

# TOTVS S.A.

*1st Private Issuance of Debentures*

*1st and 2nd Series*

## *Trustee's Annual Report Fiscal Year 2015*

Base date 12/31/2015

*This is a free translation of the original in Portuguese*

### **PARTICIPANTS:**

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**ISSUER:** TOTVS S/A

**CARRYING BANK:** Banco Itaú S.A.

**BOOKKEEPING BANK:** Banco Itaú S.A.

**SETTING BANK:** Banco Itaú S.A.

### **CHARACTERISTICS OF THE ISSUANCE:**

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**DATE OF ISSUANCE:** 08/19/2008

**DATE OF MATURITY:** 08/19/2019

**VOLUME:** R\$ 200,000,000.00

**QUANTITY OF DEBENTURES:** 200,000

**NUMBER OF SERIES:** 2

**GUARANTEE:** Floating

**PUBLISHING:** Diário Oficial do Estado de São Paulo and Valor Econômico newspaper – National Edition

**USE OF PROCEEDS:** According to Issuer's management, the proceeds from the issuance were used for payment, by the Company, of the transaction of redemption of redeemable preferred shares issued by Makira do Brasil S.A., aiming at the integration between its activities and those of Datasul S.A.

**CHARACTERISTICS OF THE SERIES:**

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	<b><u>1<sup>ST</sup> SERIES</u></b>	<b><u>2<sup>ND</sup> SERIES</u></b>
ASSET CODE:	N/A	N/A
ISIN CODE:	N/A	N/A
DATE OF ISSUANCE:	08/19/2008	08/19/2008
DATE OF MATURITY:	08/19/2019	08/19/2019
VOLUME:	R\$ 100,000,000.00	R\$ 100,000,000.00
UNIT FACE VALUE:	R\$ 1,000.00	R\$ 1,000.00
UNIT PRICE AS OF 12/31/2015:	R\$ 618.38	R\$ 618.38
QUANTITY OF DEBENTURES:	100,000	100,000
CVM REGISTRATION	Private	Private
NEGOTIATION:	Private	Private
MONETARY CORRECTION:	N/A	N/A
CURRENT REMUNERATION:	IPCA + 3.5% p.y. limited to TJLP + 1.5% p.y. (360 days).	TJLP + 1.5% p.y. (360 days)
CURRENT INTEREST PAYMENT:	Annually, in every August 19, being the first payment on August 19, 2009 and the last on August 19, 2016.	Semiannually, in August 19 <sup>th</sup> and February 19 <sup>th</sup> every year, being the first payment on August 19, 2009 and the last on August 19, 2016.
AMORTIZATION:	The amortization shall be made in two installments in the seventh (08/19/2015) and eighth (08/19/2016) anniversaries, equivalent to 40% and 60% of the principal amount, respectively.	The amortization shall be made in two installments in the seventh (08/19/2015) and eighth (08/19/2016) anniversaries, equivalent to 40% and 60% of the principal amount, respectively.
RATING:	N/A	N/A

**PAYMENTS MADE PER DEBENTURE IN 2015:**

<b><u>1<sup>ST</sup> SERIES</u></b>		
<b>PAYMENT DATE</b>	<b>AMORTIZATION</b>	<b>INTEREST</b>
08/19/2015	400.00	72.63

  

<b><u>2<sup>ND</sup> SERIES</u></b>		
<b>PAYMENT DATE</b>	<b>AMORTIZATION</b>	<b>INTEREST</b>
02/19/2015	0.00	33.76
08/19/2015	400.00	37.60

**ASSET STATUS AS OF 12/31/2015:**

Series	Issued	Outstanding	Treasury	Converted	Canceled
1 <sup>st</sup>	100,000	40,002	0	59,998	0
2 <sup>nd</sup>	100,000	40,002	0	59,998	0

**1<sup>st</sup> SERIES PREMIUM:**

As provided in item 3.15.1 of the Deed of Issue, in the event of non-conversion, the 1<sup>st</sup> series debentures shall be entitled to the non-conversion premium equivalent to the difference between IPCA plus 8.0% per year (360 days basis) and interests effectively paid, that is, the lowest amount between IPCA plus 3.5% per year (360 days basis) and TJLP plus 1.5% per year (360 days basis), calculated based on the outstanding balance of the debentures in the determination date ("Non-conversion premium of the 1st series debentures"). The Non-Conversion Premium of the 1<sup>st</sup> Series Debentures shall be adjusted by the IPCA plus 8.0% per year (360 days basis).

