Financial Statements

Totvs S.A. (formerly Microsiga Software S.A.)

December 31, 2005 and 2004
with Report of Independent Auditors

TOTVS S.A.

FINANCIAL STATEMENTS

December 31, 2005 and 2004

Contents

Report of Independent Auditors 1

Audited Financial Statements

Balance Sheets 3
Statements of Income 5
Statements of Shareholders' Equity 6
Statements of Changes in Financial Position 7
Notes to Financial Statements 8

A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Totvs S.A.

1. We have audited the accompanying balance sheets of Totvs S.A. (formerly Microsiga Software S.A.) and the consolidated balance sheets of Totvs S.A. and subsidiaries, as of December 31, 2005 and 2004, and the related statements of income, shareholders' equity and changes in financial position 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. Our audits were conducted in accordance with auditing standards applicable in Brazil which comprised: a) planning of the work, taking into consideration the materiality of balances, volume of transactions and the accounting and internal control systems of the Company; b) the examination, on a test basis, of the evidence and records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices followed and significant estimates made by the Company's management, as well as an evaluation of the overall financial statement presentation.

3. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Totvs S.A. and the consolidated financial position of Totvs S.A. and its subsidiaries at December 31, 2005 and 2004, the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in accordance with the accounting practices adopted in Brazil.

4. Our audits were conducted with the objective of issuing an opinion on the financial statements referred to in the first paragraph. The consolidated statements of cash flows for the years ended December 31, 2005 and 2004, prepared according to the accounting practices adopted in Brazil, are presented in Note 17 in order to allow additional analyses, but are not required as part of the financial statements. Such information was examined by us according to the audit procedures mentioned in the second paragraph and, in our opinion, it is adequately presented, in all material respects, with relation to the financial statements as a whole.

5. As mentioned in Note 2, the accompanying financial statements contain modifications in their explanatory notes in relation to the explanatory notes of the financial statements for the year ended December 31, 2005, published on February 3, 2006. These modifications, with which we agree, were made in order to meet the disclosure requirements of the Brazilian Securities Commission (CVM) in the Company's listing process, and do not require modification in our opinion on the financial statements for the year ended December 31, 2005, previously issued.

São Paulo, January 30, 2006 (except Notes 2b and 18,
the date of which is March 7, 2006)

São Paulo, January 30, 2006

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

Idésio S. Coelho Jr.
Accountant CRC1SP163904/O-0

José A. de A. Navarrete
Accountant CRC1SP198698/O-4

A free translation from Portuguese into English of financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil

TOTVS S.A.

BALANCE SHEETS
December 31, 2005 and 2004
(In thousands of reais)

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Assets				
Current assets				
Cash and banks	**711**	990	**1,952**	1,553
Marketable securities (Note 4)	**10,878**	3,021	**20,153**	6,802
Trade accounts receivable (Note 5)	**30,389**	30,595	**51,610**	38,433
Allowance for doubtful accounts	**(2,084)**	(3,083)	**(4,626)**	(4,453)
Deferred income and social contribution taxes (Note 6)	**4,062**	1,678	**4,539**	1,678
Dividends receivable	**4,970**	1,005	**-**	-
Other	**3,442**	722	**5,000**	1,813
Total current assets	**52,368**	34,928	**78,628**	45,826
Noncurrent assets				
Credits with subsidiaries (Note 7)	**3,077**	1,362	**-**	-
Deferred income and social contribution taxes (Note 6)	**2,049**	1,389	**4,637**	1,389
Judicial deposits	**1,152**	1,152	**4,922**	1,152
Other assets	**-**	199	**200**	199
	6,278	4,102	**9,759**	2,740
Permanent assets				
Investments				
In subsidiaries (Note 8)	**47,614**	8,758	**20,369**	-
Other investments	**-**	-	**254**	-
	47,614	8,758	**20,623**	-
Equipment (Note 9)	**6,366**	6,007	**14,219**	9,289
	53,980	14,765	**34,842**	9,289
Total assets	**112,626**	53,795	**123,229**	57,855

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Liabilities and shareholders' equity				
Current liabilities				
Trade accounts payable	**1,947**	1,516	**3,128**	1,667
Notes payable	**350**	770	**350**	770
Bank loans	**-**	-	**218**	99
Lease payable	**-**	-	**1,497**	772
Taxes payable	**2,028**	2,668	**4,779**	3,725
Salaries and charges payable	**11,615**	8,195	**15,081**	9,043
Commissions payable	**4,184**	3,600	**4,918**	3,600
Dividends payable	**7,570**	4,046	**7,652**	4,046
Other liabilities	**611**	886	**858**	951
Total current liabilities	**28,305**	21,681	**38,481**	24,673
Noncurrent liabilities				
Amount payable to subsidiary (Note 7)	**6,000**	-	**-**	-
Lease payable	**-**	-	**983**	475
Notes payable	-	350	**-**	350
Provision for losses on investments (Note 8)	**1,003**	152	**-**	-
Deferred income and social contribution taxes (Note 6)	**-**	-	**286**	210
Taxes payable	**1,176**	-	**2,391**	-
Provision for contingencies (Note 13)	**543**	336	**4,618**	336
	8,722	838	**8,278**	1,371
Minority interest	**-**	-	**315**	129
Shareholders' equity (Note 11)				
Capital	**21,636**	1,697	**21,636**	1,697
Capital reserve	**31,557**	9,434	**31,557**	9,434
Income reserves	**22,572**	20,311	**23,128**	20,717
Treasury stock	**(166)**	(166)	**(166)**	(166)
Total shareholders' equity	**75,599**	31,276	**76,155**	31,682
Total liabilities and shareholders' equity	**112,626**	53,795	**123,229**	57,855

See accompanying notes.

TOTVS S.A.

STATEMENTS OF INCOME
Years ended December 31, 2005 and 2004
(In thousands of reais, except for earnings per share)

