

Operator: Good morning. Welcome to the TOTVS conference call to discuss the 4Q15 results. We have with us Laercio Cosentino, CEO, and Gilsomar Maia, CFO.

All participants will be on listen-only mode during the presentation. After the presentation, we will have a question and answer session for investors and analysts when further instructions will be given. If any participant needs assistance during this call, please press *0 to reach the operator.

The audio is being simultaneously webcast at ri.totvs.com.

Before proceeding, we wish to clarify that any forward-looking statements that may be made during the conference call, related to business outlook, operational and financial projections and targets of TOTVS are based on beliefs and assumptions of the Company's management as well as information currently available. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and, hence, depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions and other operational factors could affect future performance of TOTVS and could lead to results that differ materially from those mentioned in these forward-looking statements.

Now, I will turn the conference over to Mr. Cosentino, who will begin the presentation. Mr. Cosentino, please go ahead.

Laércio Cosentino: Good morning everyone. Thank you for participating in our fourth quarter and full year 2015 earnings conference call.

I would like to start with the main factors that influenced the year shown on **slide 3**.

The transition from licensing to subscription model was the main factor contributing to TOTVS' sales in 2015.

After a long period of study, we launched TOTVS Intera in the last June, at the "Universo TOTVS", our annual event with clients.

TOTVS Intera is our subscription model that includes management solutions per industry sector, from the back office to the productivity and collaboration platform fluig, in addition to the minimum infrastructure needed to use these solutions in the cloud.

From this launch, our franchises also started to sell subscription, speeding up the transition, resulting in a 20%-drop in license revenue and more than 25%-growth in subscription revenues.

As a percentage of total software revenue, subscription surpassed 10%. Considering Bematech, subscription revenue reached 13.5% of total software revenue in 2015.

Besides the reduction in profitability already expected at this early stage of this transition, the economic downturn and Brazil's political instability created additional challenges for the Company in 2015.

The most obvious examples of these challenges were the 3.8%-drop in GDP, the highest since 1990, and inflation that surpassed 10% at the end of the year, with average IPCA and IGPM of 9.0% and 6.5% in the year, respectively.

In addition to all of this, we took another very important step in our segmentation strategy by acquiring Bematech.

Together, TOTVS and Bematech are present in almost 90% of the Brazilian cities and in more than 500 thousand checkouts. We became leaders in the Hospitality sector and the largest business solutions provider for Brazil's Retail sector.

Moving now to the Q4 2015 events on **slide 4**. After antitrust agency approval in October, we carried out the closing of the transaction with Bematech, which involved the payment in cash and share swap to the former Bematech's shareholders.

Thus, we began the integration of the operations involving the back office, products and commercial teams in order to create the offerings and integrating the solutions portfolio for the Retail, Services and Microenterprises sectors.

It is worth mentioning that, in order to preserve the focus on year-end closing of 2015, TOTVS and Bematech's sales teams began operating together in January 2016, following to the integration plan.

In February, BM&FBovespa (Brazilian Stock Exchange) and CVM (Brazilian SEC) granted Bematech's request to delist voluntarily from the stock exchange and to cancel its registration as a publicly held company, which will allow us to evolve a few more in the integration of the administrative areas.

Among the changes in the management, two are related to Bematech. The election of Wolney Betiol as an independent board member and the election of Eros Jantsch as vice-president of microenterprises segment.

Mr. Betiol is the co-founder and was a Bematech's board member. Eros is the current Bematech's CEO, where he has been working for the last 23 years. Both Wolney and Eros can contribute a lot, not only in the matters involving Bematech, but also to help creating business strategies for joint operations with TOTVS.

Another change that is related to the integration front is the election of Ronan Maia as vice-president for the Consumer Segment. Ronan has over 15 years of career in PC Sistemas, a company acquired by TOTVS in 2013, and now as head of Consumer Segment he is going to have an important role in the integration of Bematech's solutions to TOTVS' portfolio for Retail.

Closing the management changes, we had the election of Gilsomar Maia as CFO and my reappointment to the position of executive president.

