



Audit Committee Report

01/26/2015

Introduction

In accordance with its bylaws, the Audit Committee is entrusted with implementing and managing internal and external audit processes, mechanisms and controls related to risk management and the alignment of financial policies with strategic guidelines and risk profile of the business, ensuring the quality and integrity of the Company's financial statements, and issuing recommendations to the Management regarding the approval of financial reports and actions to improve internal controls and reduce risks.

The Audit Committee comprises three members (one independent board member and two external independent members), who are in full exercise of their term of office.

Activities of the Audit Committee

Between February 2014 and January 2015, the committee held twelve (12) ordinary meetings and three (3) extraordinary meetings. It discussed 80 topics with the vice presidents, executive officers, internal auditors and independent auditors.

The Audit Committee also met privately, twice with the independent auditors and once with the Board of Directors, to discuss the key subjects monitored during the year.

Topics discussed by the Audit Committee

The Audit Committee held meetings with vice presidents, executive officers, internal auditors and independent auditors to understand the processes, internal controls, possible deficiencies and plans for improvement, and to submit its recommendations to the Board of Directors and the Board of Executive Officers. The main subjects discussed in these meetings were:

- **Corporate governance and other issues**

- Discussion of the terms used in press releases, notices to the market, material fact notices and earnings presentations to the market;
- Analysis and discussion of the Company's key performance indicators;
- Review and discussion of information for updating the reference form;
- Monitoring the content of official letters received from and replied to regulatory agencies;
- Analysis of trading on TOTVS stock and guidance disclosed to the market;
- Methodology for monitoring cancellations of clients' maintenance agreements;
- Follow-up of the project to reduce manual entries, types of accounting records and inspections performed;
- Analysis of results and comments on self-appraisal of the audit committee;
- Discussion of the assumptions used for the Company's annual budget.

- **Independent Audit**

- Understanding of the independent audit plan and key conclusions drawn from the quarterly information audit reports, especially the tests adopted in the process of assurance of revenue recognition;
- Discussion of the deficiencies and recommendations pointed out in the 2013 internal controls report and the preliminary report for 2014;
- Discussion of the findings of the report on the effectiveness of general information technology controls (ISAE 3402/13);
- Discussion of and recommendations for approving quarterly and annual financial statements;
- Monitoring of the autonomy of the external audit firm in performing its tasks;
- Evaluation of external audit;

- **Internal Audit**

- Discussion and approval of the annual internal audit plan;
- Follow-up on the points identified by auditors in the processes, justifications and any action plans by those responsible for the most significant cases, in face-to-face meetings;
- Follow-up and understanding of the main points identified by auditors in operations at the franchises;
- Definition of a policy on timeframes for resolving the issues raised by auditors;
- Evaluation and discussion of the performance of internal audit;

- **Internal Controls, Corporate Risk Management and Ombudsman**

- Monitoring the task of updating and establishing responsibilities for key processes and controls across the company;
- Discussion of deficiencies in internal controls, difficulties and plans to resolve these issues;
- Identification and description of strategic risks, their impacts and the effective implementation of a monitoring system;
- Recommendation for Management's involvement in structuring corporate risk management;
- Methodology to measure ombudsman indicators and net promoter score (NPS);
- Monitoring of the "Atitude Q" project to improve the Company's customer service standards;
- Project for implementation and monitoring of actions in the company to comply with the anticorruption law.

- **Financial management and indicators**

- Opinion on the quarterly and annual financial statements of TOTVS and the respective information to be disclosed to the market, including the reference form and guidance;
- Evaluation of the rules on provision and payment of sales commissions;
- Review and evaluation of estimates of losses on doubtful accounts;
- Evaluation and review of compliance with the Company's financial policies;
- Discussion of the key financial indicators and developments for the Company's areas.

- **Mergers and acquisitions**

- Monthly follow-up and recommendations to the Board of Directors regarding ongoing M&A opportunities and details on transactions involving mergers and acquisitions, including risk assessment and due diligence reports;
- Discussion and recommendation of loans to investee companies and franchises. Risk assessment and recommendation of change of guarantees for capital injections;
- Monitoring the results of acquired companies.

- **TOTVS Conduct and Ethics Committee**

- Monitoring the activities of the TOTVS ethics committee, evaluation of complaints received and measures taken by Management.

- **Information Technology**

- Monitoring of the project on access profiles, policies and segregation of functions;
- Discussion of the levels of automated controls at the Company.

- **Provisions, contingencies and deposits in court**

- Verification of compliance with CVM Resolution 594 regarding provisions and contingent liabilities and assets;
- Discussion of the main lawsuits and the quality of Management's judgment of the probable outcomes;
- Monitoring the project to improve controls, systems and indicators of the legal department.

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2014 Annual Financial Statements:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal powers and responsibilities, pursuant to the Bylaws of the Audit Committee, examined and analyzed the financial statements and the independent auditors' report, as well as the management's annual report for the fiscal year ended December 31, 2014 ("2014 Annual Financial Statements") and, after considering the information provided by Company management and PwC Auditores Independentes, as well as the proposed allocation of income from fiscal year 2014, unanimously concluded that these adequately reflect, in all relevant aspects, the equity and financial position of the Company and its subsidiaries, and recommended the Board of Directors of the Company to approve said documents and submit them to the Annual Shareholders' Meeting, pursuant to the Brazilian Corporations Law.

São Paulo, January 26, 2015

Maria Helena Santana

Chairperson of the Audit Committee and representative of the Board of Directors

Charles Barnsley Holland

Audit Committee Member

Gilberto Mifano

Audit Committee Member