



Audit Committee Report

January 27, 2014

Introduction

In accordance with its Bylaws, the Audit Committee is responsible for monitoring, evaluating and ensuring the implementation of processes, internal and external audit management, mechanisms and controls related to risk management and the alignment of financial policies with the strategic guidelines and the business risk profile, as well as ensuring the quality and integrity of the Company's financial statements.

In this light, the Audit Committee provides recommendations to Management regarding approval of financial reports and on potential actions to improve internal controls and reduce risks.

The Audit Committee consists of three members, one of whom is an independent Board member and two external independent members, who are in full exercise of their respective terms.

Audit Committee Activities

In 2013, the Committee held twelve (12) regular meetings and two (2) special meetings, having discussed a total of 69 matters with members of the executive management and internal and independent auditors, among other participants.

The Audit Committee also held two closed meetings in 2013 to provide work guidance and improve its monitoring activities.

Topics discussed by the Audit Committee

The Audit Committee held meetings with the company's executive officers, internal and independent auditors to acknowledge processes, internal controls, potential gaps and potential improvement plans. The main topics discussed included:

- Corporate Governance
Analysis and discussion of information and updating of the Reference Form;
Analysis and discussion of the press releases, notices to the market, material facts and presentation of results to the market;
Analysis and discussion of the official letters received and replied to regulatory bodies;
Project of construction of TOTVS's new headquarters (transaction with a related party).
- Independent Auditors
Approval of the hiring of independent auditors for fiscal year 2013;
Audit planning and key conclusions from the quarterly information review reports;
Evaluation of independent auditors independence to execute the works;
Discussion of the gaps identified in the 2013 letter on internal controls;
Discussion of the results of the report on the effectiveness of the general controls of information technology (ISAE 3402).
Discussion and recommendation for approval of quarterly and annual financial statements, including the respective independent audit reports.
- Internal Audit
Discussion and approval of the annual internal audit plan;
Supervision and monitoring of the gaps identified in the auditing;
Monitoring and understanding of the audit issues identified in the auditing of franchises.
- Internal Controls, Corporate Risk Management and Ombudsman
Structuring, updating and definition of responsibilities for key processes and controls of the company;
Discussion of internal control gaps and difficulties in solving issues;
Management involvement in the structuring and implementation of corporate risk management;
Methodology for measuring the customer complaint rate and reporting of information on customer complaints.

- TOTVS's Ethics Committee
Monitoring of the activities developed by TOTVS's Ethics Committee, main complaints and remedial actions.
- Contingencies and tax theses
Discussion of the main administrative proceedings and management assumptions on the probabilities of success.
- Information Technology
Access profiles and policies and the implementation of automated controls;
Integration of systems to reduce the number of manual accounting entries.
- Financial management and management indicators
Control of accrual rules and payment of sales commissions;
Credit analysis policy for the sale of implementation services;
Doubtful account provision policy;
Key management indicators and impacts on the company's departments.
- Mergers and acquisitions
Monthly evaluation of the pipeline and details of the transactions involving mergers and acquisitions, including risk evaluation, due diligence reports and the respective recommendation to the Board of Directors.

Key recommendations of the Audit Committee

Following the discussions with the executive management and internal and external auditors, the Committee issued recommendations to TOTVS' Management and the Board of Directors. We detail below the Committee's key recommendations:

- Approval of all TOTVS's quarterly financial statements for 2013 and respective information and forms required by the regulatory bodies, including the Reference Form;
- Continuity of the acquisitions of the key targets presented to the Audit Committee;
- Monitoring by Management of the gaps identified by the independent auditors, specially the reduction of the number of manual accounting entries and improvement of internal controls on the impairment tests;
- Tightening of control gaps identified by internal audit in TOTVS's franchises;
- Streamlining of the resolution of internal control gaps, specially the control of access profiles and the process of recording and payment of commissions;
- Involvement of top management in the identification and implementation of strategic risks, their impacts and probabilities and the structuring of the monitoring system;
- Streamlining of the control of receiving and replying to official letters from regulatory bodies;
- Improvement of the long-term investment model with assumptions and simulations of scenarios in merger and acquisition operations;

The members of the Audit Committee of TOTVS S.A., in the exercise of their duties and legal responsibilities, as provided for in the Audit Committee Bylaws, analyzed the financial statements, accompanied by the independent auditors' report and the annual Management report related to the fiscal year ended on December 31, 2013 ("2013 Annual Financial Statements"). Considering the information provided by the Company's Management and PwC Auditores Independentes, as well as the proposal of allocation of net income related to the year 2013, they unanimously agreed that said Financial Statements reflect, in all relevant aspects, the equity and financial position of the Company and its subsidiaries, and recommended approval of the documents by the Company's Board of Directors and their submission to the Annual Shareholders' Meeting, pursuant to Brazilian Corporate Law.

São Paulo, January 27, 2014

Gilberto Mifano

Chairman of the Audit Committee

Charles Barnsley Holland

Member of the Audit Committee

Maria Helena Santana

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