Financial Statements

TOTVS S.A.

December 31, 2009 and 2008

MANAGEMENT REPORT

Dear Shareholders,

TOTVS S.A., Latin America's largest developer of application software, the 7th largest developer of integrated management system (ERP) in the world and 1st in emerging markets, and the absolute leader in Brazil, submits to its share holders' appraisal the Management Report and the Financial Statements, accompanied by the independent auditors' report for the fiscal years ended December 31, 2009 and 2008, in accordance with the accounting practices adopted in Brazil.

MESSAGE FROM THE MANAGEMENT

The year 2009 was marked by uncertainties brought by the economic instability of the markets and also by TOTVS' solid results presented in the period, and even with the economic slowdown, especially in the beginning of the year, consistent results are disclosed on this date. The year began with the challenge of integrating the operations of TOTVS and Datasul, transaction announced in the third quarter of 2008, and which made significant progress during the year. New agreements were signed with the development and distribution franchises, operational synergies could already be observed and scale gain contributed to improvement of Company's margin.

TOTVS' investments in 2009 were fundamental to support the results achieved and establish the basis for executing the Company's strategy in the coming years. In the year, R$118 million were expensed with Research and development (R&D), which is equivalent to 12% of net revenue, one of the highest in the Brazilian market, while the Company's workforce was reinforced with approximately 1,000 new employees. A new sales approach by segment was launched and investments were made in the international market by opening 9 new franchises. The growth observed in the period enabled the Company to record approximately R$1 billion in sales, as a result of TOTVS' rapid business expansion, its market share of the ERP market in 2008, reported in the middle of 2009, pointed to a gain of at least 200 basis points, versus 2007, in the major markets where the Company operates (38.7% share of the Brazilian market and 18.3% in Latin America).

The Management believes that TOTVS closes 2009 with a more robust structure based on relationship with clients, shareholders, employees, suppliers and other stakeholders involved with the Company's success.

ECONOMIC SCENARIO

The financial crisis that began in the United States in 2008 and which spread to other economies around the world led to a weak start for 2009, with uncertainties regarding the real proportions and the time necessary for nations to recover. In this troubled scenario, Barack Obama took office as president of the United States in January, launched economic incentive packages and even had to intervene in some companies to help the U.S. economy. At the same time, the Organization for Economic Co-operation and Development (OECD) warned that the Brazilian economy had entered in a process of "strong deceleration". The country entered a period of technical recession when GDP fall by 3.6% in 4Q08 and by 0.8% in 1Q09. The instability of the global economy in early 2009 was reflected in a generalized crash of the stock exchanges around the world and the appreciation of the U.S. dollar.

However, this scenario changed during the year. The stagnation of the crisis in some markets and the speed of reaction, especially Brazil, were decisive in gradually improving market sentiment. In the first half of the year, the economy felt the positive effects of the government's measures to stimulate the economy, which included reduction of tax rates (such as the IPI value-added tax on a few products), the gradual reduction in the basic interest rate (which came to 8.75% p.a., the lowest since its creation in 1999) and the long-term interest rate (TJLP) to its lowest figure of 6% p.a. The government also announced support measures for micro, small and medium enterprises due to their role as large employers in the country. The Brazilian Development Bank (BNDES) expanded its refinancing program (Refin), the use of the BNDES card was amplified, interest rates were cut and the Special Credit Program (PEC) had longer payment terms for working capital loans and had its duration extended.

The recovery of Brazil's financial markets from the middle of the year surprised economists. By the second quarter, Brazil's GDP had already grown by 1.9%, putting an end to the technical recession. In addition, figures for April already showed a positive balance for the country's employment rate for the first time in 2009. In August, this number had beaten the previous record in 1992. The U.S. dollar returned to the pre-crisis levels and its entry into the São Paulo Stock Exchange helped the Brazilian real to appreciate. The U.S. dollar declined by 24.6% in the year. The strong capital flow later turned Brazil a creditor of the International Monetary Fund (IMF). Measures to contain the real's appreciation, such as the 2% Tax on Financial Operations (IOF) on foreign investments in equities and fixed income securities, were taken in November.

Brazil is in the spotlight for its positive economic moment, considering the global moment. The country was announced as venue of the 2014 soccer World Cup and the 2016 Olympics will be hosted in Rio de Janeiro. Leading European newspapers such as the French 'Le Monde' and the Spanish 'El País' elected Brazilian president as the personality of the year.

In this scenario, the IT industry was also impacted by the crisis, but the intensity differed around the world. According to a Gartner Institute study, Latin America's ERP market continues to be the most promising in terms of growth between 2008 and 2013, with average growth estimated at 11.9% per year.

In Brazil, the survey "America Semiannual ERP Tracker" of the IDC institute estimated the ERP market in 2009 at R$2.5 billion, or a double digit growth when compared to the previous year. According to IDC, the fact that it is mandatory for companies to implement the Public Digital Bookkeeping System (SPED) and issue electronic invoices (NF-e) helped boost ERP sales. In the first half of the year, the economic segments that invested the most in ERP were manufacturing, services and retail.

CONSOLIDATED FINANCIAL AND OPERATING PERFORMANCE

TOTVS closed 2009 once again proving the resilience of its business model, which, even during a year of technical recession, returned positive results, such as the increase in the number of new and existing clients served, new clients as well as based clients, substantial growth in all revenue lines and record of R$120.296 million in net income, 150% up on the previous year. The Company recorded EBITDA (*) (earnings before interest, taxes, depreciation and amortization) of R$249.265 million in 2009, increasing by 78.2% on 2008, and reached an EBITDA (**) margin of 25.2%, which corresponded to a 460 basis points increase over 2008. These results once again highlight the strong fundamentals of the Company, a provider of management software (a basic product for all types of companies) to a highly unexplored Latin American market with low penetration.

Another highlight of 2009 was margin growth, the highest in the Company's recent history, resulting from the revenue growth and the strong capture of synergies from the companies acquired in recent years, as well as the gains in scale from its own structures.

In 2009, TOTVS' gross revenue totaled R$1,080.341 million, with net revenue of R$988.679 million, 45.7% up on the 2008 net revenue. Despite the adverse economic scenario, especially in the first half of the year, TOTVS' versatile business model, combined with its merger with Datasul S.A. in 2008, permitted it to record strong revenue growth.

License fees amounted to R$249.433 million, 34.6% more than the R$185.362 million in 2008. The increase is explained by the addition of 2,591 new software clients, increasing the number of existing clients served and the incorporation of Datasul's results.

Service revenue grew 32.7% over 2008, totaling R$332.069 million and R$250.302 respectively. The key growth factors were the increase in the volume of software implementation, the merger of Datasul, as well as the expansion of value-added service and consulting services.

Maintenance fees closed 2009 at R$498.839 million, 53.9% up on the R$324.199 million in 2008. The growth in the Company's client base, i.e., clients who pay every month for software updates and help-desk support, and the low churn rate in the year were the key growth factors. We closed 2009 with approximately 24,800 active clients.

Cost of license fees rose from R$14.222 million in 2008 to R$22.909 million in 2009, 61.1% up. This line represents the cost of third-party solutions sold by TOTVS and the main reason for its increase was the merger of Datasul.

The sum of cost of services and cost of sales totaled R$296.678 million in 2009, climbing 36.1% over 2008 and slightly higher than the upturn in revenue from services in the period. This disparity is partly due to the merger of Datasul and the increase in the workforce and the absorption of costs relating to the acquisitions in 2009, especially the distribution channels whose consolidation was intensified in the second half of the year.

Research and development expenses stood at R$118.446 million in 2009, representing 12.0% of the Company's net revenue, mainly influenced by the merger of Datasul and increased investments in TOTVS' proprietary technology to increase its versatility.

Advertising expenses amounted to R$30.715 million in 2009, and R$19.965 million in 2008, equivalent to 3.1% and 2.9% of net revenue. The merger of Datasul and the investments in the advertising campaign of 2009, more extensive compared to previous years, led to the increase in this cost line.

Selling expenses rose 35.0% between 2009 and 2008, from R$42.508 million to R$57.393 million, also mainly impacted by the merger of Datasul.

Commissions climbed from R$74.951 million in 2008 to R$102.970 million in 2009, up 37.4%, once again influenced by the Datasul merger, but remained below the net revenue growth in the period.

General and administrative expenses totaled R$76.268 million, a 25.3% increase over the R$60.881 million in the previous year. The share of these expenses dropped from 9.0% in 2008 to 7.7% in 2009, reflecting the gains in scale with the optimized structure.

Management fees in 2009 amounted to R$31.750 million, 27.7% more than the R$24.870 million in 2008, but below the period's net revenue growth.

Allowance for doubtful accounts in 2009 stood at R$7.720 million, 44.6% lower than the R$13.939 million in 2008. The increase is due to the incorporation of Datasul's results and improvement in Company's internal processes.

Depreciation and amortization expenses totaled R$69.918 million in 2009, versus R$87.497 million in 2008, a 20.1% reduction, mainly due to the extinction of the goodwill amortization from January 1st, 2009, as changes introduced by Law 11,638/07 and Law 11,941/09.

Financial expenses, mainly related to the funding operations in 2008, came to R$72.981 million. To conclude the Datasul merger, TOTVS contracted a loan from the BNDES under the PROSOFT program amounting to R$ 204.5 million, payable over six years at TJLP + 1.5% p.a. In addition, the Company issued convertible debentures for R$ 200 million, with amortization of the principal over eight years and of the interest in three more years. TOTVS had a cash balance of R$207,721 million on December 31. The Company reiterates that it has a conservative financial management policy for its debit and credit operations and that it did not carry out any speculative operations in the financial market.

TOTVS posted record net income of R$120.296 million in 2009, an increase of 149.5% over 2008.

(*) EBITDA is a non-accounting measure used by the Company, calculated in accordance with CVM Circular 01/2007, which corresponds to interest before taxes and contributions, minority interest, net financial expense/revenue, depreciation, amortization and non-operating result.

(**) EBITDA margin is the percentage between EBITDA and net revenue.

CAPITAL MARKETS

Free float on December 31, 2009 was 68.1%, i.e., 21,207,536 (out of a total of 31,152,402 shares). The remaining shares are held by the Company's administrators (25.4%), including related persons and companies controlled by them, and by BNDES Participações S/A (6.5%).

In 2009, TOTVS' shares (Bovespa: TOTS3) appreciated 219.0% (while the Bovespa index rose 82.7%), from R$36.99 on December 31, 2008 to R$118.00 on December 31, 2009. In the same period, the average daily trading volume on the stock exchange was 72,488 shares, or R$4.9 million in financial volume.

With regard to the capital markets, following are a few of the highlights in 2009:

Interest on equity for the year 2008 totaled R$19.5 million, paid in January.
Dividends for the year 2008 paid in March and amounted to R$16.5 million.

Interest on equity for the year 2009 amounting to R$22.5 million was approved on December 10 and paid on January 20, 2010. It will be imputed to the minimum mandatory dividend in accordance with Article 37 of TOTVS' Bylaws.
Dividends for the year 2009: On February 2, 2010, the Board of Directors proposed dividends totaling R$69.3 million, to be submitted to the Annual Shareholders' Meeting.

CORPORATE GOVERNANCE

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

Board of Directors: TOTVS' Board of Directors is composed of 6 members, 5 of them external and independent members, in accordance with Novo Mercado regulations. The Executive Board is composed of 36 officers. The list containing the names, position and a brief resume of the Board members and Executive Officers is available at www.totvs.com/ri.

Audit Committee: created in 2007, it aids the Board of Directors in conducting the Company's business in the best possible manner and, in accordance with the best market practices, the Company's internal and external audit. Its members are elected by the Board of Directors and meet at least 8 times a year. The committee currently has 3 members.

People Committee: created to aid the Board of Directors in establishing the compensation and benefits for executive offices and board members. It is important to note that the committee currently has 4 members, 1 of them independent.

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

Management Statement: In accordance with CVM Instruction 480/09, the officers of TOTVS declare that they discussed, reviewed and agreed with the views expressed in the independent auditors' report and financial statements for the fiscal year ended December 31, 2009.

RELATIONSHIP WITH INDEPENDENT AUDITORS

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

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

In addition to the audit services of the annual financial statements, services related to the review of macro-processes and the review of tax aspects were also conducted. The fees related to these services amounted to R$242.1 thousands, representing 35.1% of the total fees related to the external audit.

ACKNOWLEDGEMENTS

We thank all who contributed to the Company in any manner, thus enabling TOTVS' success in the Brazilian and Latin American markets, especially our employees for their dedication every day, our shareholders for their support, our clients for their trust and our partners for their cooperation.

TOTVS S.A.

FINANCIAL STATEMENTS

December 31, 2009 and 2008

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Report of independent auditors

The Board of Directors and Shareholders
Totvs S.A.

1. We have audited the accompanying balance sheets (Company and Consolidated) of Totvs S.A. and subsidiaries as of December 31, 2009 and 2008, and the related statements of income, changes in shareholders' equity, cash flows and value added for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. We conducted our audits in accordance with generally accepted auditing standards in Brazil, which comprised: a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company and subsidiaries; b) the examination on a test basis of documentary evidence and accounting records supporting the amounts and disclosures in financial statements; and c) an assessment of the accounting practices used and significant estimates made by management of the Company and its subsidiaries, as well as an evaluation of the overall financial statement presentation.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly in all material respects, the financial position of Totvs S.A. (Company and Consolidated), at December 31, 2009 and 2008, and the results of its operations, changes in its shareholders' equity, and its cash flows and value added in operations for the years then ended in accordance with accounting practices adopted in Brazil.

4. Accounting practices adopted in Brazil differ significantly in certain respects from International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The Company disclosed in Note 24, in compliance with Listing on New Market Regulation, issued by the São Paulo Stock Exchange (Bovespa) the reconciliation of shareholders' equity and consolidated net income, identifying the differences between accounting practices adopted in Brazil and IFRS in force at the base date of the financial statements. Therefore, these may be changed when the Company presents its first complete consolidated financial statements in accordance with the International Financial Reporting Standards in force at the time of that presentation. This reconciliation does not include or represent all disclosures required by IFRS and, consequently, does not represent complete set financial statements in accordance with IFRS.

São Paulo, February 2, 2010

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/0-6

Luiz Carlos Marques
Accountant CRC1SP147693/O-5

TOTVS S.A.

