

**Operator:**

Good afternoon. Welcome everyone to TOTVS' 2Q08 results conference call. Today with us we have Mr. José Rogério Luiz, Vice-President, CFO, and IRO, Mr. Claudio Bessa, Marketing Officer, and Rodrigo Nasser, Head of Operations of TOTVS Mexico.

We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. After TOTVS' 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' website at [www.totvs.com/ir](http://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 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.

Furthermore, some information presented herein are part of the transaction of merger of TOTVS and Datasul shareholding structures, and do not constitute an offer of securities in the United States of America, or any request related to an offer of purchase of securities in the United States of America. The information included in this presentation, as well as any other materials referring to the above mentioned resolutions, shall not be provided or sent to United States of America residents.

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

**José Rogério Luiz:**

Good morning and good afternoon. It is with great satisfaction that I present today our results for the 2Q08. It was an important quarter, as TOTVS reached a new revenue record; it was, in fact, 14x in a row. And also the highest historical EBITDA.

In comparison to the 2Q07, we grew substantially the number of sales of new licenses, over 35%, not only to new clients, but also to base clients. In this case, over 12% more base clients than in the same period of 2007.

We invite you to move to slide number three now, with actions and results. As you may remember, starting in 2007 we took several actions in order to speed up our rate of growth. As you may remember we split our sales team into hunters and relationship officers, we launched new products, we entered into a brand consolidation and also in the creation of the TOTVS franchisees, with the consolidation of our channels.

The results are already arriving. If you could move to the next slide, on page four, as we can see we had in this quarter a new revenue record, with net revenues reaching

almost R\$133 million, and this was almost 23% over the same period in 2007. In terms of license fees, we had a very significant growth, with more than 35% over the same period of 2007. In terms of maintenance and services, we also had a new historical record, and it is the specific case of maintenance that, as you may remember, is one of the most important revenues that we have, we grew over 20%.

In terms of operational highlights, as we reached a new record in terms of EBITDA of more than R\$27 million; this was based in a very strong operational aspect. And some of them is that we had a very interesting increase in the average ticket in the sales of our ERP software; we had almost 1,000 new software sales to base clients. This was almost 13% in relation to the 2Q07. And in terms of the sales of ERP software to new clients, we had 353 software sales to new customers in terms of ERP.

If we think in terms of the other softwares that the Company has, we reached the very impressive number of 520 new software clients during the 2Q08.

If we move to page five, some of the highlights of the quarter, it was not only that our ERP has been recognized as one of the top things in terms of Brazil, but also we could have our TOTVS Day. We had the opportunity to receive over 40 investors and analysts within TOTVS in June, and they could see a demonstration in terms of the TOTVS Up that we announced in the beginning of this year. That is a new model of sales and implementation including a remote way of implementing the software.

Also, we had the opportunity to show them that we had a goal in terms of creating the TOTVS franchisees. We expected that, by the end of 2008, we would have circa of 72% to 80% of our external franchisees merging and creating the TOTVS franchisees. But what happened is by the end of June, we had a significant improvement and the total of franchisees that merged represent nowadays 74% of the sales of franchisees.

What I mean by that is that we reached our goal six months before our target date. And this was based on a very strong relationship we have with our franchisees, and the tremendous respect that both parts have in knowing that being together, having this merger, they could reach other standards in terms of quality and more than this, they could sell more and be more present with higher quality to our clients.

In this aspect, during TOTVS Day, we also had a presentation from IDC talking about the position of the companies and the market share during 2007. If we could move to page six now, after this presentation we are going to have my colleague Claudio Bessa, the Marketing Director of TOTVS, he is going to be available in the Q&A session. But we saw TOTVS not only growing in a faster speed in the market within Brazil, but also in Latin America.

So, we reached 26.2% in Brazil in terms of total market share in the full pyramid; if we just see the small and medium companies, we jumped to 52% of market share in the SMB space. And in terms of Latin America and the full pyramid, we reached 12.1%, and at this point in time, in a solid third position, and growing in a faster speed than the others.

This said, I would like to invite you to move to page seven now, where we have this very traditional chart of TOTVS, in which we have been showing you that in the last 14 quarters, quarter after quarter, we have been growing. And this growth is not only the growth of revenue, but it is in a kind of quality of growth that is going to provide us a very interesting future.