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Gross revenue from services and sales				
License fees	**44,031**	38,447	**65,349**	45,345
Services	**59,870**	54,215	**93,347**	67,681
Maintenance	**70,572**	57,880	**88,605**	60,313
	174,473	150,542	**247,301**	173,339
Deductions from revenues				
Cancellation of services and sales	**(4,839)**	(4,140)	**(8,046)**	(5,498)
Taxes on services and sales	**(14,066)**	(18,669)	**(19,972)**	(21,705)
Net revenue from services and sales	**155,568**	127,733	**219,283**	146,136
Cost of license fees	**(2,758)**	(2,496)	**(5,257)**	(2,712)
Cost of services	**(53,054)**	(39,430)	**(72,354)**	(45,539)
Gross profit	**99,756**	85,807	**141,672**	97,885
Operating expenses				
Research and development	**(15,506)**	(13,733)	**(20,785)**	(14,713)
Advertising expenses	**(6,275)**	(6,247)	**(8,175)**	(6,766)
Selling expenses	**(7,880)**	(6,429)	**(13,724)**	(8,042)
Commissions	**(18,356)**	(16,415)	**(20,106)**	(16,843)
General and administrative	**(30,928)**	(23,764)	**(45,469)**	(28,157)
Depreciation and amortization	**(5,847)**	(1,505)	**(7,459)**	(2,167)
Allowance for doubtful accounts	**(182)**	(1,661)	**(512)**	(3,047)
Other expenses	**(3,985)**	(2,717)	**(2,464)**	(2,182)
	(88,959)	(72,471)	**(118,694)**	(81,917)
Operating profit before financial effects and equity pickup	**10,797**	13,336	**22,978**	15,968
Financial income	**3,391**	1,197	**4,583**	1,305
Financial expenses	**(3,794)**	(838)	**(4,543)**	(1,185)
Equity pickup	**8,712**	1,553	**-**	-
Operating profit after financial effects and equity pickup	**19,106**	15,248	**23,018**	16,088
Nonoperating income (loss)	**153**	24	**36**	(4)
Income before taxes	**19,259**	15,272	**23,054**	16,084
Income and social contribution taxes (expense)				
Current	**(7,128)**	(5,598)	**(11,635)**	(6,493)
Deferred	**3,044**	161	**3,923**	179
	(4,084)	(5,437)	**(7,712)**	(6,314)
Minority interest	-	-	**(17)**	30
Net income	**15,175**	9,835	**15,325**	9,800
Earnings per 1000 shares– in R$	**85.31**	58.06		
Number of issued shares at year-end, net of treasury stock	**177,884,027**	169,402,738		

See accompanying notes.

TOTVS S.A.

STATEMENTS OF SHAREHOLDERS' EQUITY
Years ended December 31, 2005 and 2004
(In thousands of reais)

		Capital reserve	Income reserves				
	Capital	Premium reserve	Legal	Retained earnings	Accumulated earnings	Treasury stock	Total
Balances at December 31, 2003	1,697	9,434	370	14,956	-	(166)	26,291
Complementary dividends	-	-	-	-	(850)	-	(850)
Net income for the year	-	-	-	-	9,835	-	9,835
Allocation of net income							
Dividends proposed					(4,000)		(4,000)
Retention of profits				4,985	(4,985)		-
Balances at December 31, 2004	**1,697**	**9,434**	**370**	**19,941**	**-**	**(166)**	**31,276**
Capital paid up with reserves	**14,848**	**(9,434)**	**-**	**(5,414)**	**-**	**-**	**-**
Capital paid up (Note 1)	**5,091**	**62,909**	**-**	**-**	**-**	**-**	**68,000**
Acquisition of own shares (Note 1)	**-**	**(31,352)**	**-**	**-**	**-**	**-**	**(31,352)**
Net income for the year	**-**	**-**	**-**	**-**	**15,175**	**-**	**15,175**
Allocation of net income							
Set-up of legal reserve	**-**	**-**	**759**	**-**	**(759)**	**-**	**-**
Dividends proposed	**-**	**-**	**-**	**-**	**(7,500)**	**-**	**(7,500)**
Retention of profits	**-**	**-**	**-**	**6,916**	**(6,916)**	**-**	**-**
Balances at December 31, 2005	**21,636**	**31,557**	**1,129**	**21,443**	**-**	**(166)**	**75,599**

See accompanying notes.

TOTVS S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended December 31, 2005 and 2004
(In thousands of reais)

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Sources of working capital				
From operations				
Net income for the year	**15,175**	9,835	**15,325**	9,800
Amounts not affecting working capital:				
Depreciation and amortization	**5,847**	1,505	**7,459**	2,167
Equity pickup	**(8,712)**	(1,553)	**-**	-
Foreign exchange variation on investments abroad	**420**	601	**-**	-
Book value of assets disposed of	**204**	74	**375**	101
Provision for contingencies	**207**	303	**4,282**	303
Loss on investment in subsidiary	**165**	(160)	**-**	(160)
Deferred income and social contribution taxes	**(660)**	(323)	**(3,172)**	(341)
Dividends received and/or proposed from subsidiaries	**4,970**	1,005	**-**	-
Total from operations	**17,616**	11,287	**24,269**	11,870
From third parties				
Increase in noncurrent liabilities	**6,826**	350	**2,549**	734
Capital subscription	**68,000**	-	**68,000**	-
Minority interest	**-**	-	**186**	129
	74,826	350	**70,735**	863
Total sources	**92,442**	11,637	**95,004**	12,733
Applications of working capital				
Acquisition of equipment	**2,336**	3,407	**8,690**	5,861
Investments in subsidiaries	**38,922**	4,296	**24,697**	-
Increase in noncurrent assets	**1,516**	1,243	**3,771**	1,030
Acquisition of own shares	**31,352**	-	**31,352**	-
Dividends proposed or paid	**7,500**	4,850	**7,500**	4,850
Total applications	**81,626**	13,796	**76,010**	11,741
Increase (decrease) in working capital	**10,816**	(2,159)	**18,994**	992
Variation in working capital				
At the end of the year	**24,063**	13,247	**40,147**	21,153
At the beginning of the year	**13,247**	15,406	**21,153**	20,161
Increase (decrease) in working capital	**10,816**	(2,159)	**18,994**	992

See accompanying notes.

1. Operations, Acquisition and Merger of Company and Changes in Shareholding Structure

Operations

The business purpose of Totvs S.A., formerly Microsiga Software S.A., (hereinafter referred to as “Parent company”, “Totvs”, or “the Company”) is the development and commercialization of information technology rights, rendering services of implementation, consultation, assistance and maintenance related thereto. The main software developed by the Company and by the subsidiary Logocenter (acquired in February 2005 and merged in January 2006) are applications of enterprise resource planning (ERP) type and has the objective of electronically integrating the strategic and operating levels of a user company, allowing the creation of information flow which comprehends the operating needs and those related to management information of different areas of the company using the software. The main areas considered by the ERP software products of Microsiga and Logocenter brands are: administration, finance, operations, industrial, human resources and customer service. The software commercialized by Totvs is called Protheus whereas that commercialized by Logocenter is called Logix.

Transactions between the parent company and the subsidiaries are conducted under conditions and prices established between the parties.

Acquisition of shares of Logocenter S.A.

In order to increase its share in the national software market, in February 2005 the Company acquired from Logocenter Participações S.A. (“Logopar”) 100% of the shares of Logocenter S.A. (“Logocenter”), a software development company located in Joinville – State of Santa Catarina, for R$35,000, and a goodwill of R$24,443 was computed, which is being amortized in connection with future investment profitability expected.

Transaction settlement was defined as follows:

(i) R$7,000 in three installments, settled in the first half year of 2005.