**2<sup>nd</sup> SERIES PREMIUM:**

As provided on item 3.15.2 of the Deed of Issue, in the event of non-conversion, the 2<sup>nd</sup> series debentures shall be entitled to a non-conversion premium of 3.5% per year (360-day basis), calculated on the balance due of the debentures in the calculation date ("Non-conversion premium of the 2<sup>nd</sup> series debentures"). The non-conversion premium of the 2<sup>nd</sup> series debentures shall bear interest at TJLP plus 5.0% per year (360-day basis).

**CONVERTIBILITY:**

The Units shall be mandatorily converted into common shares issued by the Company, if, since the Date of Issuance of the Units, the 360 consecutive days average weighted price of the common shares of the Company, calculated in trading dates at BVSP and determined at the date of anniversary of the Units in each conversion period provided in the Calculation Date is higher than the average weighted price per volume of shares of the Issuing Company, calculated in trading days at BVSP, in the period between 06/06/2008 and 08/31/2008, accrued of a premium calculated according to the sheet below, and restated according to the formula described in the Deed of Issue. The mandatory conversion of Units into common shares issued by the Company shall take place solely 2 years after the date of issuance and shall respect the following limits (paragraphs 3.18.1 and 3.18.2 of the deed of issue):

Calculation Date	% of units issued	Date
Shall occur after 2 years from the date of issuance (08/19/2010)	15%	In the 3 <sup>rd</sup> year from the date of issuance
	30%	In the 4 <sup>th</sup> year from the date of issuance
	45%	In the 5 <sup>th</sup> year from the date of issuance
	60%	In the 6 <sup>th</sup> year from the date of issuance

In addition to the hypothesis of mandatory conversion, the Units might be converted into common shares issued by the Company, at the Debenture holders' discretion, given the limits below are followed:

% of units issued	Date
Up to 15%	In the 3 <sup>rd</sup> year from the date of issuance
Up to 30%	In the 4 <sup>th</sup> year from the date of issuance
Up to 45%	In the 5 <sup>th</sup> year from the date of issuance
Up to 60%	In the 6 <sup>th</sup> year from the date of issuance

There were no conversions during 2015.

#### **GUARANTEES:**

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Guarantee	Constituted	Achievable	Sufficient
Floating	Yes	Yes	Yes (2.13% on 12/31/2015)

#### **GUARANTEE STATUS**

Total Assets	R\$ 2,362,015,000.00
Collateral Goods	R\$ 0.00
Discounted Invoices, Pledged Securities	R\$ 0.00
Tax and Labor Liabilities	R\$ 38,704,000.00
Unrecorded Asset (Free Asset) = A - B - C - D	R\$ 2,323,311,000.00
Issuance Value	R\$ 49,473,169.29

It is noteworthy that a floating guarantee can be affected in the existence of tax, labor and social security debts.

#### **LEGAL AND CORPORATE EVENTS:**

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There were changes on the Company's Bylaws occurred in 2015, as approved in General Shareholders' Meetings on 09/03/2015 and 04/09/2015.

#### **FINANCIAL COVENANTS:**

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During the fiscal year 2015, the following financial covenants were verified:

Covenant	Limit	On 12/31/2015
Net Debt/EBITDA	Less or equal to 4,0	1.36
EBITDA/NR	More or equal to 0,10	0,17
EBITDA/Debt Service	More or equal to 1,0	4.18

**MANDATORY INFORMATION IN COMPLIANCE WITH PROVISIONS OF CVM INSTRUCTION 28/83, AS WELL AS BY ANALOGY WITH THE TERMS OF SUBSECTION "B" OF PARAGRAPH 1, ARTICLE 68 OF THE LAW 6,404/76:**

