing transactions are as follows:

| | Annual financial charges | Parent Company | | Consolidated | |
|----------------------------|---------------------------|----------------|----------------|----------------|----------------|
| | | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| BNDES PROSOFT | TJLP + 1.5% to 1.52% p.y. | 12,959 | 129,194 | 17,576 | 137,940 |
| BNDES PSI | 3.5% to 4.0% p.y. | 1,219 | 12,197 | 4,400 | 18,224 |
| Leases (a) | 15.12% to 17.24% | 233,088 | 42,087 | 245,224 | 42,189 |
| BNDES – Social | TJLP | 72 | 714 | 72 | 714 |
| BNDES Inovação | TJLP + 0.52% p.y. | - | - | 1,269 | 2,404 |
| Secured accounts and other | | - | - | 16 | - |
| | | 247,338 | 184,192 | 268,557 | 201,471 |
| Current liabilities | | 59,319 | 155,278 | 73,243 | 166,154 |
| Noncurrent liabilities | | 188,019 | 28,914 | 195,314 | 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 September 30, 2019 and December 31, 2018 have the following maturity schedule:

| | Parent Company | | Consolidated | |
|-------------------------------|----------------|---------------|----------------|---------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| 2019 | - | 13,173 | - | 19,583 |
| 2020 | 9,862 | 15,741 | 11,996 | 15,734 |
| 2021 | 29,200 | - | 32,069 | - |
| 2022 | 29,389 | - | 30,950 | - |
| 2023 onwards | 119,568 | - | 120,299 | - |
| Noncurrent liabilities | 188,019 | 28,914 | 195,314 | 35,317 |

Below is the breakdown of loans and financing as of September 30, 2019:

| | 9/30/2019 | |
|---|----------------|----------------|
| | Parent Company | Consolidated |
| Opening balance | 184,192 | 201,471 |
| Lease – IFRS 16/CPC 06 (R2) | 217,111 | 236,470 |
| Additions to high of use leases | 16,466 | 22,016 |
| Interest incurred | 14,619 | 16,201 |
| Liabilities related to assets held for sale | - | (5,295) |
| Right of use leases written off | - | (4,239) |
| Interest amortization | (16,007) | (17,048) |
| Principal amortization | (169,043) | (181,019) |
| Closing balance | 247,338 | 268,557 |

a) Leases

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

| | Parent Company | | Consolidated | |
|--|----------------|---------------|----------------|---------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Gross liabilities of finance lease – minimum lease payments | | | | |
| Less than one year | 56,594 | 13,173 | 61,819 | 13,227 |
| More than one year and less than five years | 155,196 | 36,203 | 162,747 | 36,262 |
| More than five years | 63,340 | - | 63,339 | - |
| | 275,130 | 49,376 | 287,905 | 49,489 |
| Future financing charges in finance leases | (42,042) | (7,289) | (42,681) | (7,300) |
| Present value of liabilities of finance lease | 233,088 | 42,087 | 245,224 | 42,189 |
| Current liabilities | 45,069 | 13,173 | 49,910 | 13,228 |
| Noncurrent liabilities | 188,019 | 28,914 | 195,314 | 28,961 |

19. Debentures

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

| | | | | Parent Company and Consolidated | |
|---------------|------------|-------------------------------|------------|---------------------------------|----------------|
| Issue | Debentures | Annual financial charges | Unit price | 9/30/2019 | 12/31/2018 |
| Single series | 200,000 | 105.95% of CDI | 1.00 | (a)(i) 200,288 | 203,431 |
| | | Premium due to non-conversion | (c) | - | 73,757 |
| | | Total | | 200,288 | 277,188 |
| | | Current liabilities | | 200,288 | 77,319 |
| | | Noncurrent liabilities | | - | 199,869 |

- (i) The amount of debentures issue is presented net of transactions costs of R\$175 as at September 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 | | |
|---------------------------------|-----------|----------------|
| | 9/30/2019 | 12/31/2018 |
| Between 12 and 24 months | - | 199,869 |
| | - | 199,869 |

The changes occurred in the period considered were as follows:

| Parent Company and Consolidated | | |
|--|----------------|----------------|
| Debentures and premiums from non-conversions | 9/30/2019 | 12/31/2018 |
| Balance at beginning of year | 277,188 | 269,138 |
| Interest incurred | 19,302 | 21,734 |
| Amortization of interest | (13,124) | (13,684) |
| Premium due to non-conversion payment | (83,078) | - |
| Balance at end of period | 200,288 | 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 was paid in cash on August 19, 2019, since none of the debenture holders chose to receive common shares.