(ii) In order to settle the remaining balance of R$28,000, Logopar conducted a swap of shares by means of capital paid up, at Totvs, totaling 21,203,212 new registered common shares with no par value, issued by the Company, registered at the issue value of R$1.32 per share, from which R$ 0.10 were allocated to capital formation, totaling R$2,120 and R$1.22 were allocated to premium reserve formation, totaling R$25,880.

(In thousands of reais)

1. Operations, Acquisition and Merger of Company and Changes in Shareholding Structure (Continued)

Merger with subsidiary Logocenter S.A.

The Extraordinary General Meeting held on January 30, 2006, approved the merger with the subsidiary Logocenter S.A., with its main registered office located in the city of Joinville – Santa Catarina State, which was acquired by the Company in February 2005. The merger was conducted at book value as of December 31, 2005, observing applicable legal provisions. The main components of merged net assets are listed below:

Current assets	12,342
Noncurrent assets	11,156
Permanent assets	3,051
Total assets	26,549
Current liabilities	5,804
Noncurrent liabilities	6,011
Net assets merged into the Company	15,248

With the change in Company name in December 2005, as well as the merger with subsidiary Logocenter, the Company, currently denominated Totvs S.A., will carry out its operations using the Microsiga and Logocenter marks.

Changes in Shareholding Structure

Subscription of preferred shares redeemable issued by the Company

On February 18, 2005, BNDES Participações S.A. ("BNDESPAR") subscribed and paid up 29,702,315 new registered preferred shares with no par value, redeemable, issued by the Company, at the issue value of R$1.35 per share, from which R$0.10 were allocated to capital formation totaling R$2,970 and R$1.2467 were allocated to reserve formation totaling R$37,030.

1. Operations, Acquisition and Merger of Company and Changes in Shareholding Structure (Continued)

Changes in Shareholding Structure (Continued)

<u>Subscription of preferred shares redeemable issued by the Company</u> (Continued)

By means of a Shareholders' Agreement dated February 16, 2005, BNDESPAR and the majority shareholders of the Company committed themselves to fulfilling certain obligations related to (i) corporate management; (ii) maintenance of Company shareholding control; (iii) and others.

The preferred shares issued have the following features (i) voting right; (ii) right to receive minimum obligatory dividend of 25% of net income for the year adjusted according to article 202 of Law No. 6404/76; (iii) priority for reimbursement of capital in case of Company dissolution; (iv) they are convertible into common shares considering 1 preferred share for 1 ordinary share, at any time, according to the criteria of their holders; (v) redeemable based on the results for the fiscal year to end December 31, 2008; (vi) right to participate, under equal conditions, with the common shares, in the profit distributions, as bonuses or for any other purposes, and also in the capitalization of income or reserves, even in the cases or asset revaluation and (vii) if the Company goes public, BNDESPAR agrees to request the conversion of preferred shares into common shares in the proportion of one preferred share for each ordinary share.

Preferred shares may be redeemed in case until December 31, 2008, the Company has not been effectively registered as a listed company and the initial public offering for acquisition of its shares has not been declared. Each preferred share may be redeemed at issue value, restated according to the variation of long-term interest rate (TJLP), calculated *pro rata temporis* up to redemption date, plus spread of 2.5% per annum. At December 31, 2005, the amount of preferred shares, updated according to that index, totals R$44,376.

The Extraordinary General Meeting held on January 30, 2006, approved conversion of 29,702,315 preferred shares into 29,702,315 common shares, all registered book-entry shares with no nominal value, considering the provisions of the Shareholders' Agreement.

(In thousands of reais)

1. Operations, Acquisition and Merger of Company and Changes in Shareholding Structure (Continued)

Repurchase and cancellation of shares issued by the Company

In February 2005, 42,424,242 registered common shares with no par value, issued by the Company, and previously held by Advent Investment Software Ltd. were repurchased for R$31,352.

The Extraordinary General Meeting held on June 6, 2005, decided the cancellation of the referred shares.

2. Basis of Preparation and Presentation of the Financial Statements

a) Reconciliation between the financial statements of the parent company and consolidated

Financial statements identified as Parent company were prepared according to the accounting practices adopted in Brazil (Brazilian Corporation Law), whereas financial statements, defined as "consolidated" include the capitalization of assets leased as finance lease. The reconciliation of shareholders' equity and net income of Parent Company and the Consolidated is summarized as follows:

	Shareholders' equity		**Net income**	
	2005	**2004**	**2005**	**2004**
According to Parent company	**75,599**	31,276	**15,175**	9,835
- Lease payable	**(2,480)**	(1,247)	**(1,233)**	(821)
- Leased assets	**5,392**	3,221	**2,171**	1,181
- Depreciation of the leased assets	**(2,070)**	(1,358)	**(712)**	(413)
- Deferred income and social contribution taxes on the net effects resulting from the lease	**(286)**	(210)	**(76)**	18
According to the Consolidated	**76,155**	31,682	**15,325**	9,800

The financial expenses related to lease agreements were not capitalized (see Note 9).

(In thousands of reais)

2. Basis of Preparation and Presentation of the Financial Statements (Continued)

b) Expansion of the notes to the financial statements for the year ended December 31, 2005

The explanatory notes to these financial statements were supplemented in relation to those published on February 3, 2006 in order to meet the orientations of the Brazilian Securities Commission (CVM), in accordance with Official Memorandum CVM/SEP/ Nº11/2006 of February 9, 2006 and Official Memorandum/CVM/SEP/Nº12/2006 of February 23, 2006, considering the Company's listing process. The balance sheets and the corresponding statements of income, shareholders' equity and changes in financial position have not been changed in relation to the previous disclosure. The expanded explanatory notes were: 2, 8, 9, 10, 11a), 11c to 11e), 12, 14 and 18.

c) Reclassification of the financial statements for the year ended December 31, 2004

The financial statements for the year ended December 31, 2004 were reclassified to comply with the presentation of financial statements for the year ended December 31, 2005.

3. Summary of Significant Accounting Practices

a) Consolidation principles

The consolidated financial statements include the accounts of the Company and its subsidiaries, as shown below:

Subsidiaries	Ownership interest % 2005	2004
Makira do Brasil S.A.	100.00	100.00
Microsiga Corporation	100.00	100.00
Microsiga Rio Software Ltda.	100.00	100.00
Microsiga Mexico S.A.	95.00	95.00
Microsiga Argentina S.A.	100.00	100.00
Microsiga Vitória Software Ltda.	100.00	100.00
Microsiga Brasil Central Software Ltda. And subsidiaries	90.00	90.00
Logocenter S.A. (a)	100.00	-
Microsiga Brasília Software Ltda. (b)	100.00	-
Microsiga Nordeste Software Ltda. (b)	100.00	-

3. Summary of Significant Accounting Practices (Continued)

a) Consolidation principles--Continued

(a) Company acquired in 2005 and merged in 2006.
(b) Company organized in 2005.