What do I mean by that? As you may remember, the most important kind of revenue that we have is in terms of new licenses; and why? Because new licenses is going to trigger the other new revenues, service and maintenance.

If you could move to page eight, you are going to see that we are speeding up the growth in terms of the sales and the revenues from new licenses. If you see in the left-hand side of the chart, in the comparison of the 2Qs of the last years, 2Q05, 2Q06 and 2Q07, we have now an increase of over 35% of new licenses. This brings to us future. As you can see in the right-hand side of this chart, the percentage that you have here is the growth of each quarter in relation to the same quarter of the previous years.

As I showed you in the first slide of this presentation, we took a lot of actions in the beginning of the last year, and even with some skepticism of some players in the market in terms of the actions that we were taking, we had a strong belief at that point in time that that would help us to sell more and to sell in a better way.

As you can see, we have been growing very fast in terms of the sales of new licenses. We saw no comparison worldwide in the software companies, in the shape of this curve, and in this size of this growth.

If we are growing in terms of licenses, if you could move to page nine now, you are going to see that we are also having the results in terms of the services, in the right-hand side of the chart, and in maintenance. Maintenance is speeding up the growth and with margins over 20%.

For those that are very familiar with our business model, you know that if we are selling more now in terms of licenses, this is going to have a positive reflect, a positive aspect in the future revenues, specially from maintenance.

If you move to page ten now, some of the reasons of this growth is that we are selling not only more, if you make the comparison to new customers, in terms of just ERP, it was an increase from the 2Q07 to 2Q08, from 236 new clients to 353, but more impressive, is as you can see in the average ticket, it is a very strong acceleration in terms of the size of the average ticket.

In then same way, we see base customers, as we showed you in the 1Q08, we told the market that our vision was that in 2008, as an output of the measures that we took in 2007, every quarter in 2008 should have a higher number speed or velocity, in terms of growth, a number of base customers buying our products, our software than in the year before.

This happened in the 1Q and this is happening again in the 2Q, as we sold 12% more, in number of clients in the base customers, than in previous years. Again, another very important aspect, that some competitors of the market, some people of the market were skeptical in terms of growing the number of base customers buying our products, but having a reduction in terms of average ticket, I think that we are providing to you in this quarter, a very strong message in terms of message that we were able not only the number of base clients, but also the average ticket.

The results of this, if you could move to page 11, in the left-hand side is the growth in the absolute figures of the EBITDA. We reached with R\$27.3 million, a new historical record in terms of EBITDA in a quarter. And as we have already told to the market, keeping our long-term guidance that is between 2009 and 2011, we are going to have our EBITDA margin, it is going to be between 22% to 25%.

We said that we could have a trade off in terms of speeding up our number of new licenses revenues and to exchange this a little bit in terms of margins. This happened and we remained very comfortable with the guidance of 22% to 25% between 2009 and 2011.

And why? Because during this quarter, one of the impact that we had was in terms of Mexico, as you can see in the right-hand side of this chart. Without Mexico, we would have an EBITDA of almost 22%. But what did we decide? Mexico is a great market, it is growing a lot, at this point in time we have 350 clients there, and we decided to enhance and go into a reorganization in Mexico, in order to be prepared to a new wave of growth that we are going to have in Mexico.

My colleague and your old friend, Rodrigo Nasser, is nowadays the CEO of our operation in Mexico is also in this conference and during the Q&A his is going to provide you, if you want, additional information regarding Mexico.

So, it was a decision of the senior management to do the following: let us go to a reorganization of Mexico in order to have a better scenario in the future as we have to be prepared, because Mexico represents one of the largest opportunities to TOTVS in the region.

If we go now to page 12, you can see that in terms of the percentage of the stake of each main revenue line, it is in a very good way. What do I mean by that? Keeping the Company growing fast and at the same time, keeping 25% of our revenues coming from licenses fees, this is fundamental to bring us the future.

So, we are increasing in all the absolute figures, but we have been able to keep at least 25% of our software revenues coming from license fees. And again, this was not what happened in the full year of 2007 and we changed this thing due to the actions that we took in the past.

