

**Operator:**

Good morning, welcome everyone to TOTVS's 4Q06 results conference call. Today with us we have Laércio Cosentino, CEO, José Rogério Luiz, Vice-President, CFO and IRO, and Rodrigo de Q. Cabrera Nasser, IR Manager.

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

Today's live webcast may be accessed through TOTVS's website at [www.totvs.com.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's 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. Laércio Cosentino, CEO, who will begin the presentation. Mr. Laércio, you may begin your conference.

**Laércio Cosentino:**

Good morning. We would like to thank each and everyone present in our 2006 and 4Q results conference call. It is a pleasure to announce the results of a very positive year. We would like to remind you that the information here is presented on a *pro forma* base, including the figures of RM Systems and Logocenter since January 2005, in order to ensure a better comparison of organic growth.

As main result in 2006, we presented growth of above 20% in both gross and net revenues. Also and expansion of 35.5% in the Company's EBITDA, followed by an implement of 2 p. p. in its full year margin, to 18.8%. Adjusted net income pro forma, which will be used as a base for comparison with 2007 future results, reached R\$55.9 million, 65.3% superior than 2005.

We would like to highlight that one month after the Company's IPO, we already acquired RM Sistemas. The Company started in the complementary service operation, in line with our standard business model, through the consultant BPO units, as well as the infrastructure operations. We also expanded our client portfolio, aligned technology with our brands, and we are very satisfied to

announce that we added 214 employees to the Company. Now, I call Rogério to continue.

**José Rogério Luiz:**

Good morning. I would like to invite you to go to page four. In this page, we have the highlights of the 4Q06 figures and, as you may see, we address to several of the issues that we had from the market during our 3Q call.

The first thing is that we had over 20% in terms of net sales, in fact, we had 22.5% of increase in relation to 2005, and this has a higher average than we had for the full year of 2006. Additionally, we also reached something like R\$20 million in terms of EBITDA and a huge growth in relation to the 4Q05. The Company as well, presented adjusted net income far higher than we had in the 4Q05.

Operational highlights. I would like to point that we had 370 new software clients, and in terms of corporate model clients, we had 63.6% more than we had in the 4Q05.

I would like to remind you that last Tuesday, February 13<sup>th</sup>, the Board recommended to the shareholders the incorporation of RM Sistemas. This may be approved at the extraordinary stockholders meeting, to be held in March 4, 2007. This extreme merger will generate a positive cash flow effect to the Company, as of March 2007 – starting on March, 2007 – since all goodwill amortization from the RM Sistemas acquisition will be deductible from the income tax base. I would like to reinforce this because some of the analysts are not taking this into consideration when analyzing our Company. This is going to provide to us a very good and positive effect.

Going to page six, we have a slide with our track record and, as you can see, quarter after quarter we have been growing in terms of gross and net sales. Again, I want to point out that in 2006 we grew almost 21% in terms of net sales in relation to 2005, and last quarter already presented a speed of 22.5% of growth in relation to what we had in 2005.

In slide seven, we have this very traditional slide, that shows something about our story, of what we are very proud of, and I would like to point out that in 2006, in terms of gross revenues, we reached over R\$420 million in terms of gross sales. This was a very important increase in relation to what we had in 2005, as well as the margin increase that we had.

Going to page eight, what we have is the chart of our financial performance and one important thing is that we had over R\$101 million in terms of net revenues in the 4Q06, with an EBITDA margin of almost 20%. We reached R\$20 million in terms of EBITDA. This 19.8% in EBITDA margin is higher than what we had in the full year 2006 of 18.8%, and this is 210 b.p. higher than what we had in full year of 2005.