Balance Sheets
December 31, 2009 and 2008
(Amounts expressed in thousands of Reais, except when indicated otherwise)

		Parent Company		Consolidated	
Assets	Note	2009	2008	2009	2008
Current assets					
Cash and cash equivalents	5	**161,860**	92,514	**207,721**	120,677
Marketable securities	6	**21,450**	10,701	**22,469**	14,301
Trade accounts receivables	7	**175,544**	123,645	**230,995**	172,352
Allowance for doubtful accounts		**(14,677)**	(11,361)	**(20,314)**	(19,139)
Deferred income and social contribution taxes	8	**15,887**	16,090	**17,944**	18,127
Dividends receivable	10	**3,605**	74	**-**	-
Recoverable taxes	9	**28,442**	13,952	**32,716**	18,664
Other		**6,967**	5,219	**11,646**	7,662
		399,078	250,834	**503,177**	332,644
Non-current assets					
Long-term assets					
Marketable Securities	6	**17,206**	9,969	**19,314**	12,428
Trade accounts receivable	7	**2,242**	4,474	**6,000**	4,474
Credits with related companies	10	**27,243**	24,764	**-**	-
Deferred income and social contribution taxes	8	**19,735**	35,400	**22,623**	36,950
Judicial deposits	17	**7,443**	8,385	**7,443**	8,385
Other accounts receivable		**3,316**	2,327	**4,147**	3,265
		77,185	85,319	**59,527**	65,502
Investments	11	**87,233**	58,688	**10**	21
Property, plant and equipment	12	**26,348**	26,343	**32,887**	31,863
Intangible assets	13	**580,996**	581,922	**613,502**	610,303
		771,762	752,272	**705,926**	707,689
Total		**1,170,840**	1,003,106	**1,209,103**	1,040,333

Liabilities	Note	Parent Company 2009	Parent Company 2008	Consolidated 2009	Consolidated 2008
Current liabilities					
Trade accounts payable		**14,723**	19,649	**23,984**	27,711
Loans and financing	15	**7,118**	4,216	**7,838**	5,242
Lease payable		**3,786**	4,814	**4,027**	5,036
Taxes payable		**3,718**	1,856	**7,198**	7,937
Salaries and charges payable		**48,178**	33,392	**59,199**	42,329
Commissions payable		**31,346**	17,624	**32,765**	19,135
Dividends and interest on equity payable		**69,474**	33,673	**69,474**	33,724
Liabilities from investment acquisition	14	**33,159**	15,279	**34,577**	16,299
Debentures	16	**5,218**	5,634	**5,218**	5,634
Other liabilities		**2,095**	1,566	**3,329**	4,542
		218,815	137,703	**247,609**	167,589
Non-current liabilities					
Loans and financing	15	**208,963**	163,270	**210,038**	163,270
Lease payable		**2,044**	4,297	**2,138**	4,444
Debentures	16	**212,219**	202,777	**212,219**	202,777
Provision for losses on investments	11	**3,045**	1,654	**-**	-
Provision for contingencies and legal obligations related to legal proceedings	17	**3,883**	15,384	**3,883**	15,384
Liabilities from investment acquisition	14	**18,578**	22,922	**20,286**	25,748
Other liabilities		**1,822**	1,421	**5,001**	1,902
		450,554	411,725	**453,565**	413,525
Minority interest		**-**	-	**6,458**	5,541
Shareholders' Interest					
Capital Stock	18	**376,493**	376,493	**376,493**	376,493
Capital reserve	18	**48,851**	46,831	**48,851**	46,831
Cumulative translation adjustment		**(1,977)**	532	**(1,977)**	532
Income reserve		**78,104**	29,822	**78,104**	29,822
		501,471	453,678	**501,471**	453,678
Total liabilities		**1,170,840**	1,003,106	**1,209,103**	1,040,333

See accompanying notes.

TOTVS S.A.

Statement of Income
Years ended on December 31, 2009 and 2008
(Amounts expressed in thousands of Reais, except when indicated otherwise)

	Note	Parent Company		Consolidated	
		2009	**2008**	**2009**	**2008**
Gross revenue from services and sales					
License fees		**177,470**	130,593	**249,433**	185,362
Service		**192,508**	146,579	**332,069**	250,302
Maintenance		**475,601**	270,576	**498,839**	324,199
		845,579	547,748	**1,080,341**	759,863
Deduction from revenues					
Cancellation of services and sales		**(15,898)**	(18,726)	**(22,263)**	(27,455)
Taxes on services and sales		**(52,902)**	(38,040)	**(69,399)**	(53,643)
Net revenues from services and sales		**776,779**	490,982	**988,679**	678,765
Cost of license fees		**(12,727)**	(5,739)	**(22,908)**	(14,222)
Cost of services and maintenance		**(199,286)**	(131,790)	**(296,679)**	(217,925)
Gross profit		**564,766**	353,453	**669,092**	446,618
Operating income (expenses)					
Research and development		**(94,831)**	(54,590)	**(118,446)**	(69,523)
Advertising expenses		**(28,928)**	(14,620)	**(30,715)**	(19,965)
Selling expenses		**(40,462)**	(26,813)	**(57,393)**	(42,508)
Commissions		**(98,148)**	(67,333)	**(102,970)**	(74,951)
General and administrative		**(60,435)**	(44,946)	**(76,268)**	(60,881)
Management fees	10c	**(27,905)**	(21,144)	**(31,750)**	(24,870)
Depreciation and amortization	12/13	**(65,218)**	(80,435)	**(69,918)**	(87,497)
Allowance for doubtful accounts		**(5,697)**	(8,293)	**(7,720)**	(13,939)
Other net operating income (expenses)		**6,572**	1,229	**5,435**	(98)
Income before financial effects and equity pickup		**149,714**	36,508	**179,347**	52,386
Financial revenues	23	**12,540**	18,583	**19,257**	26,093
Financial expenses	23	**(69,233)**	(40,804)	**(72,981)**	(44,108)
Equity pickup	11	**19,630**	10,241	**-**	-
Income before income and social contribution taxes		**112,651**	24,528	**125,623**	34,371
Current		**-**	(8,156)	**(11,748)**	(15,662)
Deferred		**(14,855)**	12,340	**(13,479)**	11,297
	8	**(14,855)**	4,184	**(25,227)**	(4,365)
Income before reversal of interest on equity		**97,796**	28,712	**100,396**	30,006
Reversal of interest in equity	18	**22,500**	19,500	**22,500**	19,500
Net income for the year before minority interests		**120,296**	48,212	**122,896**	49,506
Minority interest			**-**	**(2,600)**	(1,294)
Net income for the year		**120,296**	48,212	**120,296**	48,212
Outstanding shares at the end of the year	18	**31,152,402**	31,152,402		
Earnings per thousand shares (amounts in R$)		**3,862**	1,548		

See accompanying notes.

TOTVS S.A.

Statements of Changes in Shareholders' Equity
for the years ended on December 31, 2009 and 2008

(Amounts expressed in thousands of Reais, except when indicated otherwise)

	Note	Capital Stock	Capital Reserve	Legal Reserve	Income Reserve	Cumulative translation Adjustment	Retained earnings	Total	Minority Interest
Balances at December 31, 2007		307,373	31,557	3,549	14,185	-	(113)	356,551	796
Capital increase								-	
Through merger		69,120	14,330	-	-	-	-	83,450	-
Through acquisition		-	-	-	-	-	-	-	3,496
Translation adjustments		-	-	-	-	532	-	532	-
Net income for the year	18	-	-	-	-	-	48,212	48,212	1,294
Allocation of net income:		-	-	-	-	-	-	-	-
Setup of legal reserve		-	-	2,411	-	-	(2,411)	-	-
Share-based payment	22	-	944	-	-	-	-	944	-
Dividends proposed	18	-	-	-	-	-	(16,511)	(16,511)	(45)
Interest on equity paid	18	-	-	-	-	-	(19,500)	(19,500)	-
Setup of income reserve	18	-	-	-	9,677		(9,677)	-	-
Balances at December 31, 2008		376,493	46,831	5,960	23,862	532	-	453,678	5,541
Capital increase								-	**1,965**
Through acquisition		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,648)**
Translation adjustments		**-**	**-**	**-**	**-**	**(2,509)**	**-**	**(2,509)**	**-**
Net income for the year	18	**-**	**-**	**-**	**-**	**-**	**120,296**	**120,296**	**2,600**
Profit allocation:		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Setup of legal reserve		**-**	**-**	**6,015**	**-**	**-**	**(6,015)**	**-**	**-**
Share-based payment	22	**-**	**2,020**	**-**	**-**	**-**	**-**	**2,020**	**-**
Proposed dividends	18	**-**	**-**	**-**	**-**	**-**	**(49,597)**	**(49,597)**	**-**
Interest on equity paid	18	**-**	**-**	**-**	**-**	**-**	**(22,500)**	**(22,500)**	**-**
Reversal of Interest on Own Capital	18						**83**	**83**	
Setup income reserve	18	**-**	**-**	**-**	**42,267**	**-**	**(42,267)**	-	**-**
Balances at December 31, 2009		**376,493**	**48,851**	**11,975**	**66,129**	**(1,977)**	**-**	**501,471**	**6,458**

See accompanying notes.

TOTVS S.A.

Cash flow Statements
For the years ended on December 31, 2009 and 2008
(Amounts expressed in thousands of Reais, except when indicated otherwise)

	Parent Company		Consolidated	
	2009	2008	2009	2008
Cash flows provided from operating activities				
Net income for the year	**120,296**	48,212	**120,296**	48,212
Adjustments:				
Depreciation and amortization	**65,218**	80,435	**69,918**	87,497
Share-based payment	**2,020**	944	**2,020**	944
Losses on the sale of permanent assets	**(3,075)**	250	**(1,531)**	250
Allowance for doubtful accounts	**5,697**	8,293	**7,720**	13,939
Deferred income and social contribution taxes	**15,873**	(12,340)	**14,497**	(11,297)
Equity pickup	**(19,630)**	(10,241)	**-**	-
Interest and monetary and exchange variations, net	**41,702**	15,198	**42,471**	16,441
Provision for investment losses	**2,083**	147	**-**	-
Provision for contingencies	**(8,606)**	8,229	**(8,605)**	8,229
Changes in operating assets and liabilities:				
Marketable securities	**(17,986)**	(20,670)	**(15,054)**	(26,729)
Trade accounts receivable	**(52,048)**	(25,201)	**(66,714)**	(38,670)
Dividends received	**6,486**	4,573	**-**	-
Other assets	**(16,212)**	(17,112)	**(17,888)**	(15,921)
Judicial deposits	**(1,954)**	(9,070)	**(1,954)**	(9,070)
Trade accounts payable and liabilities from investment acquisition	**8,610**	(17,309)	**9,089**	(8,966)
Taxes payable	**1,862**	(1,270)	**(739)**	(158)
Salaries and charges payable	**14,786**	4,048	**16,870**	6,369
Commissions payable	**13,722**	795	**13,630**	2,427
Other accounts payable	**930**	(3,942)	**(1,641)**	(8,496)
Minority interest	**-**	-	**917**	3,152
Net cash flow provided by operating activities	**179,774**	**53,969**	**183,302**	**68,153**
Net cash flow used by investment activities				
Acquisition of subsidiaries less net cash included in the acquisition	**(46,487)**	(408,304)	**(46,487)**	(408,304)
Addition to investments	**(19,686)**	(18,223)	**-**	-
Addition to intangible assets	**(14,953)**	(3,069)	**(17,592)**	(9,297)
Sales value of permanent assets	**5,656**	258	**5,656**	1,054
Investment reduction due to merger of subsidiary	**1,990**	6,409	**-**	-
Acquisition of equipment	**(14,175)**	(8,734)	**(17,490)**	(14,288)
Net cash flow provided by (used in) investment activities	**(87,655)**	**(431,663)**	**(75,913)**	**(430,835)**
Cash flow from investment activities				
Bank loans	**15,919**	166,786	**15,919**	167,081
Issue of debentures	**-**	208,412	**-**	208,412
Credit with related companies	**(2,479)**	(827)	**-**	-
Dividends paid	**(36,213)**	(29,537)	**(36,264)**	(29,537)
Net cash flow provided by (used in) financing activities	**(22,773)**	344,834	**(20,345)**	345,956
Increase (reduction) in cash and cash equivalents	**69,346**	(32,860)	**87,044**	(16,726)
Cash and cash equivalents at the beginning of the period	**92,514**	125,374	**120,677**	137,403
Cash and cash equivalents at the end of the period	**161,860**	92,514	**207,721**	120,677
Interest Payment of tax	**33,123**	11,627	**33,123**	12,044
Payment of income tax and social contribution	**-**	-	**7,524**	1,774

See accompanying notes.

TOTVS S.A.

Statements of value added
for the years ended on December 31, 2009 and 2008
(Amounts expressed in thousands of Reais, except when indicated otherwise)

	Parent Company		Consolidated	
	2009	2008	2009	2008
1 – REVENUES	**830,562**	**520,206**	**1,055,881**	**717,525**
1.1 Sale of goods, products and services	**829,683**	529,022	**1,058,080**	732,408
1.2 Other revenues	**6,576**	(523)	**5,520**	(944)
1.3 Allowance for doubtful accounts – reversal/ (set-up)	**(5,697)**	(8,293)	**(7,719)**	(13,939)
2 – RAW MATERIAL ACQUIRED FROM THIRD-PARTY (includes ICMS and IPI taxes)	**(282,930)**	**(169,055)**	**(387,571)**	**(264,422)**
2.1 Cost of goods and services sold	**(12,223)**	(13,215)	**(25,104)**	(40,181)
2.2 Materials, energy, third-party services and other	**(270,707)**	(155,840)	**(362,467)**	(224,241)
3 – GROSS VALUE ADDED (1-2)	**547,632**	**351,151**	**668,310**	**453,103**
4 – DEPRECIATION AND AMORTIZATION	**(65,218)**	(80,435)	**(69,918)**	(87,497)
5 – NET VALUE ADDED PRODUCED BY THE ENTITY	**482,414**	**270,716**	**598,392**	**365,606**
6 – VALUE ADDED RECEIVED FROM TRANSFER	**32,170**	**28,824**	**19,256**	**26,093**
6.1 Equity pickup	**19,630**	10,241	**-**	-
6.2 Financial income	**12,540**	18,583	**19,256**	26,093
7 – TOTAL VALUE ADDED TO DISTRIBUTE (5+6)	**514,584**	**299,540**	**617,648**	**391,699**
8 –DISTRIBUTION OF VALUE ADDED	**(514,584)**	**(299,540)**	**(617,648)**	**(391,699)**
8.1 Personnel	**(207,465)**	**(157,290)**	**(267,746)**	**(207,996)**
8.1.1 Direct compensation	**(175,461)**	(131,588)	**(227,149)**	(174,644)
8.1.2 Benefits	**(19,222)**	(15,225)	**(24,930)**	(20,080)
8.1.3 FGTS (worker's severance fund)	**(12,782)**	(10,477)	**(15,667)**	(13,272)
8.2 Taxes, fees and contributions	**(128,111)**	**(65,021)**	**(163,834)**	**(99,146)**
8.2.1 Federal	**(108,339)**	(48,003)	**(138,847)**	(76,678)
8.2.2 State	**-**	(6)	**(105)**	(117)
8.2.3 Municipal	**(19,772)**	(17,012)	**(24,882)**	(22,351)
8.3 Interests and rentals	**(58,712)**	**(29,017)**	**(63,172)**	**(35,051)**
8.3.1 Interests	**(46,244)**	(19,015)	**(49,004)**	(21,673)
8.3.2 Rentals	**(12,468)**	(7,712)	**(14,168)**	(10,443)
8.3.3 Others	**-**	(2,290)	**-**	(2,935)
8.4 Equity remuneration	**(120,296)**	**(48,212)**	**(122,896)**	**(49,506)**
8.4.1 Interest on equity	**(22,500)**	(19,500)	**(22,500)**	(19,500)
8.4.2 Dividends paid or credited to shareholders	**(49,597)**	(16,511)	**(49,597)**	(16,511)
8.4.3 Retained earnings (accumulated losses)	**(48,199)**	(12,201)	**(48,199)**	(12,201)
8.4.4 Minority interest in retained earnings	-	-	**(2,600)**	(1,294)

See accompanying notes..

