Operator:

Good afternoon, welcome everyone to TOTVS' 2Q07 results conference call. Today with us we have Mr. José Rogério Luiz, Vice-President, CFO and IRO, Mr. Alexandre Alves da Silva, Finance and Shared Services Officer 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 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..

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 afternoon. I would like to thank all of you for participating in this 2Q07 and 1H07 results conference call.

This is a moment of greatest satisfaction for TOTVS, and we are very excited about bringing another positive quarter result to the market.

So, moving now to slide three, in the 2Q07 highlights, we have some historical records.

The first one, in terms of EBITDA we have reached almost R$25 million, an expansion of almost 42% over the 2Q06. And it was not only this absolute figure that grew, but also the EBITDA margin. And we reached almost 23% in relation to the 2Q06 – so, it was 390 b.p. And in the half, in the semester as a whole, we reached almost 22% of EBITDA margin, reaching the 1H07, 21.8%.

This was based on an increase of the net revenues, and reached the record of net revenues of over R$108 million, in a growth of over 17.5%. This happened in all the revenue lines. What I mean by that is: in terms of services revenues, we had an increase of almost 25% in relation to the 2Q06.

Within the services revenues, we would like to point out the very expressive increase of 46.2% in gross revenues of TOTVS-BMI; and in terms of maintenance revenues, we reached almost R$50 million; and in terms of license fees, this was again a new record in terms of license fees, reaching almost R$28 million.

We are very happy with these results, and these results were based in terms of strong operational performance, and in this quarter we have 336 new clients of software. This was with a growth of almost 25% in the average sales ticket.

What was important for us in the operational performance is that, as you may remember, in February 2007, although we had a very positive and a very strong sales team, we decided to implement a new way to go to the sales. What I mean by that is that we divided our team in hunters and base guys.

We knew that this was a very significant change, it was a natural one but it was a significant change, it is a cultural change, and we knew that it would take some time for it to be in full speed. But at the same time, when we were going through this change, we were able to have this very positive result, not only in the 1Q but especially in the 2Q, with a new record in terms of license fees.

In terms of recent events, we had the TOTVS Day that happened in the last week of June, in which we had investors as well as analysts and they could spend the whole day within our headquarters, and they were able to go for the feel-and-touch of our products. At the same time, they had an interaction with our management team, so they could see exactly the guys who are responsible for the execution of our strategy.

Another important thing was the acquisition, in the beginning of July, of the total capital of TOTVS-BMI. We do believe not only in this business, the consulting business, especially as part of our strategy to, at the end of the day, sell more software.

TOTVS was considered the best Company in implementing applications according to the IDG. And also in the beginning of June, we had block trade from some of our shareholders, and this was aimed to provoke more float in our shares. The idea was to provide to the market new shares, and what we had is that, in 2007, before this block trade and after this block trade we had a jump of 40% in the daily trade of our shares. So, we understand that our target was achieved.

Inviting you to go to slide five, talking a little bit about a market update, in May 2007, IDC released the full study regarding 2006, and we had that the market of small and medium companies in ERP grew around 20% in this period, and TOTVS was able, in terms of organic growth, to jump from 42% of market share to 50% of market share. TOTVS remains as the third largest supplier in Latin America for the full ERP market, when we include high, middle, small and micro Companies.

When we go specifically to middle and small Companies, as you could see, we have 50% of market share. But again, as you may remember, given all the researches that we have, that just 7% of the small and medium Companies in Brazil have an ERP product. So, we have 50% of a market that is only 7% taken. So the opportunity that we have is a strong one.

Turning to slide six, what we have is another research that appeared in the market from FGV, Fundação Getúlio Vargas, and the focus in this research is large and medium Companies. For instance, they interviewed over 1,600 Companies in Brazil, 60% of the 500 largest Companies in Brazil, so it is a little bit different than our target market. Our target market is small and medium Companies, and in this case, the focus of this research was large and medium Companies.

And this is in terms of number of Companies that answered what kind of ERP they have. In this case, you see, TOTVS has the leadership of 24%. So 24% of these 1,600 Companies said that they use TOTVS.