As the adjusted net income, we had an increase over 65%, reaching almost R\$56 million in terms of net income. On last point here, in the chart, is in terms of our EBITDA. We reached almost R\$71 million in terms of EBITDA in the full year 2006, in comparison to what we had in 2005, it was an increase of 35.3%. This happened in a year that we incorporated a Company that was 1/3 of our side, the case of RM Sistemas and, more than this, it was a year in which we had our IPO that, of course, is something that could disturb the operational aspects of our Company and we were able to manage this. This was an important growth in an important period. And for those that are paying attention to TOTVS since 2004, 2005, you may realize that in 2005, we had, at that stage, R\$30 million in terms of EBITDA. So, we had a huge improvement during the year 2006.

Going now to page nine, in this slide we can see how the Company's gross revenues composition evolved throughout the time. By comparing the years of 2005 and 2006, we see that maintenance, our revenue line with highest margin has grown over the other two lines. Maintenance was a very important line, because as you remember, it has the ability to bring to us the highest margin. At the same time, we have been very happy in order to keep, at least, 25% of our revenues in terms of license. Remember that license is the type of revenue that brings to us a very good perspective in terms of future.

Additionally, we had an improve in terms of services. Services not only including implementations services, but also the implementation of a new service to the clients who are in the corporate model and, in terms of additional services that we have in our expanded business model, for example TOTVS BMI, which is included here.

Going to page ten now, what we have in page ten is an analysis of our costs and expenses. And in the left upper side of this chart, what we have is search and development. It grew, in terms of absolute figures, but it is around 8.2% of our net revenues.

In the left bottom side we have G&A, and in G&A I think we had a very good job. We know that we have more things to get, in terms of synergies of G&A, but at this point in time we had a reduction in terms of absolute figures, and the percentage of G&A in terms of our net sales is just 12.7%, although, as I told you, we know that we have room for new things in this specific topic.

In terms of total cost of expense, excluding extraordinary expenses of the IPO and the appreciation and amortization – as you may see, we grew less than we had grown in terms of net sales. And in terms of marketing expenses, which was something that we discussed during the 3Q, we had this under our management, and as you see we ended the year with the same percentage, in terms of net revenues, that we had in the year of 2005.

Now going to page 11, you see the number of new clients; we got over 1,440 new software clients in 2006, a very important number, 16% above what we had in 2005. And in terms of corporate clients, we reached over 255 new clients in 2006.

Now going to page 12. in this chart we have the average value of licenses sold to new clients, and it grew by 17.1% in 2006 when compared to 2005, as well as the average value of licenses sold to base clients, with an upturn of 31.7%, mainly due to base customers adoption of a broader ranch of the Company's products.

As you see, the average value of licenses sold to new traditional-model clients grew almost 21% year-over-year, and the average value of licenses sold to new corporate model clients grew by 74.1%. In this chart, what you can see is that, in general, we have been able to sell tickets with a higher value to our clients. This is not only because of the demand of our clients, but also because our sales team has been able to be better trained and deliver a higher package to our clients, in terms of licenses.

On page 13, in order to end this part, we have the international market. We see Mexico here as the main name of our international area, and in the case of Mexico we had net revenues growing 72% in 2006, in relation to 2005. We had a very significant growth in terms of EBITDA, and nowadays we have almost 270 active clients in Mexico. As you can see in this chart, quarter after quarter we have been growing in terms of sales in Mexico.

And now, I would like to turn the floor to Laércio, for his final remarks.

**Laércio Cosentino:**

As our closing remark, I would like to show you what we take our vision of the future ahead. It lies on three mains information: 1) the expansion of our growth in Latin America – this can have an organic base, full focus in three main countries operations, Brazil, Mexico and Argentina, and taking advantage of our expanded business model, but also through potential acquisitions; 2) operational improvements that derive from the brands' synergy, through an new talents search, adding a new and [unaudible] and totally evolve the way we relate to our customer base; and finally, 3) through the technology can bring us new synergies within and throughout the brand. It makes us improve and develop new products, and it can allow us to develop new commercial models. You can trust in TOTVS, because we are working for it.

**Gustavo Oliveira, Citigroup:**

Hello, Laércio, hello, Rogério. My first question is regarding the license fee revenue growth. It seems to me that you are having some softness in that line, if you compare to the growth rate that you were having in the 1Q06, which was almost 20%, and 26% in the 2Q, year-over-year.

