

Operator:

Good afternoon. Welcome, everyone, to TOTVS's 4Q08 results conference call. Today with us we have Mr. Laércio Cosentino, Chairman of the Board of Directors and Chief Executive Officer of TOTVS, and Mr. José Rogério Luiz, EVP, CFO, and IRD.

We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. After TOTVS's remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Today's live webcast may be accessed through TOTVS's website at www.totvs.com/ir.

Before proceeding, we would like to mention that during this conference call, forward-looking statements may be made relating to TOTVS's business prospects, operational and financial estimates and goals, based on the beliefs and assumptions of TOTVS management and on information currently available. Forward-looking statements do not guarantee performance. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions, and other operational factors could also affect TOTVS future results and could cause these results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. José Rogério Luiz, who will begin the presentation. Mr. José Rogério Luiz, you may begin your conference.

José Rogério Luiz:

Good morning and good afternoon. We are extremely pleased to bring you TOTVS results for the last quarter and the full year 2008. It is important to mention that all the figures that we are going to present today are on a pro-forma basis, and they take into consideration all the figures from all the companies that TOTVS incorporated as if they were together with us since 2005, so you can just see the organic growth.

Therefore, I would like to invite you to go to slide three, so that we can see the progress made by TOTVS. First, we wish to reiterate that 2008 was a milestone in TOTVS history, because, despite the market changes and turbulences, we ended the year with better results, continued our history of strong organic growth and bringing in new skills.

The merger with Datasul brought people who share our philosophy and together with our employees complemented the Company's operational excellence fostering professional development and market knowledge for all of those who constitute TOTVS and especially for our clients.

This development, this new TOTVS, gave us the necessary strength to overcome the obstacles

created by the current global scenario and enabled us to leverage our organic results, culminating in a special last quarter 2008, when we closed the year with gross revenues of R\$941 million, almost R\$1 billion.

Taking a brief look at former times, we are extremely pleased to say that in the past six years our EBITDA grew by 14x and gross revenues by 7.5x. This growth was based on several aspects, and I would like to invite you to move to slide four, and then you can see the key actions taken in order to sustain our growth, which made this a special year for us.

In the 1Q08 we began restructuring our distribution channels, launched TOTVS brand communication plan, acquired BCS, and began integrating the operations of BCS and Midbyte Vitrine.

In the 2Q, we launched TOTVS Up, which is an innovative relationship platform that enables remote sales and implementation of ERPs. In the 3Q the most important aspect was the merger with Datasul, which reinforced our position as the largest emerging market ERP Company. We integrated the operations and defined the management structure. We also had our first debenture issue and we strengthened our relationship with BNDES.

In the last quarter of 2008, the integration group has delivered the results, which were set up to carry out Datasul merger process. Its successful completion resulted in the merger of operations in São Paulo and Joinville, including not only our operating base but also our data center.

Hence, all the actions taken in 2008 helped TOTVS break one more paradigm in software acquisition, proving that one plus one is greater than two. It was an important year and with very strong results.

Moving now to slide five, let us talk about our performance. Again, we got record results in the year, as well as in the 4Q08. In terms of net revenues, we got over R\$233 million in the 4Q08, a new record, and over R\$844 million in terms of the full year, with a growth of over 27%.

In all lines of revenues we got records, license fees, maintenance, and services. And this brought us a new EBITDA record, not only in terms of the year, over almost R\$179 million, but also in terms of EBITDA in the 4Q, over R\$51.5 million. The EBITDA in the 4Q had an EBITDA margin of 22.1%, this was 180 b.p. more than in the 3Q, so it was an incredible and important enhancement.

In terms of operational highlights, what we have in the last quarter of 2008, despite the crisis, we established a new record in terms of number of clients buying our software products. It was not only the over 600 new clients but also 7.2% base customers more in relation to the 3Q08 buying our software.

We ended the year with more than 22,900 active customers paying maintenance to TOTVS. So, records in terms of revenues, EBITDA, and in terms of number of clients.