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 | |
|------------------------|----------------|---------------|---------------|---------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| RMS | - | - | 2,647 | 13,920 |
| Virtual Age | 15,234 | 15,293 | 15,234 | 15,293 |
| RJ Participações | - | - | 12,369 | 17,542 |
| Neolog | 7,187 | 7,187 | 7,187 | 7,187 |
| Bematech Sistemas | - | - | - | 7,256 |
| Seventeen | 3,003 | 2,873 | 3,003 | 2,873 |
| Datasul MG | 4,637 | 4,429 | 4,637 | 4,429 |
| Ciashop | - | 366 | - | 366 |
| W&D Participações | - | - | 138 | 256 |
| Other | 618 | 604 | 3,073 | 5,939 |
| Total | 30,679 | 30,752 | 48,288 | 75,061 |
| Current liabilities | 30,679 | 30,752 | 33,464 | 59,597 |
| Noncurrent liabilities | - | - | 14,824 | 15,464 |

As of September 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 | |
|--|----------------|---------------|---------------|---------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Investment guarantees in current assets | 23,404 | 23,477 | 26,188 | 44,909 |
| Investment guarantees in noncurrent assets | - | - | 2,455 | 5,334 |
| Total | 23,404 | 23,477 | 28,643 | 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 | |
|-------|----------------|----------------|----------------|----------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Tax | 2,698 | 2,337 | 3,791 | 2,946 |
| Labor | 88,027 | 88,394 | 93,880 | 94,832 |
| Civil | 34,041 | 27,049 | 38,576 | 30,014 |
| | 124,766 | 117,780 | 136,247 | 127,792 |

Changes in provisions for the nine-month period ended September 30, 2019 are as follows:

| | Parent Company | | | |
|---------------------------------------|----------------|---------------|---------------|----------------|
| | Tax | Labor | Civil | Total |
| Balances at December 31, 2018 | 2,337 | 88,394 | 27,049 | 117,780 |
| (+) Additional provision | 337 | 38,520 | 14,393 | 53,250 |
| (+) Monetary restatement | 148 | 5,098 | 2,569 | 7,815 |
| (-) Reversal of provision not used | (28) | (13,675) | (2,550) | (16,253) |
| (-) Write-off due to payment | (96) | (30,310) | (7,420) | (37,826) |
| Balances at September 30, 2019 | 2,698 | 88,027 | 34,041 | 124,766 |

| | Consolidated | | | |
|--|--------------|---------------|---------------|----------------|
| | Tax | Labor | Civil | Total |
| Balances at December 31, 2018 | 2,946 | 94,832 | 30,014 | 127,792 |
| (+) Additional provision | 772 | 42,366 | 16,330 | 59,468 |
| (+) Monetary restatement | 197 | 5,466 | 2,892 | 8,555 |
| (-) Reversal of provision not used | (28) | (14,710) | (3,176) | (17,914) |
| (-) Write-off due to payment | (96) | (33,819) | (7,477) | (41,392) |
| (-) Liabilities related assets held for sale | - | (255) | (7) | (262) |
| Balances at September 30, 2019 | 3,791 | 93,880 | 38,576 | 136,247 |

As of September 30, 2019, the labor claims whose restated amount are deemed individually significant were:

- (i) Lawsuit filed in 2000, whereby a former sales executive claims the payment of severance pay, including differences in commissions. This suit was filed against a company merged into TOTVS and is in the enforcement phase. The lawsuit amount as of September 30, 2019 is R\$5,584 (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 into TOTVS. TOTVS claims that a part of the suit is illegitimate and the suit is in the enforcement phase. The restated amount as of September 30, 2019 is R\$5,371 (R\$4,224 as of December 31, 2018).

- (iii) Lawsuit filed in 2015, whereby a former employee claims the payment of labor pay including salary differences. On July 10, 2019 there was an unfavorable decision that resulted in the payment for conviction of R\$5,309 (R\$3,348 as of December 31, 2018).