All intercompany balances and transactions have been eliminated in the consolidation. Accounting practices adopted by subsidiaries are consistent with those followed by the Company, and are consistent with those of the previous year.

b) Use of estimates

The preparation of financial statements in conformity with accounting practices adopted in Brazil requires that management makes estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

c) Credit risk

Financial instruments, which potentially subject the Company and its subsidiaries to concentration of credit risk, primarily consist of short-term investments and trade accounts receivable. The Company has investment policies that limit the investments in low-risk marketable securities and investments in first class banks.

Management believes the risk with respect to the trade receivables is mitigated to some extent by the fact that the Company's customer base is highly diversified. No single customer accounted for 10% or more of revenue in 2005 or 2004, nor trade receivables at December 31, 2005 or December 31, 2004. The Company does not require collateral on trade receivables.

d) Cash and banks

Cash and banks are represented by the balances at current bank accounts.

3. Summary of Significant Accounting Practices (Continued)

e) Marketable securities

Marketable securities are recorded at cost amounts, plus income earned up to balance sheet date, according to the rates contracted with financial institutions, not exceeding the market value.

f) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on estimated losses and is considered sufficient to cover possible losses upon realization of trade accounts receivable.

g) Investments

Investments in subsidiaries are stated based on equity method of accounting. Other investments are valued at cost.

h) Equipment

Equipment is stated at acquisition cost, less accumulated depreciation. Depreciation is calculated by the straight-line method based on the useful economic life of assets, at the annual depreciation rate mentioned in Note 9. Lease agreements for acquiring fixed assets are capitalized for consolidation purposes and are depreciated according to the straight-line method within the term of the estimated useful economic life of assets. Depreciation of those assets is included in the depreciation expenses of consolidated financial statements.

i) Determination of results

Results are recognized on an accrual basis, observing the principle of revenue realization and expense reconciliation.

3. Summary of Significant Accounting Practices (Continued)

j) Revenues and expenses

The Company basically earns revenues from software license, including license fees, revenues from services including advisory fees, revenues from support services, maintenance for technological evolution of the product and revenues from telephone customer service.

Revenues are recorded when effectively realized, i.e. software revenues are recognized only when the following aspects have been cumulatively met: i) evidence that an agreement exists; ii) the product has already been made available to the customer; iii) the price is fixed and determined; and iv) the collectivity is probable.

Revenues from services are billed separately and recognized as services are provided. Revenues from maintenance for technological evolution and help desk (telephone customer service for doubt clearing) are billed and recognized on a monthly basis, as long as agreements with customers are in effect.

The cost related to revenues from license fees consists of the cost to distribute the product, including the costs of the medium through which the product is delivered and the price of licenses paid to third parties, in the case of the software resold. The cost related to revenues from services and maintenance basically consists of the advisory and support personnel’s salaries and related costs.

Research and development expenses include all expenses related to the area of development (programming and software plant) and are stated separately from selling costs, under operating expenses.

k) Internal software research and development costs

Accounting practices require the capitalization of internal software research and development costs incurred upon achieving technological feasibility until such product is available for sale. Historically, such costs have not been material and, therefore, they are being recorded as expenses when incurred.

3. **Summary of Significant Accounting Practices** (Continued)

l) Advertising expenses

The Company records in the year results all advertising and marketing expenses as they are incurred.

m) Earnings per share

The calculation was performed based on the number of outstanding shares at year end and as if the net income for the year were fully distributed. Earnings may be distributed or used for capital increase. Consequently, there is no guarantee that said income will be distributed as dividends.

n) Taxation

Taxes on sales are recorded on an accrual basis. Taxes on income were calculated according to current legislation and accrued based on the liability method, which requires the deferral of income taxes on temporary differences.

o) Supplementary information

In order to improve the information provided to the market, the Company is presenting, as supplementary information (see Note 17), the consolidated statements of cash flows prepared according to IBRACON NPC-20 (Accounting Standards and Procedures of the Institute of Independent Auditors of Brazil), considering significant operations that affected cash and banks and marketable securities of the Company. Such statement consists of: operating, investment and financing activities. Changes in the operating, investment and financing activities of Logocenter were included, line by line, in the consolidated statements of cash flows.

(In thousands of reais)

4. Marketable Securities

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
DI Funds	**10,878**	3,021	**18,052**	6,802
Debentures	**-**	-	**2,101**	-
	10,878	3,021	**20,153**	6,802

Marketable securities refer to short-term investments in Interbank Deposit (DI) funds and debentures, considering rates varying from 90% to 100% of Interbank Deposit Certificate (CDI).

5. Trade Accounts Receivable

The breakdown of receivables' balances by maturity is as follows:

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Amounts falling due	**26,896**	26,368	**38,008**	31,688
Amounts past due				
Up to 30 days	**1,350**	1,530	**4,349**	2,150
From 31 to 60 days	**469**	344	**1,776**	639
From 61 to 90 days	**198**	212	**1,418**	538
More than 91 days	**1,476**	2,141	**6,059**	3,418
	30,389	30,595	**51,610**	38,433

6. Income and Social Contribution Taxes

a) <u>Income and social contribution tax expense reconciliation</u>:

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Income before taxes	**19,259**	15,272	**23,054**	16,084
Income and social contribution taxes at nominal rate - 34%	**6,548**	5,192	**7,838**	5,469
Adjustments for calculation of effective rate				
Equity pickup	**(2,962)**	(528)	**-**	-
Doubtful accounts	**244**	47	**174**	47
Foreign exchange variation on investments abroad	**143**	204	**143**	204
Losses on investments	**-**	(91)	**-**	(91)
Income and social contribution tax losses	**-**	-	**(521)**	-
Directors' profit sharing	**163**	610	**163**	610
Other	**(52)**	3	**(85)**	75
Income and social contribution tax expense	**4,084**	5,437	**7,712**	6,314
% effective rate	**21.2%**	35.6%	**33.5%**	39.3%

(In thousands of reais)

6. Income and Social Contribution Taxes (Continued)

b) Deferred income and social contribution taxes are as follows:

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
Assets				
Resulting from temporary differences:				
Goodwill upon acquisition of investments	**1,385**	-	**1,385**	-
Provision for commissions	**1,448**	1,224	**1,523**	1,224
Advanced revenues or billing	**1,122**	142	**1,463**	142
Allowance for doubtful accounts	**708**	1,048	**788**	1,048
Provision for losses on investments	**226**	228	**226**	228
Provision for contingencies	**1,114**	114	**2,500**	114
Income and social contribution tax loss carryforwards	**-**	-	**1,203**	-
Other	**108**	311	**88**	311
Total deferred taxes and contributions – assets	**6,111**	3,067	**9,176**	3,067
Current	**(4,062)**	(1,678)	**(4,539)**	(1,678)
Noncurrent	**2,049**	1,389	**4,637**	1,389
Liabilities				
Resulting from temporary differences:				
Lease	**-**		**286**	210
Total deferred taxes and contributions	**-**		**286**	210