As we had these results, it was very natural to be awarded, and on slide six you see that we got several awards in 2008. I would like to point out the Euromoney award as the best technology company and the best IT company in the region; as BCG, the Boston Consulting Group, in an

article that was published at the Harvard Business Review, pointing out TOTVS as one of the 50 companies in the emerging markets that transnational companies should pay attention to; and as well as our IR Global Rankings award, and other awards.

These awards were in a very interesting year, 2008. 2008 was an important year also because we went to the integration of channels. As you can see on slide seven, we ended 2007 with three different channels in terms of franchisees, Logocenter, Microsiga, and RM brands. There were in some cases in the same city three franchisees.

What did we do? We invited them to merger, we got the case of synergies, we told them about the synergies that we would be getting within TOTVS and we suggested them that this could be a good idea for them in order to enhance the performance of their companies if they merged.

By the end of 2008, 95% of the franchisees were already under one single brand that was TOTVS. So, in several cities or in the states, what they did, they merged the Logocenter, the Microsiga, and RM franchisees into one single entity in each city and each state, becoming a TOTVS franchisee.

Now, when we announced the transaction with Datasul, we created a new momentum to have TOTVS franchisees and Datasul franchisees, and we expect that in the future these franchisees can have the same opportunity to merger into one single entity. It is going to be their option, but the results that we are getting are very positive and they feel this as a very positive thing as well.

The aspect of synergies is something that we have been learning and getting the benefits of. As you can see on page eight, we are not only in the learning curve of the M&A operations but we have a track record of a good M&A transaction. And how can we measure this? We can measure this in several ways, not only in terms of the synergies, of course, to make sense, but what synergies do we always try to call the attention of the market? The synergies in terms of revenues.

When you go to 2005, we went through a transaction with Logocenter, the market was a little bit skeptical in terms of if we could get any benefit in terms of sales in this transaction in the case of trademark Logocenter. You can see on the left-hand side of the chart, three months before the transaction and three months after, Logocenter remained with the same level of sales. So, we did not destroy value for Logocenter at that point in time.

But we knew that we should provoke good things for the companies that we acquired. And why? Because we are sending a message to the market that this company, or this trademark is going to be better under the umbrella of TOTVS. And this happened in the case of RM Sistemas: three months after the transaction, they grew over 8% in relation to what they had in terms of sales; and in the case of Datasul we jumped for 10.5%. And as you can see in the green balloon, the EBITDA margin was always enhancing.

So, we understand that we are learning more about these transactions, we are doing it better and at the end of the day, as you can see on page nine, in left-hand side, gross and net revenues are speeding up. The CAGR between 2005 and 2009 was over 21% in terms of sales and, as you can see in 2007 to 2008, it was even faster.

The same thing happened with license revenues. License revenue is growing in a very strong speed and it is triggering the other revenues. As we can see on page ten, services revenues are growing, maintenance revenues are growing. And maintenance revenues, as you may remember, means to us the most important margin, and maintenance revenue represents nowadays 45% of our revenues.

As you can see on slide of page 11, we ended 2008 with 45% of the revenues coming from maintenance. In the last quarter of 2008, we kept at least 24% of our revenues coming from new licenses, and this is going to trigger in the next quarters more service of implementation and more maintenance.

This very stable business model is bringing to us value. On page 12 you see this value as EBITDA. On the left-hand side, in comparison with the 4Q of last years, you see that quarter after quarter it has been growing, and we kept this record in the last quarter of 2008 with a CAGR of EBITDA of over 33% from 2005 to 2008. When you see the year-end figures, we ended with an EBITDA of over R\$178 million, and on a CAGR between 2005 and 2008 of over 27%.

This is including the negative contribution of Mexico in terms of EBITDA. We believe that Mexico is a new frontier for TOTVS in terms of expansion and fast expansion. As you may remember, during 2008 we restructured Mexico, we recognized several aspects in terms of losses in Mexico in order to make a cleanup within our structure. And Mexico contributed with almost R\$-12 million in terms of EBITDA in 2008.

