International Conference Call
BM&FBovespa
First Quarter 2016 Earnings Results
May 13th, 2016

Operator: Good morning ladies and gentlemen, and welcome to the audio conference call about the earnings results of BM&FBOVESPA for the first quarter of 2016.

At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session and instructions to participate will be given at that time. If you should require assistance during the call, please press the star key followed by zero (*0).

As a reminder, this conference is being recorded and broadcasted live via webcast. The replay will be available after the event is concluded.

I would now like to turn the conference over to Mr. Daniel Sonder, Chief Financial Officer of BM&FBOVESPA.

Mr. Daniel Sonder: Good morning everyone. Thank you once again for joining our call and for following our earnings release for the first quarter of 2016.

I am here surrounded by the Finance Team and Investor Relations Team, who once again have prepared very good materials for this discussion.

So I'd like to open it by welcoming you to this quarterly earnings conference call to discuss the first quarter 2016 results.

If we open our earnings presentation in slide 3, with an overview of what happened in our operating and in our financial results during the first quarter of the year, as well as some updates in our strategic initiatives. Then we will go into more details in the following slides.

On the left side of the slide, we see strong operational growth in both BMF and Bovespa segments influenced by significantly high volumes in March. As you know, February and January were weak months, but we recovered most of our volumes in March.

Additionally, the other business lines showed a very solid performance, especially in our market data and *Tesouro Direto* businesses.

In the middle of the page we see that the solid operating performance resulted in year-over-year growth for all segments. We maintained the diligent expense control during the quarter with adjusted expenses growing well below inflation compared to the same period of last year.

Our IFRS net income grew by 21.4% reflecting the strong performance in the company's operating income and financial results.

On the right side of the slide, we highlight the long-term strategic updates for the company with initiatives that seek growth opportunities and value creation for our shareholders.

We recently announced the conclusion of the negotiations between BM&FBovespa and Cetip for the combination of both companies. This transformational transaction establishes an unparallel milestone in the development of Brazilian financial and capital markets creating a unique and a state-of-the-art marketing infrastructure company that will further enhance the security, the efficiency and the robustness of the Brazilian capital markets.

We are happy and truly honored that the shareholders of both companies have shown great support for this transaction in recent meetings we have held.

Furthermore, we recognize the large responsibility the combined company will have *vis-à-vis* the shareholders to regulator and market participants. Therefore, both teams are committed after all regulatory approvals are obtained to work hard and jointly to preserve and improve upon the operational excellence the client relationships and the innovation skills for which both companies are recognized.

To fund part of the transaction we sold in April the remaining equity stake we held in CME Group. The total proceeds from the 5% ownership sale including also the sale executed in September 2015 amounted to R$5.5 billion.

Some very important steps regarding the combination with Cetip are yet to come. On May 20th exactly one week from today both companies will hold shareholders' meetings to approve the terms of the proposed combination – we will go into more details on that on the slides to come – and after that we will seek all necessary revelatory approvals.

Last but not least, the second phase of the clearing house integration, a key-project for BM&FBovespa and the market, is moving forward as planned. Integrated testing and certification with market participants continued during 1Q16.

Moving to the next page, slide 4, I want to emphasize that we maintained our focus on the 2 main strategic objectives of our company, which are to build a world-class

IT and operations infrastructure and at the same time add revenues through the continuous development of products and markets. This work will not be seized or delayed by the proposed combination with Cetip.

IT developments related to the second phase of our new integrated clearing house were concluded in the end of 2015 and during the first quarter we focused on the test and certification with market participants. The deployment of equities phase is expected for the last quarter of 2016.

The effort and investments in terms of equipment, software and professional skills that we have put in the Puma trading system have been delivering a great performance and resilience to the trading environment that has been available almost to 100% of the time since it was implemented and with growing volumes.

On the right side, with respect to products and market developments we have concentrated our efforts in increasing liquidity for listed products. With this goal we are adding new market maker programs; we have 35 active programs versus 16 at the end of the first quarter 15.

Additionally, in May we introduced market makers for inflation-linked future contracts; an important step to increase the liquidity of these contracts. We also expanded the number of non-sponsored BDRs listed in our market. In April and May we admitted 21 new programs, increasing the portfolio from 85 to 106 in this period.