Further information regarding other significant ongoing lawsuits is 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 | |
|--------------------------|-----------------------|-------------------|---------------------|-------------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Tax | 13,337 | 8,320 | 22,986 | 17,755 |
| Labor | 31,691 | 30,241 | 36,080 | 34,794 |
| Civil | 13,784 | 12,610 | 14,609 | 13,416 |
| | 58,812 | 51,171 | 73,675 | 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 | |
|---------------|-----------------------|-------------------|---------------------|-------------------|
| | 9/30/2019 | 12/31/2018 | 9/30/2019 | 12/31/2018 |
| Tax | 126,301 | 118,507 | 165,549 | 154,953 |
| Labor | 93,203 | 151,820 | 108,054 | 160,326 |
| Civil | 271,678 | 295,108 | 287,442 | 315,507 |
| | 491,182 | 565,435 | 561,045 | 630,786 |

The following are two new lawsuits classified as risk of possible loss and individually significant as of September 30, 2019:

- (i) 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 September 30, 2019 is R\$18,199.
- (ii) 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 September 30, 2019 is R\$10,621 (R\$9,608 as of December 31, 2018).

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

23. Equity

a) Capital

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

| Shareholders | 9/30/2019 | | 12/31/2018 | |
|--|--------------------|----------------|--------------------|----------------|
| | Shares | % | Shares | % |
| LC-EH Empreendimentos e Participações S.A, | 26,760,990 | 13.89% | 26,760,990 | 16.16% |
| Constellation | 10,253,927 | 5.32% | 1,960,000 | 1.18% |
| Itaú Unibanco S.A. | 9,713,045 | 5.04% | 461,622 | 0.28% |
| 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 | 141,852,216 | 73.64% | 132,037,533 | 79.71% |
| Outstanding shares | 190,679,468 | 98.98% | 163,451,636 | 98.68% |
| Treasury shares | 1,958,259 | 1.02% | 2,186,091 | 1.32% |
| Total in units | 192,637,727 | 100.00% | 165,637,727 | 100.00% |

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

On 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, 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, represented by 165,637,727 common shares, to R\$1,382,509, represented by 192,637,727 common shares, all registered, book-entry common shares with no par value.

b) Capital reserves

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

| | 9/30/2019 | 12/31/2018 |
|--|----------------|----------------|
| Goodwill reserve | 795,538 | 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 | 42,660 | 37,206 |
| | 871,639 | 169,907 |

The increase in goodwill reserve of R\$696,278 refers to the amount of capital contribution allocated to the capital reserve of R\$725,220, net of borrowing costs that amounted to R\$28,942.

c) Treasury shares

As at September 30, 2019, the "Treasury Shares" account were 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 | (227,832) | (R\$7,298) | R\$32.03 |
| Balance at September 30, 2019 | 1,958,259 | R\$62,728 | 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.

On August 05, 2019, the Board of Directors approved the distribution and payment of interest on equity amounting to R\$36,224, related to the first semester of 2019, which was paid as from October 10, 2019.

The balance of dividends and interest on equity payable in the statement of financial position was of R\$32,828 as of September 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 nine-month period ended September 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:

| | September 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 | 31.98 | (108,827) | (170,752) | (279,579) |
| Cancelled | - | (3,738) | (136,554) | (140,292) |
| Expired | 33.58 | (43,139) | - | (43,139) |
| Balance of shares at end of period | 35.60 | 56,521 | 1,678,363 | 1,734,884 |

The amount recorded under stock options granting expenses for the nine-month period ended September 30, 2019 was R\$9,810 (R\$4,795 as of September 30, 2018) and comprises the share-based compensation amount that will be paid in cash and does not include the restricted shares balance as of September 30, 2019.

As of September 30, 2019, there were 56,521 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 September 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 | |
|----------------------|---|------------------|
| | 9/30/2019 | 9/30/2018 |
| Brazil | 1,659,830 | 1,531,370 |
| International market | 43,002 | 41,056 |
| Total | 1,702,832 | 1,572,426 |

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 and diluted earnings per share:

| | 9/30/2019 | 9/30/2018 |
|---|---------------|---------------|
| Net income for the period attributable to the Company's shareholders | | |
| Continuing operations | 188,193 | 102,516 |
| Denominator (in thousands of shares) | | |
| Weighted average number of common shares outstanding | 177,451 | 163,427 |
| Basic earnings per share – in reais | 1.0605 | 0.6273 |

| | <u>9/30/2019</u> | <u>9/30/2018</u> |
|--|----------------------|----------------------|
| Net income for the period attributable to the Company's shareholders | | |
| Continuing operations | 188,193 | 102,516 |
| Denominator (in thousands of shares) | | |
| Weighted average number of common shares outstanding | 177,451 | 163,427 |
| Weighted average number of stock options | <u>1,550</u> | <u>1,315</u> |
| Weighted average number of common shares adjusted according to dilution effect | <u>179,001</u> | <u>164,742</u> |
| Diluted earnings per share – in reais | <u>1.0514</u> | <u>0.6223</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 September 30, 2019 and 2018 were as follows:

| | Parent Company | | Consolidated | |
|------------------------|-----------------------|------------------|---------------------|------------------|
| | <u>9/30/2019</u> | <u>9/30/2018</u> | <u>9/30/2019</u> | <u>9/30/2018</u> |
| Gross revenue | 1,386,613 | 1,331,500 | 1,935,741 | 1,784,117 |
| Software | | | | |
| License fees | 141,807 | 119,537 | 183,843 | 160,002 |
| Recurring software | 1,068,490 | 989,948 | 1,454,540 | 1,303,132 |
| Non recurring services | 176,316 | 222,015 | 297,358 | 320,983 |
| Deductions | (169,641) | (160,205) | (232,909) | (211,691) |
| Sales canceled | (12,591) | (13,998) | (19,213) | (22,182) |
| Sales tax | (157,050) | (146,207) | (213,696) | (189,509) |
| Net revenues | 1,216,972 | 1,171,295 | 1,702,832 | 1,572,426 |

29. Costs and expenses by nature

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

| | Parent Company | | Consolidated | |
|--|-----------------------|------------------|---------------------|------------------|
| Nature | <u>9/30/2019</u> | <u>9/30/2018</u> | <u>9/30/2019</u> | <u>9/30/2018</u> |
| Salaries, benefits and payroll charges | 519,617 | 518,345 | 732,744 | 684,964 |
| Outsourced services and other inputs | 294,702 | 274,217 | 392,161 | 370,248 |
| Commissions | 120,764 | 108,090 | 131,262 | 117,291 |
| Depreciation and amortization (i) | 88,171 | 72,006 | 110,222 | 93,804 |
| Provision for contingencies | 36,997 | 34,954 | 41,554 | 33,973 |
| Rents (i) | 988 | 26,557 | 1,621 | 32,129 |
| Allowance for expected credit loss | 16,719 | 18,857 | 23,885 | 30,233 |
| Other | 6,322 | 28,432 | 16,383 | 33,416 |
| Total | 1,084,280 | 1,081,458 | 1,449,832 | 1,396,058 |

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

30. Finance income and costs

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

| | Parent Company | | Consolidated | |
|--|------------------------|------------------------|------------------------|------------------------|
| | 9/30/2019 | 9/30/2018 | 9/30/2019 | 9/30/2018 |
| <u>Finance income</u> | | | | |
| Short-term investment yield | 35,939 | 13,422 | 42,937 | 19,048 |
| Interest received | 3,774 | 4,302 | 4,375 | 4,934 |
| Inflation adjustment gains | 2,760 | 1,968 | 4,684 | 4,679 |
| Adjustment to present value | 664 | 1,305 | 748 | 1,424 |
| Exchange gains | 588 | (675) | 786 | (298) |
| Other finance income | (1,942) | (1,047) | (2,266) | (1,377) |
| | <u>41,783</u> | <u>19,275</u> | <u>51,264</u> | <u>28,410</u> |
| <u>Finance costs</u> | | | | |
| Interest incurred | (36,750) | (38,395) | (38,960) | (40,845) |
| Inflation adjustment losses | (8,057) | (7,847) | (11,100) | (9,973) |
| Bank expenses | (3,871) | (3,291) | (5,126) | (4,311) |
| Adjustment to present value of liabilities | (441) | (635) | (574) | (1,293) |
| Exchange losses | (797) | (2,453) | (979) | (752) |
| Other finance costs (i) | (94) | (502) | (1,626) | (3,543) |
| | <u>(50,010)</u> | <u>(53,123)</u> | <u>(58,365)</u> | <u>(60,717)</u> |
| Net finance income (costs) | <u>(8,227)</u> | <u>(33,848)</u> | <u>(7,101)</u> | <u>(32,307)</u> |

- (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 October 24, 2019, the Company disclosed a material fact informing that it had concluded the sale of the hardware operations developed in the Brazilian territory through Bematech Hardware Ltda, to Elgin S.A. for R\$ 25,000, subject to post-closing adjustments related to Company's working capital. The assets and liabilities of this subsidiary are presented as available for sale in the interim financial information, as mentioned in note 11.

On October 28, 2019, the Company, through its subsidiary TOTVS Brasília, announced an acquisition of shares representative of 88.8% of the capital stock of Supplier Participações SA, a company focused on B2B credit between customers and suppliers for R\$455,200, subject to adjustments. The closing of the transaction is conditioned to the approval of the CADE and the implementation of the Fintech platform model.

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