We have, and we are working very hard to have Mexico being within breakeven already in the 1Q09. So, without Mexico our margin in the year 2008 would be 22.9%, but we believe that Mexico is going to provoke, up to the end of 2009, a positive contribution. So, we are doing very well and we can even do better and we are working on it.

We are doing this with the synergies, and on page 13, if you see on the left-hand side, in the 1Q08 we had a EBITDA margin of 21% and we jumped to 21.3% and then we had the quarter of the integration, or the announcement of the transaction with Datasul, we had a slowdown or we went down to 20.3% in terms of EBITDA, but already in the 4Q we got 22.1%.

In terms of the integration, we see that when we integrated with Datasul we saw that several of the cost and expenses of Datasul were growing faster than revenues and this was not natural for TOTVS. So, we told the market that in the last conference call of the 3Q we would work in several aspects.

And as you can see in the right-hand side of this chart, from the 3Q08 to the 4Q08 net revenues grew 6.8%, but the most important cost and expenses had a 6.8% of growth or less. This was important, this is already synergy.

As you can see on page 14, we have been working to have the synergy, for instance, in R&D. R&D represented in the 3Q 11.1% of our net revenues; now it is 10.9% and we have that longer-term perspective to go to 10%. G&A, we remain doing a good job with G&A; costs and expenses as a whole is growing in a slower speed than revenues when you see the year-end figures; and we are going to remain working on it.

On page 15 we have the financial dashboard where I would like to point out the net revenues growth, as well as the EBITDA, especially in the 4Q. And I would like to call your attention, on page 16, for our cash and debt position. We ended the period with over R\$147 million in terms of cash, and basically the debt that we have backed by BNDES, the Prosoft and the debentures.

In the last quarter 2008 we had some payments especially for the fees of the transaction, the advisors of the transaction with Datasul, and some payments that we made for some previous acquisitions, especially from Datasul. We expect to have, during the year 2009, a reduction quarter after quarter in terms of the net debt especially from the 2Q on. We are going to have a reduction just in terms of net debt because of the cash generation.

Looking forward, page 17, 2009, what do we have? We have as a concern the global economic slowdown, the credit shortage, the global IT investments shrinking and the GDP with a strong reduction projected in terms of GDP.

But on the other hand, how do we see TOTVS? We have a product that is a very important product, a management software, it is very difficult to run a company without a management software. We are in a very underpenetrated market, we have some fiscal changes like electronic invoices and etc. that are supporting new sales of software. We have a low leverage S&B companies, they are not in Brazil or in Latin America like in the United States or Western Europe, they are very low leveraged, so they keep their capacity to invest even in a tough scenario, and nowadays we have a better Company.

We have more skilled people here, we have more talents, and our channels are better structured. So, having said this, we understand that the appropriated execution can make the difference and we are here to make the difference.

Flying now to page 18, we had in terms of execution, during the year 2008 in terms of market, we sped up our growth, we were very focused in terms of getting more clients, we got more than 2,400 new clients in terms of software, we had very good growth acceleration in terms of revenues.

In terms of technology in products, as you can see on slide 19, we have a better product mix nowadays, with Datasul, BCS, and Vitrine. We launched TOTVS Up, a product; so we made huge investments in terms of technology.

And in terms of distribution, as you can see on page 20, we are very different; we have multi-brand channels stronger, and nowadays even with Datasul's distribution channels.

We did a lot of things in 2008, but that brought a very good structure in order to see the future in the right way. So, on page 21 you can see that we have the market, it is a tough market but we are very well positioned. We have good products and we have a very strong distribution channel and system. We have that execution scheme, and we are here to work very hard in order to go to this execution.

Having said this, I would like to say thank you very much for all of you who have been supporting us. And Laércio Cosentino, who is the CEO, and I are going to be ready for your questions. Thank you very much.

Marco Locascio, Equinox Partners:

Good morning. Just a couple of questions here, the first one, in relation to the performance of license sales in the 4Q, I was wondering if you could help me understand what is the time period between when a customer signs a contract for a license sale and when that license sale revenue is recognized in your accounts.