1. Corporate information

Totvs S.A., (hereinafter referred to as “Parent Company”, “Totvs”, or “the Company”) is a publicly-held corporation with headquarters in the City of São Paulo, State of São Paulo, whose shares are traded on the São Paulo Stock Exchange (BOVESPA).

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

During the years ended December 31, 2009 and 2008, the Company carried out important transactions involving business combinations and mergers of subsidiaries as disclosed in Note 4.

2. Basis for Preparation and Presentation of the Financial Statements

The financial statements were prepared based on the accounting practices adopted in Brazil and the rules of Brazilian Securities and Exchange Commission (CVM), observing the accounting guidelines issued by Brazilian Corporation Law (Law 6,404/76) which includes new provisions and those amended and revoked by Law 11,638 of December 28, 2007 and by Law 11,941 of May 27, 2009.

In addition, the Company shows in Note 24 the reconciliation between the net income for the years and the balance of shareholders’ equity of the consolidated financial statements of December 31, 2009 and 2008, both accounted in accordance with IFRS (International Financial Reporting Standards), enacted by the International Accounting Standards Board, consolidated results and balance of shareholders’ equity related to the same periods, prepared according to the accounting practices adopted in Brazil.

2. Basis for Preparation and Presentation of the Financial Statements – Continued

The Board of Directors in a meeting held on February 2, 2010, authorized the conclusion of the preparation of these financial statements.

Pursuant to the provisions of CVM Resolution 565 of December 17, 2008, which approved the accounting pronouncement CPC 13 – Preliminary Adoption of Law 11,638/07 and Provisional Measure 449/08 (converted into Law 11,941/09), the Company established January 1, 2008 as the transition date for the adoption of new accounting practices. The transition date is defined as the basis for the adoption of changes in accounting practices adopted in Brazil and represents the reference date by which the Company prepared its preliminary balance sheet adjusted by these new 2008 accounting provisions.

The second phase for the convergence of the Brazilian generally accepted accounting principles into the international standards was concluded in 2009, with the edition of the Technical Pronouncements CPC 15 to 43 (except for CPCs 34 – Mineral Resources, 41 – Earnings per share and 42 – Hyperinflationary Economy) and several interpretations. These pronouncements issued in 2009 were approved for mandatory adoption as of 2010, with retroactive effect to 2009 for comparative purposes. Consequently, 2009 has been still ruled by the pronouncements issued and approved to be applied in 2008.

The changes in accounting practices that generated effects in the preparation or in the presentation of the financial statements for the years ended on December 31, 2009 and 2008 were measured and recorded by the Company based on the following accounting pronouncements issued by the Brazilian Committee on Technical Pronouncements and approved by the Brazilian Securities and Exchange Commission and the Federal Accounting Council:

- Conceptual Structure for the Preparation and Presentation of Financial Statements, approved by CVM Resolution 539 of March 14, 2008;
- CPC 01 Impairment of Assets, approved by CVM Resolution 527 of November 1, 2007;
- CPC 02 Effects in Changes in Exchange Rates and Translation of Financial Statements, approved by CVM Resolution 534 of January 29, 2008;
- CPC 03 Statement of Cash Flows, approved by CVM Resolution 547 of August 13, 2008;
- CPC 04 Intangible Assets, approved by CVM Resolution 553 of November 12, 2008;

2. Basis for Preparation and Presentation of the Financial Statements – continued

- CPC 05 Disclosure on Related Parties, approved by CVM Resolution 560 of December 11, 2008;
- CPC 06 Leasing Operations, approved by CVM Resolution 554 of November 12, 2008;
- CPC 08 Transaction Costs and Premiums on the Issue of Securities, approved by CVM Resolution 556 of November 11, 2008;
- CPC 09 Statement of Added Value, approved by CVM Resolution 557 of November 12, 2008;
- CPC 10 Share-Based Payment, approved by CVM Resolution 562 of December 17, 2008;
- CPC 12 Adjustment at Present Value, approved by CVM Resolution 564 of December 17, 2008;
- CPC 13 Preliminary Adoption of Law 11,638/07 and Provisional Measure 449/08, approved by CVM Resolution 565 of December 17, 2008;
- CPC 14 Financial Instruments: Recognition, Measurement and Supporting Documentation, approved by CVM Resolution 566 of December 17, 2008.

The opening balance sheet of January 1, 2008, transition date was prepared taking into account the exceptions required and some of the optional exemptions authorized by accounting pronouncement CPC 13, applicable to the 2009 and 2008 financial statements, as follows:

a) Impartiality for tax purposes in an initial application of Law 11,638/07 and Law 11,941/09:

The Company opted for the Transition Tax Regime (RTT) enacted by Provisional Measure 449/08, by means of which assessments of corporate income tax (IRPJ), social contribution on net income (CSLL), social contribution on gross revenue for the social integration program (PIS) and social contribution on gross revenue for social security financing (COFINS) related to the two-year period 2008-2009 are still made based on methods and criteria set forth by Law 6,404 of December 15, 1976, in force on December 31, 2007. Therefore, the deferred income and social contribution taxes, calculated on the adjustments deriving from the adoption of new accounting practices deriving from Law 11,638 of December 28, 2007 and Law 11,941 of May 27, 2009, were recorded in the Company's financial statements, where applicable, pursuant to CVM Rule 371. The Company, in its 2009 Corporate Income Tax Return (DIPJ), opted for the RTT.

2. Basis for Preparation and Presentation of the Financial Statements – continued

b) Exception on goodwill amortization based on future profitability

Goodwill based on future profitability recorded by the Company, were not amortized in 2009. The goodwill recorded until December 31, 2008 was amortized on a straight-line basis until that date, based on its projections within the terms mentioned in Note 13.

Therefore, the Company reports its financial statements in conformity with the requirements of Phase I for the implementation of the convergence process of the Brazilian generally accepted accounting practices into the international standards.

The following pronouncements and interpretations shall be adopted by the Company in the preparation of its financial statements as of 2010, including retroactive application, where applicable:

Pronouncements:

- CPC 15 Business Combination, approved by CVM Resolution 580 of July 31, 2009;
- CPC 18 Investment in Associated Companies, approved by CVM Resolution 605 of November 26, 2009;
- CPC 19 Investment in Joint Venture, approved by CVM Resolution 606 of November 26, 2009;
- CPC 20 Loan Costs, approved by CVM Resolution 577 of June 5, 2009;
- CPC 21 Interim Financial Statements, approved by CVM Resolution 581 of July 31, 2009;
- CPC 22 Information by Segment, approved by CVM Resolution 582 of July 31, 2009;
- CPC 23 Accounting Policies, Changes of Estimates and Rectification of Error, approved by CVM Resolution 592 of September 15, 2009;
- CPC 24 Subsequent Events, approved by CVM Resolution 593 of September 15, 2009;
- CPC 25 Provisions, Contingent Assets and Liabilities, approved by CVM Resolution 594 of September 15, 2009;
- CPC 26 Presentation of Financial Statements, approved by CVM Resolution 595 of September 15, 2009;
- CPC 27 Fixed Assets, approved by CVM Resolution 583 of July 31, 2009.

2. Basis for Preparation and Presentation of the Financial Statements – continued

- CPC 30 Revenues, approved by CVM Resolution 597 of September 15, 2009;
- CPC 32 Income Taxes, approved by CVM Resolution 599 of September 15, 2009;
- CPC 33 Employees Benefits, approved by CVM Resolution 600 of October 7, 2009;
- CPC 35 Separate Financial Statements, approved by CVM Resolution 607 of November 26, 2009;
- CPC 36 Consolidated Financial Statements, approved by CVM Resolution 608 of November 26, 2009;
- CPC 37 Preliminary Adoption of the International Financial Reporting Standards, approved by CVM Resolution 609 of December 22, 2009;
- CPC 38 Financial Instruments: Recognition and Measurement, approved by CVM Resolution 604 of November 19, 2009;
- CPC 39 Financial Instruments: Presentation, approved by CVM Resolution 604 of November 19, 2009;
- CPC 40 Financial Instruments: Supporting Documentation, approved by CVM Resolution 604 of November 19, 2009;
- CPC 43 Preliminary Adoption of Technical Pronouncements CPC 15 to 40, approved by CVM Resolution 610 of December 22, 2009;

Interpretations

- ICPC 03 – Supplementary Aspects of Leasing Operations, approved by CVM Resolution 613 of December 22, 2009;
- ICPC 04 – Scope of the Technical Pronouncement CPC 10 – Share-Based Payment, approved by CVM Resolution 614 of December 22, 2009;
- ICPC 05 – Technical Pronouncement CPC 10 – Share-Based Payment – Group Share Transactions and Treasury Shares, approved by CVM Resolution 615 of December 22, 2009;
- ICPC 06 - Hedge of Net Investment in Foreign Operation, approved by CVM Resolution 616 of December 22, 2009;
- ICPC 07 – Profit Sharing in Kind, approved by CVM Resolution 617 of December 22, 2009;
- ICPC 08 – Accounting of the Proposal for Payment of Dividends, approved by Resolution 601/09 of October 7, 2009;

(Amounts expressed in thousands of Reais, except when indicated otherwise)

2. Basis for Preparation and Presentation of the Financial Statements – continued

- ICPC 09 – Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements and Application of the Equity Accounting Method, approved by CVM Resolution 618 of December 22, 2009;
- ICPC 10 – Interpretation on the Initial Application of the Technical Pronouncements CPC 27, 28, 37 and 43 to the Fixed Assets and Investment Property, approved by CVM Resolution 619 of December 22, 2009;
- ICPC 11 – Receipt in Transfer of Clients Assets, approved by CVM Resolution 620 of December 22, 2009;
- ICPC 12 – Changes in liabilities due to Shutting Down, Restructuring and Other Related Liabilities, approved by CVM Resolution 621 of December 22, 2009.

2.1. Consolidation

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

	Interest			
	2009		2008	
Subsidiary	**Direct**	**Indirect**	**Direct**	**Indirect**
Totvs Rio Software Ltda. ("Totvs Rio")	100.0%	-	100.0%	-
Microsiga Argentina S.A. ("Microsiga Argentina")	100.0%	-	100.0%	-
Microsiga México S.A. ("Microsiga México")	98.0%	-	98.0%	-
Microsiga Corporation ("Microsiga Corporation")	100.0%	-	100.0%	-
Totvs Vitória Software Ltda. ("Totvs Vitória") **(a)**	-	-	100.0%	-
Microsiga Nordeste Software Ltda. ("Microsiga Nordeste")	100.0%	-	100.0%	-
Setware Informática Ltda. ("Setware")	-	100.0%	-	100.0%
Totvs Brasília Software Ltda. ("Totvs Brasília")	100.0%	-	100.0%	-
RO Resultados em Outsourcing S.A. ("RO") **(c)**	100.0%	-	60.0%	-
Inteligência Organizacional Serviços, Sistemas e Tecnologia em Software Ltda. ("IOSSTS")	100.0%	-	100.0%	-
Eurototvs Ltda. ("Eurototvs")	100.0%	-	100.0%	-
TQTVD Software Ltda. ("TQTVD") **(b)**	55.0%	-	70.0%	-
Look S.A. ("Look") **(d)**	100.0%	-	51.0%	-
BCS Comércio e Serviços de Informática Ltda. ("BCS Comércio")	100.0%	-	100.0%	-
BCS Engenheiro Associados Ltda. ("BCS Engenharia")	100.0%	-	100.0%	-
BCSFLEX Comércio e Serviços de Informática Ltda. ("BCS Flex")	100.0%	-	100.0%	-
HBA Informática Ltda. ("HBA")	100.0%	-	100.0%	-
Midbyte Informática S.A. ("Midbyte")	70.0%	-	70.0%	-
Datasul S.A. de CV ("Datasul México")	100.0%	-	100.0%	-
Datasul Incorporation ("Datasul USA")	100.0%	-	100.0%	-
Datasul Argentina S.A. ("Datasul Argentina")	100.0%	-	100.0%	-
Datasul Serviços em Informática e consultoria S.A. ("Datasul Serviços")	100.0%	-	100.0%	-
Gens Tecnologia da Informação Ltda. ("Gens")	100.0%	-	100.0%	-
YMF Arquitetura Financeira de Negócios S.A. ("YMF") **(d)**	100.0%	-	80.0%	-
Tools Arquitetura Financeira de Negócios S.A. ("TOOLS") **(d)**	100.0%	-	90.0%	-
DTSL Sistemas e Serviços de Informática S.A. ("DTSL")	100.0%	-	100.0%	-
Soft Team Consultoria e informática Ltda. ("Soft Team")	-	100.0%	-	100.0%
DTS Consulting Partner, AS de CV ("Partner")	-	100.0%	-	100.0%
Hery Software Ltda. ("Hery") **(c)**	100.0%	-	-	-
Totalbanco Consultoria e Sistemas Ltda. ("Totalbanco") **(c)**	70.0%	-	-	-

(a) Shareholding sold in 2009.
(b) Shareholding variation in 2009, see Note 13.
(c) Business combination in 2009, see Note 4.
(d) Other minority interest acquisitions in 2009.

2. Basis for Preparation and Presentation of the Financial Statements – continued

2.1. Consolidation -- continued

The results of acquired/merged subsidiaries during 2009 and 2008 are included in the statements of income as of the date of their acquisition/combination. Therefore, for comparison purposes of the consolidated and parent company's results between 2009 and 2008, we must consider the dates of acquisition and incorporation of each subsidiary's results.

The fiscal years of subsidiaries included in the consolidation are compatible with the parent company and the accounting practices and policies were consistently applied over consolidated companies and in conformity with those applied in the previous year.