Subsection "a" of item XVII of art. 12 of CVM Instruction 28/83 – "Occasional omission or untruth, that it has knowledge, contained in the information disclosed by the company or, yet, default or delay in the mandatory information disclosure by the company".	We do not have knowledge of any omission or untruth in the information disclosed by the Company or occasional default or delay, by the Company, in disclosing information.
Subsection "b" of item XVII of art. 12 of CVM Instruction 28/83 – "Changes in the by-laws during the period".	There were changes in the Bylaws of the Company during the fiscal year 2015, as disclosed on item "Legal and Corporate Events" above.
Subsection "c" of item XVII of art. 12 of CVM Instruction 28/83 – "Comments about the financial statements of the company, focusing on economic, financial and capital structure indexes of the company".	Information disclosed in Comments about the Financial Statements.
Subsection "d" of item XVII of art. 12 of CVM Instruction 28/83 – "Status of the distribution or placement of debentures in the market".	Information disclosed above, in the table of Asset Status.
Subsection "e" of item XVII of art. 12 of CVM Instruction 28/83 – "Redemption, amortization, conversion, renegotiation and interest payment of debentures made in the period, as well as acquisitions and sales of debentures made by the issuing company".	During 2015, there were no partial financial rescues or debentures held in treasury, according to "Asset Status" item. There were Interests payments and amortizations, according to "Payments made per Debenture" item.
Subsection "f" of item XVII of art. 12 of CVM Instruction 28/83 – "Set up and applications of the debenture amortization fund, if applicable"	No debenture amortization fund was set up.
Subsection "g" of item XVII of art. 12 of CVM Instruction 28/83 – "Follow up of the allocation of the proceeds from the issuance of debentures, according to data gathered with management of the Issuing company".	Information disclosed in "Use of Proceeds".
Subsection "h" of item XVII of art. 12 of CVM Instruction 28/83 – List of goods and values entrusted to its management:	No goods or values were entrusted to the Trustee's management.
Subsection "i" of item XVII of art. 12 of CVM Instruction 28/83 – "Compliance with other obligations assumed by the company in the indenture".	Information disclosed in the present report.
Subsection "j" of item XVII of art. 12 of CVM Instruction 28/83 – "Statement regarding sufficiency and enforceability of the guarantees of the debentures".	Information disclosed in the present report., in "Guarantee Status".
Subsection "l" of item XVII of art. 12 of CVM Instruction 28/83 – "Statement regarding its capability to remain serving as a trustee".	Information disclosed below.
Subsection "k" of item XVII of art. 12 of CVM Instruction 28/83 - "Statement on the existence of other issues of debentures, public or private, made by an affiliate, subsidiary, parent or member of the same group in which the broadcaster has acted as trustee for the period".	The Trustee of this issue does not act on other issues of debentures of companies in the same group, associated or subsidiary of the issuer.

**TRUSTEE'S STATEMENT:**

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Oliveira Trust states that is fully capable to remain serving as Trustee to this TOTVS S.A.'s issuance of debentures.

This report was prepared in order to comply with Article 68, §first, paragraph "b" of the Law 6404/76 and Article 12 of CVM Instruction No. 28/83, based on information provided by the Issuer. Although we endeavor to provide accurate and updated information, there is no guarantee of its accuracy as of the date they are received. The information in this report does not represent investment advice, credit analysis or the economic or financial situation of the Issuer, or guarantee, expressed or implied, about the timely payment of obligations relating to securities issued.

We note that the values expressed in this report are from our interpretation about the Indenture and its Amendments, if any, not implying legal or financial commitment.

**OLIVEIRA TRUST DTVM S.A.**

## **ANNEX 1 - COMMENTS ON THE FINANCIAL STATEMENTS OF TOTVS S.A.**

### **THE COMPANY:**

**STATUS OF THE COMPANY:** Operational

**NATURE OF EQUITY CONTROL:** Private

### **FINANCIAL POSITION:**

General Liquidity decreased from 1.38 in 2014 to 1.02 in 2015. Current Liquidity decreased from 3.05 in 2014 to 1.76 in 2015. The Liquidity disregarding inventory decreased from 3.05 in 2014 to 1.69 in 2015. Asset turnover decreased from 0.83 in 2014 to 0.72 in 2015.

### **CAPITAL STRUCTURE:**

The company had a change in the Loans on Shareholders' Equity ratio from 0.53 in 2014 to 0.66 in 2015. The Third Party Resources on Shareholders' Equity ratio changed from 0.92 in 2014 to 1.15 in 2015. The fixed assets ratio related to Shareholders' Equity changed from 0.07 in 2014 to 0.09 in 2015. The company presented in its Long Term Liabilities an increase of 18.5% from 2014 to 2015 and 73.5% increase in its Current Liabilities from 2014 to 2015.