Another way to put that would be whether the license sale performance in the 4Q is reflecting strong sales activity in the 3Q that was then recognized in the 4Q.

José Rogério Luiz:

No. We have three types of revenues, three major types. The first one, as you asked, is about licenses. The license is an asset for our clients, so when they buy it they receive this license, so we recognize the full revenue of license in the month that we make the sale to the client.

Marco Locascio:

I see. So, did you notice any change in the sort of momentum of license sales over the course of the quarter and the first few weeks of 2009? Or are you continuing to have a positive outlook on the license sales?

José Rogério Luiz:

We know that there is a crisis within the economy, a global slowdown, but what we see is that this crisis is not affecting in the same dimension all companies and all sectors. Having said this, we have been working in order to have access to the segments that are doing good, and at the same time several clients from our existing clients are returning to us to buy additional licenses.

So, at the end of the day what we see at this point in time is a longer term in terms of discussing with the client in order to close the deals. Instead of having three months from the first visit, three to six months from the first visit to have the final contract, we have been having a little bit longer than this time.

On the other hand, it is very clear that management software remains being a kind of necessity for companies. So, having said this, if you ask me in terms of pipeline, the pipeline remains a strong one, but you spend more time in a certain client in order to have the contract signed.

Marco Locascio:

I see. Have you made any adjustments to pricing for the licenses or changing the terms of payment to sort of make the upfront cost a little bit more bearable for the clients in this environment?

José Rogério Luiz:

Remember that in terms of prices of licenses, it has remained stable for a long time. So, in real

terms it is going down, but in nominal terms it is somehow keeping the same thing.

Especially for clients that we have as a target, what we call small and medium companies, companies with sales between US\$5 million and US\$3 billion, in the middle of this area, or this range, which are companies with around US\$300 million, US\$400 million sales or a little less than this, financing is not fundamental in order to go for the implementation. The total solution of TOTVS is not that heavy or that expensive. Having said this, the aspect of financing is not crucial or mandatory while you are selling the licenses.

Marco Locascio:

I see. And then, we noticed in this quarter a continuing trend of larger average ticket sizes among both new clients and existing clients; do you have any insight as to what is causing that?

José Rogério Luiz:

We have some aspects that we understand that are doing this. The first one is the fact that technology is fundamental to the back office of the companies; this is number one. The number two thing is that we have during the last years the price of hardware is coming down and down, so the companies have the advantage of buying more hardware at this point in time. So, if they are buying more hardware, they are putting this hardware, and within this hardware they are getting more software.

And one additional thing, especially in Brazil and in Mexico, but mainly in Brazil, in the last year we had a change in the law requesting companies to have all their financial books like accounting, fiscal books, and invoice, to make this electronic in order to send cope and cote real time to the Government authorities.

Having said this, there a kind of calendar or agenda in which the companies have to incorporate their electronic files into the Government requirements. And this is helping us a lot, I should say, especially in Brazil this law is in place since 2008. And we are going to have in the next 18 to 24 months an additional demand for software in order to support these electronic filings that they have to make, again all the accounting things, all the fiscal things and the electronic invoices.

Laércio Cosentino:

Another thing that is important is that our international competitors do not develop this kind of software, and we have a solution and we can complement our competitors in fiscal books and these kinds of things, of electronic exchange of information with the Government.

Marco Locascio:

So, you can provide the sort of accounting model if your client is using SAP?

José Rogério Luiz:

That is correct. This fiscal model we can provide them. This is a huge advantage. Marco, remember that when explaining the company to you years ago we said about our modular

aspect, the flexible technology. So, in several aspects our business model has been tested within the last six months, and this is one of the aspects in which our business model is proving to be good to support this kind of volatility.

I should tell you and I know that we have some investors from Mexico within this conference call, in Mexico the electronic invoice is also going forward, and we see this as an additional opportunity for us in Mexico and in Argentina.

Marco Locascio:

All right, guys. Thank you very much. I will let someone else hop in with questions.

