

**Operator:**

Good morning, welcome everyone to TOTVS' 3Q07 results conference call. Today with us we have Mr. José Rogério Luiz, Vice-President, CFO and IRO, and Mr. Rodrigo Nasser, IR Manager.

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 Q&A 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, good afternoon we would like to thank everyone for participating in this 3Q07 earnings conference call of TOTVS. We are very satisfied to report another quarter of good result.

For comparison purposes, the figures we will show today include RM Sistemas and Logocenter's data in the group's results since January 2005, allowing us to better identify organic growth.

I would like to invite you to go to page three now, in which we have some of the highlights of 3Q07. The first thing that I would like to highlight is EBITDA. We reached R\$24.8 million; it was a new record, with an expansion of 58.4% in relation to the 3Q06.

In terms EBITDA margin, we had 22.1% and this was to 390 b.p. higher than we had in the 3Q06. In terms of net revenues, we also have another record of R\$112 million, a growth of around 19% when compared to the 3Q06. An important thing in terms of net revenue: we had a record in all the lines of our revenues. In terms of license fees, with almost R\$30 million, a growth of 12.8% when compared to the 3Q06; and it is important to show that this was the largest growth in 2007 in terms of percentage.

In terms of maintenance revenues, we reached over R\$51 million, a growth of 18% in relation to the same period of 2006. And in terms of service revenues, we had a growth of over R\$44 million, an increase of 22.5% over the 3Q06. Within the service revenues I would like to point out the result of the growth of 39% of TOTVS BMI, the consulting Company of which, as you may remember, we used to hold 55% and we bought the initial 45% in the 2Q07.

This strong financial performance was supported by the operational performance, and with 337 new software clients in the 3Q07 it was the largest number of new software clients that we had in 2007, and 68 new corporate model clients.

In terms of recent events, one important thing was that TOTVS and IBM launched an application for the Linux Market. This was something similar to what we did with Microsoft months ago. And we want to facilitate the extraction of data from our ERP to the Lotus Notes 8, that is based in Linux. As far as we know, we are the only Company in the world at this point in time with this interaction between both products, and this is very important to our base clients and to new clients that are using Linux, and they have the ability now to interact with Lotus Notes.

Another thing is the solution that we created for companies that are in the borderline between micro and small companies, which was the RM First product that I am going to talk about in a few slides. And in order to speed up our growth in the international market we have created a new area, the international business development area, and we are putting this forward from December on, and the idea is to speed up our process of internationalization.

As you may know, we have products in 12 countries, we have subsidiaries in Argentina, Mexico and now in Portugal, and we know that we have a lot of opportunities not only in this country but also in other countries, mainly Latin America. And the idea is to put a very solid group of the Company to work in this international expansion in order to speed up this expansion.

In terms of recent events, I would like to invite you to go to page five now, and the idea here is to show one important step that TOTVS has taken in order to reinforce its position in the base of pyramid, in terms of the small more clients. We launched a product called RM First, a product that can be implemented in 48 hours, and it is a very accessible solution to these companies that are in the borderline between micro and small companies. And we can go for an easy migration, after all, from RM First to the other TOTVS products, including RM Corporate, for instance.

The idea here is to grab this important part of the market, which is the bottom side of the small companies. We are very optimistic in relation to the future results that this integration of all these companies in the borderline of micro and small companies, and having them becoming our clients, and throughout the time going to other products different than the RM First.

We launched this product in the end of September, and at this point in time we have got 20 clients. During the last days we have been having a pack of at least one new client per day. So, again, this was a very important step in order to enhance TOTVS' position in terms of the small and medium clients, despite the fact that we have the leadership in this segment.

In terms of market I would like to invite you to go to page seven now. Gartner Dataquest has just released a new study in terms of ERP companies worldwide. And according to this research, TOTVS is the number 14 worldwide. In this study, they are taking into consideration sales of license and maintenance; they are not taking into consideration sales of service. So, in terms of this, TOTVS is number 14 worldwide, and in terms of 2006 in relation to 2005 we got the highest growth of the top 14 companies.

Now, on page eight, if we take into consideration just Latin America, but now seeing the whole pyramid – higher, middle, small and low and micro companies – TOTVS is number three, with 17.3% of market share.

But when you see, going to page nine now, ERP software providers with headquarters outside of the United States, you see that TOTVS is number four after SAP, a German company; Sage, a company from England; Exact, a company from the Netherlands; and TOTVS is number four.