To conclude my comments on the main events of this quarter, and before we get into the numbers, it is important to mention that this quarter's results have been affected by extraordinary items, which will be detailed throughout this conference, including:

- (i) Expenses related to the transaction with Bematech;
- (ii) Restructuring costs regarding headcount reductions; and
- (iii) The incremental provision for contingencies.

Now, I turn to Maia, who will continue the presentation commenting on the Q4 2015 results from **slide 5**.

Gilsomar Maia: Thank you, Laércio. Good morning everyone.

The consolidated results for the year 2015 presented in the audited financial statements include the months of November and December of Bematech. In order to preserve comparability, we have presented the consolidated pro forma results (unaudited) combining the full results of TOTVS and Bematech for both quarters and years of 2015 and 2014.

We also present the results of TOTVS and Bematech separately, as this the first quarter of unified reporting and both companies began commercial operation together from January 2016.

Now, I'll start to commenting by on TOTVS results separately, without Bematech, from **slide 6**.

- **TOTVS (without Bematech):**

4Q15 total revenue fell 0.5% and in the year grew by 3% year on year and was positively impacted by the growth of recurring revenues, which already accounted for 62% of the year's revenues and 65% of the quarter's revenue; and negatively impacted by the transition from the licensing model to a subscription model and the deterioration of the economic scenario.

The growth of service revenue in 2015 mainly originated from services not related to software implementation, which represented 39% of 2015 service revenues, up from 33% in 2014, with consulting services growing by a remarkable 25%.

The reduction in non-recurring revenues reflects the fall in economic activity, reflected in the slower pace of conversion of the sales pipeline, especially larger accounts of software licensing, and the consequent lower allocation of our own implementation services team.

On **slide 7**, the software revenue chart (top left corner) shows this scenario described, with license revenue falling 31% in the quarter and 20% in the year, while subscription revenue increased 22% in the quarter and 26% in the year.

Given the context, we believe that the model transition has been successful, since the economic situation impacts negatively not only the licenses of sales, but also subscription, which can be evidenced also by greater reduction in the number of new clients for the licensing model (the chart on top right corner).

Now, talking about contribution margins at the bottom of the slide.

The quarterly service contribution margin (the chart on the left side) was 0.4% negative. In absolute amounts, the gap in services result between 4Q14 and 4Q15 was close to the gap observed in the year, i.e. approximately R\$9 million.

In summary, the negative results of service in this quarter is explained by three main reasons: (i) lower allocation of own implementation services team, (ii) the higher wage

increases in 2015, not fully passed on to the pricing of projects, and (iii) the consequent additional costs with headcount reduction.

Similarly to services, the reduction in 4Q15 contribution margin of software in absolute values approaches the reduction calculated in 2015, about R\$15 million, and can be explained by three main reasons (i) reduction of software license sales; (ii) adjustments of recurring revenue by the IGP-M, below readjustment of costs closer to IPC-A; and (iii) the consequent additional costs in headcount reduction

To speak about TOTVS selling and administrative expenses, I ask everyone to go to **slide 8**.

The summed of selling and commissions expenses increased 4.5% in 2015, with a performance relatively stable as a percentage of total net revenues.

The growth of 12.5% in the 4Q15 is concentrated in selling expenses, mainly by mix of sales between franchises and own units and the mix of sales between licensing and subscription, plus additional costs for headcount reduction to adjust the sales force structure.

Marketing and advertising expenses increased 30 basis points year on year, mainly due to the reduction in advertising and marketing expenses in 2014 because of Soccer World Cup in Brazil.

The allowance for doubtful accounts expense represented 1.8% of net revenue in 2015, compared to 1.6% in 2014. The increase in this provision is mainly due to the increase in delinquency observed in the market throughout the year.

And lastly, the general and administrative expenses including management fees and other expenses increased 45% in 2015, and is concentrated in general and administrative expenses which were affected by the incremental provision for legal contingencies of R\$59.0 million recorded in 4Q15.