Steve Cao, Invesco Aim:

Hi. I have a question on the bad debt expenses; I joined the call late, so you might have talked about it already. I apologize for that if you have gone through this. Can you explain why we continue seeing sharp increase in bad debt expenses and what kind of trend outlook for the bad debt expenses do you see?

José Rogério Luiz:

Hi, Steve. Good point. In terms of this bad debt, the majority of the bad debt that we had during 2008 was basically in terms of Mexico. In Mexico we went through a restructuring of our operation there, and in order to prevent any problem in the future due to some delays in terms of delivering our products to the clients, we went to this additional provision.

And within Brazil, the provision that we made especially in the last quarter has nothing to do with the present situation within the market. We did this because we had some receivables that were a little bit older, and we decided to clean up this aspect. So, it was a decision that has nothing to do with the present situation of the market, although we have been very tough and cautious in paying attention with the daily receivables.

I should tell you that in term of receivables, even now in 2009, we saw no major delays in terms of our receivables. The age remains to be the same that we used to have. One way that you should track this or could track this, if you see the increase that we had in terms of receivables and the increase that we had in our sales, they are almost the same, in terms of growth.

I do not know if I am telling you a good or a bad thing, but the fact is that we, up to this point in time, the quality of the receivables to be OK and the provisions that we made in the last quarter of 2008 were because of some aspects of the past that we cleaned up and there is nothing to do with any additional or any deterioration in our receivables at the present time.

Steve Cao:

How much of the R\$6 million provision expense is from Brazil?

José Rogério Luiz:

From Brazil?

Steve Cao:

Yes.

José Rogério Luiz:

We are going to have 30% from Mexico, we have something like 5% to 10% from Argentina, and the remaining 60% is from Brazil.

Steve Cao:

OK. So, you do not feel, I understand you did not have the bad debt issue in Brazil, but this jump in bad debt issue in Brazil, do you feel that this is an early sign of further deterioration in account receivables?

José Rogério Luiz:

We do not see this happening. Let me go for one certain aspect that I understand that is important to support your question: the first thing is that the three major kinds of revenues that we have, the first one is license.

In license, the term that we sell the license is three to six months; and why is the client paying the license? We have a password that is going to be renewed every month, so if the client is not paying, we block this password. This is going to cause a problem for us for one month, for instance. It is very difficult to have a client that bought the software and stopped paying this because he needed this to be implemented.

Then we go to the second aspect. The second aspect is, remember, services. Services is the kind of thing that we charge per hour, so our clients have to pay after 30 months of the delivery of the hour; so, if they stop paying, we stop the implementation.

And the third aspect is maintenance. Maintenance is on a monthly basis; if the client stops paying maintenance for three months we block their access to the helpdesk, to the updates, and to the upgrades.

Having said this, the majority of the problems that we have with our receivables is because we, TOTVS, had some problems while implementing within the client, because the concept of our receivables is a very strong concept. Everything we can block in 30 days. Is it clear, Steve?

Steve Cao:

Yes. So, anything over 30 days you make a provisioning?

José Rogério Luiz:

No. I am going to make a provision case by case after 60 to 90 days.

Steve Cao:

OK.

José Rogério Luiz:

Depending on the line, if it is license, if is implementation or if it is maintenance.

Steve Cao:

OK. So, what kind of credit control, risk control do you implement in Mexico, then?

José Rogério Luiz:

Believe it or not, we have a daily control in 100% of our receivables.

Steve Cao:

OK.

José Rogério Luiz:

I do not know if I have answered you in the right way, but what we have is that we check everyday each receivables. We have a control that five days before, in some cases, five days before the maturing of the receivables we call the client to see if everything is OK.

We do not have it in other countries in Latin America, but here in Brazil we have a legal instrument that we can sue the client or put them in a kind of "black list" if they have a delay after five days.

Steve Cao:

OK.

José Rogério Luiz:

This is a very interesting system that we have in Brazil, which after five days you can put in this kind of "black list" and this client is going to have his name badly damaged, and he is going to have problems in buying in tenors. This is not only for companies, but also for individuals.

Steve Cao:

OK. Now the second question is about the decline in the corporate client base. Can you explain that? Why is there a decline in the net client additions in the corporate sector?

