

**Operator:**

Good afternoon. Welcome everyone to TOTVS' 1Q08 results conference call. Today with us we have Mr. José Rogério Luiz, executive Vice-President, CFO and IRO, and Mr. Weber Canova, Chief Technology and Innovation Officer.

We would like to inform you that this event is recorded and 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.br/ir](http://www.totvs.com.br/ir).

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of TOTVS management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of TOTVS and could cause 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, you may begin your conference.

**José Rogério Luiz:**

Good morning and good afternoon. It is with great satisfaction that I present today TOTVS results for the 1Q08. Before we start, I would like to say that we are not including the figures of BCS Informática that we acquired at the end of 2007 in this 1Q. The numbers and the figures of BCS Informática will be included in our TOTVS' figures from the 2Q on.

This was a very consistent 1Q despite the fact of having a very tough scenario in the beginning of the year with all the changes in the American economy and the potential effect that this could cause in our region, not only in Brazil but also in Latin America. Again, TOTVS was able to report these fundamentals and to provide to the market very positive results.

So, as we saw on slide number three, there is a picture of from our history and our chances how we can make in future to keep growing and grow faster, even with what happens. That is our way.

Moving on to page four, TOTVS has been taking several measures, several actions, in order to speed up its growth as we have the perception that our success has become an aspect of persecution. So, what did we do? We took several attitudes last year, including breaking down our sales team in the 1Q07, launching new products, buying companies and establishing the brand consolidation putting under the same umbrella TOTVS distribution with the TOTVS franchisee; and in the beginning of this year, the TOTVS up.

So, several of the actions and the metrics that we did last year, we had the perception that they would not create results in the short term; it would take some quarters. And I understand that now we can see some of these results.

So, let us move to page five. These results have been very clear for EBITDA. On page five, in the 1Q07 we set a new record in terms of net revenues; during the last 13 quarters we have been breaking records in terms of sales. So, the 1Q08 was not different from the previous 12 quarters, as we reached sales of over R\$121 million, and we it has grown near 20% in relation to the 1Q07.

The main aspect of this growth was license fees; we increased our sales in terms of software and license fees of almost 25% related to the 1Q07. And again, this was a new historical record for us. More than this, maintenance also grew almost 21%, becoming our new historical record in terms of maintenance revenue. Service grew almost 22%, and with all this growth, once again as a final result is that our EBITDA margins reached R\$26.3 million with a growth of almost 26%. Our EBITDA margin grew 100 b.p. and that is an increase of almost 22% of EBITDA margin. We also had net income to be a record that we have in our history.

So, all in all, in terms of financial highlight we have growth, we were more profitable and we could put more wealth within our Company. This was based on several TOTVS operational results, like the corporate model increased 66% in relation to the 1Q07, the revenues from the corporate model; the corporate model is liked to the growth of our clients, as you may remember that the revenues for TOTVS growth are linked to the operational aspects of our clients.

Another important aspect is that when we talked about of corporate sales to our base clients, it was the trend of 2005, 2006, 2007, it was going down and down, eventually provoked a huge gap in our structure, creating the relationship guys beside the hunters and these relationship guys did a great job, they have been doing a great job. And this quarter we sold new licenses to 1,481 customers of our base; so this was very important; and also we have been selling more and more for our corporate model.

On page six, we can see that the results were very strong and at the same time the market recognition. What I mean by then, we got some awards during this 1Q and make us very proud of that. As the first one was from Euromoney for the second year in a row, we became top one in terms of 'Best Managed Latin-American Companies', from Euromoney. We were number one in terms of IT and Software and in terms of Technology company.

We also received from BCG, an important consulting group, a mention in their studies in terms of one of the 50 of our period companies in the American market that are a kind of benchmark and a kind of significant pool for international competitors. And this study is also in the Harvard Business Review from Last March.

We also won as the number one in terms of IR Global Rankings, a very important prize. The first one we won the Number One Company in terms of Corporate Governance in Latin America; and in terms of Small Caps we were awarded in terms of the IR Global Rankings for the best web site.

So, these recognitions, as we can see on page seven, are a kind of 'mirror' from what we have been having in terms of our growth. Quarter after quarter we have been able to grow our sales, increase the growth of our sales. It is a very significant achievement, we think that we still are in terms of our juvenile aspect of our history.