This estimate change in the provision for legal contingencies is the result of continuous monitoring and control of risks of TOTVS, which throughout 2015 included:

- (i) the replacement of main legal advisors that conduct the civil and labor suits, to achieve greater uniformity in the conduct and more efficient tracking and resolution processes;
- (ii) the revision of estimates for expected losses associated with the lawsuits; and
- (iii) the revision of historical outcome of lawsuits and new proceedings in which the Company is a defendant.

It's important to note that this provision does not affect the cash flow immediately, and even with such provisions, TOTVS will continue to take all necessary measures to defend its rights in such proceedings.

In addition, this group of expenses was negatively impacted in 4Q15 by R\$5.9 million of expenses related to M&A transaction with Bematech, and R\$2.5 million by the provision for impairment of Ciashop, both classified in other operating expenses.

In the year, excluding the incremental provision for contingencies and other unusual effects, this group of expenses represented 7.5% of net revenues, versus 7.9 % in 2014.

Moving now to TOTVS' EBITDA and Net Income on **slide 9**.

After eliminating the extraordinary effects mentioned on previous slides, adjusted EBITDA for the quarter totaled R\$74 million, with year with adjusted EBITDA of R\$399 million and adjusted EBITDA margin of 21.8%.

Talking about net income on **slide 10**. In addition to the non-recurring items mentioned in the previous slide, net income was also impacted by a R\$6.0 million adjustment (net of tax effects) to adequate the provision for the non-conversion premium of debentures.

Eliminating all these impacts, adjusted net income for the quarter totaled R\$46 million, with an adjusted net margin of 10.2%. For the year, adjusted net income totaled R\$251 million, with an adjusted net margin of 13.7%.

In summary, the decline in EBITDA and adjusted net income in the year and in the quarter is basically associated with: (i) the short-term effects of transition to subscription; (ii) lower allocation of own teams of software implementation; and (iii) the reduction of recurring costs resulting from headcount reduction not reflected in 4Q15 results and consequently not included among the quarter's adjustments. Except for the subscription, which tends to contribute to margin expansion in the medium term, the restructuring undertaken in the 4Q15 should take effect in the coming periods.

Now, I will talk about Bematech's results on **slide 12**.

- **Bematech:**

Bematech's total revenue was positively impacted by recurring revenues, which grew 9%, and negatively impacted mainly by the reduction of 1.5% in hardware revenue in 2015.

This reduction in hardware revenue resulted mainly from:

- (i) the decrease in the economic activity level, reflected in the sales pace and in the lower number of new establishments opened; and
- (ii) the changes in tax legislation, especially in São Paulo state, where the fiscal printers were replaced by the S@T fiscal equipment, which has a lower unit price.

Changes in tax legislation tend to collaborate with the growth of recurring revenue from tax software solutions, reducing the share of non-recurring hardware revenue in the composition of total revenue.

As shown on **slide 13**, (on the top left) subscription revenue increased 13% in the year and exceeded maintenance revenue. Together, recurring subscription and maintenance revenues totaled 94% of total software revenue in 2015.

(On the top right) The software contribution margin in the year was 50.5%, versus 58% in 2014. This impact is concentrated in research and development expenses, held mainly

by non-capitalization of the new investments in R&D in 4Q15, and the inorganic effect of *Unum*.

In services (on the bottom left), the contribution margin increased 440 basis points in 2015, mainly due to the restructuring made by Bematech in the services teams related to the hotels segment.

(on the bottom right) In hardware, the contribution margin decreased by 24% in 2015 and by 34% in 4Q15. This reduction was mainly due to the exchange rate, not fully passed through to prices during the year.

Hardware margin was also impacted by the reduction in grant income, established by the Paraná State Government from September 2015.

Turning now to the selling and administrative expenses on the **slide 14**.

Combined, selling and commissions expenses represented 11.2% of the net revenue in 2015, versus 9.8% in 2014. This growth was mainly due the restructuring of the sales teams by Bematech in the period.

Advertising and Marketing Expenditures accounted for 2.2% of net revenue in 2015 , 20 basis points up when compared to the previous year.

Expenses on allowance for doubtful accounts decreased 48% in the year, from 2.5% in 2014 to 1.3% in 2015. This change reflects the improvement of the receivables portfolio and the efforts to recover credits already accrued in previous periods.