Moving now to page 13, in terms of costs and expenses, we decided to speed up during the 2Q some of the expenses. One of the expenses that we had was marketing expense, and why? With all these movements of TOTVS franchisees, we decided to give them an answer and a support as they will become a TOTVS franchisees, we had to put more marketing in terms of the brand TOTVS and we did this and we know that this helped us very much in terms of reaching our figures in terms of new sales. Looking forward in terms of this, we do not see TOTVS moving from the historical 3% to 3.5% of net sales in terms of investment in market.

When you see R&D, we made it very clear in our release that we had a temporary speed up in the investment in R&D. Part of this was linked to the closing some developments for the international market, especially Mexico, and this was also for the other projects that we expect to make it public in the future. But again, we remained with the guidance that R&D is going to be in a yearend basis, something around 8% to 9% of our net revenues.

G&A, we are enhancing and speeding up the process of the implementation of the service shared center because we understand that this is going to help us in the future. All in all, when we see the yearend figures, you are going to see that we aimed to be very and very diligent and very careful while managing our costs. The important thing was that we had to speed up our growth, we are in the right track and now we know that we have to go for additional one within our cost structure.

If you go to page 14 now, we have a very traditional financial dashboard, and again, we are very proud in order to have a significant growth and at the same time, to create the future for the Company.

And, to end this presentation, I invite you to go to page 15 and we took some actions we used to have and we have a strong Company, but we have no fear in order to take risks, in order to enhance our structure and in order to speed up our growth.

We are in a very under penetrated market, software nowadays is like a utility. What do I mean by that? A company has to have light, water and they have to have software. Therefore, we are very confident that the results that we are getting, not only are very good results but they are also providing us the opportunity to get positive results, even more positive results in the future.

So, thank you very much and now I would like to open the Q&A section and I would have Claudio Bessa here in Brazil and Rodrigo Nasser in Mexico, and we are going to be more than happy to answer your questions.

**Gustavo Oliveira, Citi:**

I have a few questions here. To start with the average ticket, what is driving the growth in the average ticket on sales to new customers and also to the base customers? Along the same lines, do you think it would be making sense to lower a little bit your average ticket to accelerate the growth in the new customers and the penetration much faster?

**José Rogério Luiz:**

Good afternoon. What we see in terms of the average ticket is that the client buys more given the reduction of the price of the hardware, given all the aspects that people realize that technology is key in order to enhance performance of the companies, what we see is that the clients are buying more. Therefore, if we lower the price, this seems not to be the right way to have growth. We have no questions from the client in terms of price. What we are having is that they are buying more.

This is an interesting thing that even the base clients are returning to us to buy more seats in the second, third, fourth they return to us than they used to do. I would like to invite Claudio to add some comments.

**Claudio Bessa:**

It is absolutely right what Rogério said. Actually, we do a lot of researches and we do not have any type of questions in terms of putting our price down. What we actually saw normally from those R&Ps that we already have in other researches much more trying to understand a better using of our solution instead of talking about prices or so on.

**José Rogério Luiz:**

Additionally, you remember that one kind of revenue that the clients really want to pay us, they do not have any kind of concern that is in terms of maintenance. And the average ticket of our maintenance is like US\$1,000 per month. When we sell more and we put more maintenance here, maintenance nowadays has been updated by IGP-M.

In terms of IGP-M, you know that IGP-M is growing higher than in the past. So, we see that within our base clients while paying maintenance to us and with this IGP-M update in terms of price, this seems to be a very interesting thing for us for the future.

Therefore, having more clients and in fact, in this quarter, we added 520 new clients paying maintenance to us because even in BCS and between they pay maintenance to us, this is very positive because we have this IGP-M factor.

**Gustavo Oliveira:**

OK. I understand. The second question is on your gross margins and your revenue mix. Your revenue mix is still pretty much the same, about 40% maintenance, 25% licenses and about 35% services. However, your gross margins are in a declining trend and the first question then is: would it be possible to expect that your gross margins are going to go up again, that they are going to revert this trend?

More specifically on this quarter, was there any thing specifically related to the Mexican operations that were also causing a higher growth in your cost of services and sales that increased 34% year over year versus 22%, at almost 22%, for your top line? How do you see that playing out? I just do not understand why you are having strong pressure on your gross margins although your mix of sales is still pretty much the same.