During the beginning of our history, we acted in a very independent (9:16) market but even with all the changes that we have been provoking within our Company we have been able to have this growth.

Turning up to page eight, this growth was not just in terms of sales but also in terms of profitability; if you see the left side of this chart, we are normally growing our EBITDA in terms of absolute figures but also in terms of volume. Here, we give an additional disclosure to the market, so we put on the right side that if we had included BCS results, within our consolidated figures in the 1Q instead of having 17% of growth we would have 24.2% of growth in terms of sales. And in terms of EBITDA we would have reached something like R\$27.6 million. So, it is a gain of 32.1% related to the 1Q07. And in margins, EBITDA margins would be 22%. So, a very consistent growth, a very positive growth, and something that would provide to us a very interesting moment.

In terms of recent events, if you could go to page nine, we had some recent events. In terms of recent events, in terms of acquisitions, we ended the quarter with the acquisition of BCS and we started the process of integrating BCS and Midbyte Vitrine within our headquarters.

In terms of channel, one of the major changes that we had at the end of 2007 was distributor, the TOTVS distributor. We planned that by the end of 2008 we would have the majority of our franchisees under the new umbrella of corporate franchisee. Our But what happened by March 31<sup>st</sup> as we had a number of stock purchases that reached almost 50% of the Brazilian GDP. What I mean by that it's growing faster than we planned and what is the main reason of this? The guys from the franchisees realize that this is a very important aspect for their growth and this is going to create a lot of benefits for our clients.

Another important project we had in recent months was the launch of the TOTVS up that Weber Canova my vice-president from technology, we are going to talk a little bit more about it. But, again, this first model in which we can go for sales and implementation of ERP in an innovative way. So Internet base plus a live support offer it, but this is going to provoke a reduction of cost per client. And at the same time, there is going to be a reduction of cost for ourselves. The intention of this product is to speed up our growth.

In relation to our growth in our market, as you can see, IDC and Garner just issued new studies, showing that the IT sector, especially in terms of software ERP, is speeding up specially in terms of small and medium companies

So if you move to page ten, you can see the updates of their studies. They put Latin America now in terms of market; 2008 is growing faster and more than we had in the previous studies in September 2007. So small medium business its our focus in a region that has a very significant growth. As we can see in page eleven our focus are in the small and middle companies.

And through our products LOGIX, Microsiga and RM, we have focused more small and medium companies. But at the same time, we have products like Vitrine and FIRST that are the in the border line of the micro and small companies, creating a new generation of clients for TOTVS.

During the 1Q08, we sold almost 300 new customers and in terms of small and middle company, we sold to almost 136 new software customers. So, all in all, when you see

in terms of small and medium and the[...] that are in the border of micro and small companies, TOTVS for the 1Q08, total of 450 new software customers; so it is a very expressive number, and this is as you may remember this is future for us

On page 12; notwithstanding to new guys to new customers but the working base customers has been an important aspect for us to increase our sales. And, again, it was a concern in the market in the last quarter, especially in 2005 and 2006; it was a concern in terms of what is going to happen in the sales of the corporate model of TOTVS. And we are presenting a very dramatic change in our structure last year, creating the hunters and the relationship guys, as the results are here.

This number, we got a record in the 1Q08 in terms of customers from our base that bought more softwares. So, 1.481 base customers bought new licenses from TOTVS. A significant growth. Another thing, we have been able to increase the average fee for new customers and to keep at good levels their tickets for our base customers.

Now, moving to page 13. An important aspect of our growth is selling more license. What is happening the market in our margin, as you can see, it has been growing faster in the market. Just in this last quarter, we not only broke the record, but we grew constant 5% in relation to the 1Q07. And even in terms of the 4Q07, we grew in a faster speed.

So, what is happening? We have been able to break the seasonality. We are efforts that our CAGR have been growing every quarter. Even in a quarter that is the 1Q, that, historically, is a quarter that provides a slow down in the cost of sales of new licenses.

We are growing in terms of new licenses and we also grew as you can see on page 14, in terms of maintenance revenues and services revenues. Again, all these three lines, we save over 20% in terms of growth in relation to the 1Q07.