Finally, general and administrative expenses plus management fees and to other expenses that were negatively impacted in 2015 by the expenses related to the transaction with TOTVS in the amount of R\$5.0 million recorded in 3Q15, and the provision for slow moving and obsolete inventory in the amount of R\$2.0 million in 4Q15.

In the year, disregarding these extraordinary events, this group of expenses represented 11.8% of Bematech's 2015 net revenue, versus 13.1% in 2014.

Turning to EBITDA and EBITDA margin of Bematech on **slide 15**.

Excluding all the extraordinary effects already mentioned, Bematech's adjusted EBITDA totaled R\$ 10.9 million in the quarter, and adjusted EBITDA margin was 9.3%. In the year, Bematech's adjusted EBITDA totaled R\$ 58.2 million and adjusted EBITDA margin was 21.8%.

Now on **slide 16**. Eliminating those same extraordinary effects already mentioned on EBITDA (net of tax effects), Bematech's adjusted net income totaled R\$3.3 million in the quarter, with adjusted net margin of 2.8%. For the year, adjusted net income totaled R\$ 31.8 million, with an adjusted net margin of 7.3%.

In summary, the decline in EBITDA and adjusted net income of Bematech in the year and the quarter is primarily associated with: (i) the effects of currency exchange rate; (ii) the reduction in grant income; and (iii) the non-capitalization of the new investments in R&D in 4Q15. It is important to mention that TOTVS' strategy is to gradually adequate the hardware sale price in order to rebalance revenues and costs of this operation.

Now talking about the consolidated pro forma figures of TOTVS and Bematech from slide 18.

- **TOTVS + Bematech (Pro-forma):**

With Bematech, TOTVS' net pro forma revenue totaled R\$2,262 million. Of this total, retail amounted for R\$535 million, which makes TOTVS the largest business solutions provider for the retail segment in Brazil. This becoming the largest segment of TOTVS, together with the manufacturing sector. In addition, without Bematech, TOTVS grew 25% in the retail segment in 2015.

Bematech's dominance in solutions for hotels and for passenger transportation reinforced our position in the Services Segment, which represented 16% of total net pro forma revenues in 2015.

These data shows that the segmentation strategy increased TOTVS' sectorial diversification and created a greater revenue balance among segments.

Moving on to slide 19, in the pro forma revenue breakdown, software accounted for 62%, services 26% and hardware 12% in 2015.

The pro forma recurring revenue amounted to R\$1.3 billion and represented 56% of the pro-forma net sales in 2015, versus 53% in 2014.

The growth in the pro forma recurring revenues resulted mainly from the 21% growth in the subscription revenue and 6% growth in maintenance revenue, which together accounted for 82.4% of the 2015 pro forma software revenue.

Moving now to TOTVS pro-forma EBITDA and pro-forma EBITDA margin on slide 20.

Excluding the extraordinary effects already mentioned in the comments about TOTVS and Bematech, the adjusted pro forma EBITDA totaled R\$85.0 million in the quarter and EBITDA margin of 14.9%. In the year, adjusted pro forma EBITDA totaled R\$466.913 million, and EBITDA margin of 20.2%.

Similarly, on slide 21, after the extraordinary effects, adjusted pro forma net income of 4Q15 totaled R\$49.5 million, with net margin of 8.7%. In the year, adjusted pro forma net income amounted to R\$283.1 million and margin of 13.7%.

It is important to note that, besides other effects already mentioned, EBITDA margin and net margin of TOTVS and Bematech were affected in 2015 by the mismatch between the IGP-M and IPC-A inflation rates.

The inflation in recurring revenues is measured largely by the IGP-M and cost inflation has remained close to the IPCA. Average IGP-M in 2015 was 6.5%, while the average IPCA was 9.0%.

The sharpest recovery of IGP-M in the last quarter, presented on slide 22, has not produced significant effects in the year 2015, as the adjusted fees in the period affected a few months of the year. Furthermore, these adjustments are also going to affect the full year 2016.

Now speaking about the cash flow on slide 23.