The Company expects to recover those net tax credits in the following years:

	Parent company		Consolidated	
	2005	**2004**	**2005**	**2004**
December 31, 2005	**-**	1,366	**-**	1,366
December 31, 2006	**4,062**	1,048	**4,664**	838
December 31, 2007	**709**	539	**802**	539
December 31, 2008	**226**	-	**466**	-
December 31, 2009 to 2012	**1,114**	114	**2,958**	114
	6,111	3,067	**8,890**	2,857

(In thousands of reais)

7. Related Party Transactions

Balances receivable and payable with subsidiaries are listed below:

	Parent company	
	2005	**2004**
Assets		
Microsiga Brasil Central Software Ltda.	**-**	470
Microsiga Brasilia Software Ltda.	**599**	-
Microsiga Nordeste Software Ltda.	**1,197**	-
Totvs BMI S.A.	**105**	-
Microsiga México S.A.	**1,176**	892
	3,077	1,362
Liabilities		
Logocenter S. A.	**6,000**	-
	6,000	-

Amounts receivable from Microsiga México S.A. refer to royalties receivable from that subsidiary as a result of the sales conducted in Mexican territory, which must be paid by that subsidiary. Revenues from royalties total R$284 for the year ended December 31, 2005 (R$892 for 2004). The other amounts refer to loans between subsidiaries, which do not accrue interest.

Although subsidiaries Microsiga Brasília Software Ltda. and Microsiga Nordeste Software Ltda. present capital deficiency at December 31, 2005, the Company management maintains the perspective that this is a temporary situation, for which reason no provision has been recorded regarding the loans granted to those subsidiaries.

The Company is established in premises owned by its majority shareholders, under a lease agreement. Under this lease agreement, rent paid in the year ended December 31, 2005 amounted to R$3,389 (R$3,027 in 2004). The lease agreement is renewed on an annual basis.

Certain Company directors have, on an indirect basis, 66.82% of Company shares at December 31, 2005. These directors are shareholders of LC-EH Empreendimentos e Participações S.A., which is a Company shareholder.

As a result of a shares distribution plan concluded in 2002, 4,615,335 common shares were held by employees and collaborators at December 31, 2005 and 2004.

Management fees paid in the year ended December 31, 2005 totaled R$8,477 (R$7,227 in 2004 and R$6,149 in 2003).

(In thousands of reais)

8. Investments

The breakdown of investments at December 31, 2005 and 2004 is presented below:

	2005							
	Investees' amounts		Equity pickup		Investment		Provision for losses	
	Shareholders' equity	Results	2005	2004	2005	2004	2005	2004
Microsiga Rio Software Ltda.	1,430	1,603	**1,603**	643	**1,430**	1,226	**-**	-
Microsiga Argentina S.A.	976	(203)	**(203)**	(291)	**976**	573	**-**	-
Logocenter S.A.	15,248	5,794	**5,794**	-	**15,248**	-	**-**	-
Microsiga México S.A.	4,628	(137)	**(130)**	(59)	**4,397**	2,768	**-**	-
Makira do Brasil S.A.	1,164	1,885	**1,885**	1,022	**1,164**	879	**-**	-
Microsiga Corporation	2,634	117	**117**	(16)	**2,634**	2,841	**-**	-
Microsiga Vitória Software Ltda.	645	674	**674**	496	**645**	471	**-**	-
Microsiga Brasil Central Software Ltda.	834	195	**175**	(242)	**751**	-	**-**	152
Microsiga Nordeste Software Ltda.	(638)	(738)	**(738)**	-	**-**	-	**638**	-
Microsiga Brasilia Software Ltda.	(365)	(465)	**(465)**	-	**-**	-	**365**	-
Subtotal			**8,712**	1,553	**27,245**	8,758	**1,003**	152
Logocenter S.A. – Goodwill (balance to be amortized)			**-**	-	**20,369**	-	**-**	-
			8,712	1,553	**47,614**	8,758	**1,003**	152

Goodwill of R$24,443 (R$ 20,369 to amortize at December 31, 2005) resulting from the acquisition of Logocenter, is being amortized over the period of sixty months, based on expected future profitability. Goodwill paid and expected future profitability were based on an expert appraisal report, which used the discounted cash flow criterion (average rate of 18.75% p.a.) with profitability projections over five years.

(In thousands of reais)

8. **Investments** (Continued)

Details on Company investments are set out below:

	At December 31, 2005									
	Logocenter S.A. (1)	Microsiga Vitória Software Ltda.	Makira do Brasil S.A.	Microsiga Rio Software Ltda.	Microsiga Brasil Central Software Ltda. and subsidiaries	Microsiga Nordeste Software Ltda.	Microsiga Brasília Software Ltda.	Microsiga Argentina	Microsiga Corporation	Microsiga México
Assets										
Current assets	12,342	1,289	2,823	3,458	771	223	10	864	2,705	6,950
Noncurrent assets	11,156	-	-	-	125	380	239	343	-	-
Permanent assets	3,051	33	6	207	208	98	46	97	-	933
Liabilities										
Current liabilities	5,804	677	1,666	2,236	270	142	61	328	-	3,642
Noncurrent liabilities	6,011	-	-	-	-	1,197	599	-	71	-
Statement of income										
Net revenue from sales and services	35,605	3,161	2,536	9,186	3,407	187	-	2,523	14	7,788
Gross profit (loss)	24,968	2,021	2,536	4,928	1,973	(487)	(342)	1,117	117	5,189
Income (loss) after financial effects and equity pickup (2)	8,485	978	2,539	2,145	121	(1,118)	(704)	204)	117	(59)

(1) Company acquired in February 2005 and merged in January 2006
(2) Operating profit (loss)

(In thousands of reais)

8. **Investments** (Continued)

	At December 31, 2004						
	Microsiga Vitória Software Ltda.	Makira do Brasil S.A.	Microsiga Rio Software Ltda.	Microsiga Brasil Central Software Ltda. and subsidiaries	Microsiga Argentina	Microsiga Corporation	Microsiga México
Assets							
Current assets	545	1.734	1.864	259	627	2.891	3.557
Noncurrent assets	-	-	-	-	50	-	-
Permanent assets	32	87	84	144	144	-	928
Liabilities							
Current liabilities	106	942	721	103	248	-	1.571
Noncurrent liabilities	-	-	-	470	-	50	-
Statement of Income							
Net revenue from sales and services	1.828	1.870	6.542	291	1.947	1.007	6.018
Gross profit (loss)	1.287	1.871	3.834	(38)	729	1.007	3.893
Income (loss) after financial effects and equity pickup (1)	708	1.365	923	(269)	(266)	(16)	(10)

(1) Operating profit (loss)

All intercompany balances and transactions were eliminated in the consolidation (see Note 3a). Receivables, liabilities, revenues and expenses resulting from Company transactions with the related parties above are disclosed in Note 7.