Well, you saw that the market there, I want to invite you to go to page eight.

And on page eight, what you can see is that, in terms of revenues, we have showed growth again. So, quarter after quarter we have been showing growth in terms of revenues. And more important than only the growth, in terms of revenues, is that we have been growing in all the lines of our revenue models. So this is important, this is fundamental, this is bringing and building the future for TOTVS.

But we are not only working in this aspect of the new sales, but also in controlling the costs and expenses of the Company, supporting the growth, but at the same time being able to put together all the Companies that we bought and making 1 + 1 equal more than 2.

And as you can see on slide nine, in terms of EBITDA we have been able to increase our EBITDA, increase in a very significant way in the 2Q07, 24.8%. But more important than that, we jumped our margin to 22.9%. So, what I mean by that is that in our step-by-step approach we have been able to sell more, we have been able to be more active in terms of the control of costs and expenses, and we have been able to leverage the results of the Company over our structure.

As you may remember, our EBITDA margin, just before going for the IPO, was around 15%. So now, 18 months after the IPO, we have been able to reach 22.9%. We are happy, although we know that there is a lot of room for growth.

Another thing I would like to invite you to remember is that our intention is to have the market analyzing us in the full-year basis numbers. We know that you have to pay attention to the quarters, but our idea is that we are building the road to go to our guidance of long term, in terms of having the margin in 2009 to 2011, in the range between 22% and 25% of EBITDA margin.

Well, when you go to slide 10, you see some of our most important figures and numbers, the growth of the net revenue, the growth of EBITDA, 41.6% over the period of the 2Q06. We have an increase of EBITDA margin, reaching almost 23%. We see the evolution from the 1Q to the 2Q, so, when you see the number of the 1H07 lower than the 2Q, it seems that we have a year of very normal seasonality, in which this 1H should probably be lower than the 2H of the year.

And it seems that, given the pipeline, and given our perception of the market at this point in time, we should have again September, October and November as the best months of the year.

When you go to operational performance, on slide 11, you see that in terms of license fees, again: a new historical record, almost R$28 million. The number of clients grew from the 1Q to the 2Q. We have been able to sell to the same target market that we have, but with the average ticket being higher than in the past.

And this better performance not only occurred in terms of license fees. When we go to services, we can realize that we have been able to increase our margin in terms of services. If you see the revenue line that we have on this slide, in the left side, and when you have the cost of services, you see that the difference between the two lines is increasing. So, one increasing, we are getting more margin.

Once again: we have been able to work in each line of our revenue stream.

When we go to the next slide, we see all the aspects related to costs. The first thing related to cost is, in terms of costs and expenses, R&D. We increased in this 1H our absolute figure of R&D, and we are within our target, which is 8% to 11% of R&D expense. We are investing more in our products in order to build up the future.

I would like to remind you that it is a policy of TOTVS, and it seems that it is a policy from the serious companies in the sector, to have R&D as expense instead of having this as an asset and activated.

When you go to cost and expenses, you see in the right side of the chart that we have been growing in a pace that is slower than we have in terms of revenues. And part of this is given not only to all the lines of cost and expense; we had in the 1Q market expenses being in the range of 3% to 4%. This, again, is our intention to remain in the range, 3% to 4% of our net revenues.

But one area in which we have been leveraging the Company – and this leverage is based on the consolidation of all the companies that we bought and put together under the same umbrella – is GNA. As you can see, in GNA we are not only decreasing in terms of percentage of the net revenues, but also in the absolute figures. This has been tough work in terms of putting Logocenter, RM and Microsiga together, putting TOTVS-BMI as well, and we knew that we could get synergy.

One question that we can have from the market is: “What do you think about the future, how do you think that is going to be in the future?”.

So, at this point in time, I would like to invite Alexandre Alves da Silva, he is now the Company’s Finance and Shared Services Director. He has been with us for the last five months. He is 42, he is an engineer, graduated by PUC Rio de Janeiro, and he also has a Masters degree in Electrical Engineering.