The Company ended the year with R\$426 million of gross cash and R\$452 million of net debt, which represents approximately 1x the adjusted pro forma EBITDA of 2015.

The pro forma reduction of R\$ 389 million of gross cash in 2015 is mainly due:

- (i) the payment of R\$474 million regarding the transaction with Bematech;
- (ii) the payment of R\$204 million in dividends and pro-forma interest on equity;
- (iii) the inflow of R\$181 million related to the last tranche of the credit lines hired in 2013 from BNDES.

On slide 25, we have the schedule of the total gross debt amortization totaling R\$878 million in 4Q15, to be amortized by 2020, of which R\$246 million will be amortized in 2016.

To complete the earnings presentation, on slide 26 we present the proposal for dividends to be submitted for approval at the Annual General Shareholders' Meeting on April 26, 2016.

The proposal provides the distribution of R\$66.6 million in dividends for the year 2015. These dividends plus the interest on equity already paid represents a total of R\$0.78 dividend per share. Despite this amount be lower than in recent years, due to the decrease in net profit in 2015, it represents a payout ratio of 65.0%, which is slightly above our historical average.

Now I turn the presentation back to Laércio for his final comments on slide 27.

Laércio Cosentino: Thanks Maia.

Over the past 10 years, the Brazil's economic scenario has allowed companies to focus solely on their business, giving priority to investments and dedicating to growth.

The negative agenda came on the scene in 2015, including:

GDP growth of -3.8%, the real inflation level not translated into IGP-M index, tax burden increase due to the end of payroll tax relief, a rising labor cost, an undefined political scene, a more active justice, and a deteriorated business environment reflecting in 2016.

Howsoever, the market mood changed and imposed the hard task of adjusting structures, prices and business volume.

In 2015, the positive agenda of previous years had to be changed, so that it was possible to live the present without giving up great business opportunity still present in Brazil.

With this spirit, TOTVS:

- (i) made necessary adjustments in its structure to maintain the balance between revenues and costs;
- (ii) reassessed the legal contingencies as a result of continuous monitoring and risk control, without losing the focus to pursue its rights;
- (iii) took an important step with integration of BEMATECH to consolidate itself as the largest business solution provider for the Retail Segment;

(iv) entered the subscription world with the “INTERA COMMERCIAL MODEL”, keeping the annual EBITDA margin above 20%; and

(v) kept investments in technology, systems and clients selectively, particularly in the last quarter, in order to enter in 2016 with full force

As for technology, *fluig* expanded its market share as a Productivity and Collaboration Platform and the industry specialization contributes to strengthen the participation of TOTVS in the sectors it operates.

The Cloud Platform will help TOTVS to consolidate itself as the largest subscription player in Brazil, and Bematech will contribute to TOTVS entering Internet of Things area, with solutions connecting people, things and businesses.

In 2015, software license shrunk, but the subscription won, growing more than 25%, and making TOTVS stronger in the medium to long term.

Anyway, the great legacy of 2015 were the decisions, resolutions and acquisitions, which prepare the company for the new challenges of the biennium 16/17.

TOTVS moves forward in its consolidation project in the Brazilian market, expanding its leadership segment by segment, converting its customers to subscription in cloud, and adopting the productivity and collaboration platform, *fluig*, and mobility to its customers.

Brazil is bigger than everything we're going through and TOTVS works for this!

I thank you all for your participation and we are now available for the Q&A session.

Operator: Ladies and gentlemen, we will now begin the question and answer session. To ask a question, please press star one on your keypad, and to withdraw your question from the queue, press star two.

Our first question comes from Suzana Salaru of Itaú.

Susana Salaru: Good morning Maia, good morning Laércio. We have two questions, first regarding maintenance revenue. We want to know if you could add some color on the churn rate in 2015, what it was like, whether it increased over the year and your expectation for 2016.

And my second question is regarding wage increase. We know that one part of wage increase took place at the end of 2015, but some of it in São Paulo happened in 2016. Can you tell us how much of it has happened already and what do you expect of the agreement here in São Paulo? Thank you.