**José Rogério Luiz:**

Gustavo, I do not know if we really understood your question because when you see, we are speeding up the growth and not the other way around. If you see in the 1H08, we grew 30% in terms of license fee, 21% in terms of net sales. When you see just the 2Q, it is around 23%. So, in fact, the 1Q was lower than the 2Q, we are speeding up the growth.

We understand that things are, for instance, Mexico that is not contributing very effective during this year as they contributed in the last year in terms of sales. They are going to provide to us more perspective than the other thing. And again, we are stronger and better organized than we were in the past.

Having this said and taking into the consideration the low penetrated market, we are creating the conditions not only to keep the gains that we have been having, but, for sure, to have the opportunity to speed up the growth. Are we talking about the same thing?

**Gustavo Oliveira:**

No, I understand the growth is improving. But, I do not think you really responded my question. The fact is that your mix is still, if you are looking at your sales mix in 2007 and in 2006 as you have in chart number 12, you see that the mix is still the same. If you look in the 2Q07 and the 2Q08 there was a slight change because you improved your sales of license revenues. However, what is happening to your growth margins is what is not very clear in my opinion. Because although you are not seeing a big shift in mix in your sales, your growth margins are deteriorating quarter over quarter.

It seems to me that your costs of services and sales are growing much faster than your net sales. So of the R\$43.6 million on costs of services and sales that you had in this quarter, can we assume that there are some non-recurring events there that come

from Mexico and come from the BCS consolidations? And if you look at the 2H08, is it possible that you are going to see the growth margin improve or this declining trending growth margin is expected to continue?

**José Rogério Luiz:**

The answer for your question is 'yes'. We are facing this much more as a one-timer, and the trend is a trend that the larger we are, more dilution we are going to have in terms of costs, even if we can use better or variable costs. So the answer to your question is that our perspective is that we had one-timers now, and these one-timers are going to be solved.

And again, we know that we have to work in some aspects like Mexico and services, and you have our compromise that we are going to do this. This is the exact same question that we had in the past in terms of commissions, in terms of marketing expense; each quarter we had something that was faster than other things, and we told the market that we would have the action in order to solve this aspect when we had a structured thing.

In this aspect, particularly in this quarter, we did not have a structured aspect, much more a one-timer. But again, I want to prove this to you in the next quarters, but I can assure you the senior management and the Group that conduct this Company is paying strong attention in this.

**Gustavo Oliveira:**

And the last question, still on the same subject. What is the average implementation time that you have now as compared to what you have one year ago? Are you seeing any change in that, that could be impacting the margin? Or not necessarily?

**José Rogério Luiz:**

Look, as we have some larger clients entering our customers, we are seeing our time of implementation that used to be between three to nine months, you can add one month to this tops, from nine to ten months, as an average; so from three to ten months.

**Gustavo Oliveira:**

OK. So your capture is having larger clients, therefore your margins could be affected by that as well, I think.

**José Rogério Luiz:**

What we are doing is, as TOTVS is being stronger and calling more the attention of the market, we have been receiving other invitations to implement our software to larger companies. Although – this is important to add – during this quarter we start to see a clearer, a new history; the number of new clients that are turning to the smaller softwares like Vitrine is increasing.

So it would not be impossible that in one year from now we have again this average ticket, average time between three to nine months. Because we do see a contribution in the near future that these smaller softwares are going to have in our structure.

**Gustavo Oliveira:**

OK. Thank you.

**Andrew Campbell, Credit Suisse:**

My question is on the macro-environment, and I wondered if you believe that the scenario that we have of increasing interest rates potentially flowing growth a little bit higher inflation, if you think that is going to have an impact on growth over the next 12 months.

**José Rogério Luiz:**

Andrew, the short answer is that at this point in time, we do not see any change in our core market. So, the answer to you is we do not foresee, at this point in time, any big change. Of course if we have a huge deterioration in the scenario, I think that everybody is going to be affected.