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

3. Main Accounting Practices

a) Revenues and expenses

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

The revenues related to the license of use are recognized upon: (i) execution of the agreement and the delivery of the software to the client; ii) its value may be measured reliably (pursuant to the terms of agreement); iii) all risks and benefits inherent to the license are transferred to the buyer; iv) the Company no longer owns the effective control over license; and v) it is probable that economic benefits will be generated to the benefit of the Company. Revenues from use license resulting from subscription are recognized on a monthly basis, for a term set forth in the agreement.

The revenues from services are billed separately and recognized as the services are rendered. Revenues related to technological upgrade and help desk service are billed and recognized on a monthly basis, during the length of the agreement with clients.

Booked revenues which do not achieve the mentioned recognition criteria are reversed from the revenues account, and booked as deductions under their respective accounts receivables group.

3. Main Accounting Practices

a) Revenues and expenses -- continued

Revenues are presented in the income of income for the year by their gross value, i.e., they include taxes levied thereon, which are presented as revenue deductions.

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

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

b) Translation of foreign currency-denominated balances

The functional currency of the Company and its subsidiaries based in Brazil is the Brazilian Real, the same currency used in the preparation and presentation of parent company and consolidated financial statements. The financial statements of each subsidiary included in the Company's consolidation and those evaluated according to the equity accounting method are prepared based on the functional currency of each entity. Concerning subsidiaries located abroad that the Management concluded have administrative, financial and operational independence, their assets and liabilities are translated into Reais at the exchange rate on the balance sheet closing dates and the results translated into Reais by the monthly average rates of the periods. Due to amendments enacted by CPC 2, the restatement of investment accounts deriving from exchange variation, are now recognized as accumulated conversion adjustment in shareholders' equity of the parent company since 2008.

3. Main Accounting Practices -- continued

c) *Cash and cash equivalents*

These include cash, cash account balances and financial investments redeemable within 90 days of the balance sheet dates and with insignificant risk of change in its market value. The financial investments included in cash and cash equivalents are mostly classified as “financial assets at fair value through income.” The opening of these financial investments by type of classification is shown in Note 5.

d) *Trade accounts receivable*

These are shown at realization amounts, and the accounts receivable from clients in the foreign market are restated based on exchange rates effective on the date of financial statements. A provision was recorded in an amount considered sufficient by the Management for the credits of which recovery is considered doubtful, based on the individual analysis of each client with installments in arrears.

e) *Investments*

The Company’s investments in subsidiaries are valued by the equity accounting method. (Note 11)

f) *Property, plant and equipment*

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

g) *Lease*

Financial lease agreements are recognized in property, plant and equipment and in liabilities of loans and financing. The amounts recorded in property, plant and equipment are depreciated for the lesser term between the estimated economic-useful life of assets and the estimated duration of the leasing agreement. Operating leasing agreements are recognized as expense on a systematic basis that represents the period in which the benefit over leased asset is obtained, even if these payments are not provided on this same basis.

3. Main Accounting Practices – continued

h) Intangible assets

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

The assets with indeterminate useful life were amortized by the straight-line method until December 31, 2008. This is the case of goodwill derived from business combinations, which is economically based on future profitability and amortized on a straight-line basis for a term between 5 and 10 years until December 31, 2008, based on its projections within terms mentioned (Note 13). Goodwill has no longer been amortized as of January 1, 2009.

For business combinations, in 2009 and 2008 the Company recorded assets and liabilities identified by their fair value, so that only the portion that exceeded the difference between the fair value (market value) of these assets and liabilities and the book value, was recorded as goodwill. Therefore, identifiable intangible assets with defined useful life will continue being amortized based on their estimated useful lives, taking into account their economic fundamentals (Note 13).

i) Provision for asset impairment

The Management annually reviews the net book value of assets with a view to evaluating events or changes in economic, operational or technological circumstances that may indicate deterioration or impairment. When this evidence is identified and the net book value exceeds the recoverable value, a provision is established for deterioration, adjusting the net book value to the recoverable value, when applicable. (Note 13)

j) Other assets and liabilities

A liability is recognized in the balance sheet when the Company has a legal obligation or obligation resulting from a past event, and will probably require an economic resource to settle it. Provisions are recorded based on the best estimates of risk involved.

3. Main Accounting Practices – continued

k) Taxation

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

- *Social Integration Program (PIS) 0.65%;*
- *Social Security Financing (Cofins) 3.0%;*
- *Tax on Services (ISS) between 2% and 5%.*

These charges are stated as sales deductions in the statement of income.

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

Advances or amounts subject to offset are stated in current or non-current assets, according to the estimate of their realization.

Deferred tax credits deriving from temporary differences and tax loss or social contribution tax loss carryforward are stated by the value expected to be realized. Certain subsidiaries state recurring losses, therefore, they do not meet the criteria ruling the recognition of tax credits of this nature, which are only recognized when benefits are used.

l) Share-based payment

During 2009 and 2008, the Company granted share-based compensation to its main executives and managers. Expenses related to these transactions are recognized in income during the period in which services are rendered in a contra account of capital reserve and measured by their fair value, upon the granting of compensation plans (Note 22).

3. Main Accounting Practices – continued

m) Other employee benefits

Benefits granted to the Company's employees and managers include, in addition to fixed compensation (payroll and social security contributions (INSS, vacation, 13th month pay – Christmas bonus), variable compensation, such as profit sharing, bonuses private pension plans with defined contributions managed by an insurance company (Note 21), and share-based compensation.

These benefits are recorded in net income for the year on an accrual basis, as they are incurred.

n) Earnings per share

The Company calculates earnings per thousand shares using the number of outstanding shares at the end of the year.

o) Present value adjustment of assets and liabilities

Long-term and short-term monetary assets and liabilities, when the effect is considered relevant in relation to the financial statements taken as a whole, are adjusted by their present value. Present value adjustment is calculated taking into account contractual cash flows and explicit interest rates, and in certain cases implicit interest rates of respective assets and liabilities. Therefore, interest rates accrued on revenues, expenses and costs associated with these assets and liabilities are discounted with a view to recognizing them in conformity with the accrual basis of years. Subsequently, this interest is reallocated to financial income and expenses in results by using the effective interest rate method in relation to the contractual cash flows. Implicit interest rates were determined based on assumptions which are deemed accounting estimates

p) Accounting estimates

These are used to measure and recognize certain assets and liabilities in the financial statements of the Company and its subsidiaries. The determination of these estimates took into account experiences of past and current events, presuppositions related to future events and other objective and subjective factors.

3. Main Accounting Practices – continued

p) Accounting estimates -- continued

Relevant items subject to estimates include: the selection of useful lives of fixed and intangible assets; the allowance for doubtful accounts; the provision for investment losses; the recoverability analysis of fixed and intangible asset values; deferred income tax and social contribution; rates and terms used when determining the adjustment at present value of certain assets and liabilities; the provision for legal obligations connected with legal proceedings; the fair value measurement of share-based compensation and of financial instruments; the considerations about recognition and measurement of costs with the development of new products capitalized as intangible assets.

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

q) Cash flow statements and statements of added value

The cash flow statements were prepared and stated pursuant to CVM Resolution 547 of August 13, 2008, which approved the accounting pronouncement CPC 03 – Cash Flow Statements, issued by the Brazilian Committee on Accounting Pronouncements (CPC). The statements of added value were prepared and are stated pursuant to CVM Resolution 557 of November 12, 2008, which approved the accounting pronouncement CPC 09 – Statement of Added Value, issued by CPC.

r) Credit risk

Financial instruments which may subject the Company and its subsidiaries to credit risk are mainly represented by the financial investments and accounts receivable from clients. The Company has financial investments policies which establish that the investments focus on low risk securities and investments in first-tier financial institutions.

3. Main Accounting Practices – continued

r) Credit risk -- continued

The Management believes that the risk related to the accounts receivable from clients is minimized by the fact that the client structure of the Company is highly diversified. No client represents 10% or more of neither revenues on December 31, 2009 and 2008, nor accounts receivable on December 31, 2009 and 2008. The Company does not require any guarantee on installment sales.

s) Financial instruments

The Company's financial instruments are represented by cash equivalents, accounts receivable, accounts payable, debentures, loans and financing. The instruments are initially recorded by their fair value accrued of the costs directly attributable to their acquisition or issue, except for the financial instruments classified into the category of instruments valued at fair value through income, to which costs are recorded in the net income for the year.

Main financial assets recognized by the Company are: cash and cash equivalents and trade accounts receivable.

The main financial liabilities recorded by the Company are: accounts payable to suppliers, loans and financing and debentures.

4. Business combinations and mergers of companies

Business combinations

Hery – On October 13, 2009, the Company executed an agreement for the purchase and sale of quotas by which acquired all the capital stock of HERY SOFTWARE LTDA. ("HERY") for R$12,000, a successor company of Datasul Bandeirantes' operations – a distribution franchise deriving from Datasul S.A. and operating in the metropolitan regions, such as São Paulo, Rio de Janeiro, Mid-West and São Paulo inland.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

4. Business combinations and mergers of companies -- continued

***Business combination** – continued*

TotalBanco – On October 13, 2009, the Company executed an agreement for the purchase and sale of shares related to the acquisition of equity interest representing seventy per cent (70%) of the capital stock of TotalBanco Consultoria e Sistemas Ltda. ("TotalBanco"), which operates in the corporate leasing and credit management and core-banking segments, allowing the integration of investments and credit management in the back-end. Thus, Totvs will pay the amount of R$10,780 to TotalBanco's controlling shareholders related to the aforementioned equity interest.

In addition, by means of this transaction, TotalBanco's controlling shareholders granted remaining stock options to Totvs, which currently account for 30% of TotalBanco's capital stock, with exercise estimated as of January 1,2011, for up to R$12,220, according to the achievement of certain targets established for TotalBanco during 2009 and 2010.

Regarding business combinations occurred in 2009, the Company preliminarily allocated the goodwill, considering the assets identified and a better estimate available on the closing date of the financial statements, as follows:

	Goodwill	**Identified Assets (a)**	**Goodwill after allocation**
Total Banco	9,277	(8,336)	941
Hery	12,000	(8,615)	3,385
	21,277	**(16,951)**	**4,326**

(a) The preliminary allocation of assets identified took into account the economic fundamental of goodwill, based on specialists' studies and analyses. Said preliminary allocation may be reviewed during 2010 and eventual reclassifications may occur in the group of accounts (Note 13).

(Amounts expressed in thousands of Reais, except when indicated otherwise)

4. Business combinations and mergers of companies -- continued

Acquisition of minority interest

RO – On June 1, 2009, the Company acquired for R$3,241, 40,000 common shares corresponding to 40% of the capital stock of Resultado em Outsourcing S.A. (RO), with a goodwill of R$2,976 (Note 13). Totvs already held 60% of the capital stock and with said acquisition it now holds all RO shares. RO's main activity is the business processes outsourcing related to human resources managerial routines (BPO – Business Process Outsourcing).

YMF – On September 3, 2009, the Company acquired for R$19,000, shares representing 20% of YMF Arquitetura Financeira de Negócios S.A. (YMF), with a goodwill of R$15,478 (Note 13). Totvs already held 80% of the capital stock and with said acquisition it how holds all YMF shares. YMF operates in the development and distribution of software and services in the asset management segment.

Tools – On September 9, 2009, the Company acquired for R$1,466, shares representing 10% of the capital stock of Tools Arquitetura Financeira de Negócios S.A. (Tools), from which the Company already held 90% of the capital stock, now holding all the shares. As a result of this operation, a goodwill of R$ 1,462 (Note 13) was verified. Tools provides solutions for the credit value chain management, including granting of loan, financing, collection and private label cards management.

Mergers

The Company did not carry out any merger operation in 2009.

In 2008, net assets at book value were incorporated from subsidiaries, as per chart below:

	Makira	Datasul	BCS	Totvs BMI
Current assets	1,237	109,606	3	2,699
Non-current assets	500,905	151,996	3,888	88
Total assets	502,142	261,602	3,891	2,787
Current liabilities	(417,696)	(56,221)	-	(515)
Non-current liabilities	-	(21,672)	-	(1,116)
Net assets merged by the Company	84,446	183,709	3,891	1,156

(Amounts expressed in thousands of Reais, except when indicated otherwise)

5. Cash and cash equivalents

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
Cash equivalents	**27,247**	16,830	**40,781**	21,311
Cash and cash equivalents				
Purchase and sale commitments	**49,550**	5,396	**52,310**	8,033
CDB	**85,051**	70,277	**112,449**	88,320
DI Funds	**12**	11	**2,181**	3,013
	134,613	75,684	**166,940**	99,366
	161,860	92,514	**207,721**	120,677

Financial investments are represented by DI (interbank deposits) funds, Bank Deposit Certificates, fixed income bonds and repurchase and resale agreements (operations backed by debentures with a repurchase commitment by the issuer), and these are redeemed within less than 90 days as of the balance sheet date.

These investments were made with prime financial institutions and they are significantly remunerated based on the variation percentage of the Interbank Deposit Certificates (CDI).