José Rogério Luiz:

Look, remember that the corporate model is an alternative. The client chooses if he wants to have this or that. So, if you go in a certain quarter in which the client is not comfortable with the system of the corporate model, they go for other choices or alternatives.

But, especially in the 4Q, what we had is that we had several clients of our existing clients coming to us to go for the things related to the fiscal aspect of this SPED that I was explaining, and then the fiscal aspect and the fiscal chances that we had in Brazil.

The second aspect was the previous clients of Datasul that were waiting to see what was going to happen with Datasul, and as they saw that everything is OK, it is within TOTVS umbrella, they are buying more from us. And Datasul does not have, at this point in time, the corporate model there.

Steve Cao:

OK. I think you are building up a bigger cash pile right now after you spent a lot of cash on acquisition last year; just going forward, what are your plans on uses of your cash flow? Are you planning to bring down your long-term debt or raise the dividends?

José Rogério Luiz:

Do we have a third alternative, like M&A? The first alternative that you said, to pay down the debt; we have a debt nowadays that causes envy in the market. And why? Because our debt is a long-term debt with a total cost between 8% and 10% per annum, so in terms of Brazil and Latin America, it is a very convenient debt.

And remember that from our private debt, something more than 60% that is the debentures are long term and the major holder is BNDES, which is one of our shareholders. It is a very convenient debt. So, paying this debt in anticipation, I do not think it could be the best alternative.

The second one, raising dividends, of course it is always within our policy to provide to the shareholders the best return for their money. And probably, one of the best returns could be going for additional investments within the structure of TOTVS, and additionally it can eventually support us in other M&A transactions.

Steve Cao:

OK.

José Rogério Luiz:

But again, we are very open in order to receive feedback from our shareholders in order to do the right thing.

Steve Cao:

But do you have any existing plan right now for further acquisitions?

José Rogério Luiz:

Historically we have a pipeline of transactions. And one thing that explains our success in our transactions of M&A is that we date before getting married. So, what do I mean by that? Our M&A deals, we started in a certain day, but we are going to close this transaction in nine months to 1.5 year after starting the analyses. And it is a fact to the market that we have some analyses within our pipeline.

Steve Cao:

OK. Thank you.

Matt Pickering, Harris Associates:

Gentlemen, good 4Q, I appreciate the time. I have a couple of questions. Going back to the M&A commentary, given the market share that TOTVS now has in the S&B market, are there particular products gaps that you are looking to fill, or should I expect you to either be interested in moving either into large customers ERP space or internationally?

José Rogério Luiz:

We are in a very underpenetrated market, S&B not only in Brazil but also in Latin America is underpenetrated and we know that we have a very good set of product, but probably we do not have all the products that we need in order to provide and support all the demand of the market.

In our M&A policy, every transaction that we do is a transaction that, at the end of the day, is going to help us to sell more software. Having said this, we can go for verticals within Brazil; there are segments that we like and that are doing well.

We like, for instance, we are growing in segments not only in terms of service, industry, but even in the financial segment, we have a very strong base that can be supported by additional software offers. And for sure, within Latin America there are other opportunities. But what we have been trying to do is to be even stronger in Brazil before jumping to anything else.

In your question about a larger transaction, this should be better analyzed. I think that our major focus at this point in time is really in our region.

Matt Pickering:

OK. Now, when I look at the mix of your revenue that you provided, I think it is on page five of the presentation, it is noticeable how services continue to grow as a percentage of the total. And within the services, I know you talked in your 4Q release about some successes you have had in things like managing consulting, business process, outsourcing.

Can you help me understand strategically what your goals are with services, given your unique rout to market with your use of franchises? I am curious, I mean, should we expect TOTVS to do

more for its customers in the next three to four years and you are going to continue to build out consulting and BPO and things of that nature?

José Rogério Luiz:

Flying back to the previous answer, everything that we do is, at the end of the day, to support us to sell more software. What happens, for instance, with management consulting is that the management consulting companies were established within the region; they are just supporting very large corporations. And after the acquisition that we made years ago of BMI that became then TOTVS Consulting, we found a niche that was not supplied in terms of doing management consulting while implementing our own software.

