

Report of the Audit Committee



02/06/2019



Introduction

The Audit Committee at TOTVS was created on May 28, 2007 and has been performing and improving its functions since then. On April 5, 2018, the Committee acquired a statutory character, in accordance with CVM Instruction 308/99.

In accordance with the current version of its Charter, approved by the Board of Directors on December 20, 2018, the Audit Committee is responsible for ensuring the adequate execution of processes and the management of internal and external audit, risk management mechanisms and controls, and the consistency of financial policies with the strategic guidelines and risk profile of the business, in addition to ensuring the quality and integrity of the Company's financial statements, making recommendations to the Management regarding the approval of financial reports and actions to improve internal controls and reduce risks.

On May 4, 2018, the Board of Directors, after the election of directors at the Shareholders Meeting held on April 5, 2018, approved changing the membership of the Audit Committee, with the reelection of Gilberto Mifano (Coordinator) and Mauro Rodrigues da Cunha, and the election of Paulo Sergio Caputo, all independent members and serving their respective terms of office.

Activities of the Audit Committee

In 2018, the Committee met ordinarily 11 times and at the meeting held on February 6, 2019, it discussed and evaluated the financial statements as at December 31, 2018. For the record, all the members were present in all the meetings.

During this period, the Audit Committee also held reserved meetings periodically with the Legal Department, the Risk, Internal Controls and Compliance Department and with Internal Audit, as well as other meetings with the Human Resources Department, the Independent Auditors and meetings among Committee members. In order to deepen their knowledge of the diverse areas of the Company, Committee members also attended the TOTVS Annual Sales Convention.

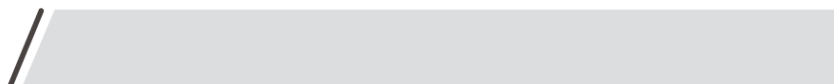
At each ordinary meeting of the Board of Directors, the Committee Coordinator submitted a report on the Committee's activities in the previous period, which was discussed among the Directors.

Topics discussed by the Audit Committee

The Audit Committee held meetings with vice presidents, executive officers, internal auditors, independent auditors and external advisors to get an in-depth knowledge of and monitor processes, internal controls, risks, possible deficiencies and plans for improvement, and to submit its recommendations to the Board of Directors and the Management of the Company. The main aspects discussed were:

- **Independent Audit**

- Monitored the process for renewing the external audit service agreement, beginning with a discussion of the required scope and culminating in the recommendation of the Committee to the Board of Directors for the renewal of said agreement;
- Discussed the planning, scope and key findings of the quarterly reviews (ITR) and the report on the financial statements for fiscal year 2018 (DFP 2018);





- Deficiencies and recommendations for improvement mentioned in the internal controls report, as well as the respective action plans of internal areas for corrections or points for improvement;
- Monitored the preliminary and final results in order to issue the ISAE 3402/2018 report;
- Monitored and made recommendations to the Board regarding additional services provided by the independent audit firm; and
- Annual performance appraisal cycle of the independent audit, whose conclusion in 2018 was to maintain the services of current auditors.

• **Internal Audit**

- Discussion of the risk matrix of the Company applied to Internal Audit activities and approval of the internal audit schedule for the 2018/2019 cycle;
- Evaluation and discussion of Internal Audit reports issued for own units and franchises, including deficiencies, justifications and corrective plans;
- Follow-up of the corrective actions of the audit topics identified during the Internal Audit process;
- Monitored compliance with the schedule, scope of hours and findings of investigations held in special actions; and
- Annual performance appraisal cycle of the area and the performance of the head of Internal Audit, whose conclusion was that there was positive evolution in the year, with the establishment of targets for the year and additional challenges.

• **Internal controls, corporate risk management, compliance and ombudsman**

- Monitored the restructuring of the area, with the segregation of the ombudsman area, which now reports to the Vice President of Business and Digital Strategy, Micro and Small Businesses and Financial Services; hired the new financial planning officer and controller, who reports to the Administrative and Financial Vice President and who also took responsibility for the Internal Controls, Risks and Compliance area, hiring a new manager to help him in his new role;
- Monitored the plan for mapping processes, key controls and indicators;
- Evaluated and discussed the Company's new strategic risks map, monitored the mitigation plans together with those responsible for their execution, for subsequent description of the risk factors while updating the Reference Form;
- Monitored action plans to improve the information technology general controls (ITGC), access profiles and segregation of functions;
- Discussed and monitored the pilot project to reformulate the company's management system by processes and indicators of the client journey;
- Monitored the implementation of action plans to comply with the integrity program established by Company Management;
- Monitored the adoption of compliance policies and practices by management and employees; and
- Monitored the results of the Net Promoter Score (NPS) survey and management's initiatives to improve customer satisfaction with the services provided by the Company.