In result of this, as you can see on page 15, is that the breakdown that we have in terms of all revenues, is making that our licenses revenues is speeding up, it is growing, More than 25.1% of our revenues are coming from our license fees. And again, we may remember this been future to TOTVS. We have been growing with those figures in every of this revenues aspects. But, again, license fees are growing in a faster speed.

Is not only the the aspect of revenues that we have to pay attention, as you can see on page 16, we also are taking care of cost and expenses. So, R&D, we have increased R&D for TOTVS up, result of the aspect of this increase of R&D. And, again, we are spending more in things that are going to be our future. On G&A, we had a growth during this quarter in terms of absolute figures, although the impacted of this in relation to our net revenues are decreasing. So there you have the comparison between the 1Q08 and the 1Q07. And costs and expenses are going up; lower in relation to what we had our net sales.

One important aspect is that, during the 1Q08 we had the formal wage increase that the union requested on March, especially in São Paulo. So, just in this quarter, the 1Q, we had a 6.3% wage increase for everybody that is paid in São Paulo; this is a request of the unions. In Brazil, you are obliged by the unions to have, every year, a kind of a wage increase and we had it, it was 6.3%. It was a very significant impact, but even with that we were able to provide our growth.

When you go to the page 17, it is a kind of a major aspect of our financial highlights. Net revenues growing, EBITDA, even with the impact of the costs that we had, growing EBITDA margin, growing over the 1Q07, as our net income, again reaching a new record. So just positive aspects.

At this point in time I would like to call Weber Canova, the Vice-President of Technology, Innovation and Quality of TOTVS, to talk a little bit about our technology.

**Weber Canova:**

Thank you Rogério. My name is Weber Canova and I am Vice-President of Technology, Innovation and Quality of TOTVS. Today we are going to talk a little bit about the technology. I invite you to go to slide number 18. Let us take a look at the 2007. You are going to see that everything that we planned, we delivered.

I would like to highlight a project that we call TNI; it is a product that we developed with IBM and the main goal, the main objective of this project was to integrate the Lotus Notes started switch with the ERP. And with that project we got an award for innovation from IBM, World Award for innovation, in front of many worldwide companies that were part of that.

If we go a little in the future, in 2009, we can see that we are working with biogeometry, with voice recognition, and also with digital TV, in order to put our products and to have some kind of offer on that specific subject. In 2008, we have a special project that we call TOTVS up.

We would like to invite you to go to slide number 19, where you can see a lot of components that are part of TOTVS up and you can see that we covered the name based on aspects of relationship with the customers. There are some highlights that I would like to show you, with this demonstration with our customers, to have a full understanding of the solution, by watching a video demonstration that could be recorded, or a live demonstration. We can use that technology in the same way on digital TV, as I showed you in technology involvement.

Another highlight is the web implementation component that allows customers to speed up implementation of the ERP. The web demonstration component that I would like to highlight is also very interesting. That allows the multi-implementation of this solution reducing start-up time of the implementation and also ensures more quality in that subject.

We can also share costs because we can, say, for financial implementation, share the implementation with six different customers around the country and use one single implementer to help all the six customers at the same time. Of course that TOTVS up will not replace the face to face implementation, but it will help a lot in terms of costs.

Another relevant point in web implementation and web support is that we provide multi-point customer access. That way we can share, say, for a financial implementation with six customers online, human resources and experience in a single timeframe. So, we avoid all expenses of the face-to-face implementation and we improve the experience sharing; it is very interesting.

I would like to invite you to slide number 20, where we can see the look and feel of the portal itself and remind you guys that behind the Internet portal, we provide a rich multimedia user experience to our customers and channels. That is the main goal.

Thank you very much. I would like to call Rogério.

**José Rogério Luiz:**

Thank you very much.

If look at the slide on page 21, again, we had success that we ended the 4Q and in a well position for the end of 2008. So, several actions that we took in the past are bringing to us nowadays good results. The first one, in terms of the sales team I do think that we have a new very positive trends in terms of sales. Our products, our clients are slowly buying our products but they are moving from the old version to new versions from the and this is also very positive [...inaudible...] all segments.

In terms of the acquisition, I think that TOTVS has been proving that we have the ability to put new companies under our umbrella and as I said, 1 + 1 has been more than two. In terms of Consolidation this seems to be the right movement before are understanding better and more the meaning of TOTVS, we know that we have a long way to go, but we are on the right track.