In his experience, he has been a consultant at IBM, and then in Accenture he remained for more than 10 years and he was responsible for several aspects, in terms of new organization and structural layouts, start-ups, loss provision, and also for design creation and operational projects.

He is, as I said now, the Director responsible not only for the back office of the Company, but also to implement this shared service structure. At this point in time, he is also the Chairman of the Shared Services Training Group, Grupo de Estudos de Serviços Compartilhados, which gathers many national and international companies operating shared services centers in Brazil.

Alexandre Alves da Silva:

Good morning, good afternoon. Let us move to page 14.

Here we can find our strategic drivers behind the implementation of our shared services center. At the bottom of the page, we can see the first lever, which is the lever “Reduce operational costs”. Basically, here we are trying to enhance our operational efficiency.

The second lever, at the middle of the slide, is “Create a platform for sustainable growth“. Here we are trying to disconnect to the Company growth from the headcount growth. At the top of the slide, you can see the third lever, which is the lever ”Enable better management focus on core business”.

Here is a very interesting thing to mention: at TOTVS, we are not only trying to create a shared services base on finance and accounting and similar stuff, but we are talking about creating a shared service which is going to provide services to the entirety of the Company. So we are talking of just about every transaction across the Company that can be attached to a service line agreement.

To cope with those strategic objectives, we have to have an operational model and a respective structure for our shared services center. That is why I invite you to move to slide 15, where we can see what is our finish line or landing point, as you wish.

We have some components I will briefly discuss here, as well as their objectives.

First, we have the customers’ service relationship at the top of the slide, which interacts with our customers. Our customers are overseas, HQ (headquarters), brands, branches and franchises. So, they interact with us by means of this customer relationship block, which is a team of 20 people, that take their demands and try to solve as much as they can, so as to enhance the productivity of the continuous production people, right below the customer services team.

The continuous production people are structured across business process, a horizontal process that puts together activities that are relevant to a single entity. Let us take as an example the first process, which is sales administration, where we have all the administration activities related to the sales; so, one person only is managing this process.

Just like the customer service relationship, the continuous production operates with a service line agreements, which is similar to contracts of services that we will be providing.

Let us move to the right, a blue box named “Service Management”, which is responsible for the analytical part, analytical activity of the shared services, observing if we are complying with all SLAs that we provide for our customers. The customer management, the blue box right below the service management box, which works as a sales team. Since our shared services will be a service provider, we have to have a sales team to interact with our customers and also understand new demands that will eventually occur.

At the left side we have the yellow box named “Internal Development”. This team also operates with a service line agreement, because they not only provide IT services to the shared services, but to the entirety of the organization.

When it comes to providing services for the shared services, they are important levers in redesigning process and enhancing SLAs to our customers.

Below the internal development we have the other yellow box, which is “General Services”, which are transactional activities, but they are not in the structured in a processual fashion; but they do operate with SLA as well.

Those are the components we are putting together here, and now I invite back Rogério to lead the presentation from slide 16 on. Thank you.

José Rogério Luiz:

I am going to slide 16 now. Thank you very much, Alexandre.

And at this point in time, I would like to go for the conclusion of this presentation. The first one is in terms of market. As we saw, we have 50% of the small and medium Companies, but just 7% of this market is taken. So, we remain, with a very, very strong opportunity within the market.

In order to reach this market, we have been working hard in order to get even better products in a very affordable way to our clients and potential clients. So, that is why we have the investments and that is why we have been very strong in this aspect to provide the market's the right thing.

In terms of distribution, we know that we were very well positioned in terms of distribution, but even having a winning team and a winning situation, we went for, in this semester, creating a new structure; because we do understand that this is going to bring us new benefits in the future. That is why we created, in our sales team, the hunters and the base guys for supporting the sales.

We do know and we do understand that this is going to bring even better results for us in the market, and in terms of the execution we are ending this quarter with a very significant increase, not only in terms of sales but also in terms of EBITDA and in terms of margins. So, we think it was a very productive quarter, a very good semester, but we know that there is a lot of room for getting better and to do better.

Therefore, I would like to say, thank you very much to everybody that has been supporting us. We are very positive in terms of the pipeline of opportunities that we have, and we are going to be more than happy to answer your questions from now on. Thank you very much.