Just recently, the regulatory and tax frameworks for the fixed income ETFs have been completed. This is a very important product for us and we have maintained discussions with market participants for launching this product soon.

Now Rogério will give some more details about our operational performance.

Mr. Rogério Santana: Thank you Daniel. Hello everyone. I would like to ask you to move to slide 5, where we once again highlight the resilience of our diversified business model.

As it was the case in the previous quarter, the performance of financial and commodity derivatives coupled with initiatives to drive no volumes related revenues underscored this aspect of our business.

The chart on the left side shows that as we have seen in the previous quarters the greatest contribution to revenue growth came from financial and commodity derivatives markets within the BM&F segments, where we have a longer exposure to US dollars as well as exposure to volatility around interest rate and FX rate.

Also the business lines not related to volumes showed good results in the quarter and contributed to volume growth, reflecting a solid performance of some products coupled with recently implemented enhancements to our commercial policies.

On the right side, the pie chart shows that the derivatives markets continue to be the main source of revenues for BM&FBosvespa. If we sum up financial and commodity derivatives that represented 43.5% and the derivatives on single stock and indices for another 4.2% we reach 47.7% of total revenues versus 30.9% of cash equity.

Additionally, 28.5% of the company's 1Q16 top line were US dollar-linked, once again highlighting the merits of our business diversification and revenues diversification.

Moving to slide 6 you find details on the performance of the financial and commodity derivatives market, what we call BM&FBosvespa segments.

The 10.7% revenue growth in the BM&F segment was driven by a 13.6% growth in the total ADV coupled with 1.5% increase in the average rate per contract (or RPC).

In the bar chart on the left side you see that contracts expressed in US dollar and contracts exposed to interest rate are the most relevant in these segments. This quarter the main contribution to revenues growth in this market came from interest rates in reais contracts and mini contracts, which grew 6.9% and 82.7% respectively.

Although the ADV of contract is price in US dollar, I mean, FX contracts, interest rate in US dollars and commodity contracts have fell year-over-year, the group of contracts generated 55% of total revenues in this segment.

On the bottom of the slide you see that the RPC grew 1.5% year-over-year relatively… and was relatively stable in this comparison.

In slide 7 we have the performance of the equities market. Revenues in the equity business from the Bovespa segment grew 2.8% in comparison with 1Q15, reflecting increase in the ADTV of both cash equities and equity derivatives. The 3.4% growth in the cash equities ADTVs is explained by a higher turnover velocity that reached 85.8% in the quarter versus 71.8% in 1Q15.

This increase in market activity was partially offset by a 13.9% reduction in the average market capitalization.

It's worth to mention that the ADTV was particularly high in March when it reached more than R$9 billion, reflecting increased volatility levels connected to macro and political environment.

Trading and post-trading margins reached 5.264 basis points in 1Q16 and it was stable compared to 1Q15.

Moving to slide 8, we highlight all other sources of revenues that are not related to volumes. You may know that one of the drivers of the company's strategy is to increase revenues coming from this group of products and services.

We pursue this goal mainly by actively marketing this products and services as well as revisiting commercial policies that apply to them.

This group of business lines as you can see in the great piece of the pie chart represented 19.8% of total revenues in 1Q16 and in aggregate grew 14.1% year-over-year.

This growth results forum solid operating performance of some products and services – notably market data and *Tesouro Direto* – that is recorded within the depository line combined with changes in commercial policies that was implemented over 2015 and applied for most of the services that are in the table on the right.

Now I will pass the word back to Daniel, who will detail our expenses and other financial highlights.

Mr. Sonder: Thank you Rogério. In the next slide, which is slide 9, we show the expense breakdown for the quarter. Our adjusted expenses increased 4.1% year-over-year mainly driven by lower adjusted personnel and communications.

Our adjusted personnel expenses, which exclude long-term incentive plan, was 3.1% lower compared to the first quarter of 2015 due to higher personnel expenses capitalized towards projects and a nonrecurring provision back in 2015, which affects the comparison.

The growth in data processing – our second largest expense line – is explained by the exchange rate and inflation adjustments to some maintenance contracts for IT, higher maintenance expense in the new data center and hiring of outsourced personnel.