In terms of creating the TOTVS franchisee, we are getting good results, we are growing in a fast way and we expect to have very good results in 2008. And we put some of our targets in terms of the TOTVS up. We understand that this is going to help us see the results, reduce the cost and try to help us reach more and more clients to this very indefinite market.

So, thank you very much. Our final message is that TOTVS remains with a very sharp fundamental but in a very penetrated market and we know that we have a lot of work to do. Thank you very much, and the floor is now open if you have any questions. Thank you very much.

**Marco Locascio, Equinox Partners:**

Hi, good afternoon, gentlemen. Two questions on the TOTVS up program. Forgive me if you covered this, I had trouble with the connection on the call. Can you have any sort of initial reaction from your customers in terms of their experience with that service? And if you look down the road, what percentage of your new sales do you expect to come through web implementation?

**José Rogério Luiz:**

Marco, good afternoon. It is a very new product, so we are starting to market this to the market. The initial reaction has been to understand a little bit better what is the meaning of having this remote implementation.

**Marco Locascio:**

I see.

**José Rogério Luiz:**

So, it is very new. Let me tell you: this is a kind of... The closest thing we have worldwide is the implementation or to have a remote aspect in terms of CRM. We are flying to a different direction, that is going for a remote implementation of ERP, and this is a sort of brand new thing. So, this is the number one aspect. The initial reaction is: "Let us know a little bit better about this subject". This is the reaction of some of our potential clients.

Going to your second question, in terms of potential, we see this as a market expansion. The idea with TOTVS up is to go to part of the market that is not covered by the traditional way. So, the idea is to have not only the implementation, but also the services provided by Internet plus presential. The idea is that TOTVS up is something that is going to help us have a growth rate over the 20% average that we have been having in the previous years.

**Marco Locascio:**

I see. And then one more question: it seems to me that in the quarter, gross margins came in versus the 1Q07 and versus all of last year, really, is there structural reason for that, or is just the sales mix in the quarter?

**José Rogério Luiz:**

You are talking in terms of speeding up the process, is that it?

**Marco Locascio:**

In terms of the gross margin on your sales.

**José Rogério Luiz:**

Could you repeat the question, please?

**Marco Locascio:**

The gross margins for the quarter were lower than in the 1Q07 and the whole year of 2007. Is there any significant event going on here, or is it just a temporary?

**José Rogério Luiz:**

Let me tell you, it was just a kind of a one-shot thing. The most important aspect was linked to... When you go to gross margins, you are going to see that our costs are linked to labor costs. In São Paulo – we have our headquarters in São Paulo –, something like over 50% of our people are here in São Paulo, and in São Paulo we had a wage increase that is required for the Unions, and this year it was higher than the previous year. So, we had 6.3%.

We understand that this is going to have a dilution throughout the year for one single reason. For instance, maintenance: we have contracts of maintenance being renewed every month, and this maintenance contracts are renewed basically on inflation index, called IGP-M. IGP-M is running, during this year, over 7%. So, throughout the year we are going to have maintenance adjusted because of this aspect of updating the maintenance contracts in a speed of around 7% while we had this wage increase of 6.3%.

So, it was, in our perspective, a one-shot thing that is going to be set off throughout the year by this update of the maintenance contracts.

**Marco Locascio:**

I understand. Thank you.

**Tony Tang, Lusight:**

Hi. Good afternoon. Two questions here. The first one is in the impact of TOTVS Up... could you like give us a little bit of color of how prices are going to perform, what is the pricing strategy? And when incurring the contract, does it count the annuity coming in the future? Don't be upfront chart decline?

**José Rogério Luiz:**

In terms of prices of the TOTVS up, we are going to have the price of the license in the same amount that we have nowadays. In the other hand, what we understand is that it is going to produce a reduction of costs of our clients, is that instead of having an analysts during the implementation process for instance, training each of our customers employees, they can do it over the Internet.

This is one aspect. The other aspect is apart of the negotiation of the contract, can through the Internet and not only just a presential aspect. So, it is going to be training, it is going to be some aspects of the implementation, and during the implementation we can have our instructors, our energy providing the implementation sometimes in three to four clients at the same time.