Now, in the 4Q, you have a license revenue growth of only 14%, year-over-year. Is this because your model is changing, and you are compensating the softness in license fee revenue growth for some services revenues or other

ways of selling? What exactly is going on there, and what are your expectations for 2007?

**Rogério Luiz:**

The first thing that we are really paying attention is the number of clients that we are bringing to our base, and when you take this into consideration, you are going to see that we have had a growth, with a very good number of new clients. This is number one.

The second thing is that there are some moments during the year and in certain regions that we understand that we could – and we are going to be – more aggressive. So, we are always paying attention to the full amount of our sales, and not only in terms of license.

My answer to your question is: 1) we are still getting inflow of number of new clients; 2) in some moments, when we have an increase in the corporate model, going just from license to the revenues of maintenance implementation.

We see no change in terms of the pipeline, so the number of clients that we have throughout the year and what we foresee at this point in time is a consistent one, and what we think is that we can have some fluctuations, in some quarters, in terms of the license fees. But we are really paying attention to the number of clients that we are bringing to the Company and to the total of sales that we are providing to the market.

**Laércio Cosentino:**

I think it is important, like Rogério said, the number of customers and the total revenues. I think that it is important, in fees, the number of customers, and we can balance the service and license to get our result.

**Gustavo Oliveira:**

OK. And in the corporate model, when you come to the table after one year and renegotiate the payments, does that go into maintenance revenues or does it go in both maintenance and license revenues?

**Laércio Cosentino:**

Both.

**Gustavo Oliveira:**

It goes in both? OK.

**Laércio Cosentino:**

And this happens in January and February.

**Gustavo Oliveira:**

OK. So, we could expect some acceleration in license revenues in the 1Q, because of the renegotiations in the corporate model, as well?

**Rogério Luiz:**

We had this, of course, in the 1Q06, as we had in the 1Q05. Of course we understand, conceptually speaking, that we have a Greenfield market that we should go and attack. The impact that we had in the corporate model from this update of the corporate model, yes, it occurs in the 1Q, but it is going to be a percentage over the past year.

I do not know if it is clear, but what I am telling you is that, if you ask me "Should we expect a huge increase in the 1Q?". We are in the beginning of the quarter, in our concept here – as you may remember, our 80% of our sales are in the last four days of each month, so we just had one month, in terms of 2007. But, historically speaking, yes we have some new sales, month after month, and we are expecting this to occur in this quarter as well. But I cannot see in any of our lines, a very big jump. It is always this kind of step by step thing that we have.

**Gustavo Oliveira:**

OK. My second question is regarding the synergies from the acquisitions. You saw some synergies especially in advertising; what are the next areas that you are going to focus in 2007?

**Rogério Luiz:**

We are going to go deeper in every area, marketing expenses and advertising, but I should point out G&A. In G&A we had a huge improvement, although we do understand that in terms of G&A, marketing expenses and sales expenses, we think that we can go forward and, of course, get synergies, even though we are expecting synergies from all the areas, but these are the main areas.

**Laércio Cosentino:**

I think the synergy is important, but we decided to keep the brand and the product, then we work very conservatively in this area. But I think this year we will get a lot of synergies.

**Andrew Campbell, Credit Suisse:**

Yes, good afternoon. My question was just about the dividend distribution that you guys announced this week, and the decision to pay R\$23 million, because that was considerably above the minimum that you were required to pay.

I just wondered if we should interpret this as a mean that there are not really as many opportunities as maybe you have expected, in terms of acquisitions or opportunities to deploy capital with a higher return. What is the signal that we should interpret from the decision to pay a higher than minimum dividend?

**Rogério Luiz:**

Andrew, good afternoon. The signal that you should see is that we are paying R\$22 million, which has been in line with what we had in the past, which was around 45% in the last year. This is number one. Secondly, no, we are not telling you that we are not going to have the opportunity, but what you should expect is that... you know that we are working very hard in generating more cash.