Gustavo Oliveira, Citigroup:

Hi Rogério, how are you? I have a question… I want to understand what makes you so certain that your new commission structure could actually indeed result in better performance going forward? Do you have any early finance to share with us?

José Rogério Luiz:

The first thing is that, in terms of commissions, we think that in our new structure, in terms of the headers and the base, we are having even a better view in terms of the right commissions to the right teams. This is number one.

And the second thing is that, as you may remember from our previous conversations, during the process of putting all the companies together – RM plus Logocenter – we realized that there were some different approaches in terms of commissions. So this is a process that takes time in order to be put in the right way; we think that we are not at the end of this process, but we are feeling and getting some results from this aspect.

In terms of commissions during this quarter, specifically during this quarter, the major impact was regarding the level of sales in terms of our own channels and the third-party channels. As you may remember, in comparison to the other quarters our channel is making more sales than the third-party channels. We are going to pay a lower amount in terms of our commissions.

Gustavo Oliveira:

One follow up on that is: of your sales in the base, we saw a substantial decline, you sold only 882 sales in the base quarter. Where is this coming from? Is this coming from sales in the base, in new RM customers, in existing RM customers, or more in the Logocenter and Microsiga brands? And what do you think it could improve, going forward?

José Rogério Luiz:

Let us think about the following: we were able to make a very strong change in our process. Even being a winning team, we went to divide and split our sales team, the hunters and the base clients. This is really a cultural process. And we knew that this could create some impact in the short term, but even with this impact we were able to put in the last two quarters the record, in terms of sales of new license.

Our perspective is very clear: throughout the time, this structure is going to be more efficient within our Company, and for sure, we should see…

Gustavo, just finishing the answer to your question, we think that, at this point in time, we have this solid aspect of our revenue model and for one single reason, because even during this period of realizing our sales effort in terms of license, we were able to provide good results in terms of services, as well as in terms of maintenance.

Andrew Campbell, Credit Suisse:

Rogerio, I have a question about your margin and the commissions, because, as in the previous question they pointed out, you had a reduction in the number of absolute sales, not in revenues, of course, but I mean in the absolute number of new clients and the number of sales to your base clients.

I was wondering if the reduction that we saw in commissions in the quarter, because it seemed to be a real improvement, is that something that is just related to the lower number of sales that you had in the quarter? And therefore we should expect it to go back up, as the sales reaccelerate, or is there something structural that is resulting in some sustainable margin improvement?

José Rogério Luiz:

In terms of the absolute figures, of course, if we have more sales, this is going to mean more license. But in terms of percentage of growth in relation to the previous months, what we should face in the next quarters is a lower gap than we had in the past.

What I mean by that is that months ago we saw commissions growing far higher than we had in terms of the growth of sales. What our view is now is that we are putting together all the components, putting all the principles under the same umbrella, and the only kind of variation that we should see in the future should be the difference between the mix of the sales. Is it clear?

Andrew Campbell:

Yes. So the commissions, just so I understand properly, are not really paid off the absolute number of new clients, they are paid off of the revenue volume, is that right?

José Rogério Luiz:

Yes, yes.

Andrew Campbell:

OK. So, in that case, an acceleration in the number of new clients would not necessarily be a driver for commissions to go up as a percentage of revenues?

José Rogério Luiz:

In fact, this is linked to the revenues, not exactly to the number of clients. Just to remind you, we pay the commissions related to the total amount in terms of money, not in terms of number of clients.

Andrew Campbell:

OK, that is clear. Thanks, Rogério.

Tony Tang, Lusight Research:

Hi, good afternoon. My question is relating about your client addition. It seems to me the total active customers right now, by the end of the quarter, you have 15,500. The pace is kind of slowing down. And the last six quarters, your average adding was 200 active customers each quarter. So, can you explain why this is slowing down and why it is not the same pace with the new clients addition?

José Rogério Luiz:

Our view is the following: in fact what we had, in our mind, was a typical year. 2007 should be a year in which we have the 2Q higher than the 1Q, and we should see this 2H naturally higher than the 1H.