Gilsomar Maia: Good morning Susana, this is Maia. Well, starting from your last question, the collective bargaining agreement in São Paulo was signed at the end of February. The agreement was reached at 10.27% for the year, of which 8.5% is applied

from the reference date of January and the balance, if I'm not mistaken, of 2.70% from November.

Susana Salaru: 2.70%.

Gilsomar Maia: The impact of this within the year will be close to 9%. It was, in fact, a very intense negotiation under the collective agreement between representatives of companies and workers. I think both sides were well aware of the current scenario and I think it's even a change in the trend we see of adjustments in recent years, which had been significantly above inflation. So, I think it might even represent a change of how the moment is being seen.

In relation to maintenance revenue and churn, it's true we had a higher churn throughout 2015, it even shows an increasing trend. Of course there's some volatility over the months, but we saw an increasing trend as the months went by. Towards the end of the year, churn oscillated between 4% and 6%.

Anyway, talking about the prospects for 2016, I think it's complicated, actually. At present, I don't have anything on hand to tell you whether we'll see a decrease or increase. Without giving you any guidance on this, I believe it's hard for us to infer whether we'll have a reduction in the rate.

Of course, internally everyone is working to keep this rate always lower than this, but some variables that impact churn rate are not 100% under our control.

Susana Salaru: Just to clarify: the 4-6% you mentioned about variation in 2015, is that the quarter or the year?

Gilsomar Maia: The year. **Susana Salaru:** Great, thank you. That's it.

Operator: The next question comes from Daniel Federle of Credit Suisse.

Daniel Federle: Good morning everyone. My first question is regarding margin. Since the economic scenario should remain quite challenging in 2016, I'd like to know what the main efforts are, the main bets of the company to be able to return to a higher level of margin and how soon this will happen.

And my second question is related to Bematech, which also recorded margin decline. I wish to know if this was already in the company's plans before the acquisition, did it fall short of expectations or was it fully expected. Thank you.

Laércio Cosentino: Laércio here. The issue of TOTVS' margin, we conducted restructuring to balance expenses and revenues in December. We had already made a

smaller adjustment in 3Q and are working hard to leverage sales. We already held our annual event early in February to keep all our franchises in alignment.

In the subscription model, we are working strongly to expand it within TOTVS. So, we believe that the necessary measures to contain costs and at the same time work with the labor unions so the collective agreements would be compatible with the current economic scenario in Brazil, with the IGP-M starting to reflect inflation in the country, we believe we'll start recovering the margin we lost in the final quarter at TOTVS.

Regarding Bematech, Maia?

Gilsomar Maia: Regarding Bematech, several elements we mentioned in the earnings release had already been included in our analysis of the company. Obviously you can't predict 100% of the situations. Some variables are linked to, for instance, exchange variation, the loss of the ICMS tax incentive in Paraná, although we never include in the financial analysis of companies an element such as this as essential for business valuation, because it's not part of the business itself.

But excluding these variables and the market dynamics, other elements are part of the business we evaluated, there's nothing much different from what we expected.

Daniel Federle: Great, thank you guys.

Operator: The next question comes from Diego Aragão of Morgan Stanley.

Diego Aragão: Good morning Maia, good morning Laércio. I have two questions. My first question is regarding your commissioning structure. It seems to me that your selling expenses as a percentage of both licensing revenue plus subscription delta remains virtually stable compared to previous years, though subscription is increasing its share of this revenue.

Since subscription... let's imagine a scenario where eventually the client could cancel the service sooner than you were expecting, how do you structure this commissioning structure? I mean, aren't you paying a lot upfront to your sales team and taking all the risk that maybe that client will not remain with you over the next three or four years until it pays out? That's my first question.

Gilsomar Maia: Good morning Diego, this is Maia speaking. Your question was very clear to us. One of our concerns, even with our internal team, was to not have unbalanced incentives among the commercial models, or otherwise the sales team will obviously focus more on where commissions are more attractive. So we didn't want to make a difference in the commissioning obtained from one sale or another.

There's actually a mismatch in terms of revenue recognition between the two models but, generally speaking, it should not cause a significant mismatch in the team's incentive.