So what we are doing is putting an additional pressure on ourselves, to go for a better cash generation. And this is a compromise of our structure here, in order to be more productive, in order to generate cash. So, please, do not see other things than this. Things are going well, we expect to generate additional cash this year.

And just taking an advantage of your question, I would like to reinforce that effect regarding the amortization that we have here, in terms of the RM Sistemas, and this should allow us to have an additional free cash flow over R\$10 million to R\$15 million per year.

**Andrew Campbell:**

OK, understood. So, you are evaluating new evaluation opportunities and everything you guys can see that could be as active in that as you have ever been?

**Rogério Luiz:**

Yes, we have been working hard in order to have opportunities that can be really accretive to TOTVS.

**Andrew Campbell:**

OK. Thanks, Rogério.

**Tony Tang, private investor:**

Hello. I have got a few questions. It is a question about the license on your new corporate line. It looks like it went up quite substantially last quarter. Is that due to seasonality or we can expect the same thing in the future?

**Rogério Luiz:**

In fact, we had several small clients, but we had five large clients – when I say ‘large clients’, they are a little bit higher than the average clients that have been buying the corporate model. So our first reaction is that we do not expect this to be something that is going to occur in other quarters.

I mean, we should continue to expand our sales to the corporate model, but we see the trend of smaller companies buying this product.

**Tony Tang:**

OK, great. So, could you just provide us with guidance on the R&D in 2007, and the same for the tax rate?

**Rogério Luiz:**

In terms of R&A, we are going to remain between 8% and 9.5% of our net sales.

**Tony Tang:**

8% to 9%?

**Rogério Luiz:**

8% to 9.5%.

**Tony Tang:**

OK. How about tax rate?

**Rogério Luiz:**

With this aspect of the amortization, and some other laws in Brazil, they are going to allow us to have something between 20% and 25% of effective tax rate.

**Tony Tang:**

OK. I have another follow-up question about the contract renegotiations. How do you charge the maintenances? Is it based on the number of ours of service, or you have some other metric?

**Rogério Luiz:**

Let us remember, Tony, that the maintenance contracts are allowing the client to receive the updates, the upgrades, and to talk to our help desk. Therefore, there is no direct service involved in this maintenance contract; and usually the clients sign this contract on a year basis, but they can cancel it three months in advance.

But, historically, what we have is that the clients tend to remain with the maintenance contract because it is going to be a guarantee for them to have the updates, the upgrades, and the help desk. And we charge the maintenance contract liquid to the number of users.

**Tony Tang:**

OK, great. One last question is on the new acquisitions. Are you talking to anyone right now? Or is it put on hold?

**Rogério Luiz:**

Tony, would you like us to tell you the secret we have?

No, we do have a pipeline, and we have been, of course, working some transactions. Do we have some opportunities? Yes, we do have. And my perception is that in the next 18 months we should have something that is more material, in line with what we had in the case of RM Sistemas and Logocenter, and even Sipros, in Mexico.

Yes, we have been working, but, again, this is something that sometimes we do not have full control, in terms of the timetable.

**Tony Tang:**

OK. Because you said it might mostly be in Mexico. Is that right or...?

**Rogério Luiz:**

You see, Mexico is a very important part of our strategy, but it is not the only place that we have been working on.

**Tony Tang:**

OK, I understand. Great, thanks.

**Rogério Luiz:**

I would like to say thank you very much to all the investors this year, it was a very positive year. We are very proud to receive your support, and we have been working very hard in order to make not only 2007, but the future of TOTVS as a very positive one.

Please, Laércio, if you have any final remark.

**Laércio Cosentino:**

I would like to say that this year for us was a very important year, and we will work as hard to deliver 2007 for you.

**Rogério Luiz:**

Thank you very much.

**Operator:**

This concludes today's conference call. You may now disconnect, have a great day.