6. Marketable Securities

The balances of securities of R$38,656 and R$41,783, parent company and consolidated, respectively on December 31, 2009 (R$20,670 and R$26,729 on December 31, 2008), refer to secured accounts for the payment of client portfolio acquisitions and business combinations (Note 4), as shown below:

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
Próxima	**-**	-	**-**	800
YMF Participações	**19,336**	11,328	**19,336**	11,328
Soft Team	**-**	-	**2,002**	3,226
Gens	**1,273**	2,097	**1,237**	2,097
Tech Solutions	**2,535**	2,137	**3,660**	3,071
Tools	**2,672**	4,875	**2,672**	4,875
Datasul MG	**4,103**	-	**4,103**	-
Datasul Saúde MG	**803**	-	**803**	-
TotalBanco	**2,647**	-	**2,647**	-
Hery	**4,886**	-	**4,886**	-
Other	**401**	233	**401**	1,332
	38,656	20,670	**41,783**	26,729
Current assets	**(21,450)**	(10,701)	**(22,469)**	(14,301)
Non-current assets	**17,206**	9,969	**19,314**	12,428

(Amounts expressed in thousands of Reais, except when indicated otherwise)

7. Trade accounts receivable

	Parent Company		Consolidated	
	2009	2008	2009	2008
Domestic market	**177,786**	128,119	**219,687**	163,898
Foreign market	-	**-**	**17,308**	12,928
	177,786	128,119	**236,995**	176,826
Current assets	**(175,544)**	(123,645)	**(230,995)**	(172,352)
Non-current assets	**2,242**	4,474	**6,000**	4,474

8. Income taxes and social contribution

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

a) *Reconciliation of revenue/expense of income tax and social contribution*:

	Parent Company		Consolidated	
	2009	2008	2009	2008
Income before taxes	**112,651**	24,528	**125,623**	34,371
Income tax and social contribution at combined nominal rate of 34%	**(38,301)**	(8,340)	**(42,712)**	(11,686)
Adjustments for the statement of effective rate				
Equity pickup	**6,674**	3,482	**-**	-
Law 11,196/05 (Incentive for research and development)	**20,457**	12,070	**20,809**	12,070
Effect of subsidiary's taxable income based on a percentage of gross sales	**-**	-	**623**	
Exchange variation on investments abroad	**-**	-	**-**	(670)
Profit abroad	**-**	-		(2,910)
Managers' stake	**(2,700)**	(1,142)	**(2,700)**	(1,142)
Accounts receivable deemed uncollectible	**(151)**	(189)	**(162)**	(189)
Other	**(834)**	(1,697)	**(1,085)**	162
Revenue/(expense) of income tax and social contribution	**(14,855)**	**4,184**	**(25,227)**	**(4,365)**
Effective rate	**13.2%**	-17.1%	**20.1%**	12.7%

(Amounts expressed in thousands of Reais, except when indicated otherwise)

8. Income taxes and social contribution -- continued

b) *Deferred income tax and social contribution are broken down as follows:*

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
Assets				
Deriving from temporary differences:				
Amortized goodwill	**6,064**	21,854	**6,482**	21,964
Provision for commissions	**9,972**	7,696	**10,308**	7,799
Anticipated income or revenues	**3,306**	7,101	**3,584**	7,309
Allowance for doubtful accounts	**4,423**	3,233	**5,082**	3,444
Provision for contingencies and other liabilities	**3,622**	7,648	**3,622**	7,648
Tax losses and social contribution tax loss carryforward	**-**	-	**1,812**	1,124
Provision for premium due to non-conversion of debentures	**4,154**	944	**4,154**	944
Adjustments from Law 11,638/07 and Provisional Measure 449/08	**1,472**	1,438	**1,472**	1,438
Other	**2,609**	1,576	**4,051**	3,407
Total deferred income and social contribution taxes	**35,622**	**51,490**	**40,567**	**55,077**
Current	(15,887)	(16,090)	(17,944)	(18,127)
Non-current	**19,735**	**35,400**	**22,623**	**36,950**

The Company, based on projections of deferred income approved by the Board of Directors, expects to recover tax credits recorded in non-current assets in the following years:

	Parent Company		Consolidated	
	2009	2008	**2009**	2008
2010	**-**	7,524	**-**	7,758
2011	**4,423**	15,205	**6,894**	15,228
2012	**561**	8,290	**600**	9,560
2013	**4,183**	4,381	**4,222**	4,404
2014	**4,259**	-	**4,553**	-
2015 onwards	**6,309**	-	**6,354**	-
	19,735	35,400	**22,623**	36,950

(Amounts expressed in thousands of Reais, except when indicated otherwise)

9. Recoverable taxes

	Controladora		Consolidado	
	2009	**2008**	**2009**	**2008**
Recoverable Taxes				
Income Tax Withheld at Source	**19,292**	8,971	**20,832**	10,956
Social Contribution Withheld at Source	**8,391**	3,387	**9,267**	4,280
Social Integration and Social Security Contributions Withheld at Source	**395**	1,150	**1,485**	1,890
Other	**364**	444	**1,132**	1,538
	28,442	13,952	**32,716**	18,664

10. Balances and related party transactions

Transactions between the Parent Company and subsidiaries are carried out under conditions and prices established by the parties.

a) Balances and transactions with subsidiaries

On December 31, 2009 and 2008, the balance of transactions with related parties classified as credits with related parties in non-current assets may be stated as follows:

	Parent Company	
	2009	**2008**
Datasul Serviços	**17,451**	16,763
Datasul México	**3,749**	3,141
Totvs Brasília Software	**2,147**	1,502
RO - Resultados em Outsourcing	**1,545**	-
BCS Comércio	**1,030**	98
Datasul Argentina	**618**	780
Hery Software	**357**	-
Microsiga México	**-**	2,279
Other	**346**	201
	27,243	24,764

10. Balances and related party transactions -- continued

a) Balances and transactions with subsidiaries -- continued

The amounts refer to loans between subsidiaries, without remuneration and/or forecasted maturity.

The balance of dividends receivable recorded by the Parent Company in the amount of R$3,605 (R$74 on December 31, 2008), reflects the proposal for allocation of profits of its subsidiaries.

b) Transactions or relationships with shareholders

The Company maintains property lease agreements, including the facilities where its headquarters are located, which are owned by one of its shareholders (LC-EH Empreendimentos e Participações S.A.). The rental paid was R$5,362 for the year ended on December 31, 2009 R$4,864 on December 31, 2008), in line with market values. The agreements are effective for 60 months and are adjusted by IGP-M, every 12 months.

Some Company officers directly or indirectly hold 19.86% of the Company shares on December 31, 2009 (20.03% on December 31, 2008), and the indirect interest is held through LC-EH Empreendimentos e Participações S.A.

The Company maintains loans and financing operations (Note 15) and debentures (Note 16), transactions substantially carried out with National Bank for Economic and Social Development (BNDES).

(Amounts expressed in thousands of Reais, except when indicated otherwise)

10. Balances and related party transactions -- continued

c) Management compensation

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

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
Short-term benefits to employees				
Salaries and Fees	**14,596**	13,555	**18,228**	17,202
Payroll charges	**2,903**	2,860	**3,116**	2,939
Private pension plan	**444**	427	**444**	427
Variable bonuses	**7,942**	3,358	**7,942**	3,358
	25,885	20,200	**29,730**	23,926
Share-based payments	**2,020**	944	**2,020**	944
	27,905	21,144	**31,750**	24,870

Short-term benefits

Short-term benefits include fixed compensation (salaries and fees, vacation, 13rd month pay and private pension plans), payroll charges (social security contributions - INSS, FGTS and others) and variable compensation, such as profit sharing and bonuses, as well as private pension plans (defined contribution – Note 21)

Share-based compensation

The Management (chief executive officer, executive officers and vice chief executive officers) participates in the Stock Option Plan, approved by the Extraordinary General Meeting, see Note 22.

Other

The Company does not have any additional post-employment liability, nor does it provide other long-term benefits, such as paid leave based on years of service and other benefits for years of service at the Company. It also does not provide other benefits in the event of withdrawal of its top management in addition to those established by Brazilian labor laws (Note 21).

(Amounts expressed in thousands of Reais, except when indicated otherwise)

11. Investments

The breakdown of investments is show below:

	2009							
	Shareholders' Equity	Net income for the year or period*	Equity pickup		Balance of investments		Balance of provision for losses	
			2009	2008	2009	2008	2009	2008
Totvs Rio Software	11,311	1,467	1,467	2,660	11,311	9,844	-	-
Microsiga Argentina	2,836	(2,691)	(2,691)	(152)	2,836	2,426	-	-
Microsiga México	3,504	(3,966)	(3,887)	(10,313)	3,434	308	-	-
Makira do Brasil (c)	-	-	-	936	-	-	-	-
Microsiga Corporation	2,036	(24)	(24)	(83)	2,036	2,768	-	-
Totvs Vitória	-	74	74	(512)	-	1,347	-	-
Totvs Brasil Central (d)	-	-	-	164	-	-	-	-
Microsiga Nordeste	5,604	773	773	(120)	5,604	4,780	-	-
Totvs Brasília	(472)	(163)	(163)	228	-	-	472	308
Hery (a)	(401)	(401)	(401)	-	-	-	401	-
Totalbanco (a)	2,010	(138)	(96)	-	1,407	-	-	-
IOSSTS (b)	706	715	715	(40)	706	-	-	9
Eurototvs	1,558	(118)	(118)	19	1,558	262	-	-
RO	417	(245)	(245)	311	417	1,191	-	-
Totvs BMI (c)	-	-	-	267	-	-	-	-
Look	-	(129)	(129)	(18)	-	105	-	-
Midbyte (b)	2,011	1,638	1,147	614	1,407	785	-	-
TQTVD	13,637	647	357	37	8,456	4,478	-	-
BCS (b) and (c)	-	-	-	(1)	-	-	-	-
BCS Comércio (e)	4,563	3,920	3,920	2,237	4,563	3,143	-	-
BCS Sistemas (e)	74	(75)	(75)	(81)	74	617	-	-
BCSFLEX (e)	100	(1)	(1)	(11)	100	310	-	-
HBA (e)	26	17	17	381	26	490	-	-
Datasul (b) and (c)	-	-	-	11,678	-	-	-	-
Datasul Serviços (e)	9,827	5,493	5,493	(295)	9,827	4,334	-	-
Gens (e)	1,429	(234)	(234)	673	1,429	1,663	-	-
YMF (e)	20,660	12,058	10,256	2,006	20,660	9,960	-	-
Tools (e)	895	2,256	2,116	311	895	1,186	-	-
DTSL (e)	6,771	1,840	1,840	253	6,771	5,118	-	-
Datasul S.A. de CV (e)	(2,172)	(1,277)	(1,277)	(28)	-	-	2,173	1,337
Datasul Incorporation (e)	1,047	(123)	(119)	(16)	1,047	1,480	-	-
Datasul Argentina (e)	2,667	915	915	(864)	2,667	2,072	-	-
			19,630	**10,241**	**87,231**	**58,667**	**3,045**	**1,654**
Other investments			**-**	**-**	**2**	**21**	**-**	**-**
			19,630	**10,241**	**87,233**	**58,688**	**3,045**	**1,654**

(a) Business combination in 2009 (Note 4).
(b) Business combination in 2008.
(c) Company merged in 2008 (Note 4).
(d) Divested shareholding in 2008.
(e) Direct or indirect subsidiaries of companies which were object of business combinations and mergers in 2008.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

12. Property, plant and equipment

The breakdown of Company's property, plant and equipment is shown below:

	Parent Company					
	Computers and software	**Vehicles**	**Furniture and fixtures**	**Facilities, Machinery and Equipment**	**Other**	**Total property, plant and equipment**
Cost or valuation						
Balances on January 1,2008	12,735	917	2,389	1,965	3,148	21,155
Additions	12,033	2,210	907	894	1,831	17,875
Merger of subsidiaries	1,034	85	906	1	1,163	3,189
Disposals	(4)	-	-	-	(504)	(508)
Balances on December 31,2008	25,798	3,212	4,202	2,860	5,639	41,711
Additions	6,645	2,351	639	420	839	10,894
Write-off	(1,327)	(1,023)	(569)	-	(2,254)	(5,173)
Transfers	8,455	946	1,138	778	2,332	13,649
Balances on December 31, 2009	39,571	5,486	5,410	4,058	6,556	61,081
Depreciation						
Balances on January 1, 2008	(7,077)	(200)	(972)	(964)	(753)	(9,966)
Depreciation in the year	(3,682)	(172)	(320)	(260)	(968)	(5,402)
Balances on December 31, 2008	(10,759)	(372)	(1,292)	(1,224)	(1,721)	(15,368)
Depreciation in the year	(5,408)	(929)	(467)	(452)	(1,093)	(8,349)
Write-off	1,273	307	279	-	744	2,633
Transfer	(9,134)	(1,276)	(1,143)	(802)	(1,294)	(13,649)
Balances on December 31,2009	(24,028)	(2,270)	(2,623)	(2,478)	(3,334)	(34,733)
Residual value						
Balances on December 31,2009	15,543	3,216	2,787	1,580	3,222	26,348
Balances on December 31, 2008	15,039	2,840	2,910	1,636	3,918	26,343
Balances on January 1, 2008	5,658	717	1,417	1,001	2,396	11,189
Average annual depreciation rate	20%	20%	10%	10%	from 4% to 10%	-

(Amounts expressed in thousands of Reais, except when indicated otherwise)

12. Property, plant and equipment – continued

	Consolidated					
	Computers and Software	Vehicles	Furniture and Fixtures	Facilities, Machinery and Equipment	Other	Total Property, plant and equipment
Cost or valuation						
Balances on January 1,2008	21,244	4,355	3,651	2,789	4,276	36,315
Additions	15,087	1,438	1,118	844	91	18,578
Merger of subsidiaries	2,123	85	906	-	2,726	5,840
Disposals	(269)	(523)	(204)	(94)	(32)	(1,122)
Balances on December 31, 2008	38,185	5,355	5,471	3,539	7,061	59,611
Additions	8,810	2,635	1,024	668	1,038	14,175
Write-off	(1,869)	(1,095)	(894)	(32)	(2,635)	(6,525)
Transfers	1,058	(632)	1,412	1,006	2,038	4,882
Balances on December 31, 2009	46,184	6,263	7,013	5,181	7,502	72,143
Depreciation						
Balances on January 1,2008	(11,964)	(939)	(1,670)	(1,406)	(1,568)	(17,547)
Depreciation in the year	(7,909)	(232)	(1,205)	(320)	(535)	(10,201)
Balances on December 31, 2008	(19,873)	(1,171)	(2,875)	(1,726)	(2,103)	(27,748)
Depreciation in the year	(6,536)	(1,045)	(635)	(493)	(1,166)	(9,875)
Write-off	1,551	356	535	16	843	3,301
Transfers	(1,811)	(682)	(207)	(999)	(1,235)	(4,934)
Balances on December 31, 2009	(26,669)	(2,542)	(3,182)	(3,202)	(3,661)	(39,256)
Residual value						
Balances on December 31, 2009	19,515	3,721	3,831	1,979	3,841	32,887
Balances on December 31, 2008	18,312	4,184	2,596	1,813	4,958	31,863
Balances on January 1, 2008	9,280	3,416	1,981	1,383	2,708	18,768
Average annual depreciation rates	20%	20%	10%	10%	from 4% to 10%	-

Considering the relevance of property, plant and equipment in relation to the financial statements as a whole, the Company and its subsidiaries have evaluated the useful lives of these assets and concluded that no material changes or adjustments have to be recognized on 31 December 2009.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

13. Intangible Assets

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

	Parent Company								
	Product development	**Trademarks & patents**	**Exploiting rights of areas and copyrights of products developed by third parties**	**Client portfolio**	**Franchising**	**Software**	**Other**	**Goodwill**	**Total intangible assets**
Cost/valuation									
Balances on January 1st, 2008	**1,278**	**451**	**3,836**	**-**	**-**	**-**	**-**	**232,419**	**237,984**
Additions	-	11	1,278	-	-	3,058	-	45,536	49,883
Payment of subscribed capital in subsidiary	(1,278)	-	-	-	-	-	-	-	(1,278)
Business combination	-	61,802	-	157,654	83,223	148,029	6,000	-	456,708
Balances on December 31, 2008	**-**	**62,264**	**5,114**	**157,654**	**83,223**	**151,087**	**6,000**	**277,955**	**743,297**
Addition	686	-	-	24,438	-	6,214	314	24,330	55,982
Write-offs	-	(12)	-	-	-	(29)	(17)	-	(58)
Transfers	-	(265)	(1,299)	1,234	(1)	70	(297)	22	(536)
Balances on December 31, 2009	**686**	**61,987**	**3,815**	**183,326**	**83,222**	**157,342**	**6,000**	**302,307**	**798,685**
Amortization									
Balances on January 1st, 2008	**-**	**-**	**(1,369)**	**-**	**-**	**-**	**-**	**(84,973)**	**(86,342)**
Amortization in the period		**(1,767)**	(2,285)	(6,166)	(7,772)	(6,744)	(1,000)	(49,299)	(75,033)
Balances on December 31, 2008	**-**	**(1,767)**	**(3,654)**	**(6,166)**	**(7,772)**	**(6,744)**	**(1,000)**	**(134,272)**	**(161,375)**
Amortization in the period	-	(4,543)	(444)	(17,082)	(18,599)	(15,001)	(1,200)	-	(56,869)
Write-off	-	**-**	-	-	(54)	(6)	78	-	18
Transfers	-	(13)	1,652	(1,013)	-	(69)	(78)	58	537
Balances on December 31, 2009	**686**	**(6,323)**	**(2,446)**	**(24,261)**	**(26,425)**	**(21,820)**	**(2,200)**	**(134,214)**	**(217,689)**
Residual value									
Balances on December 31, 2009	**686**	**55,664**	**1,369**	**159,065**	**56,797**	**135,522**	**3,800**	**168,093**	**580,996**
Balances on December 31, 2008	**-**	**60,497**	**1,460**	**151,488**	**75,451**	**144,343**	**5,000**	**143,683**	**581,922**
Balances on January 1st, 2008	**1,278**	**451**	**2,467**	**-**	**-**	**-**	**-**	**147,446**	**151,642**

TOTVS S.A.