When you go then to the next page and take into consideration the companies with headquarters in emerging markets, over 144 countries, like India and China, TOTVS is number one, the largest ERP software provider in the emerging markets. So, despite having this good position we know that we have a lot of room for growth in terms of the underpenetrated market. And TOTVS is taking some steps – for instance, the RM First product – in order to work to speed up its process of growth.

And in terms of growth, I would like to invite you to go to page 12 now. We can see that in terms of sales we have been able to grow quarter after quarter, being stronger quarter after quarter. This is the result normally of our capacity for this organic growth, but we have also been able to get synergies from the companies that we incorporated.

Nowadays we have been able to show to our clients and to our prospects longevity for all the trademarks, and this has been allowing us to get there new records every quarter.

Normally, in terms of sales; but if you got to page 13, in terms of EBITDA we have been growing in a very interesting speed. In the left side of this page, slide 13, you see that in terms of 9M05, 9M06 and 9M07 we have a very consistent growth. In terms of 2007 compared to 2006, a growth of 39.2%, with a margin of almost 22%, far higher than 18.4% that we had in the 9M06.

And the EBITDA that we got in these 9M07 is in the same size that we had in the full year of 2006, and with a higher margin – 21.9% compared to 18.8%.

When you go to the right side of this slide, you see that even in terms of the 3Q we have been able to grow even faster. The comparison of the 3Q07: 58.4% higher than the 3Q06, and even higher when you make the comparison with the 3Q05. And the margins nowadays are significantly higher than we had in previous years.

On page 14 we have this summary of some of the financial indicators. In terms of net revenues, 18.9% in the 3Q the highest growth that we had in this year. The EBITDA, as we said, growing in a very consistent path, and EBITDA margin strong in the 22%. Net income also got a new record, growing 34.4% in the 3Q. All of this, again, is based on a very strong operational performance.

So, on page 15, this is going to help us show you that some of the changes that we made in our structure in the 1Q07, creating the hunters and the relationship guide to attack base clients and new clients are already showing results. The first one is that base clients, we had 882 in the 2Q07 and we have got 967 in the 3Q07, so, base clients of software buying our products. In terms of average ticket, we increased not only in terms of the average ticket for base clients, of 14.4%, but also in terms of the new clients. In new clients we had a jump of 28.6% of the average ticket of the sales of new licenses to new clients.

Well, all in all we had that historical license fee record of R\$29.5 million. So, we are doing well in terms of sales.

If you turn to page 16, we have been doing OK in terms of costs and expenses. If you see on the upper right side of the chart, in terms of costs and expenses we had a growth of around 11% in relation to 2006. At the same time we have been growing over 18% in terms of sales. So, at the end of the day this is bringing to us more EBITDA, more margins.

One of the things that have been helping us is the G&A structure. This is basically the synergy between the trademark and, as we told you in the last conference call, we have been working very hard to keep the G&A in a very good level in order to help us to leverage of our results.

R&D, as you may remember, is an investment that we are counting as expense. And we have been keeping it in the range of 8% to 9% of our net revenue. The objective here is that we know that R&D is going to bring to us in the future, and as the RM First that we launched last quarter in the 1H of the year, we launched the new version of all the products – the Corporate, the Proteus and the Logix.

So we have been really paying attention, taking care of our products, in order to have a positive future in terms of features to our clients.

This was basically the presentation. I would like to thank everybody for supporting TOTVS, and the final message at this point of time is that we have been working very hard in order to enhance our long term results by investing in new products, by attacking the area of the pyramid in which we have the leadership, but we know that it is very underpenetrated.

The RM First is an example of this action that we are taking in order to attack this market. And we have been very consistent in terms of costs and expenses.

Thank you very much and now I will open to the questions that you have.

**Gustavo Oliveira, Citigroup:**

Hello, Rogério. I have a question for you on the new product that you launched, the RM First. I wonder whether you could give us a little bit more detail on how much it costs per client and how it is structured in terms of license fee, maintenance, if you also charge for the implementation.

And what are your expectations in terms of new clients to be added to this product over the next few years? I know that you add only 20 clients in a month, but what is the expectation?

**José Rogério Luiz:**

The number of users in this product is five users, it is a product for five users. And when buying this, the implementation is going to be in 48 hours, so around five to six days, and the client can use this for accounting inventories, invoicing, financial and supply.

In terms of pricing, the package is worth R\$6,000 and a monthly payment of around R\$350 to R\$500.

Gustavo Oliveira:

Per user?

**José Rogério Luiz:**

No, per implementation. It is the full package. So, as you can see, it is a package in a very fair price, easy to install at the same time, with a kind of strong power to the client as we are including, as I told you, accounting inventories, invoicing, supply and finance.