Regarding the risk you mentioned, I'd say it's mitigated in our business as subscription clients don't usually subscribe to an initial volume of accesses or users, to the full number they intend to have once the system is completely ready for use.

As a result, subscription sale "is not entirely made at the start." This is a trend we've noticed and is very common, and so you can associate subscription revenue with the level of system use and, consequently, with commissioning.

Laércio Cosentino: I think that's the aspect that most balances the model. I mean, in case of licenses, they usually want to purchase the highest number of licenses to obtain lower prices. When you talk about subscription, it would be the equivalent to, instead of consuming the total value of energy at your house, you pay like you do today: you turn on one lamp, you consume it, you turn it off, you stop consuming. So, this is highly aligned: commissions are conditioned exactly on what is being brought and the client, in turn, consumes only as necessary because it doesn't make sense for the client to pay a monthly fee that it is not using.

Diego Aragão: Perfect, very clear. My second question is regarding legal contingencies and, please correct me if I understood it wrong, but when we look at the amount you have been provisioning it's practically an amount you had as non-recurrent now twice as much, or more than you had been provisioning.

My question is how should we interpret it, going forward? I mean, will it continue to pressure your EBITDA in the future? Will you increase your provision or is this in fact a one-time impact and should we expect the provisioning level of the past two years excluding this impact this quarter? Thank you.

Gilsomar Maia: Diego, with regard to contingencies, this number is really higher than normal per year, because of the revision of the portfolio of claims, which used to be distributed more geographically than in terms of specialization.

So, this even made us replace some of the legal advisors who had a more regional approach than specialization. In fact, we had lawsuits with similarities but with very different treatment - from the handling of the case to the evaluation and prognosis and amounts involved in these cases.

So at the end of the day, managing this was not very efficient and we reorganized the entire portfolio by distributing the cases to law firms according to their area of

specialization expertise, which results in a more uniform handling and evaluation of the lawsuits.

Coming back to your question, which was about this issue of contingencies, going forward, I don't believe we'll see any significant increase in this aspect to the point of exceeding the historical average. I think this amount we're talking about in the quarter is much more related to the inventory of pending lawsuits we currently have.

Unless we had a significant increase in the number of lawsuits, which of course can be influenced by the economic environment, I don't believe it is the case at this moment.

Laércio Cosentino: Another important point is this: from the moment we uniformize things - because there were many firms - we uniformized the definition of each of the actions, we also gathered intelligence within the company about how we should work from now on to ensure this does not grow and to defend what we already have.

This provisioned amount is important, because it's not an amount the company will have to pay. We will work on minimizing this and efforts are ongoing in this regard, OK?

Diego Aragão: Perfect. Just a follow-up question: could you share with us which period was revaluated and if there was any bigger lawsuit or is this amount scattered among dozens or even hundreds of lawsuits?

Gilsomar Maia: This is not related to any specific period. It refers to the whole universe of outstanding lawsuits, regardless of their date. And then there's the natural pace of each lawsuit in the courts, so you have older ones and more recent ones. Of course, the portfolio tends to be more recent in terms of its distribution, but there are older lawsuits as well. There are some bigger lawsuits in terms of distribution, but it's not something related exclusively to two other lawsuits.

Diego Aragão: Perfect. Thanks, guys.

Gilsomar Maia: You're welcome.

Operator: As a reminder, if you would like to ask a question, please press star one. The next question comes from Diego Aragão of Morgan Stanley.

Diego Aragão: Thanks for the follow-up, guys. Just to understand a little more of Bematech, what is your view of the company? I wish to understand specifically about the conversion of clients, for example, to electronic invoices. How is it happening within your base and is Bematech currently maintaining its market share or is it actually facing stiff competition on that front? Thank you.

Gilsomar Maia: As for electronic invoices, we have different scenarios depending on the state. In São Paulo, for instance, the state opted for a device called S@T, which replaces the fiscal printer and synchronizes the taxpayer directly with the tax authority.

In terms of market share, Bematech has been successful in filling, let's stay, the void left by the fiscal printer by selling S@T, selling tax solutions.