We are maintaining our guidance for expenses for the year between 640 and R$670 million for 2016.

Moving on to slide 10. We always like to highlight our financial robustness with a solid cash position, which is an important part of the business of being a credible counterparty in the financial market.

Total cash amounted to 5.6 billion at the end of the quarter composed by cash held as collateral on behalf of third parties as well as BVMF's own cash.

On the left and blue side of the graph we can see the third-party cash, which amounted to 2 billion, mainly composed by market participants cash collateral of 1.4 billion.

On the right side, represented by the green bars, is BVMF's own cash composed of restricted and available cash amounting to 3.7 billion.

This includes the proceeds from the partial divestment from the CME Group occurred in September 2015, but it does not include the proceeds from the most recent sale, which was only concluded in April after the closing of the quarter.

Financial results increased 161% year-over-year as a result of 3 positive factors: First, higher average interest rates that applied on a higher average cash balance; two, a 32 million dividend received from the CME Group in the quarter and; lastly, a 34 million non-cash financial revenue related to changes in the BRL to US dollar exchange rate – which we will cover in more details in the following slide.

The Board approved the payment of R$170 million of interest on capital for the quarter, which represents 50% of the IFRS net income to be paid in June 6.

The Capex executed for the quarter reached R$60.9 million the same budget range… sorry, the budget range for 2016 is between 200 and 230 million.

Moving to slide 11, financial highlights. We show the company's cash generation before payment of interest on capital or dividends or repurchase of shares. We find this a useful metric for us to follow.

The cash generated in 1Q16 reached almost 500 million, which means a 39% increase year-over-year. This significant capacity to generate cash is one of the main strength of our company and business model. This also puts us in a good position to continue to practice a high payout ratio at the same time that we meet our financial obligations.

In slide 12 we describe in some more details the financial structure and the execution that we did for the sale of the CME Group shares. At the end of the first quarter of 2016 we entered into a financial derivative transaction to hedge the FX risk related to the equity stake held in CME and also another derivative transaction to hedge the FX risk related to the 2020 notes.

The hedge for the FX risk in the investment in CME was done through a short position in non-deliverable forwards of $1.26 billion reais… sorry, US dollars. As we concluded the sale of the shares in early April and converted the money into reais, we closed this position and therefore secure and effective tax rate of R$3.59 per dollar.

In the case of the 2020 notes, the hedge accounting, which used to come on the CME shares, was undone and replaced by a principal-only swaps in the amount of US$612 million. Through this swap our company has a long position in dollars and a short position in local interest rates at the cost of 79% of CDI. Therefore, we are now protected from FX changes in the principal amount of the debt and have a cost for this financing of 79% of CDI plus the coupon of 5.5% in US dollars.

The company entered into both instruments simultaneously: in multiple transactions between March 29 and 31 of 2016. This three-day-time execution resulted in an unhedged position on part of the principal amount of the 2020 notes, and as a consequence changes in the BRL versus US dollar exchange rate during this period applied on the unhedged position created a positive impact of 34 million in the financial revenue line with no cash impact.

On April 7 the company sold the remaining stake of CME shares, raising approximately R$4.3 billion.

Talking about the future impacts on the income statement now, we can expect 2 main accounting entries to come: One, financial revenue will increase due to the CDI on the proceeds from the sale of CME shares; and on the other hand, financial expenses will be impacted by the cost of the swap, which is 79% of CDI applied over R$2.2 billion, which is the BRL amount of US dollar debt.

In addition, we will have the interest owned on the 2020 notes, which is 5.5% per year on a net basis on US$612 million. This is still exposed to changes in the BRL versus US dollar exchange rate.

Please note that we will no longer benefit from CME dividends on the company's financial results due to the sale of the shares, and considering that starting from April 1 the swat value completely covers the 2020 notes principal amount, the company expects that there will be no further impacts from the changes in the BRL versus US dollar exchange rate on the 2020 notes principal amount.

Moving to the next slide, we begin to talk a little bit more about the combination with Cetip, where we show the financial structure plan at this stage for the funding of the transaction with Cetip.