### **INCOME STATEMENT**

The net profit was positive by R\$ 194,946 thousand in 2015 and R\$ 262,798 thousand in 2014. Net Revenue in 2015 was 7.69% higher than 2014. Gross Margin was 62.99% in 2015, against 65.9% in the previous year, and Net Margin was 10.21% in 2015 against 14.83% in 2014. Operating Expenses increased 18.64% from 2014 to 2015. Net Income was 25.82% lower than 2014. Net Income on Equity was 15.75% (Profit) in 2015 against 23.50% (Profit) in 2014.

We recommend the full reading of the Financial Statements, Management's Report and Independent Auditors' Report for a better analysis of the economic and financial position of the company.

**TOTVS S.A.****Balance sheets as at December 31, 2015 and 2014**

(In thousands of reais)

	Parent Company		Consolidated			Parent Company		Consolidated	
	2015	2014	2015	2014		2015	2014	2015	2014
<b>Assets</b>					<b>Liabilities and equity</b>				
<b>Current assets</b>	<b>731,220</b>	<b>1,038,751</b>	<b>1,157,673</b>	<b>1,156,160</b>	<b>Current liabilities</b>	<b>475,288</b>	<b>317,060</b>	<b>658,683</b>	<b>379,611</b>
Cash and cash equivalents (Note 5)	314,405	659,236	426,415	697,901	Payroll and labor obligations (Note 14)	99,190	95,757	133,152	111,397
Marketable securities (Note 17)	17,488	10,415	75,213	35,169	Trade accounts payable	37,311	28,546	86,932	35,479
Trade accounts receivable (Note 6)	401,750	400,829	565,002	448,360	Loans and financing (Note 15)	168,643	24,798	177,514	25,314
Allowance for doubtful accounts (Note 6)	(56,551)	(53,652)	(75,860)	(58,864)	Taxes payable	11,293	11,791	18,923	13,739
Stocks (Note 7)	-	-	44,407	-	Commissions payable	52,172	56,131	56,579	58,571
Taxes recoverable (Note 8)	27,673	473	81,284	6,336	Dividends payable (Note 20)	32,428	47,071	32,885	47,071
Other assets	26,455	21,450	41,212	27,258	Liabilities from acquisition of investments (Note 17)	24,492	18,417	82,220	51,499
					Debentures (Note 16)	49,473	33,834	61,915	33,834
					Other liabilities	286	715	8,563	2,707
<b>Non-current assets</b>	<b>1,630,795</b>	<b>1,015,821</b>	<b>1,504,402</b>	<b>987,706</b>	<b>Non-current liabilities</b>	<b>649,041</b>	<b>621,138</b>	<b>765,660</b>	<b>646,193</b>
Marketable securities (Note 17)	28,780	38,416	39,534	70,680	Loans and financing (Note 15)	466,532	457,176	500,795	457,176
Trade accounts receivable (Note 6)	38,676	39,411	40,953	40,828	Debentures (Note 16)	49,429	79,020	82,371	79,020
Receivables from related parties (Note 10)	3,622	1,345	-	-	Provision for losses on investments (Note 11)	584	294	-	938
Taxes recoverable (Note 8)	-	-	17,881	-	Payables to related parties (Note 10)	15,023	13,216	-	-
Deferred income and social contribution taxes (Note 9)	16,954	22,044	63,507	57,525	Provision for contingencies related to legal proceedings (Note 18)	70,392	10,854	90,507	12,518
Financial assets at fair value (Note 4)	-	-	68,044	46,934	Liabilities from acquisition of investments (Note 17)	47,065	60,046	88,272	88,983
Judicial deposits (Note 18)	31,688	21,811	43,407	22,420	Other liabilities	16	532	3,715	7,558
Other assets	10,405	12,481	18,466	18,112					
					<b>Equity (Note 19)</b>	<b>1,237,686</b>	<b>1,116,374</b>	<b>1,237,732</b>	<b>1,118,062</b>
Investments (Note 11)	1,001,473	392,211	-	-	Capital	541,374	526,592	541,374	526,592
Property, plant and equipment (Note 12)	86,235	66,724	113,598	79,121	Treasury shares	(71,012)	(52,212)	(71,012)	(52,212)
Intangible assets (Note 13)	412,962	421,378	1,099,012	652,086	Capital reserves	159,213	92,493	159,213	92,493
					Other comprehensive income results	21,329	29	21,329	29
					Retained profit reserve	520,203	451,768	520,203	451,768
					Proposed additional dividend	66,579	97,704	66,579	97,704
					<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>46</b>	<b>1,688</b>
<b>Total assets</b>	<b>2,362,015</b>	<b>2,054,572</b>	<b>2,662,075</b>	<b>2,143,866</b>	<b>Total liabilities and equity</b>	<b>2,362,015</b>	<b>2,054,572</b>	<b>2,662,075</b>	<b>2,143,866</b>