Bematech has an interesting portfolio of fiscal solutions from the software viewpoint of also, because if you put yourself in the shoes of a retailer, for example, who operates in all the states of Brazil. Having a consolidated vision of your tax calculations and management is quite complex. In this sense, since Bematech offers solutions that meet this whole range of state laws, it has developed a software solution that provides a consolidated view for the client and that is very interesting for you to manage all this complexity.

In terms of market share, they've been able to fill the void left by the printer with this type of solution. Of course, if you analyze the printer individually – and it was known to us and the market in general that its margins were high – these other solutions don't initially bring the same margin, nowhere close to that from fiscal printers.

But as I mentioned a while ago, the fact that you offer this solution, whether for Nfce – which is the consumer electronic invoice, whether it is S@T and on top of that you put this tax management platform, you'll actually leverage other solutions on top of the solution that filled the void left by the fiscal printer.

So, you have the potential to increase recurrence and further leverage the software on top of this void that is being filled. Competition is very strong in this segment, there's no doubt, but we're monitoring it, the monitoring done by Bematech's market share team has been successful in maintaining their market share.

Laércio Cosentino: Another important aspect: the printer was not subscription, you sold an asset. When you talk of S@T, you talk of the consumer electronic invoice, which in fact is subscription; you connect and all your transactions are going through TOTVS Bematech servers to integrate with the government.

So, if we look at the printer, it was something we sold “one-shot”, waited for it to break or for the establishment to expand to then a new device, and from the moment of S@T and electronic invoice, the beginning is lower but you have a recurring revenue in each transaction. This is very positive in the subscription concept and for expanding recurring revenue – something TOTVS has been working on very hard in recent years.

Diego Aragão: Got it, perfect. And just one more question: Maia, I think when you answered Susana's question, you mentioned that the current macro and political scenario made it hard to assess what 2016 is going to be like; but from the first two full months, and we almost have 1Q closed, in terms of operations, churn, renegotiation of contracts with some clients, or inflation pass-through to clients, how do you see those first two of months of the year? Thank you.

Gilsomar Maia: Diego, compared to what we saw in 4Q, I think you are referring more to demand and client interaction with us, we didn't see any substantial change in relation to this scenario we are discussing here about 4Q.

In fact, I think there's indeed a climate of wait and see as to how this current moment we're going through will unfold. I wouldn't go as far as to say the country that has reached a halt, but I think it's pretty close to that at times, and I don't have the facts here that could show substantial improvement or worsening in this respect in 1Q.

Laércio Cosentino: What we can say is that the company is much better prepared for the economic challenges of 2016. I think we're at full strength to work appropriately in the market we have today – and of course always keeping our focus, which is important because we can improve margins significantly just by reducing projects, by sacrificing the future of the company a little. This is something TOTVS has never done and will never do: we always look at the scenario of our market in the medium and long term. Things will do return, Brazil will grow again and we're prepared for that moment.

Gilsomar Maia: And the adjustments we made in 4Q were made in this context that you see in the figures. So this already gives us a vision that the scenario would have to worsen significantly in relation to 4Q for these adjustments to prove themselves insufficient.

Laércio Cosentino: And it's also important that we won't be making adjustments to the company every quarter. We do have to make each of these adjustments, a company depends on people, a company depends on investments in advance to develop the future, but it doesn't have to do it all the time. We are ready for what we have today.

Diego Aragão: OK, thank you Laércio, thank you Maia, have a good day.

Gilsomar Maia: Have a good day.

Operator: Once again, to place a question, please dial star one.

We now conclude today's question and answer session. I'd like to invite Mr. Laércio Cosentino to proceed with his final remarks. Mr. Laércio, please go ahead.

Laércio Cosentino: I wish to thank you all for participating in our conference call and to state that we remain focused and are working to deliver the present and future of this company, regardless of anything else – Operation Car Wash or whatever situation or whatever government - we believe Brazil is an opportunity and we believe TOTVS plays an important role in making companies increasingly more competitive.

This is our role: we invest in order to be a step ahead of our clients' needs. We have to be competitive for our clients to be competitive, and that's what we're doing, thank you.

Operator: That concludes today's TOTVS conference call. Thank you for participating and have a nice day.