Or more than this, going to our clients that are existing clients, supporting them to use more and better our software. When they are doing this, the next moment they are returning to us and buying more licenses. So, everything that we do in service is to, at the end of the day, support additional sales in terms of license.

Matt Pickering:

So, you do not intend on offering consulting support for other applications?

José Rogério Luiz:

Look, with strategic aspects and with strategic advices, or, more than this, in some clients where they have other solutions in terms of software, we are supporting them to establish that shared-service centers. One of the most important products that our management consulting firm has is implementing shared-service centers.

While doing this, even the client having another software in their back office, it is not rare having them asking us to support them with specific models. So, we are even selling licenses and software to some clients that are not using the full product of TOTVS.

As Laércio said, one of the examples is this fiscal package. While implementing the shared-service center we are able to suggest to the clients to use our fiscal model instead of other alternatives.

Matt Pickering:

OK. When we think about your success historically with M&A, and we look at your balance sheet the obligation relating to acquisitions lines, which, as I understand, are earnouts related to past deals completed. Can you help me understand again what triggers the payouts of those earnout obligations that are set on your balance sheet?

José Rogério Luiz:

Success. Success is what triggers. Because, especially in smaller companies, when you go to them you know that when you are in an M&A transaction, I never saw a forecast that is reducing revenues or reducing EBITDA. Everybody shows you the same curve, going up, up, and up.

So, what do we do? We give the benefit of the doubt to the guy that we are incorporating. Remember we are not acquiring. Acquiring means that they are going to walk away and not help us build up this Company. So, the way that we have to provide him a future and a perspective is to say "look, we pay you what we think is fair at this point in time, but we cannot go to your price, but we can go to somehow in between", in order to provide him the challenge.

And it is funny because, after a certain time, this group of people is so integrated to our Company that they are able to beat their goals, to receive their money, and to remain with us.

Matt Pickering:

When you say success, is it primarily a revenue target, or is it a client number target, or is it an EBITDA target? I mean, how do you define success?

José Rogério Luiz:

Sorry, in each case we have a metric, but, at the end of the day, what you are going to have is EBITDA and sales. And in some cases, what we have is a conversion of the totality of the clients to a certain product that is going to be or has a certain cross selling.

So, in 100% of the contracts you have net sales and EBITDA. When I say EBITDA, you know that in our case, in our industry, EBITDA is very close to net income. So, of course, at the end of the day, what we are trying to have is the cash generation.

Matt Pickering:

That is very helpful. On page four, when you show your operating performance, can you help me understand the significant differential in license fee per customer between the new clients that are won during the quarter and the new traditional clients, and then the base clients? On that table on page four.

José Rogério Luiz:

Of the release? Could you go ahead with your question, please?

Matt Pickering:

With my next question?

José Rogério Luiz:

No, can you repeat the question?

Matt Pickering:

Sure. The table on page four shows us both the trend in new customers, the trend in licenses sold to existing customers, and the license fee per customer. And I am trying to understand why the license fee per customer varies as much as it does among the different categories you show

here.

José Rogério Luiz:

Let us go. License fee in terms of the average ticket.

Matt Pickering:

Yes, just to be specific for 4Q08. Why a new client paid R\$29,311, a new corporate client paid R\$52,313, and a new traditional client paid R\$13,020?

José Rogério Luiz:

Let us go for our model. You remember that our clients buy less licenses from us in the first wave of implementation, and then they are going to pay in the next eight to ten years.

Matt Pickering:

Right.

José Rogério Luiz:

But, for instance, they bought in the first wave of implementation 35 licenses and throughout the time they are going to buy every year, for instance, additional six, seven or ten licenses.

Matt Pickering:

OK.

José Rogério Luiz:

What happens is that, in terms of license fee for new clients, they are going to pay in the first moment a larger amount that you are going to see in the license fee for the traditional clients that is a base client. The base client is going to buy a smaller quantity in several times. Is it clear?