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



**TOTVS S.A.****Statement of income****Years ended December 31, 2015 and 2014**

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

	Parent Company		Consolidated	
	2015	2014 (Reclassified note 2.2)	2015	2014 (Reclassified note 2.2)
Licensing fees	198,511	249,414	239,979	298,949
Services	444,480	427,987	557,718	514,572
Subscriptions	86,113	79,456	140,820	104,228
Maintenance	828,741	784,582	918,556	854,698
Hardware	-	-	51,664	-
<b>Net revenue from services and sales (Note 28)</b>	<b>1,557,845</b>	<b>1,541,439</b>	<b>1,908,737</b>	<b>1,772,447</b>
Cost of software	(69,527)	(71,316)	(75,399)	(82,443)
Cost of services	(388,881)	(376,956)	(507,298)	(455,256)
Cost of support	(83,974)	(63,402)	(89,722)	(66,764)
Cost of hardware	-	-	(34,050)	-
<b>Gross profit</b>	<b>1,015,463</b>	<b>1,029,765</b>	<b>1,202,268</b>	<b>1,167,984</b>
<b>Operating income (expenses)</b>				
Research and development	(224,041)	(209,853)	(267,013)	(235,086)
Advertising expenses	(38,243)	(35,316)	(49,281)	(41,439)
Selling expenses	(106,515)	(97,697)	(152,230)	(131,741)
Commissions (Note 27)	(138,075)	(142,175)	(155,981)	(154,986)
General and administrative expenses	(156,588)	(90,324)	(187,277)	(114,376)
Management fees (Note 10)	(19,280)	(19,639)	(23,476)	(26,049)
Depreciation and amortization (Notes 12 and 13)	(70,894)	(69,249)	(103,077)	(88,928)
Allowances for doubtful accounts (Note 6)	(30,192)	(24,297)	(34,562)	(27,565)
Other net operating income (expenses)	(5,853)	844	(988)	(155)
<b>Income before financial effects and equity pickup</b>	<b>225,782</b>	<b>342,059</b>	<b>228,383</b>	<b>347,659</b>
Financial income (Note 24)	97,627	62,062	121,165	71,008
Financial expenses (Note 24)	(82,107)	(47,756)	(94,639)	(57,826)
Equity pick-up (Note 11)	(4,628)	(1,497)	(75)	(583)
<b>Income before income tax and social contribution</b>	<b>236,674</b>	<b>354,868</b>	<b>254,834</b>	<b>360,258</b>
Income tax and social contribution current	(47,025)	(88,122)	(69,250)	(96,957)
Income tax and social contribution deferred	5,088	(3,786)	9,362	(503)
<b>Total of Income tax and social contribution</b>	<b>(41,145)</b>	<b>(91,908)</b>	<b>(59,888)</b>	<b>(97,460)</b>
<b>Net income for the year</b>	<b>159,529</b>	<b>262,960</b>	<b>194,946</b>	<b>262,798</b>
<b>Net income attributable to the owners of company</b>	<b>159,529</b>	<b>262,960</b>	<b>159,529</b>	<b>262,960</b>
<b>Net income attributable to non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>(583)</b>	<b>(162)</b>
Basic earnings per thousand shares (in Reais)	1.20	1.61	1.20	1.61
Diluted earnings per thousand shares (in Reais)	1.19	1.59	1.19	1.59

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