But I do think that we are in the end of the lane. And why? Because we are dealing with a basic necessity of the Company; this is number one. The second thing is that every Company is very keen in order to have a software that can help us exam to grow. And the third aspect is that, in terms of price, the price of our total offer to the client remains to be a very competitive one and something that our customer can afford.

**Andrew Campbell:**

OK. Thank you. And if I could just ask one follow-up, taking advantage of having Rodrigo there. I was wondering you could give us any color on how you are viewing the market opportunity in Mexico, how you are seeing the initial research activities to the product and apparently it sounds like you are having to localize a little bit and make some changes; I mean, how convinced are you that you have a product that is going to sell in Mexico and that there is a market for that.

**Rodrigo Nasser:**

Actually, in Mexico, what we see is that we have a Company here that is growing more than 75% year over year, and we have a really good demand in terms of SMBs buying software. What we see here in Mexico really strongly is not selling a lot of back office but more verticals. And one of the strongest verticals that we see selling in Mexico is payroll and human resources.

And why is that? Because, as Brazil, Mexico has a really different aspect in terms of legal in human resources and payroll, and those companies are now looking for softwares to control payroll, to control human resources, and we have one of the best softwares here to sell that.

And, as Rogério said, we have been investing in terms of services to finish some projects that we have been working since last year, and we are developing new versions of the software, including a new version of this vertical of payroll and human resources to attack some aspects of the market that we have not been doing last year.

So we see a really good aspect in terms of demand of the software here in Mexico, mainly in verticals, human resources and payroll. And our big challenge here is to deliver these services in terms of implementation in that market.

**Andrew Campbell:**

Great. Thank you.

**Marco Locascio, Equinox Partners:**

Good afternoon. First question: looking at the cash flow statement, it appears that you capitalized some R\$32 million of product development in this quarter. Can you comment on sort of what that was related to and if that is a one-time event or something we should expect to continue going forward?

**José Rogério Luiz:**

You are asking in terms of capitalization of things? The only capitalization that we are having in terms of one specific investment is the digital TV. And there is no other capitalization, but this is not in the amount that you are saying. Are you seeing that in the balance sheet?

**Marco Locascio:**

On the cash flow statement.

**José Rogério Luiz:**

On the cash flow statement. Remember that BCS, the Company that we bought in the end of 2007, what you are seeing is that we made the payment of the BCS in the beginning of the 2Q.

**Marco Locascio:**

I see. OK.

**José Rogério Luiz:**

In fact, we are not capitalizing software, it is not the idea. It is not our procedure. What we had here it was just in terms of the payment of the disbursement of the acquisition that we made in the end of 2007.

**Marco Locascio:**

I understand. Next question, you already addressed the issue of the growth in the ticket side from both new and existing clients. My question is sort of on the opposite side, as oppose to lowering price, have you given consideration to raising price given the strong demand you are seeing?

**José Rogério Luiz:**

Excuse me, could you repeat please?

**Marco Locascio:**

Is there any consideration of raising prices for your license sales given the strong demand that you are seeing?

**José Rogério Luiz:**

No. Marco, what we see is that keeping the price that we have in this very under penetrated market works like a barrier to any eventual competition. So of course we are updating our prices in terms of services and we have this kind of natural update in terms of the maintenance with the IGP-M, but in terms of licenses it is not our intention to increase prices. Although we understand that we could have some room to do that. But our idea is to provide the best cost benefit to our addressable market.

**Marco Locascio:**

I understand.

**José Rogério Luiz:**

Look, what is important to us is scale. We are in a very scalable business, the more scale we have more we are going to dilute costs throughout the time. So, if you are not taking into consideration the one timers, this is exactly the route that TOTVS has, growing more, diluting fixed costs, managing the other lines and this is going to, at the end of the day, in a yearend basis, show us that we are going to be able to go in the right direction in terms of margins.

**Marco Locascio:**

OK. And then the last question, you talked about the merging of the franchisees under the TOTVS brand. Giving your experience doing that for your own company, can you give any thoughts on how you might address the Datasul franchisees structure if that deal goes through?

**José Rogério Luiz:**

Look. The same aspect in terms of scale that works for TOTVS as an entity is going to work for the franchisees as smaller entity but in the same segment. You know, this thing in terms of merger things, you do not tell the guys to merge, you show them the track record of benefits that you had and then they can make a decision if they are going to go for it or not.