I note that this is not yet a definitive structure and we are still analyzing our options. But in principle, the proceeds to finance the Cetip transaction will come from: Around 4 billion in equity reais based on the stock price of BM&FBosvespa at the announcement date; and second, a cash portion with the following components: The proceeds from the sale of CME shares that amount approximately R$5 billion, the cash generated by both companies until the settlement date – we expect that this will range from 1 billion to 1.5 billion, please note that during this period the share buybacks in BVMF will be suspended –, and an additional amount to be raised by a new debt issuance.

Standby financing lines have been already signed with a group of banks, but the permanent financing will be raised just before the settlement date. We expect that this amount of long-term debt will be between 1.5 and R$2 billion.

Gross debt to Ebitda ratio for the combined company should be close to 2 times at the settlement of the transaction and our intention is to return to one time Ebitda within 3 years.

We expected that the financial deleveraging will happen in a three-year period, and to do so we expect to have a payout ratio of about 80% of IFRS net income. Obviously that is subjected to our operating performance and to Board approvals. So this is not a definitive statement, but any intension of what we see today in our projections that should be taking place.

And finally, in the last page we have the timeline for the Cetip transaction. On May 20th next Friday, BVMF and Cetip shareholders will meet to discuss and vote on the transaction and we expect that the transaction will be approved by such shareholders on both meetings.

After that, the transaction will be analyzed by the regulators – CVM, the Securities Commission in Brazil, the Central Bank and the Antitrust Regulator (CADE). The closing of the transaction depends on the shareholders' and regulatory approvals.

I'd like to call your attention to the importance of the shareholder engagement in the shareholders meeting. As you all know, this transaction is a transformational event for both companies and for Brazilian capital markets, and the engagement of the shareholders is extremely important.

Considering that due to this combination some changes in the bylaws are required, the quorum to open both shareholders' meeting in the first call is 2/3 of total capital stock.

To participate in the shareholders' meeting some steps must be taken and some representation documents must be put together. Our IR team, as well as Cetip's IR team, is available full-time to assist you in case you have any doubts or face any issues.

We also want to highlight that some of the most relevant proxy advisor companies have recommended a favorable vote for all the items of the shareholders' meeting; we are very glad that they have agreed with the merits of the transaction although obviously this doesn't guarantee that we are going to get the votes.

I'd like to conclude this presentation here an open the Q&A session. Thank you.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question and answer session for investors and analysts. If you have a question, please press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue please press star 2.

Our first question comes from Marcelo Cintra, Goldman Sachs.

Mr. Cintra: Hi, good morning everyone. Thank you for taking my question. My first question is basically a follow-up on your last comment regarding the funding for the transaction with Cetip.

You mentioned that basically you expect the payout ratio to possibly increase back to 80% over the following 3 years – of course, it's subject to some changes –, but I would like to understand if… what will be the payout ratio for 2016 and maybe 2017 if this 50% that you distributed in the first quarter should be the level that we should see in the following quarters? Or if it's fair to assume maybe even though lower payout ratio or some further changes on this?

And then I'll follow-up with my second question. Thank you.

Mr. Sonder: Thank you Cintra. The Board obviously consider this at every quarter, the view at this point in this meeting was that we should have a 50% payout for the year.

Obviously we will follow the developments of the business and also, you know, the details that we are going to have on the full financing instructor later on and this may be changed.

But the view at this point is that we should have a 50% payout based on IFRS net income for 2015… 16, pardon me!

Mr. Cintra: Okay, perfect. And then just a quick follow-up. You mentioned that the debt issues should be of roughly 1.5 to R$2 billion, but you already (maybe) have an estimate of the possible rates that you were going to get on this debt?

Mr. Sonder: Yeah, look, we are still discussing that and obviously it would depend on market conditions at the time. We feel, you know, very confident that we are one of the best credits in Brazil today. So, you know, I wouldn't expect that our cost of funds should be higher than 150 or… 125 to 150 basis points over the benchmark year.

Mr. Cintra: Okay, 125. Okay, perfect. And my second question is related to not trading revenues, right. You showed that revenues linked to volumes represent roughly 21% of total.

I just want to hear from you what is your expectation looking at BM&FBosvespa, of course, on a standalone basis over the following maybe following years. And also on new products recently the finance ministry changed the regulation regarding ETFs or fixed income.