Notes to Financial Statements -- continued
for the years ended on December 31, 2009 and 2008
(Amounts expressed in thousands of Reais, except when indicated otherwise)

13. Intangible assets - continued

	Consolidated								
	Product development	Trademarks & patents	Exploiting rights of areas and copyrights of products developed by third parties	Client portfolio	Franchising	Software	Other	Goodwill	Total intangible assets
Cost/valuation									
Balance on January 1st, 2008	1,278	451	3,836	-	-	-	-	232,419	237,984
Additions	4,894	67	1,278	-	-	3,058	-	46,380	55,677
Business combination	-	63,209	-	169,159	83,223	157,369	7,320	-	480,280
Balance on December 31, 2008	6,172	63,727	5,114	169,159	83,223	160,427	7,320	278,799	773,941
Additions	**8,058**	**3**	**20**	**24,438**	**-**	**6,320**	**631**	**24,609**	**64,079**
Write-offs	**-**	**(859)**	**(1,188)**	**1,723**	**-**	**(1,233)**	**(134)**	**-**	**(1,691)**
Transfers	**-**	**784**	**(131)**	**(2,482)**	**(2)**	**1,251**	**(128)**	**(56)**	**(764)**
Balances on December 31,2009	**14,230**	**63,655**	**3,815**	**192,838**	**83,221**	**166,765**	**7,689**	**303,352**	**835,565**
Amortization									
Balances on January 1st, 2008	-	-	(1,369)	-	-	-	-	(84,973)	(86,342)
Amortization in the period	-	(1,814)	(2,285)	(7,619)	(7,772)	(7,094)	(1,330)	(49,382)	(77,296)
Balances on December 31, 2008	-	(1,814)	(3,654)	(7,619)	(7,772)	(7,094)	(1,330)	(134,355)	(163,638)
Amortization in the period	**(226)**	**(4,652)**	**(444)**	**(18,064)**	**(18,653)**	**(16,144)**	**(1,860)**	**-**	**(60,043)**
Write-offs	**-**	**(3)**	**204**	**(46)**	**(54)**	**631**	**78**	**-**	**810**
Transfers	**-**	**(11)**	**1,448**	**103**	**54**	**(764)**	**(78)**	**56**	**808**
Balances on December 31,2009	**(226)**	**(6,480)**	**(2,446)**	**(25,626)**	**(26,425)**	**(23,371)**	**(3,190)**	**(134,299)**	**(222,063)**
Residual value									
Balances on December 31, 2009	**14,004**	**57,175**	**1,369**	**167,212**	**56,796**	**143,394**	**4,499**	**169,053**	**613,502**
Balances on December 31, 2008	**6,172**	**61,913**	**1,460**	**161,540**	**75,451**	**153,333**	**5,990**	**144,444**	**610,303**
Balances on January 1st, 2008	**1,278**	**451**	**2,467**	**-**	**-**	**-**	**-**	**147,446**	**151,642**

(Amounts expressed in thousands of Reais, except when indicated otherwise)

13. Intangible assets -- continued

	Amortization (b)	Consolidated			
		2008	Additions	Transfers	2009
RM (a)	5	90,992	-	-	90,992
Logocenter (a)	5	5,703	-	-	5,703
Totvs BMI (a)	5	2,053	-	-	2,053
Midbyte	8	1,765	-	-	1,765
IOSSTS (a)	5	2,643	-	-	2,643
BCS (a)	8	10,610	-	-	10,610
Datasul (a)	10	29,917	167	-	30,084
Setware	5	761	200	-	961
RO		-	2,976	-	2,976
Hery		-	3,385	-	3,385
TotalBanco		-	941	-	941
YMF Arquitetura		-	15,478	-	15,478
Tools Arquitetura		-	1,462	-	1,462
		144,444	24,609	-	169,053

(a) Companies merged into Totvs.
(b) Amortization only up to 2008.

Below, the breakdown of intangible assets in 2009:

	Amortization Term	Consolidated					
		2008	Additions	Write-offs	Transfers	Amortization	2009
Exploration rights of areas and copyrights of products developed by third parties	5	1,460	20	(984)	1,317	(444)	1,369
Product development	5	6,172	8,058	-	-	(226)	14,004
Client portfolio	8 to 10	161,540	24,438	1,677	(2,379)	(18,064)	167,212
Franchises	2 to 5	75,451	-	(54)	52	(18,653)	56,796
Trademarks and patents	15	61,913	3	(862)	773	(4,652)	57,175
Software	6 to 10	153,333	6,320	(602)	487	(16,144)	143,394
Other	2 to 5	5,990	631	(56)	(206)	(1,860)	4,499
		465,859	39,470	(881)	44	(60,043)	444,449
		610,303	64,079	(881)	44	(60,043)	613,502

13. Intangible assets – continued

Goodwill and intangible assets identified in the business combination

Among the intangible assets aggregated in 2009, in the amount of R$64,079 (R$ 535,957 in 2008), R$16,951 (R$480,280 in 2008) (Note 4) refer to intangible assets identified in the business combinations and measured by their fair value. To measure these amounts, we used the methodologies of future cash flow discounted at present value and replacement cost, among others. To estimate the value by the discounted cash flow methodologies, we used the rates between 12.56% and 17.52% (12.79% to 16.29% p.a. in 2008) (in real terms), varying according to the intangible asset analyzed. The amortization of intangible assets is based on their estimated useful lives.

Values recognized as the assets' useful life, were substantiated by a technical study conducted by an independent specialized company.

Thus, goodwill values amounting to R$4,326 (R$45,786 in 2008) (Note 4) for business combination operations were discounted from these identified intangible assets.

Only for the acquisitions prior to December 31, 2008, goodwill, including those of 2008, were amortized on a straight-line basis for a 5 to10-year term, until December 31,2008, based on the expected future yield, substantiated by valuation reports from independent specialized companies using the discounted cash flow projections criteria. As of 2009, goodwill was no longer amortized.

Rights of area exploitation

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

New product development

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

13. Intangible assets – continued

New product development -- continued

In November 2007, the Company associated with Quality Software S.A. ("Quality") to develop a middleware called "Ginga TQTVD," which allows implementation of interactive applications for Digital TV. As a result of this association, the Company acquired in January 2008, 700 quotas corresponding to 70% of TQTVD Software Ltda.'s capital stock ("TQTVD"). In January 2009, Totvs' interest in TQTVD's capital decreased to 55%, due to the performance of Quality Software S.A. (Totvs partnership in this project) in product development, as per contractual clause.

Provision for asset impairment

The Company valued the recoverable book value of goodwill by employing the Usage Value concept through discounted cash flow models of Cash Generating Units representing the group of tangible and intangible assets utilized in the development and sale of different solutions to its clients.

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

Compatible with economic valuation techniques, the Usage Value valuation is carried out within a five-year period, and onwards, taking into account the perpetuity of assumptions in view of the capacity of business continuity for an indeterminate term. The growth rates used to extrapolate projections beyond a 5-year period vary between 0% and 1%.

Estimated future cash flows were discounted at discount rates which vary from 14.53% to 23.75% p.a. for each cash generating unit analyzed.

13. Intangible assets – continued

Provision for asset impairment -- continued

Main assumptions used in the Usage Value estimate are as follows:

• Revenues – Revenues were projected between 2009 and 2013, taking into account the growth of the client base of different Cash Generating Units.

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

• Capex – Investments in capital goods were estimated taking into account the technological infrastructure required to make feasible the provision of services.

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

The Company's recoverability test of intangible assets did not result in the need for recognizing losses, since the estimated market value exceeds its net book value on the valuation date.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

14. Investment Acquisition Liabilities

These refer to installments payable due to investment acquisition carried out by the Company and former subsidiary Datasul (currently Santa Catarina branch), traded with payment by installments, recorded in current and non-current liabilities, as follows:

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
BCS	7,654	12,127	7,654	12,127
YMF (a)	19,336	12,089	19,336	12,089
Tools (a)	2,672	5,104	2,672	5,104
Gens (a)	1,273	2,330	1,273	2,330
Techprod (a)	2,535	2,307	2,535	2,307
Midbyte	1,242	1,713	1,242	1,713
Soft Team (a)	-	-	2,000	2,301
Techserv (a)	-	-	1,126	1,024
TotalBanco	2,637	-	2,637	-
Hery	8,421	-	8,421	-
Datasul MG	2,940	-	2,940	-
Datasul Saude MG	1,126	-	1,126	-
ERP Cedente	798	-	798	-
Other (a)	1,103	2,531	1,103	3,052
Total liabilities per investment acquisition	51,737	38,201	54,863	42,047
Current liabilities	(33,159)	(15,279)	(34,577)	(16,299)
Non-current liabilities	18,578	22,922	20,286	25,748

(a) Installment adjustment indexes vary from 100% to 100.5% of CDI

Installments registered in non-current liabilities mature as shown below:

	Parent Company		Consolidated	
Year	**2009**	**2008**	**2009**	**2008**
2010	**-**	15,212	**-**	16,662
2011	**5,995**	2,845	**6,564**	3,304
2012	**7,956**	4,403	**8,870**	5,320
2013	**2,567**	462	**2,792**	462
2014	**2,060**	-	**2,060**	-
Non-current liabilities	**18,578**	**22,922**	**20,286**	**25,748**

(Amounts expressed in thousands of Reais, except when indicated otherwise)

15. Loans and Financing

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
BNDES	**209,775**	163,352	**209,775**	163,352
Software development – FINEP	**6,306**	4,109	**6,306**	4,109
Secured accounts and other	**-**	25	**1,795**	1,051
	216,081	167,486	**217,876**	168,512
Current liabilities	**(7,118)**	(4,216)	**(7,838)**	(5,242)
Non-current liabilities	**208,963**	163,270	**210,038**	163,270

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

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

Loans have the purpose of financing software innovation researches, brand repositioning and restructuring of sale channels, and yielded based on Long-Term Interest Rates - TJLP, accrued of 1.5% interest p.a., maturing every six months.

Software development – FINEP - Said loan – contracted by subsidiary Datasul – is yielded based on the Long-Term Interest Rate, accrued of 5% interest p.a. and is secured by bank's letters of guarantee.

Amounts recorded in non-current liabilities on December 31, 2009, present the following maturity schedule:

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
2010	**-**	1,006	**-**	1,006
2011	**45,954**	41,006	**47,029**	41,006
2012	**41,931**	41,006	**41,931**	41,006
2013	**41,078**	40,252	**41,078**	40,252
2014	**40,000**	40,000	**40,000**	40,000
2015	**40,000**	-	**40,000**	-
	208,963	163,270	**210,038**	163,270

(Amounts expressed in thousands of Reais, except when indicated otherwise)

16. Debentures

On August 19, 2008, shareholders approved the issue of up 100,000 Units, represented by Brazilian Depositary Receipts, comprised by two non-detachable debentures, one of which is 1st series convertible and the other 2nd series convertible.

On August 26, 2009, with a view to breaking down the mode of calculation and adjustment: (a) the remuneration of debentures convertible into shares of both series of the 1st private issue of the Company ("Debentures"); (b) the premium due to non-conversion of Debentures; (c) the conversion percentage; (d) the premium over price in the event of mandatory conversion of Debentures. The Company executed with its fiduciary agent the 2nd amendment to the private deed of 1st issue of debentures.

On December 31, 2009 and 2008, the balance was broken down as follows:

Issue	Debentures	Annual financial charges	Unit price	Parent Company and Consolidated	
				2009	**2008**
1st Series	100,000	IPCA* + 3.5% limited to TJLP + 1.5%	1	**102,609**	102,817
2nd Series	100,000	TJLP + 1.5%	1	**102,609**	102,817
		Total		**205,218**	205,634
		Premium due to non-conversion		**12,219**	2,777
		Total		**217,437**	208,411
		Current liabilities		**(5,218)**	(5,634)
		Non-current liabilities		**212,219**	202,777

* Extended National Consumer Price Index

1st Series debentures will be paid based on IPCA increased of 3.5% interest p.a., limited at TJLP increased by 1.5% p.a., annually payable on August 19. 2nd Series debentures will be paid based on the TJLP increased by 1.5% p.a., half-yearly payable on February 19 and August 19.

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

16. Debentures -- continued

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

[{ ((1+IPCA)*(1+0.12))^(n/360) }^(0.5)] * [{ ((1+TJLP)*(1+0.09))^(n/360) }^(0.5)]

where n = number of days between the calculation and the issue date.

Should the appreciation meet the conditions abovementioned, debenture holders will be obliged to convert, in 2011, up to 15% of debentures issued, up to 30% in 2012, up to 45% in 2013, and up to 60 % in 2014. However, the mandatory conversion may only take place 2 years after its issue.

Conversion price, should that happen, will also be the average price weighted by the volume of Company's shares, calculated in the Bovespa's trading sessions at the base period, increased by the 50% premium of the weighted value of shares in said period, for the possible conversions to be carried out in 2011, dropping to 46%, 42% and 40% in the subsequent years. For assessment purposes of the weighted value of shares at the reference period, historical values will be restated based on indices set forth at bookkeeping of debentures.