Even in any future transaction, I understand that we are going to proceed in the same way. When we had a transaction with RM or with Logo Center, we kept the channels of distribution separated, even because of that time they were adding things at different target markets.

But throughout the time, the guys from the franchisees realize that if they are under one single roof, if they have one single structure, if they have one single group of guys to go for implementation, they see this as an asset, they see this as a way to be stronger, to reach this under penetrated market.

This said, and going forward in any transaction, what we understand is that the channels of distributions are going to be separated even because they are addressing

different target markets. But, it is not impossible to image that in a certain moment of their history they decide to merger in order to have the same experience.

And again, we are always dealing with very intelligent business men. Our guys are dealing with technology, the guys from the franchisees, and they are entrepreneurs. The best way to have them convinced or invited to go to something is when they see the example. If they see that the new entity is working well together, they are going to have the willing to replicate the model.

**Marco Locascio:**

Great. Thanks for that.

**Tony Tang, Lusight Research:**

Hi. Good afternoon. I got three questions here. First, I just want to understand like, you know, what is the market opportunity in Mexico that you have been talking about that market for a while?

And I just want to get an idea of how much revenue do you expect to be generating after you entering in that market, in three or four years time.

**José Rogério Luiz:**

I am going to start answering the second part and them Rodrigo will answer the first one. TOTVS has a perspective that in two to five years from now, at least 10% to 15% of the revenues of TOTVS coming from the international market and, of course, Mexico is going to be one of the most important markets. Rodrigo, can you go for the first part of the question?

**Rodrigo Nasser:**

Yes. Tony, in terms of Mexico, when you analyze Mexico as any big country and you compare it with other countries in Latin America, you see that Mexico, after Brazil, is the best option in terms of SMBs, where you have more concentration in terms of small and medium business.

And in Mexico you do not have competitors strong as you have in Brazil, for instance. So you do not have a really big Mexican software company that compete in terms of what a SMB market needs.

What we see in terms of Mexico is a really good opportunity in terms of growth of market, in terms of sales. What we have to do, as we told you before, and what we are saying in our press release, is that we have to concentrate in terms of delivering the projects, delivering in terms of implementation to achieve the goals that we have here in terms of growth.

**Tony Tang:**

If there is no competition there right now for the SMB market, do you have any, I do not know, numbers that can say you will generate R\$15 million. I know you say 10% to 15% of the total revenues in three to four years, but what is expected? Commentate this. What is the actual numbers? Do you have?

**José Rogério Luiz:**

Tony, we have a policy in terms of just talking about the whole entity in terms of figures. So in terms of each area of our Company or each unit, we keep this information under the umbrella of TOTVS as a whole.

That is why I was trying to provide you at least one information that is our perspective. Nowadays the international market represents 3% to 4% of TOTVS revenue.

**Tony Tang:**

OK. And so far, what product is most popular or welcome in Mexico?

**Rodrigo Nasser:**

I did not understand the question.

**Tony Tang:**

I know that you have so many mergers and then, so do you see any particular aspects you are particularly strong in there in the market?

**Rodrigo Nasser:**

We are really strong in terms of payroll and human resources because, I do not know if you remember, in 2002 we bought a Mexican company called Syprus that had a software that was really specialized in human resources and payroll, therefore we had a really good software in terms of payroll and human resources.

We also have a really differential here in terms of retail, in terms of the vertical of the retail. And as I told you in other questions here, in this call, Mexico, what we see is a really interesting growth in terms of vertical software, it is not only the back office.

What do I mean by that? It is not only in terms of financial invoicing and accounting but in terms of verticals; and human resources and retail are two big verticals that we see growing here in Mexico.

**Tony Tang:**

OK, that is great. My second question is about your effective tax raise. Historically, your tax seems to – I know Brazil has a very complicated tax system – so, it seems your taxes rate varied a lot, from low single digit can go up to 30% or 40%. So, could you tell me a little bit more how should we see this tax rate going forward? Should we see the same variation in the past back again?

**José Rogério Luiz:**

Your question in terms of tax rate. You know that our average tax rate is something like – the effective tax rate that we have in terms of net income is something around 22%. This is the effective tax rate TOTVS has nowadays.