We added 310 clients in the 1Q, we added 336 new clients, in terms of software, in the 2Q. It is very natural, the 2H of the year is, as you may remember, our peak month, between September, October and November. So, this should lead our Company to a higher number of clients, as we go forward through the quarters. This is our perception.

And additionally, we are really working hard in order to put everything OK in our sales team, especially in the base clients, se we can provoke an increase of sales of licenses to the base clients.

The market remains there; as you know, Brazil and Latin America are under a very positive movement. We have a very strong pipeline, so execution is key in our case, and we are working very hard in order not only… again, in the next quarters be able to reach a new amount, in terms of sales of new license, but at the same time, to be able to put all the three lines of revenues in a very good path.

Tony Tang:

Also, do you see any client loss?

José Rogério Luiz:

Nothing different from what we have historically.

Tony Tang:

Ok. Thank you.

Andrew Campbell, Credit Suisse:

I just wanted to know if you could provide any light on what the largest shareholders are thinking after the 5% sale into the market. Is your impression that there could be a further reduction on behalf of LCEH or BNDES? Or do you think that basically what they had intended to sell for now they have sold?

José Rogério Luiz:

Thank you very much for this question. In fact, it was a good intention at that point in time to provide more liquidity to the market. Several of the banks have been inviting us to see clients, to see investors. You know that just last year we saw over 700 new investors and analysts; during this 1H07, we saw over 370 investors and analysts. And we realize demand in terms of our shares.

So, it was given a suggestion to our shareholders to promote and to provoke more liquidity to the market. Their intention at that point in time was to sell 5% of the amount of shares, to provoke additional liquidity to the market and this should be a positive aspect to the other shareholders.

In fact, what happened, from the data that we have, is that since the beginning of 2007 up to the moment of this block trade, and in comparison to after the block trade, after the block trade we had an increase of 40% in terms of liquidity of our shares.

Looking forward, we see no movement from this group of shareholders. You know them, they are part of this Company, and they do believe in all the assets of our future. Of course there are some other investors – for instance, BNDESPAR, which holds 7% of our Company – that we know nothing at this point in time about their movement. But it seems that the BNDESPAR is not going to stay forever with that position within TOTVS.

Andrew Campbell:

OK, thank you. And just a related question: is there any attempt, in terms of the stock option program, are there any new initiatives to help align the interest of management on a broader basis with the interest of the rest of the shareholders? Are there any new programs or initiatives in that way?

José Rogério Luiz:

There is a committee, the committee of people that includes members of the Board of Directors and the guys from human resource of the Company. They are studying a proposition to propose to the General Assembly about this subject, and there is a chance to have this proposal put up to the end of this semester.

Andrew Campbell:

OK. Thanks, Rogério.

Gustavo Oliveira, Citigroup:

I have not seen anything regarding your international operations this time, neither in your press release or your presentation. But from the TOTVS Day, I got the impression that you are actually investing very heavily, especially in the Mexican market. Do you have any update on that transference?

José Rogério Luiz:

We are doing OK in our international operations, Mexico and Argentina. We are improving our revenues in these two countries, and we expect to show some additional improvement in these two operations, including the operation that we are going to open in Portugal during this semester.

Gustavo Oliveira:

What is the percentage of revenues that is coming from the international operations already?

José Rogério Luiz:

At this point in time, a little bit less than 5%.

Gustavo Oliveira:

OK. Thank you, Rogério.

Operator:

There appear to be no further questions. At this time, I would like to turn the floor back to management for any closing remarks.

José Rogério Luiz:

Again, thank you very much for the support of all of you. Again, we understand that this 1H07 was a very productive one. We were able to have this increase in terms of sales, the increase in terms of margins, and more important than that, we are even structuring the Company for new moments of growth and also new steps of margins.

Again, thank you very much, and we are constantly open to receive your comments and visits. Thank you very much.

Operator:

Thank you. This thus concludes today's TOTVS 2Q07 earnings results conference call. You may disconnect your lines at this time, and have a wonderful day.