So I just would like to hear from you the development on this product, when we should see further developments on this front and maybe more revenues here. Thank you.

Mr. Sonder: Great, thanks. So in terms of the revenue mix percentage it's extremely hard for us to predict such percentages because it largely depends on the growth of the, you know, trading-related markets, you know, the derivatives market and that equity markets, and we typically don't put out a view on that.

But we feel very confident that our non-trading revenues have a big platform for continued growth. I think it is a mix a pool of revenues, some of it is linked to inflation and some of it is also linked to FX, as the market data revenues.

And I think that as the market develops, we have more opportunities there. If you look at page 8 and you see the breakdown there, you know, just to give you some examples: listing fees are adjusted by inflation and obviously have a driver which is the number of companies listed in Brazil; depository fees have to do with how many individuals have accounts here; it has to do with *Tesouro Direto* and is adjusted by inflation.

So I think that we have a very good mix there that should continue to produce nice growth, but it's hard for me to give you the breakdown of the revenue pie.

With respect to ETFs, we are quite pleased that the final points of the regulation have been put in place, it was a measure by the finance ministry as well as a measure by the revenue services, which I think, in our view, cleared the road for this product to be put in place.

Now, we don't list this here, we need market players to do so. Obviously this is something that has been in the pipeline of many players or at least a handful of players for several months, and we think that now people are going to move quite fast to list one or more of these ETFs here.

We have worked with S&P to create fixed income index; I think that might be a reference for some of the ETFs. There are other indices is in the market which are just as good that might be also a reference and, you know, we do believe that given the attractiveness of the fixed income market in Brazil and the desire of players to expose themselves to fixed income via a number of instruments, this could be an attractive revenue line going forward.

Mr. Cintra: Okay, that's perfect. Very clear. Thank you very much and congrats on the results.

Operator: The next question comes from Francisco Kops, Safra.

Mr. Kops: Good morning everyone. Rogério, Daniel, I have 2 questions as well. The first one is just a follow-up on the cash portion of the combination with Cetip.

Just a quick question. I didn't understand if you considered just the cash flow from now until the settlement date or you considered this cash flow plus the current cash available on both companies.

Mr. Sonder: Yeah, it's… well, it's the cash flow plus the cash available excluding the other sources that I mentioned. So obviously Cetip has some cash, they are going to regenerate some cash over the year, they have some obligation, we have the same thing, but I just don't mix that with the cash that we have in hand for the CME line, right?

Because that is a specific item that we put there, plus we're not going to draw into the necessary cash that we have for the business. So you should expect that after the transaction we will, you know, have at BM&FBosvespa roughly the same type of cash level that we had in the quarters prior to the third quarter of 2015.

So if you look at our page 10, we used to have R$2.4-2.3 billion in cash at BM&FBosvespa. For our business purposes, I don't think that should change too much.

Obviously we are adding Cetip, you know, so they also… that business activity also requires some additional cash so the combined company would have… just to give you a number, you know, I do know, R$2.5-2.6 billion of cash at all times.

Is that clear?

Mr. Kops: That's very clear Daniel, thank you. Just if I may a second question, it's an issue that a long time I don't hear about.

How is that issue with European authorities about the qualified central counterparty regarding the BM&F, your CCP? Has some development there? I mean, I don't know how was the request with our Central Bank here.

If you can give some new information about that that will be good. Thank you.

Mr. Santana: Hi Kops, this is Rogério. We are still waiting for the approval from the European Commission and also from ESMA, but we have some developments in the recent months.

First, the Central Bank already put out a new rule that create the kind of proceed between the Brazilian treatment for clearing houses that would reciprocal to the treatment that European Commission would give to Brazilian clearing house.

This was the pending aspects of the discussion, it was already said to the European Commission and we are very optimistic that very soon both European Commission and ESMA (that is the regulator for market infrastructure in Europe) will recognize our clearing house as a qualified CCP.

Mr. Kops: That's clear Rogério. Just a quick follow-up. Until now there was no impact from, I mean, in terms of lower volumes coming from European banks or something like that, no, right?

Mr. Santana: You are right because although we are not recognized as a qualified CCP, we are under a waiver given by the ESMA. So there is no change in the capital requirements for clients that are trading in Brazil.