(In thousands of reais)

9. Equipment

	Average annual depreciation rate	Parent company 2005	Parent company 2004	Consolidated 2005	Consolidated 2004
Cost					
Computers and software	20%	**6,695**	5,406	**13,992**	7,542
Vehicles	20%	**1,293**	1,252	**3,638**	2,571
Furniture and fixtures	10%	**1,193**	1,039	**2,506**	1,742
Installations, machinery and equipment	10%	**1,293**	1,178	**2,546**	1,699
Franchise – ABC region São Paulo (greater metropolitan area)	20%	**1,890**	1,890	**1,890**	1,890
Other	10%	**64**	49	**1,917**	844
Total acquisition cost		**12,428**	10,814	**26,489**	16,288
Accumulated depreciation/amortization					
Computers and software		**(3,866)**	(3,278)	**(7,811)**	(4,713)
Vehicles		**(501)**	(441)	**(1,282)**	(733)
Furniture and fixtures		**(574)**	(467)	**(1,082)**	(698)
Installations, machinery and equipment		**(554)**	(432)	**(1,160)**	(631)
Franchise – ABC region São Paulo (greater metropolitan area)		**(567)**	(189)	**(567)**	(189)
Other		**-**	-	**(368)**	(35)
Total accumulated depreciation/amortization		**(6,062)**	(4,807)	**(12,270)**	(6,999)
Equipment, net		**6,366**	6,007	**14,219**	9,289

Lease

In the consolidated financial statements, the balance of leased assets capitalized (cost deducted from accumulated depreciation) is R$3,322 (R$1,863 in 2004). The breakdown of leased assets capitalized, is shown below:

	Consolidated 2005	Consolidated 2004
Cost		
Vehicles	**1,774**	1,158
Computers and software	**2,913**	1,336
Furniture and fixtures and other	**705**	727
	5,392	3,221
Accumulated depreciation		
Vehicles	**476**	248
Computers and software acquired	**1,252**	834
Furniture and fixtures and other	**342**	276
	2,070	1,358
	3,322	1,863

Liabilities related to these leases are disclosed in Note 12.

9. **Equipment** (Continued)

Acquisition of franchise in ABC Region

That right was acquired for R$1,890, as a result of independent appraisal report. At December 31, 2005, the balance payable is recorded under “Notes payable”, and is presented in current liabilities for R$350 (R$770 in current liabilities and R$350 under noncurrent liabilities at December 31, 2004).

Those assets are being amortized in 60 months, for which period the benefits for that operation were estimated. The amount amortized totals R$1,323 at December 31, 2005 (R$1,701 at December 31, 2004).

10. Taxes Payable and Salaries and Charges Payable

In 1999, the Company filed with federal courts a joint writ of mandamus together with the Services Federation of São Paulo (FESESP) claiming exemption of SESC and SENAC contribution tax payment on payroll, for considering that its operations did not fit into the concept of a commercial company. However, the 3rd Panel of Judges of the Federal Court of Appeals of the 3rd jurisdiction handed down a ruling on November 16, 2005 annulling said writ of mandamus. As such, the Company understood, in 2005, based on the status of this case, that SESC and SENAC contribution taxes were due and provisioned the amount of R$2,847, recorded in “Salaries and charges payable” account,, related to unpaid contributions in the period January 2003 to December 2005. Based on the opinion of counsel, the Company believes that contributions related to the period before 2003 are not due for service companies, as such it did not recognize a provision for this period.

The Company classified this liability under current liabilities because it believes that the cash outlay resulting from settlement of the liability will take place in the year ending December 31, 2006.

In December 2005, the Company received tax delinquency notices in the amount of R$2,351 related to Service Tax - ISS rate increase from 0.5%, levied on revenue from services, to 5% in March 2001, with retroactive effect to February and March of said year. The Company recognized in 2005, the amount due in “Taxes payable” account, which is presented in current and noncurrent liabilities for R$1,175 and R$1,176, respectively. The amount will be settled in 18 equal and consecutive monthly installments of R$131 each, the first in April 2006.

(In thousands of reais)

11. Shareholders' Equity

a) Capital

At December 31, 2005, the capital subscribed was R$21,636, fully paid, and it consisted of 178,178,255 shares (169,696,970 at December 31, 2004), from which 148,475,940 were common shares authorized and issued, and 29,702,315 preferred shares redeemable. At December 31, 2005 there were 294,228 shares in treasury (294,232 in 2004).

The Company's Shareholding Structure is summarized as follows, at December 31, 2005, excluding treasury stock:

	Quantity of shares, with no par value		
	Common	**Preferred**	**Total**
LC-EH Participações e Empreendimentos S.A.	119,052,790	-	119,052,790
BNDES Participações S.A.	-	29,702,314	29,702,314
Logocenter Participações S.A.	21,203,212	-	21,203,212
Other (*)	7,925,710	1	7,925,711
	148,181,712	29,702,315	177,884,027

(*) Including employees and other individuals, most of whom are related to the Company.

The Extraordinary General Meeting of January 30, 2006, approved: (i) increase in Company authorized capital from R$250,000 to R$540,000, and capital may be increased through issue of common shares, irrespective of by-laws amendment. Said increase is made by resolution of the Board of Directors, which is also responsible for establishing the conditions for the increase and the form, including price and term for capital subscription and payment. (ii) cancellation of 294,228 commons shares issued by the Company and maintained in treasury, without any change in capital amount. (iii) conversion of its 29,702,315 preferred shares into 29,702,315 common shares, all registered book-entry shares with no nominal value (iv) grouping of all common shares of Company capital, in the proportion of ten common shares per each common share. Due to this grouping, the number of shares representing capital was changed from 177,884,027 to 17,788,402 common registered book-entry shares with no nominal value.

On February 6, 2006, LC-EH Empreendimentos e Participações S.A. transferred 2,818,640 shares issued by Totvs (already considering the grouping of shares mentioned in the paragraph above) to three Company directors.

(In thousands of reais)

11. **Shareholders' Equity** (Continued)

a) Capital (Continued)

The Company's shareholding structure after the aforementioned events is set out below (number of common shares):

LC-EH Participações e Empreendimentos S.A.	9,085,655
BNDES Participações S.A.	2,970,232
Logocenter Participações S.A.	2,120,322
Other (*)	3,612,193
	17,788,402

(*) Includes employees and other individuals , most of which related to the Company.