• **Financial management, provisions and indicators**

- Discussion on improvement and subsequent follow-up of the implementation of the credit analysis policy, collection procedures and estimated losses with bad debts;
- Monitored the financial management of the software and hardware businesses;
- Evaluated compliance with CVM Resolution 594/2009 regarding provisions, as well as contingent liabilities and assets;





- Discussed and monitored the main legal claims and the management's judgment on the predicted outcomes. Monitored the evolution of the controls environment in the legal department, mainly related to the management of lawsuits;
- Discussed and monitored the procedures adopted for reviewing annual tests of impairment and the recoverability of deferred tax assets; and
- Discussed and monitored the efforts to adopt the amended international accounting standards (IFRS 15, 9 and 16 pursuant to CPC Technical Pronouncements 47, 48 and 6, respectively);

• **Corporate Governance**

- Submitted opinion for approval by the Board of Directors of the quarterly and annual financial statements;
- Evaluated and recommended the approval of proposals for the declaration and distribution of interest on equity and dividends;
- Discussed the proposal for improving the long-term incentive model for the Company's executives from the viewpoint of risks of retention, motivation and alignment with the Company's vision and strategy;
- Discussed the terms used in notices, material facts and earnings presentations to the market;
- Monitored and made recommendations to the Board of Directors and management regarding initiatives and operations involving mergers and acquisitions, as well as the merger of wholly-owned subsidiaries, and assessed the risks in these operations;
- Discussed and monitored the process of updating the Reference Form;
- Discussed the content and made recommendations on the proposed Integrated Report of the company;
- Monitored the management's responses to queries in letters from regulatory authorities and self-regulatory agencies;
- Reviewed and made improvements to rules for executing the crisis management plan;
- Discussed and recommended the approval by the Board of Directors of the following policies and their disclosure: (a) Treasury Management; (b) Human Resources and Compensation; (c) Engagement of Independent Audit; (d) Contributions, Donations and Sponsorships; (e) Appointment of Members of the Board of Directors, its Advisory Committees and the Executive Board; and (f) Authority Limits;
- Monitored the activities of the Ethics and Conduct Committee, evaluated the complains received by the channel and investigations made, as well as the measures taken by Management;
- Reviewed, discussed and recommended approval by the Board of Directors and the publication of the Code of Ethics and Conduct;
- Discussed and monitored on the review of the Charter of the Ethics and Conduct Committee, as well as the appointment of members of said Committee and recommended their approval by the Board of Directors;
- Discussed and monitored the preparation of the Report on the Brazilian Code of Corporate Governance Code on aspects pertaining to the activities of the Committee;
- Reviewed, discussed and recommended approval by the Board of Directors and the publication of the Corporate Internal Audit Regulations;
- Discussed the impacts of the Data Protection Law and monitored the actions and measures taken by the Company;
- Regularly monitored the activities and evaluated the matters discussed by the Tax and Labor Affairs Committees;
- Evaluated the governance aspects of the TOTVS franchisee network;
- Evaluated and monitored the adequacy of transactions with related parties; and
- Annual self-assessment cycle of the Audit Committee.



Report of the Audit Committee

Annual Financial Statements of 2018:

The members of the Audit Committee of TOTVS S.A., in the exercise of their legal responsibilities and powers, pursuant to the Charter of the Audit Committee, examined and analyzed the financial statements, accompanied by the report from the independent auditors and the annual report from Management for the fiscal year ended December 31, 2018 ("Annual Financial Statements for 2018") and, considering the information provided by Management of the Company and by Ernst & Young Auditores Independentes S.S., as well as the proposed allocation of the earnings from fiscal year 2018, 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 Corporations Law.

São Paulo, February 6, 2019

Gilberto Mifano

Coordinator of the Audit Committee and member of the Board of Directors

Mauro Rodrigues da Cunha

Member of the Audit Committee and the Board of Directors

Paulo Sergio Caputo

Member of the Audit Committee and the Board of Directors