We understand that for clients with their sales around R\$5 million to R\$50 million, this is extremely applicable. So, it is easy to install, very strong and powerful in a very fair price and with the possibility to, in a very friendly way, move to other products of TOTVS during the life of the client.

Our expectation: we are focused on the base of the pyramid in terms of small and medium clients. You remember that for our new clients we had something like 470,000 potential clients. So the bottom of this part of the pyramid, as well as the top of the area in terms of micro companies – you remember that just in Brazil we have 5.3 million companies as micro companies. And the companies that are in the top of this pyramid, of the micro companies, they are the focus that we are using in terms of potential buyers for this product.

**Gustavo Oliveira:**

And you are going to use the same sales first that you had for RM, correct?

**José Rogério Luiz:**

Yes, we are. And the same implementation. Sometimes our guys from RM are in the client and sometimes the client is a little bit smaller for the level of product of RM, the Corporate RM. So, we realized that if we had another kind of offering, and offering that could have the quality that the group provides to the market, but easier to install, faster, friendly in terms of migration to the other products... And, again, we are talking about US\$3,000 to US\$3,500 per company in terms of the full practice of license plus implementation, what happened is we launched this in the end of September and in very few days we had 20 clients.

That is also close to that we have been having in the last days, at least one client per day. We are starting now all the efforts of marketing, and ads in the market, and we are very confident that this offer plus other things that we are going to do in the future, are going to allow us to increase our number of clients and enhance our penetration in our base start market.

**Gustavo Oliveira:**

OK, thank you very much, Rogério.

**Andre Baggio, JP Morgan:**

Hi. Rogério, now you are going to put more emphasis into the international expansion, with a Director and a very skilled CEO in Mexico. Can you tell us a little bit more about this strategy and which kind of results you expect from this international expansion?

Because so far we have seen that you talk about this, but I have not seen, actually, significant numbers in the overall context of TOTVS so far.

**José Rogério Luiz:**

OK. In three to five years from now, our expectation is that at least 10% of our revenues should be coming from outside Brazil. The idea is, three to five years from now, 10% to 15% of our revenues coming from our operations outside Brazil.

If you take into consideration that we have a historical growth in terms of Brazil, that is 10% to 25% a year, in terms of revenues, you could see the size of our expectation in terms of the international market, and how fast it should grow in order to reach the results that we want them to have.

**Andre Baggio:**

And what do you see is going to be the biggest challenge that you are going to find in international expansion? Is it going to be competition with international players, lack of willingness to use the ERP software? What do you see is going to be the main barriers there?

**José Rogério Luiz:**

Let me give you an example, let us think about Mexico: we spent three to four years to have 140, 150 Mexican people being trained in our products. So, we understand that now we can enter in the phase of stability in Mexico having these 140, 150 people training other people, since implementation is one key thing.

When going for good implementation and having good names in our portfolio, we understand that it is going to be very similar to Brazil in terms of the mouth-to-mouth advertisement about our product. So, our larger and biggest challenge when entering a certain country is to have the local people trained, and we understand that at the end of 2007 we are going to have this mouth-to-mouth first phase in Mexico, allowing us to enter in the next three to five years in another speed of growth there.

In terms of Argentina, we have around 40 people now trained, and Argentina this year is showing almost double the size we had one year ago. So, we are also very confident that in Argentina we are going to see a new momentum in the next two to three years.

In Portugal we are opening a new operation, and nowadays we were able, in the last three years here within TOTVS to create a new generation of managers and directors, that are going to be able – those that remain in Brazil – to keep this speed we would like to have, to enhance the speed of growth within Brazil, and at the same time we are having some very skilled guys outside Brazil that are going to help us with the new momentum.

So, people used to be a constraint, and what we did in the last two or three years was train people to be prepared to this new phase outside Brazil.

**Andre Baggio:**

OK, thanks a lot. Good luck.

**Operator:**

There appears to be no further questions at this time. I would now turn to floor over to Mr. Jose Rogério Luiz for any closing remarks.

**Jose Rogério Luiz:**

Again, thank you very much for the support we are having from everyone. We are confident that in 2008 we are going to enter in another phase, especially with the investments that we are making in products like the RM First and other initiatives that we are going to be, throughout the time, announcing to the market, that are going to show first our commitment to our target market and, secondly, our commitment to keep going in terms of grabbing all the potentials of this market and our comprise to keep the Company not only growing, but at the same time providing returns to everybody involved in the operation.

Again, thank you very much and feel free to contact us if you have any other need or if you need any other information. Thank you very much.

**Operator:**

Thank you. This concludes today's conference call.