Pro forma earnings per share at December 31, 2005 and 2004, assuming the aforementioned grouping of shares amounted to R$0.85 (in reais) and R$0.58 (in reais), respectively.

b) Legal reserve

Brazilian Corporation Law requires that the corporations record a reserve of up to 20% of total capital amount. Before profit distribution, the corporations must appropriate 5% of annual net income to this reserve until the reserve equals 20% of the total capital amount.

c) Retained earnings

Retained earnings correspond to the remaining income after appropriation to legal reserve and dividend distribution, aiming substantially to meet the Company's expansion projects and research and development expenses. Allocation of remaining earnings occurs every year end, on December 31. See comments on proposed capital budget in Note 11e).

(In thousands of reais)

11. Shareholders' Equity (Continued)

d) Dividends

The Company bylaws establish an obligatory minimum dividend equivalent to 25% of net income for the year, after recording the legal reserve.

The Company board proposed (and recognized in the financial statements) interim dividends for R$7,500 (R$4,000 in 2004) for the year ended December 31, 2005, which accounts for 49% of net income for the year (41% in 2004). On February 2, the Board of Directors approved *ad referendum* of the annual general shareholders' meeting the proposed interim dividends, which were calculated according to the table below:

	2005	2004
Net income for the year – Parent company	**15,175**	9,835
Legal reserve (Article 193 of Law No. 6404)	**(759)**	-
Net income after allocation of legal reserve	**14,416**	9,835
Mandatory minimum dividend – 25%	**3,604**	2,459
Additional dividends proposed (portion in excess of the minimum)	**3,896**	1,541
Dividends proposed by management	**7,500**	4,000
Number of shares issued at December 31 (excluding treasury stock):		
Preferred shares	**29,702,315**	-
Common shares	**148,181,712**	169,402,738
Dividend per 1,000 shares – In R$:		
Preferred shares	**42,16**	-
Common shares	**42,16**	23,61

See also Note 18 thereto, which reports that the aforesaid interim dividends were approved by the Annual and Extraordinary Shareholders Meeting on March 7, 2006.

(In thousands of reais)

11. Shareholders' Equity (Continued)

e) Capital budget and allocation of income reserves

The capital budget and allocation of income reserves at December 31, 2005 proposed by Company executive board and approved by its board of directors on February 2, 2006, *ad referendum* of the Annual General Meeting consists of retaining R$6,916 for investments and applications of funds and also earmarking total balance of the reserve for retained earnings account amounting to R$21,443 for the following applications:

Use:	
Expansion projects, replacement of assets and information technology	**7,900**
Research and development	**25,998**
Total of use	**33,898**
Sources:	
Reserve for retained earnings at December 31, 2005	**21,443**
Cash to be provided from operations	**12,445**
Total sources	**33,898**

See also Note 18 thereto, which reports that the capital budget and the justification for retained earnings amounting to R$6,916, as shown above, were approved in the Annual and Extraordinary meeting on March 7, 2006.

12. Commitments

Lease obligations

Leases payable, linked to capitalized assets mentioned in Note 9 are set out below:

	Current liabilities	
	2005	**2004**
Current liabilities	**1,497**	772
Noncurrent liabilities	**983**	475
	2,480	1,247

(In thousands of reais)

12. Commitments (Continued)

Lease obligations (Continued)

Lease contracts have average term of 19 months, with average monthly installments of R$129 for vehicles, computers and software, and 5 months, with average monthly installments of R$5 for furniture and fixtures.

Lease contracts are subject to fixed interest rate between 0.72% and 1.80% per month, with no clause for monetary variation.

We set out below the payments related to lease which will be made in each of the years indicated, based on the operating and financial lease contracts (equivalent to purchase financing or commercial leasing) in effect at December 31, 2005 and 2004:

	Consolidated			
	2005		**2004**	
	Financial	**Operating**	**Financial**	**Operating**
Year ended December 31, 2005	**-**	**-**	772	3,360
Year ending December 31, 2006	**1,497**	**4,860**	367	3,965
Year ending December 31, 2007	**863**	**5,249**	108	4,282
Year ending December 31, 2008	**120**	**5,621**	-	-
Total payments	**2,480**	**15,730**	1,247	11,607

The Company has the right to purchase the assets provided for in the financial lease contracts at contract end. Property rental expenses indicated in the chart above as "operating" for the year ended December 31, 2005, amount to R$3,389 (R$3,027 in 2004).

13. Contingencies

The Company and subsidiaries are involved in several legal proceedings incurred in the normal business progress mentioned below:

Parent company

The provision for contingencies was set up to cover possible losses on proceedings of a tax nature, based on loss expectation according to Company's legal advisors, and it totaled R$543 at December 31, 2005 (R$336 at December 31, 2004).

13. Contingencies (Continued)

Parent company (Continued)

In addition, the Company has certain significant legal proceedings described below:

- During 2000, the Company was subject to a tax audit by the Brazilian Federal Revenue Services (SRF). As a result of this audit, the Company was served a tax deficiency notice involving R$856 (R$2,543 – restated until December 31, 2005) related to federal taxes. The Company is contesting this penalty which currently is outstanding and awaiting the decision from the first administrative level. The Company's legal advisors believe that the loss is possible, but not probable. Accordingly, no provision for loss was made.

- In the year 2000, the Company was also audited by the Social Security authorities (INSS). As a result of this audit, the Company was assessed for various reasons, the most significant of which relates to legal entities, contracted for service provision, that have worked for the Company for a long time, and are considered by the INSS authorities as regular employees. The amount involved is R$2,945 (R$6,154 – restated until December 31, 2005). The Company has contested this interpretation. The Company performed the appeal-related deposit legally stipulated in the amount of R$1,152, which, in case of success, shall be duly recovered by the Company. In October 2005, the tax deficiency notices were annulled, according to the decision made by the Fourth Court of Appeals for Social Security Matters. The proceeding may not be considered closed yet, since appeals may be filed by INSS. The Company's lawyers, however, consider the loss on the appeals remote. Accordingly, no provision was set up for that contingency.

- In 2003, tax deficiency notices were drawn by the Brazilian Revenue Service totaling R$1,147 (R$1,335 – restated until December 31, 2005) referred to the Federal Tax Debt and Credit Return (DCTF) of 1998. The Company contested and is awaiting analysis conclusion. The Company's legal advisors assess the possibility of loss on said appeals as remote, and no provision for said contingency was recorded.

13. **Contingencies** (Continued)

Parent company (Continued)

- In October 2005, the Company was subject to tax collection proceedings totaling R$2,911 (R$2,980, restated until December 31, 2005) related to federal taxes. The Company contested said collection, which is being analyzed, and the administrative trial court decision is being awaited. The Company's legal advisors consider that the loss on that contestation is remote. For that reason, no provision was recorded for that contingency.