Matt Pickering:

Yes, it is clear. OK. And then, the last question I had – and I appreciate your time very much –, so if I track the growth in your active software clients over the last year, in the 4Q07 the existing base of clients was roughly 16,060. And if we row through the mass of new clients added and acquisitions, you see that the churn rate of lost customers has grown each quarter since the 2Q. It looks like it has gone from about 1% of the quarterly starting base up to almost 4%. Can you help me understand where you are seeing increase churn in your base and why?

José Rogério Luiz:

Remember that we incorporated some smaller products like BCS and Vitrine within our Company, and we launched RM first and we also have a smaller product that is the start for Datasul. Every time that we have smaller clients, you can have throughout the time a higher

mortality.

Matt Pickering:

Got it. OK. So, greater percentage of your new customers whence during 2008 were smaller customers?

José Rogério Luiz:

This was part of our strategy. Although, we have another product for even smaller clients that we are selling, if we put this data within our figures here we would not support the right forecast for the market. What I am telling you is that we have a smaller project for health, and it is for smaller companies in terms of health. These companies are going to grow and then they are going to migrate to other of our products.

Just this product we sold in the last quarter for over 300 clients, but we are not putting here. If we added this figure, instead of 600 we would have 900 new clients in the last quarter. But the problem is that the average ticket of this specific product is very low and very small, and their contribution for the whole quarter was R\$1.6 million.

Matt Pickering:

OK. I understand.

José Rogério Luiz:

What are we trying to do? Remember that we are not trying to climb the pyramid, we do not want to compete in the high-high end with those 100, 200, 300 very large corporations. On the other hand, what we are trying to do is really to be the guys that can get the companies from the borderline between micro and small companies and grow with them in the next 10 to 15 years.

Matt Pickering:

OK. Thank you very much for your answers, they were very helpful.

Operator:

Ladies and gentlemen, that ends the question and answer session for today. I will now hand it over to José Rogério Luiz for any final remarks.

José Rogério Luiz:

Thank you very much for the support of everybody. And I would like to invite Laércio to make the final comments, please.

Laércio Cosentino:

OK. The challenge for 2009 is the Company's execution capacity towards the opportunities that we have today, which are technology, target market, and distribution channel. Thank you very much, and we will now begin the new business time.

José Rogério Luiz:

Thank you very much for all of you guys.

Operator:

Thank you. This concludes TOTVS's 4Q results conference call. Have a great day.

This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the company hosting this event, which was transcribed by MZ. Please, refer to the company's investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript.

IR Contacts:

José Rogério Luiz

EVP, CFO and IRD

Gilsomar Maia, Bruno Salem Brasil

Investor Relations

Phone: + 55 (11) 3981-7097

ir@totvs.com

About TOTVS

TOTVS is Latin America's largest developer of application software, the world's 9th biggest ERP developer and the leader in emerging markets. It is the absolute leader in Brazil, and the leader in the small and medium enterprises (SME) segment in Latin America. TOTVS was the first IT company in Latin America to go public, with its shares listed on the Novo Mercado segment of the São Paulo Stock Exchange (BOVESPA). Its ERP operations, represented by the products Datasul, Logix, Microsigla Protheus and RM, serve 22,900 customers and are complemented by a broad portfolio of vertical solutions, as well as consulting, infrastructure and BPO services. For more information, visit www.totvs.com.

This report contains forward-looking statements that are based on the beliefs and expectations of TOTVS management. The words "anticipate", "believe", "wish", "expect", "foresee", "intend", "plan", "predict", "project", and similar are intended to identify statements that, necessarily, involve known and unknown risks. Known risks include uncertainties that are not limited to the impact of price and product competitiveness, acceptance of products by the market, the market performance of the Company's products and those of its competitors, regulatory approval, currency fluctuations, supply and production difficulties and changes in product sales, among others. This report also contains certain pro forma statements, prepared by the Company exclusively for informational and reference purposes and are therefore unaudited. This report is updated to the present date and TOTVS is under no obligation to update it further to include new information and/or future occurrences.