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

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

(Amounts expressed in thousands of Reais, except when indicated otherwise)

16. Debentures -- continued

The main amount, long-term, matures as shown below:

	2009	2008
August 2015	**80,000**	80,000
August 2016	**120,000**	120,000
After February 2017	**12,219**	2,777
	212,219	202,777

Should there not be a conversion, debentures will be entitled of a non-conversion premium, for 1st series debentures equivalent to the difference between IPCA increased by 8.0% p.a. and the compensation abovementioned, and for 2nd series debentures equivalent to interest of 3.5% p.a.. Premium due to non-conversion of 1st series debentures will be restated by IPCA increased by 8.0% p.a., and 2nd series debentures will be restated by TJLP increased by 5.0% p.a..

The non-conversion premium will be paid in at most six (06) installments, and within 3 years as of the payment of the last installment of the principal and interest (February 19, 2017).

Debentures have early maturity, should they not comply with certain financial and non-financial conditions, in addition to other ancillary obligations. On December 31, 2009, the Company was performing with all established conditions.

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

(Amounts expressed in thousands of Reais, except when indicated otherwise)

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings

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

	Parent Company and Consolidated	
	2009	**2008**
Provision		
Social security	**-**	27,526
Tax	**6,419**	6,872
Civil	**1,645**	821
Labor	**2,589**	620
	10,653	35,839
Judicial deposits		
Social security	**-**	(15,235)
Tax	**(6,318)**	(5,043)
Other	**(452)**	(177)
	(6,770)	(20,455)
Net provision	**3,883**	15,384

The court deposits not bound to provisioned lawsuits are stated below. Thus, these deposits are recorded under non-current assets.

	Parent Company and Consolidated	
	2009	**2008**
Judicial deposits		
Social Security	**3,028**	4,958
Tax	**4,214**	3,413
Other	**201**	14
	7,443	8,385

a) ***Adhesion to the tax debts ordinary payment by installments***

The Company decided to include all its federal debts assessed as “probable losses” in the cash consideration, as provided for by Law 11,941 of May 27, 2009.

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings – continued

The proceedings with “probable losses” expectation included in the cash consideration totaled a restated amount of R$28,902. Taking into account the discounts for cash consideration provided for by Law 11,941 of 2009, the debt decreased to R$19,781, R$16,675 related to principal and R$3,106 related to fine, with an effect in result of (R$1,273). Since part of this amount has already been deposited in court, the Company paid R$5,276 on November 30, 2009.

The Management was based on relevant decreases to cash consideration enacted by law 11,941/2009, among them we point out the one hundred per cent (100%) reduction of the amounts related to the ex-officio fine and forty-five per cent (45%) of late payment fine.

In addition to the legal reductions mentioned above, said law also allows the discount of amounts related to default interest, late payment fine and ex-officio fine, including the utilization of tax loss and social contribution tax loss carry-forward.

With this decision, TOTVS will end disputes related to legal and administrative proceedings concerning tax issues on relevant amounts, without compromising its financial liquidity, only remaining those proceedings with good prospects of a favorable decision.

Below, a detail of the main lawsuits included in the tax debt ordinary payment by installments, enacted by law 11,941/09 of May 27, 2009 and concluded in 2009:

Social Security:

The Company had filed: (i) declaratory action to avoid the collection of the estimated social contribution taxes owed to SESC (Social Service for Trade) and SENAC (National Service for Commercial Training), as well as an ordinary action requesting the refund of contributions paid to the INSS; and (ii) writ of mandamus pleading the unconstitutionality of the social security collection set forth by Laws 9,876/96 and 5,471/71, levied on the income earned by the cooperatives rendering services to the company. The judicial deposits (R$15,235 on December 31,2008) were used to settle the lawsuits that adhered to the tax debt ordinary payment by installments in 2009.

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings – continued

Social Security -- continued

In November 2006, the Company assumed the notices of infraction and tax delinquency notes originally issued to Datasul S.A. by the Brazilian Social Security Institute – INSS in the amount of R$7,746, corresponding to the conditions adopted by the Company to distribute performance premiums in the period between May, 1999 and December, 2005. Based on the opinion of its legal counsels, the Company had accrued the amount of R$7,495 on December 31, 2008.

On September 21, 2000, the INSS filed a tax foreclosure against the Company in the amount of R$3,738 (R$8,736 – updated up to December 31, 2008), referring to the tax delinquency notices to collect the social security contribution, SAT, contribution to third parties and respective formal penalties under the claim of non-compliance with the ancillary liabilities. The Company offered as a guarantee a real estate located at Rua XV de Novembro, 3950, in the city of Joinville, state of Santa Catarina, as well as the respective improvements and permanent assets at that time.

On December 31, 2008, the Company made a provision in the amount of R$1.051 corresponding to the residual value of the guarantees. Said property was sold in 2009 for R$5,000. Part of this amount was used to pay the cash debt related to discounts and reductions enacted by Law 11,941/09, which amounted to R$4,130.

Tax

The Company assumed the assessment made to Datasul S.A. by the Internal Revenue Service which had the purpose of charging the amounts registered as executable tax debts, related to the supposed improper exclusion of Plano Real effects in the Income Tax of 1997 and the improper compensation of payment credits of the Withholding Income Tax of 1997. Motion to stay execution funds and Appeals were denied. Special appeal was filed, and is under the analysis of the Superior Court of Justice. The provision balance related to this lawsuit on was R$656 on December 31, 2008.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings – continued

The breakdown of provisions in the years ended December 31,2009 and 2008, is as follows:

	Parent Company and Consolidated				
	Social Security	**Tax**	**Labor**	**Civil**	**Total**
Balances on December 31, 2007	9,343	4,643	408	-	14,394
+ Business combination	10,985	1,171	239	821	13,216
+ Additional provision	2,618	903	217	-	3,738
+ Monetary restatement	4,58	234	-	-	4,814
- Reversal of provision not used	-	-79	-244	-	-323
Balances on December 31, 2008	27,526	6,872	620	821	35,839
+ Additional provision	5,565	186	2,589	-	8,34
+ Monetary restatement	2,926	1,576	26	824	5,352
- Tax debts ordinary payment by installments– Law 11,941/2009	(27,982)	-920	-	-	-28,902
- Reversals/write-off of provisions	-8,035	-1,295	-646	-	-9,976
Balances on December 31, 2009	-	6,419	2,589	1,645	10,653

b) Ongoing proceedings with recorded provision for contingencies

The breakdown of main lawsuit whose provision was recorded in the accounting books is as follows:

Tax

The Company’s Belo Horizonte branch is discussing in four court deposit actions brought against the city governments of São Paulo, Rio de Janeiro, Uberlândia and Vitória, if they are required to pay the ISSQN (Tax on Any Sort of Services) at rates ranging from 2% to 5%, or if the tax is payable to the city government of Belo Horizonte where the rate is 2%. The Company understands that the ISS is due to the municipality of Belo Horizonte, where service is developed. Thus, the Company has been providing court deposits under the scope of said lawsuits, taking into account the rates required by the city governments and recording provision for contingencies for these city governments by the 3% rate. On December 31, 2009, the provision acknowledged for this lawsuit totaled R$6,318 (R$5,043 on December 31, 2008) and the judicial deposits made until December 31, 2009 amounted to R$10,530 (R$8,405 on December 31, 2008), partially offset with the provision created.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings – continued

b) Ongoing proceedings with recorded provision for contingencies -- continued

Civil:

The Company is defendant in indemnification suits by clients terminating their contracts, cumulated with compensation for damages, as well as suit for damages filed by business agents, related to contract termination cumulated with indemnification charges and requests. On December 31, 2009, the provision recorded for these demands amounts to R$1,644 (R$821 on December 31, 2008.

Labor:

The Company has recorded provision related to lawsuits filed by former employees of companies and service companies. They claim the reduction of commissions on sales and services, overtime and wage parity. The amount accrued is R$2,589 on December 31, 2009 (R$620 on December 31, 2008).

c) Other ongoing proceedings

The Company and its subsidiaries are parties in other lawsuits, for which no provision was recorded, since its external legal advisors and the Company's management deems the risk of loss as possible, as follows:

	Parent Company and Consolidated	
	2009	**2008**
Type		
Social security	**17,455**	11,878
Tax	**9,971**	10,020
Civil	**691**	4,693
Labor	**12,445**	576
	40,562	27,167

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

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings – continued

c) ***Others ongoing proceedings -- continued***

On May 4, 2007, the INSS filed a court claim for taxes against the Company in the amount of R$1,604 (R$2,063 –updated up to December 31, 2009) referring to the social contributions destined to third parties (SESC and SENAC) levied on the compensation paid to employees who rendered services from March 1999 until July 2000. This amount of R$1,626 (R$2,091 – restated until December 31, 2009) was judicially deposited in 2007, and registered in non-current assets.

As a result of inspection procedures by the Brazilian Internal Revenue Service, the Company was assessed in 2006 in the amount of R$6,045 (R$8,687 – updated up to December 31, 2009), referring to discussions on commission and rental expenses and their respective effects on the calculation of income tax and social contribution tax on net income for the fiscal year 2001. The Company challenged this notice, which is pending decision of the Internal Revenue Service. For this claim, the Company's legal counsels classify the possibility of loss as remote.

As a result of inspection procedures by the Brazilian Internal Revenue Service, the Company was assessed in 2008 in the amount of R$3,628 (R$4,086 – updated up to December 31, 2009), referring to discussion for not having added to its taxable income part of its profits that had possibly arisen from one of its subsidiaries abroad and on unduly amortization, in the calculation of taxable income, of the goodwill from the merger of ABR1 into the Company in the calendar years 2003 to 2006. The Company challenged this notice, which is pending decision of the Internal Revenue Service.

The Municipality of São Paulo filed eight Notices of Infraction against our Company regarding the municipal tax on services for the period from 1996 to 2000, in the amount of R$804 (R$4,923 – updated up to December 31, 2009). The filings result from the Municipality of São Paulo's understanding that services rendered by our Joinville branch were occurring within the limits of the São Paulo municipality. Our Management and the Company's legal counsels understand that all services are rendered by our branch (in the city of Joinville) and that taxes were duly paid in that city.

17. Provision for Contingencies and Legal Liabilities Related to Legal Proceedings – continued

c) Others ongoing proceedings -- continued

The Company filed a motion to stay the tax foreclosure and that cannot be liable for the payment of NFLD 35.058.091-0 (originally drawn up against Datasul S.A., with a starting value of R$3,868 (R$7,880 updated up to December 31, 2009). Such Notice of Infraction was drawn up by the Social Security National Institute due to an alleged irregularity in our service outsourcing. The discussion of the merit for this stay of execution is currently pending, with no first degree decision.

As a result of the inspection procedures by the Brazilian Internal Revenue Service, in 2007 the Company proceeded with the Infraction Notice drawn up against Datasul S.A., amounting to R$1,357 (R$1,658 – updated up to December, 31, 2009), regarding some inquiries on the Datasul's failure to pay withholding income tax on amounts paid by third parties to beneficiaries of the incentive cards established in a previously adopted Marketing Plan. The Company filed a challenge for this intended collection and we are currently awaiting a decision by the Brazilian Internal Revenue Service.

The Company is the Defendant party in ordinary actions filed by clients and third parties for contract termination, with additional damages suits, amounting to R$17,455 –updated up to in December 31, 2009 and R$3,934 on December 31, 2008.

The Company is party in lawsuits filed by former employees and outsourced companies which plead for overtime payment, employment relationship, 13rd month pay and other, amounting to R$502 adjusted up to December 31, 2009 (R$150 on December 31, 2009).

In addition, the Company is party in tax assessments issued by the Internal Revenue Service, amounting to R$1,316 restated up to December 31, 2009.

d) Legislation in force

Under the current legislation in force in Brazil, the federal, state and municipal taxes, as well as payroll charges, are subject to review by relevant authorities for periods varying from 5 to 30 years. Legislations of other countries where Company's subsidiaries operate stipulate differentiated statutes of limitations.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

18. Shareholders' Equity

a) Capital Stock

On December 31, 2009, the Company's capital stock was comprised of 31,152,402 (31,152,402 shares on December 31, 2008) non-par registered common shares, as shown below:

	2009		2008	
Shareholders	**Shares**	**%**	**Shares**	**%**
LC-EH Empreendimentos e Participações S.A.	**5,352,198**	**17.18**	5,352,198	17.18
BNDES Participações S.A.	**2,032,214**	**6.52**	2,032,214	6.52
Genesys Asset Managers, LLP	**1,590,504**	**5.11**	1,534,564	4.93
Dynamo Administração de Recursos Ltda.	**1,574,564**	**5.05**	1,825,376	5.86
Fidelity Management & Research Company	**505,899**	**1.62**	1,964,300	6.31
Other	**20,097,023**	**64.51**	18,443,750	59.20
	31,152,402	**100.00**	31,152,402	100.00

The authorized capital on December 31, 2009 amounts R$ 540,000. Within the limit of authorized capital, the Company may, by Board of Directors resolution, increase capital independently of amendment in its bylaws. The Board of Directors shall determine the conditions of the issue, including price and payment term. Within the limit of authorized capital, the Board of Directors may decide to issue subscription bonds. Additionally, within the limit of authorized capital and in accordance with plans approved by the General Meeting, the Board of Directors may grant stock options or subscribe for shares to its administrators and employees, as well as administrators and employees of other companies that are controlled directly or indirectly by the Company, without the right of preference shareholders.

b) Capital reserves

The balance on December 31, 2009 and 2008 was as follows:

	2009	2008
Goodwill reserve	**31,557**	31,557
Goodwill reserve for merger in the period (Note 4)	**14,330**	14,330
Stock option plan (Note 22)	**2,964**	944
	48,851	46,831

Goodwill reserve - The amount of R$31,557 refers to the goodwill reserve recognized as a result of payments made in the 2005 fiscal year.

The capital reserve shall be used, according to legal provisions, for: i) absorption of losses that exceed the retained earnings and profit reserves; ii) redemption, refund or purchase of shares; iii) beneficiary parties' redemption; iv) incorporation into the capital stock; or v) payment of dividends to preferred shares, when they are entitled to it.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

18. Shareholders' Equity -- continued

c) Legal reserve

The Brazilian Corporation Law requires publicly-held companies to appropriate 5% of their annual net income to the profit reserve before profits are distributed, limiting this reserve to up to 20% of the total value of the capital stock.

d) Dividends

The Company's Bylaws provide for a minimum mandatory dividend of 25% of the year's net income, adjusted by the creation of a legal reserve, pursuant to the Brazilian Corporation Law.