We do not see this having a big change in the future. Of course we can have some positive aspects if we have transactions that, for instance, can bring us amortization of goodwill, etc. But we do not foresee at this point in time any change in the tax rate.

Is this answer in accordance to your question?

**Tony Tang:**

OK. So, I can use basically 20%, 22%, let us say, in the tax effect rate?

**José Rogério Luiz:**

In our tax rate specific from TOTVS, yes; and of course if we enter, for instance, in any transaction that could provide us amortization of goodwill, we could even have an increased tax rate. But if you like to see now, in this moment, you can have this 20% as a good figure for your analysis.

**Tony Tang:**

Is it a five-year straight line like amortization, is that how you use for calculating?

**José Rogério Luiz:**

Yes, you can use for this time period.

**Tony Tang:**

OK. My last question is about the acquisition deal yesterday with Datasul; in their call they indicated in August the shareholder meeting. Assuming the deal is approved, what do you see the biggest gain for TOTVS in this deal? Do you see the end-user market sales network consolidation or actually an internal cost saving?

**José Rogério Luiz:**

Look, the first thing, just to make it clear, we are talking about a merger between both companies. We think that some of the benefits of this merger are, one, we are in a scalable business. The larger we are, the more we can gain margins throughout time, because we are going to have a dilution in terms of fixed cost, and we can have a better use of our resources.

Two, we understand that a software business is not only a question of quality of product but also brand and perception. With a transaction like this, we are increasing very much the perception of both companies; both companies will be together the ninth largest in the world. They are going to have a historical rate of growth far higher than the companies that are number eight, seven, six and so. We are going to be well-positioned.

Additionally, both structures are complementary. The target market of TOTVS is not the same target market of Datasul. Datasul has a strong area in terms of verticals; TOTVS nowadays has a very untapped market plus a huge base of clients that can benefit from the verticals of Datasul and vice versa.

So, it is a transaction that makes all the sense in terms of strategic feet, financial aspect, and creating the base for what I will tell you will be the most, not only integrated, but the most skilled company worldwide in order to attack the SMB market.

It is going to have a strong leadership in emerging markets, it is number one in emerging market; and again, this is going to help us not only to have synergies in terms of top line, but also to have complementary in all aspect including synergies and costs expense.

**Tony Tang:**

I understand the complementary business for the two of you, the focus on the large enterprise business to the small business. Even the combined entities in the end will still be much smaller than your global competitors; but your global competitors are still focused on the large and medium businesses. I am trying to understand what is the advantage, is it this a great deal on saver? What is the integration strategy you are actually benefiting in the end in competing with the Microsoft, Oracle and SAP? Will you have limited resources, will you actually have to compete across all the market segment?

**José Rogério Luiz:**

The first aspect is that we do not see these other companies serious in terms of small and medium companies. This is number one. The concept that they have for small and medium companies is different from what is the reality of emerging markets; so, this is the number one thing.

Combining the two entities, TOTVS and Datasul, we are going to have a strong power, not only in terms of product, but also in terms of distribution, brand, and intelligence to attack this market.

Having said that, I will tell you that having this approved by the shareholders, as we are sure we are going to have the approval, the following day we are going to have a tremendous machine in terms of capacity to attack this market. And we do not see these other companies even doing good in their homeland countries. If you think about outside these borders it is going to be difficult. So, I think we are going to be very well-positioned.

More than this, in several countries of the emerging markets, the companies are running their businesses with Excel spreadsheets or home-made solutions. Having said this, I think that the combination between Datasul and TOTVS is synergic, energetic, and a very positive one.

**Tony Tang:**

OK. That is it. Thank you very much.

**Operator:**

Thank you. There appear to be no further questions at this time. I will now like to turn the floor back to Mr. José Rogério Luiz, for any closing comments.

**José Rogério Luiz:**

Thank you very much to all that have been supporting us. We expect to be in contact with you in the short term, not only providing another round of good results of our Company, but especially providing the results of the combination of both companies, TOTVS and Datasul.

Thank you very much, and feel free to contact us if you have any need. Thank you very much.

**Operator:**

Thank you. TOTVS 2Q08 results conference call is over. Have a nice day.

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