



Report of the Audit Committee

3/15/2016

Introduction

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

The Audit Committee is formed by three members (one independent member and two external independent members), who are currently in the full exercise of their terms of office.

Activities of the Audit Committee

The committee met ordinarily fourteen (14) times during the period from February 2015 and March 2016 and five (5) times extraordinarily. It discussed 120 topics with the officers, directors, internal auditors, independent auditors and external advisors.

In this period, the Audit Committee also held two private meetings with the independent auditor, two meetings with the chairman and one meeting with the CEO to discuss the main topics accompanied during the year.

Topics discussed by the Audit Committee

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

- **Independent Audit**

- Discussion of the proposal and recommendation on the approval of the rehiring of the independent auditors;
- Planning, scope and main findings of the quarterly reviews and report on the financial statements for fiscal year 2015;
- Deficiencies and recommendations for improving the internal controls indicated in the report;
- Findings and recommendations of the report on the effectiveness of the controls for general information technology (ISAE 3402/15);
- Updating of the accounting policies, in particular IFRS 15, which addresses revenue recognition;
- Monitoring of the independence of the external audit firm for the performance of its audit work;
- Main points of concern on the issue of the quarterly and annual report, in addition to the methodology used by the independent auditor for identifying significant distortions.

- **Internal Audit**

- Discussion and approval of the annual plan for the internal audit;
- Accompanying the work of the internal audit at the Company's various units as well as at its franchises, to assess the critical points identified by the auditors, the justifications and accompanying the implementation of any action plans by those responsible for the most relevant cases, in face-to-face meetings;
- Accompanying the relevant investigations conducted by the internal audit department;

- **TOTVS Conduct and Ethics Committee**

- Accompanying the activities of the Conduct and Ethics Committee and evaluating any cases of whistleblowing received and the measures adopted by Management;
- Face-to-face discussions of the main cases, the approach and the investigation format.

- **Internal controls, corporate risk management, ombudsman and clients**

- Accompanying the project for mapping key processes, controls and the modernization of management;
- Discussion and accompaniment of the Company's strategic risk management in face-to-face meetings with the managers of each risk and findings of the risk assessment carried out in the year;
- Accompaniment of the performance of maintenance and subscription revenue and client churn.
- Accompaniment of project to revitalize customer service, especially the Atitude Q project to improve customer satisfaction with the service provided by the Company;
- Accompaniment of the customer satisfaction indicators (net promoter score - NPS).

- **Mergers and acquisitions**

- Accompaniment and recommendations to the board of directors regarding M&A opportunities and details on transactions involving mergers and acquisitions, including valuation, risk assessment and due diligence reports;
- Discussion and recommendation of the granting of loans to the investee companies and franchises. Assessment of the risks and guarantees for capital injections;
- Accompaniment of the results of the acquired companies.

- **Financial management and indicators**

- Review of the policy and procedures for credit analysis;
- Evaluation and recommendation for the approval of proposals for the payment of interest on equity;
- Review and monitoring of compliance with the Company's financial and investment policies;
- Discussion and evaluation of the methodology for recognizing revenue and cost of services;
- Accompaniment of the estimates for losses from doubtful accounts;
- Evaluation of the share repurchase program proposed by management;
- Evaluation of the proposals for stock options and the impacts of Federal Law 12,973/74;
- Discussion of the key financial and performance indicators and the respective repercussions for the Company's business areas and segments;
- Financial impacts of changes in legislation, especially those arising from the Brasil Maior plan;
- Discussion and accompaniment of the Company's losses map;
- Proposals by the Company for assuming the guarantees for loans and debentures that are the responsibility of the acquired company;
- Understanding the assumptions and challenges for preparing the Company's annual budget.

- **Corporate governance and other issues**

- Opinion on Company's quarterly and annual financial statements;
- Discussion of the contents of notices to the market, press releases, material fact notices and earnings presentations to the market, including the reference form;
- Review and updating of the charter of the audit committee;
- Monitoring of the treatment by the Company of labor risks and implications;
- Accompaniment of the adoption of policies and practices by the Company and its employees and managers to ensure compliance with the anticorruption law;
- Monitoring of the results of impairment testing;
- Acknowledgement and assessment of the risks of the executive compensation policy;
- Accompaniment of the topics and decisions of the Tax Committee;
- Review of information disclosure and security trading policies, including the treatment of strategic risk of insider trading;
- Review and discussion of the company's crisis management plan;
- Review of management's questioning and responses concerning the official letters of regulatory agencies;
- Accompaniment of the behavior of TOTVS stock in the market.

- **Provisions and contingent liabilities and assets**

- Verification of compliance with CVM Resolution 594 regarding provisions and contingent liabilities and assets;
- Evaluation and recommendations, following the engagement of expert external advisors, regarding the processes and controls related to monitoring and managing administrative proceedings and lawsuits and the calculation of provisions;
- Discussion and accompaniment of the main lawsuits and the quality of management's judgment regarding the probabilities of the outcomes;

- **Information technology, information security and Cloud**

- Discussion and accompaniment of action plans to improve the Company's controls for access profiles and the segregation of functions;
- Awareness and accompaniment up of the results of the information security risk assessment and the respective action plan for enhancing IT controls.

Report of the Audit Committee

Annual Financial Statements for 2015:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal responsibilities and powers, in accordance with the Charter of the Audit Committee, examined and analyzed the financial statements, accompanied by report of the independent auditors and the annual report from Management for the fiscal year ended December 31, 2015 ("Annual Financial Statements for 2015") and, considering the information provided by Management of the Company and by PwC Auditores Independentes, as well as the proposed allocation of the earnings for fiscal year 2015, unanimously concluded that these adequately reflect, in all relevant aspects, the equity and financial position of the Company and its subsidiaries, and recommended that the Board of Directors of the Company approve said documents and submit them to the annual shareholders' meeting, in accordance with Brazilian Corporation Law.

São Paulo, March 15, 2016

Maria Helena Santana

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

Charles Barnsley Holland

Member of the Audit Committee

Gilberto Mifano

Member of the Audit Committee