- The Company is judicially disputing some cases related to claims made by customers, such as return of amounts paid or cancellation of protested notes. None of these actions, or their aggregate, in case of losing them, would have a significant impact on the financial position of the Company.

Subsidiary Logocenter S.A.

Subsidiary Logocenter is disputing in court certain labor, social security, civil and tax claims. At December 31, 2005 the legal proceedings in progress totaled approximately R$13,500, from which R$3,770 have judicial deposits. Based on the opinion of its legal advisors, Logocenter recorded a provision for contingency totaling R$4,075.

At December 31, 2005, the main proceedings involving the subsidiary were:

In September 2000, the company received tax delinquency notices from the social security authorities - INSS, among which the most significant aim at the collection of social security contributions destined to the Workers' Accident Insurance – SAT and penalties for noncompliance with accessory obligations in the amount of R$5,127 (R$5,795 – restated until December 31, 2005). Company lawyers assessed an unfavorable outcome on this case as possible but not probable, and no provision was recorded for this contingency.

Logocenter filed a legal proceeding to avoid collection of social security contribution introduced by Law No. 9,876, levied on invoices issued by the cooperatives from which it receives services. The amounts involved in the case were deposited in court by Logocenter, in the amount of R$2,963, and a provision for contingencies was set up in the same amount.

13. **Contingencies** (Continued)

Subsidiary Logocenter S.A. (Continued)

Logocenter filed a legal proceeding to avoid Sesc and Senac social contribution tax levy also claiming refund of related amounts paid in prior periods. The amounts involved total R$536, which was deposited in court, and a provision for contingencies was set up in the same amount.

Logocenter received ISS delinquency notices from the São Paulo State municipal authorities referring to the period 1996 to 2000, in the amount of R$758 (R$1,104 – restated until December 31, 2005). These notices result from the understanding of the São Paulo municipal authorities that the services rendered by Logocenter were rendered within the municipality of São Paulo. Logocenter management and its legal advisors believe that all the services were rendered in the main registered office of the company in Joinville, as such, they consider that the tax has been duly paid to that municipality. Company lawyers assessed an unfavorable outcome on this case as remote, as such, no related provision for contingency has been set up.

No provision for contingencies was set up for cases for which an unfavorable outcome has been assessed as remote or possible. Company lawyers consider that the amount provisioned is sufficient to cover adventitious losses.

Company and Subsidiaries

Possible changes in the risk expectation regarding the above mentioned proceedings may require adjustment of the provision for contingencies.

Except for the previously mentioned cases, Company management is not aware of any other actions of a tax, labor or civil nature against the Company. Under the legislation in force in Brazil, the federal, state and municipal tax obligations and social charges are subject to review by relevant authorities for periods varying from 5 to 30 years. Legislations of the other countries, where Company’s subsidiaries operate, stipulate differentiated statutes of limitations.

14. Insurance Cover (unaudited)

The Company and its subsidiaries have taken out insurance, as oriented by their insurance advisors, for amounts considered by management to be sufficient to cover risks inherent to own, rented or leased assets as well as for civil liability.

The insurance policy takes into consideration geographic dispersion and the individual value of assets used and the fact that the Company and its subsidiaries are service companies, as such, are less dependent on tangible assets than industrial companies.

Assets subject matter of insurance are own and leased vehicles, and the premises in which the Company and its subsidiaries are installed, most of which being rented, as well as own premises of Logocenter.

15. Financial Instruments

At December 31, 2005 and 2004, the Company and its subsidiaries had no swap agreements or other derivative instruments. The Company's financial instruments consist of cash and banks, marketable securuties, accounts receivable and accounts payable, which are recorded at cost plus earnings or charges incurred, which approximates their fair value.

16. Private Pension and Retirement Benefit Plan– Defined Contribution

On May 5, 2003, the Company joined the private pension and retirement benefit plan Unibanco AIG – PGBL, managed by Unibanco AIG Previdência S.A., thus offering all employees the option of participating, being the costs paid by the employees, divided into basic contribution (2% of the base salary) and voluntary contribution (percentage of the base salary to be defined by the employee). The Company will contribute 100% of the employee's basic contribution. During 2005, the Company contributed R$577 (R$312 in 2004) to Unibanco AIG Previdência S.A.

TOTVS S.A.

NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2005 and 2004
(In thousands of reais)

17. Supplementary Information

The Company is presenting, as supplementary information, the Consolidated Statements of Cash Flows:

	2005	2004
Cash flows from operating activities		
Net income for the year	**15,325**	9,800
Adjustment for reconciliation of net income with net amounts from operating activities:		
Depreciation and amortization	**7,459**	2,167
Book value of assets disposed of	**375**	101
Allowance for doubtful accounts	**512**	3,047
Deferred income and social contribution taxes	**(6,033)**	(179)
Provision for contingencies	**4,282**	303
Variation in operating assets and liabilities:		
Trade accounts receivable	**(13,516)**	(15,107)
Other assets	**(3,188)**	(662)
Judicial deposits	**(3,770)**	(1,152)
Trade accounts payable	**1,461**	(52)
Notes payable	**(770)**	1,120
Taxes payable	**3,445**	947
Salaries and charges payable	**6,038**	2,740
Commissions payable	**1,318**	345
Other accounts payable	**(93)**	109
Minority interest	**186**	129
Net cash from operating activities	**13,031**	3,656
Cash flows from investment activities		
Net redemption of (net investment in) marketable securities	**(13,351)**	4,806
Goodwill upon acquisition of investments	**(24,443)**	-
Addition of other investments	**(254)**	-
Acquisition of equipment	**(8,690)**	(5,861)
Funds used in investment activities	**(46,738)**	(1,055)
Cash flows from financing activities		
Bank loans	**119**	81
Increase in lease obligations	**1,233**	821
Capital paid up	**68,000**	-
Acquisition of own shares	**(31,352)**	-
Dividends paid	**(3,894)**	(3,822)
Funds provided by (used in) financing activities	**34,106**	(2,920)
Increase (decrease) in cash and banks	**399**	(319)
Cash and banks at the beginning of the year	**1,553**	1,872
Cash and banks at the end of the year	**1,952**	1,553
Payment of interest	**437**	212
Payment of income and social contribution taxes	**4,572**	3,461

18. Subsequent Event

The Annual/Extraordinary General Meeting, held on March 7, 2006, approved:

i) the Company's capital increase through income reserves (reserve for retained earnings) in the amount of R$937, in compliance with article 199 of the Brazilian Corporation Law, without new shares. The Company's capital, after said increase, totaled R$22,573, while its authorized capital of R$540,000 remained unchanged.
ii) proposed interim dividends for R$7,500 (shown in Note 11d) and non-declaration of any supplementary dividends;
iii) capital budget together with the justification for retained earnings for 2005, amounting to R$6,916 (shown in Note 11e).