This is going to bring to our clients, in our first estimates, something around 30% of cost reduction. And this process, ERP and implementation during the TOTVS up, we understand that our initial focus are going to be in the clients with much more thunder process, more than eventually large clients, even trying to say large clients within the S and B space.

So, in terms of pricing of the licenses, it is going to be the same that we had, but in the total costs of implementation of our clients, we understand that we are going to have a reduction of around 30%. In terms of costs, this could bring a reduction of our cost, because we are going to use this instrument between 45% and 50%.

So, it would in our first movement and in our tête-à-tête with our clients, we estimate this benefit for the client and at the same time the benefit to us. I understand that, Weber, if you would like to talk with them about our first experience with the TOTVS up.

**Weber Canova:**

We have an experience that evolves Portuguese in Portugal and Brazil at the same time. So, we had a demonstration of the product abroad that was made in Brazil, and a customer in Portugal watched over the Internet. It was very nice, the experience was very good and we saved some money from traveling and the experience was 100% equal as a face to face meeting.

**José Rogério Luiz:**

So, the idea is that one of our prospects that are in Portugal, they required a specific aspect that instead of having someone from our local franchisees, or our local subsidiary, that was not that expert in that specific aspect of the software, we could do it by the TOTVS up.

Following up, we understand that for this specific client, we could go forth, a part of the implementation is going to be from Brazil through the TOTVS up experience. At the same time they are going to request from our local analysts in Portugal a smaller amount in terms of hours to perform the same implementation.

**Tony Tang:**

Just, if I understood correctly, so the license fee are going to be the same of traditional ones that you are selling but the implementing charge will be less, and then the implementation cost will be less. Is that right?

**José Rogério Luiz:**

You are perfectly right.

**Tony Tang:**

And also, do you host a server? Where do host that server? Is it inside Brazil? Actually you have a broad service somewhere.

**José Rogério Luiz:**

We have a lot of servers hosted in Brazil in different places. We also intend to host some servers around countries to help delivering better results.

**Tony Tang:**

OK. Thanks. My other question is going back to the gross margin and the operating margin. Since the operating margin is going up and the gross margin is coming down a little bit, you [...inaudible...]perfect question.

I just want to understand one thing: is there any account switch between the cost and the expense side? Because in some companies they started doing some reclassification some accounts from the expenses to the costs, that caused the margin switch. So, is there anything you guys did that:

**José Rogério Luiz:**

No. It was not the case. The important is that the gross margin is very affected basically with the wages, the salaries. When we go to the operating profits, we had other aspects in which we are gaining synergy. When we go to operating expenses for instance, we have G&A, we have the contract with auditors, with other suppliers that we have been able to get synergies from the acquisitions and from our side as this point in time.

**Tony Tang:**

But, your commission charge, actually went up quite a lot comparing to the three or four last quarters, anything happened there?

**José Rogério Luiz:**

No. In fact, you probably may remember that our commission expense is based in also a blend or a mix between sales that were made by our franchisees and our internal channels.

In the case of our internal channels, we pay a little bit less than we pay to the franchisees. So, depending when you see what is happening in other quarters, just this mix is going to provide this kind of coat and coat disbalance.

But we do understand that in a longer term, for instance when you see the full year 2008, we do not have the expectation to have this specific item embedded. This was much more an aspect of specific comparison between one quarter and another quarter then a question of trend.

**Tony Tang:**

OK. Thank you very much.

**Operator:**

There are no further questions. At this time, I would like to turn the floor over to Mr. José Rogério Luiz and Mr. Weber Canova for final considerations.

**José Rogério Luiz:**

Thank you very much again for the opportunity of talking to you. We are still open if you have any specific question about our Company, please, our IR team and us from the senior management are very open for any of your questions. And we remain very positive, not only in terms of our market but in terms of the hard work that we have had in order to make our execution better and better.

We understand that small and middle companies, not only throughout Latin America but the other regions that we are starting to cover are in a very interesting moment. They have the needs for ERP and we understand that we are getting better and better in terms of being prepared to support this market.

Thank you very much again and feel free to contact us if you have any other doubts.

**Operator:**

Thank you. This concludes today's conference call. You may now disconnect.

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