Mr. Kops: Thank you.

Mr. Santana: … while this process is not concluded.

Mr. Kops: Okay. Very clear material, thank you.

Operator: The next question comes from Gustavo Lobo, BTG Pactual.

Mr. Lobo: Hi, I have 2 questions as well. First, regarding the divestment from CME, in the presentation you showed a [0:33:53 unintelligible] to total proceedings of 4.3 billion. This is before taxes.

I just like to understand what's the amount of taxes that you have to pay here because, if I remember it right, you marked up the value of this position back in the 3Q and it [0:34:16 unintelligible] to a tax bill.

So I just wanted to understand what will be the actual net proceeds from this transaction, and then I have a follow-up on capital structure.

Mr. Sonder: Thank you Gustavo. So, the tax implications of the sale of CME Group are twofold: First, there is PIS and COFINS on the proceeds that should range in about R$120 million that is payable in the second quarter, so you are going to see it in the second quarter numbers that we paid such taxes.

On the capital gains taxes, the rule for that is that we… those taxes are due at the beginning of the next fiscal year, so for transactions concluded in 2016 the tax is due in early 2017 and we have the opportunity – although no decision has been made yet – we have the opportunity of changing the tax treatment for the bonds, which would bring forward to 2017 as well – if we choose to do that, which hasn't been decided yet – which would bring forward to 2017 a tax loss that otherwise would be available in 2020.

So if we make that change – which again is it still under consideration and hasn't been approved by the Board –, but if we were to make that change, that would help offset some of the cash impact of this tax on the sale that would be in 2017.

Mr. Lobo: Great. That's clear. And your answer is actually related to my second question.

You were… the financial cost of your 2020 bonds at roughly 80% of CDI +5.5, and assuming what you said on your expected cost of funding of 125% of the CDI on this new debt that you are going to issue, does it seem to make sense to continue holding it with CDI at 14.25?

If CDI goes down – and this is sort of consensus now – it stops making sense to continue holding these bonds with this hedge; it would be cheaper for you to just issue a local debenture, or something like that at 125% of the CDI.

Is this something that you are taking into consideration in the medium term, or are you comfortable with just this 2020 notes at the current structure?

Mr. Sonder: Yeah, so first let me… maybe I misspoke earlier on, or maybe there was a misunderstanding. I do know which one of the 2, it doesn't matter, but I didn't say 125% of CDI.

What I said is 125 bps over CDI, so CDI plus 1 and 1/4, which is completely…

Mr. Lobo: Okay, so since the beginning it didn't make sense to continue holding the notes.

Mr. Sonder: … so first, to address that misstatement of mine, I apologize for that if I misspoke, and it is 125.

I think that our credit call should be not over 125 to 150. Obviously we are going to try to get it better than that, but I just wanted to give you a range to address Cintra's question.

Now, with regards to early redemption of the 2020 notes, those are long-term bonds issued in the international capital markets, Lobo, which have typically – as this is the case in most companies – a prepayment penalty.

So we do not have the flexibility of redeeming them at par and therefore the implied cost of our redeeming debt would entail a penalty that, in our view, makes that transaction at this point in time something that we do not want to pursue.

We continuously analyze this, we have a treasury team that always looks at these options and, you know, if local rates were to go down significantly in such an amount that would compensate even paying the pre-payment penalty on the bonds, that is something that would come up in our regular discussions in the treasury team.

Mr. Lobo: Okay. Understood. That's clear, thank you.

Operator: As a reminder, if you would like to pose a question, please press the star key followed by the one key on your touchtone phone.

This concludes today's question-and-answer session. I would like to invite Mr. Daniel Sonder to proceed with his closing statements.

Mr. Sonder: Well, once again thank you all for your participation in our call.

We are always very grateful for your following our company, our stock and this is, you know, great for us and obviously once again our finance and IR teams here – that do all the work for preparing these discussions with you – and on their behalf thank you all.

As a final point, I would again stress the importance of your participation in the upcoming shareholders' meetings, and if you still have questions and you want to participate and you're not sure how to do it, please do give us a call, we do have a large team here making preparations for that and we don't want to leave anyone behind.

Thank you.

Operator: That does conclude the BM&FBovespa audio conference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call Brasil.