	Parent Company	
	2009	**2008**
Parent company's net income for the period	120,296	48,212
Creation of legal reserve (Article 193 of Law 6,404)	(6,015)	(2,411)
Net Income after legal reserve appropriation	114,281	45,801
Proposal of Dividends		
Minimum Mandatory Dividend – 25%	28,570	11,450
Proposed additional dividends (installment higher than minimum)	40,689	21,974
Dividends proposed by the Management	69,259	33,424
Proposal of Payment		
Interest on equity paid	22,500	19,500
(-) Withholding income tax on interest on equity	(2,838)	(2,587)
Dividends	49,597	16,511
	69,259	33,424
Number of shares on December 31	31,152,402	31,152,402
Dividends and interest on equity per 1,000 shares – in reais	2,314,33	1,155,96

As for the 2009 fiscal year, on December 10, 2009, the Board of Directors authorized the distribution of interest on equity to the Company's shareholders in the amount of R$22,500, to be attributed to the minimum mandatory dividend for the fiscal year ended on December 31, 2009.

The balance of dividends and interest on equity payable of R$48,447 on December 31, 2009 (R$33,673 on December 31, 2008) includes the distribution of the year stated above, as well as the residual balance of previous years.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

18. Shareholders' Equity -- continued

e) Capital budget and allocation of retained profits reserve

The Company's Board of Executive Officers' proposed capital budget as of December 31, 2009, approved by the Board of Directors on February xx, 2010, subject to the approval of the Annual General Meeting, allocates the total balance of the profit retention reserve account in the amount of R$66,129 for the purposes stated below:

Purposes:	**2009**
Expansion projects, asset replacement, and information technology	20,242
Research and development	153,177
Total	173,419
Sources:	
Profit retention reserve on December 31, 2009	66,129
Estimated cash to be generated by operating activities in 2010 (unaudited)	107,290
Total	173,419

19. Insurance coverage

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

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

The insured assets include their own and leased vehicles, and the building where the Company and its subsidiaries operate.

20. Financial Instruments

CVM Resolution 550, as of October 17, 2008, established that publicly-held companies must disclose, at specific note, qualitative and quantitative information on all its derivative financial instruments, regardless of them being acknowledged or not as assets or liabilities in its balance sheet. On December 31, 2009 and 2008, the Company and its subsidiaries did not have any type of derivative financial instrument.

The Company's financial instruments are represented by cash equivalents, accounts receivable, accounts payable, debentures, loans and financing, and are recorded at cost value plus income or incurred charges, which on December 31, 2009 are close to market value.

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

CVM Rule 475 of December 17, 2008, provides for the presentation of information on financial instruments in a specific explanatory note and the disclosure of the sensitivity analysis statement chart.

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

With regard to financing operations, these refer to transactions done within the Program for the Development of the Software and Information Technology Industry – PROSOFT, for which the BNDES (Brazilian Development Bank) assesses each company to grant the loans. Having this in mind, the recorded value is the closest to the market value of these financial instruments.

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

(Amounts expressed in thousands of Reais, except when indicated otherwise)

20. Financial Instruments -- continued

As an attempt to check the sensitivity of the index for the financial investments the Company was exposed to on December 31, 2009, three different scenarios were created. Based on the forecast by financial institutions, we arrived at a 12-month forecast for Interbank Deposit Certificates (CDI), with an average of 10.75% for the fiscal year of 2010 – this being the most probable scenario; from this rate, we assessed variations from 25% to 50%.

For each of these scenarios the gross financial revenue was estimated, with taxes on investments return not included. The reference date for the portfolio was December 31, 2009, with a one-year projection to check the CDI's sensitivity to each scenario.

Operation	**Risk**	**Likely Scenario (I)**	**Scenario II**	**Scenario III**
Financial investments	CDI	10.75%	8.06%	5.38%
Position on 12/31/2009		R$22,438	R$16,823	R$11,229
R$ 208.723*				

**Balance on December 31, 2009 invested in CDB (Bank deposit certificate) and DI funds*

Aiming at checking the sensitivity of the index the Company is exposed to estimate our debts by December 31, 2009, three different scenarios were created. Based on long-term interest rates and the IPCA in force by December 31, 2009, the most likely scenario was determined for the fiscal year 2010 and, from this, variations from 25% to 50% were estimated.

For each scenario, the gross financial expense was calculated not taking into account the tax assessment and the maturities flow for each agreement scheduled for 2010. The reference date used for the financings and debentures was December 31, 2009, projecting the rates for one year and checking their sensitivity in each scenario.

Operation	**Risk**	**Likely Scenario (I)**	**Scenario II**	**Scenario III**
Financing operations		R$14,379	R$17,255	R$20,130
Rate subject to variation	TJLP	6.00%	7.50%	9.00%
R$ 209,775*				
Debentures		R$ 27,090	R$ 29,174	R$ 31,252
Rate/index subject to variation R$ 217,437*	IPCA	5.00%	6.25%	7.50%
	TJLP	6.00%	7.50%	9.00%

20. Financial Instruments -- continued

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

21. *Private Pension Plans – Defined Contribution*

The Company has private pension plans managed by Itaú Vida e Previdência (new denomination of Unibanco AIG Previdência) and HSBC, as follows:

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

- Basic Contribution – corresponds to 2% of the employee's salary; in case of employees ruled by bylaws, the contribution varies between 2% and 5%.
- Volunteer Contribution – made exclusively by the employees, with no participation of the Company;
- Company Contribution – corresponds to 100% of the basic monthly contribution. The Company is allowed to make extraordinary contributions, with in the amounts and at the frequency it so chooses.

II) Through HSBC, the Company has a Supplementary Private Pension Plan (PGBL in Portuguese – Plan Generator of Net Benefits) under the following condition:

- For the participants who choose the private pension plan, the Company assumes the plan's management fee of 0.95%. The monthly payments are made exclusively by the employees.

The partnerships are different, and the participant's choice for one of the plans depends on the agreement entered into the institution and the participant's unit.

The nature of the plans allows for the Company to suspend or permanently discontinue its contributions at any given time, at its exclusive discretion.

21. *Private Pension Plans – Defined Contribution -- continued*

The contributions made by the Company and its subsidiaries in 2009, amounted to R$4,308 in the parent company and R$4,552 in the consolidated (R$832 and R$1,309, respectively in 2008).

22. Stock Option Plan

On November 26, 2007, the Extraordinary General Meeting approved the Stock Option Plan. This plan is managed by the Board of Directors, which defines the call option criteria for each category of eligible professionals; defining at its discretion, based on the nomination of the Remuneration and Human Resources Committee, which eligible professionals will participate in the plan, as well as the amount of shares that can be acquired by each one of them by means of the exercise of options.

The Stock Option Plan is valid for 60 months as of its approval by the Company's General Meeting, and it will be in force until the deadline for the exercise of the outstanding options. The total number of shares allocated to this plan should not exceed 3.3% of the Company's capital stock in a period of 3 years, as of the date of approval of the plan by the Company's General Meeting.

On January 30, 2008, the Board of Directors approved the election of the participants in the plan and the number of shares each one of them may acquire through the exercise of their respective options, totaling 270,057 shares, at the strike price of R$46.16, corresponding to the arithmetic average of the unit value of the shares in the 5 previous trading sessions.

On January 22, 2009, the Board of Directors approved the 2nd granting of stock options and the respective election of participants of the plan and the amount of shares each one may acquire with the exercise of options, amounting to 182,555 shares, with a strike price of R$36.04, corresponding to the arithmetic average of the share unit price verified in the 5 previous trading sessions.

The exercise of the options granted has as vesting condition the exercise of the options only at the end of the 36-month period as of the granting date, and no later than 60 months as of the granting date. Options granted by this plan are individual and cannot be transferred, whether or not the vesting period expires.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

22. Stock Option Plan – continued

On December 31, 2009, there were no exercisable options, since the grant date 36-month term has not been elapsed yet.

Fair value of each option granted is estimated on the grant date based on Black-Scholes options valuation model, in the amounts of R$18.22 and R$12.81 for 1st and 2nd grant, considering: expectation of dividend of 2.4% and 3.3%, expected volatility of approximately 37.94% and 38.54%, risk free interest rate of 11.75% and 11.25% p.a. and maturity of 4 years, respectively for the 1st and 2nd grants. The effect of granting options for the year is R$2,020 (R$944 on December 31, 2008), recorded as expense in the granting of stock options.

Calculation basis:

	Parent Company and Consolidated			
	2009		2008	
	Quantity	Average Price	Quantity	Average Price
Balance of call options at the beginning of the year	**254,897**	**18.22**	-	-
Changes				
Granted	**182,555**	**12.81**	270,057	18.22
Exercised	**-**	**-**	-	-
Cancelled	**(52,958)**	**17.12**	(15,160)	18.22
Rewarded			-	
Balance of call options at the end of the year	**384,494**	**15.80**	254,897	18.22

On August 19, 2008, the Extraordinary General Meeting approved, due to the business combination, the financial settlement of Datasul’s Stock Option Plan.

(Amounts expressed in thousands of Reais, except when indicated otherwise)

23. Financial revenues and expenses

The financial revenues and expenses incurred in 2009 and 2008 were as follows:

	Parent Company		Consolidated	
	2009	**2008**	**2009**	**2008**
Financial revenues				
Financial investments	**12,391**	8,838	**15,171**	12,149
Exchange gains	**(3,535)**	7,431	**(1,288)**	11,182
Other financial revenues	**3,684**	2,314	**5,374**	2,762
	12,540	18,583	**19,257**	26,093
Financial expenses				
Interest on equity	**(22,500)**	(19,500)	**(22,500)**	(19,500)
Interest paid or incurred	**(33,122)**	(8,850)	**(33,480)**	(9,267)
Exchange losses	**(910)**	(7,388)	**(2,696)**	(9,629)
Banking expenses	**(3,259)**	(2,221)	**(3,683)**	(2,467)
Premium due to non-conversion	**(9,442)**	(2,777)	**(9,442)**	(2,777)
Other Financial Expenses	**-**	(68)	**(1,180)**	(468)
	(69,233)	(40,804)	**(72,981)**	(44,108)
Net financial	**(56,693)**	(22,221)	**(53,724)**	(18,015)

(Amounts expressed in thousands of Reais, except when indicated otherwise)

24. Reconciliation of BR GAAP with the international financial reporting standards - IFRS

The reconciliation of the consolidated shareholders' equity and net income for the year, prepared in accordance with the practices adopted in Brazil (BRGAAP) and international accounting standards (International Financial Reporting Standards - IFRS), as required by the Novo Mercado listing rules, are stated as follows:

		Consolidated			
		Shareholders' Equity		Result	
	Note	2009	2008	2009	2008
BR GAAP		**501,471**	453,678	**120,296**	48,212
Reversal of goodwill amortization	(a)	**95,230**	95,230	**-**	49,326
Intangible assets amortization	(b)	**(690)**	(359)	**(331)**	(331)
Reversal of proposed dividends	(c)	**43,527**	16,511	**-**	-
Company shares issued in Datasul operation	(d)	**136,313**	136,313	**-**	-
Deferred taxes	(e)	**(32,144)**	(32,257)	**113**	(16,658)
Minority interest	(f)	**6,458**	5,541	**(2,600)**	1,294
IFRS		**750,165**	674,657	**122,678**	81,843

As stated above, the accounting balances measured according to the IFRS differ, in certain aspects, from the accounting balances measured in accordance with the accounting practices adopted in Brazil, applied by the Company and its subsidiaries in the preparation of their consolidated financial statements.

In order to obtain the values of the consolidated shareholders' equity on December 31, 2009 and 2008, and the values of the consolidated result for the years ended on December 31, 2009 and 2008, the Company applied the standards and interpretations issued by the International Accounting Standards Board (IASB), in force for the year ended on December 31, 2009 and 2008. Below we describe the reconciliation items:

24. Reconciliation of BR GAAP with the international financial reporting standards - IFRS -- continued

a) Goodwill amortization reversal

According to IFRS, the goodwill resulting from a business combination is not amortized. Its recovery value must be valued at least once a year, and prior to this, whenever there is an indication that this asset value might not be recovered by the Company. When the recoverable value of the goodwill or of any other asset is lower than the book value, a loss shall be recognized in the year's result.

According to the BRGAAP, the goodwill must be amortized based on the projections of future results or other reasons determining its recognition, for a period not longer than ten years. With the issuance of CPC 13 – Preliminary adoption of Law 11,638/07 and Provisional Measure 449/08, goodwill shall not be amortized as of 2009, aligning the BRGAAP to the IFRS.

b) Amortization of intangible assets

According to the IFRS, in business combinations the fair value method on the purchase date must be applied. The purchasing entity, in an arm's length transaction, shall allocate, on the date of the combination, the cost of the acquisition (including direct costs with the transaction), accounting for: the identified assets and liabilities acquired, and the contingent liabilities assumed valued at their fair value. In the acquisition of IOSSTS in 2007, intangible assets relating to the client portfolio have been identified. Their estimated useful life is of 7 years.

c) Dividend reversal

According to IFRS, only the minimum mandatory dividends (25% of the adjusted income) are recognized as liability before the approval by the shareholders.

According to BRGAAP, dividends proposed by the Management are fully recognized as liability.

24. Reconciliation of BR GAAP with the international financial reporting standards - IFRS -- continued

d) Company shares issued in the acquisition of Datasul

According to the IFRS, the cost of the business combination shall be measured at fair value, on the takeover date. In the acquisition of Datasul, Totvs shares included in the acquisition cost (Note 4) were measured at their fair value.

According to the BRGAAP, the shares issued by Totvs, related to Datasul's acquisition were measured by the equity value of the merged subsidiary (Note 4).

e) Deferred taxes

Refers to the deferred income tax and social contribution effects, resulting from the temporary differences between the accounting balances measured in accordance with the accounting practices adopted in Brazil (BRGAAP) and the balances measured in accordance with the IFRS.

f) Minority interest

According to the IFRS, the minority shareholders' stake is part of the shareholders' equity and of the group's result.

According to the BRGAAP, the minority interest shall be excluded from shareholders' equity and consolidated results.

25. Subsequent Events

a) Acquisition of Midbyte

By means of material fact dated January 5, 2010, the Company's Management announced the acquisition of equity interest representing 30% of Midbyte Informática S.A.'s capital stock ("Midbyte"), by means of the exercise of stock option provided for in the Shareholders' Agreement executed on November 26, 2007 for R$12,000. The company operates in the retail software development segment and TOTVS already holds 70% of its capital stock.

b) Acquisition of Canal RM Nordeste

By means of material fact dated January 5, 2010, the Company's Management announced the acquisition by means of its subsidiary Totvs Nordeste Software Ltda. ("Totvs NE") of all the capital stock of M2I Serviços de Implantação de Software Ltda. ("M2I") and all the capital stock of M2S Serviços de Suporte Ltda. ("M2S") for the total amount of R$5,300, R$530 referring to M2I and R$4,770 referring to M2S, both distribution channels of RM product in Bahia state. The acquisitions of M2I and M2S are in line with TOTVS' strategy to restructure the distribution channels, accelerated in the second half of 2009.