International Conference Call
BM&FBovespa
Fourth Quarter 2016 Earnings Results
February 20th, 2017

Operator: Good afternoon, ladies and gentlemen, and welcome to the audio conference call about the earnings results of BM&FBOVESPA for the 4th 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. Good morning for those based in North America, and good afternoon for those based in Brazil and other regions. I would like to welcome you to our quarterly earnings results to discuss 4th quarter and 2016 full-year results.

First, I'd like to read a brief statement on the proposed business combination with Cetip:

"*As disclosed to the market on February 10, BM&FBosvespa and Cetip filed a request to the Antitrust Authority (CADE) for a 60-day extension of the period of analysis of the proposed business combination, pushing the maximum period of analysis to April 24.*

It's important to highlight that the transaction [0:01:30 unintelligible] approved by CADE (the Brazilian Securities Commission) as well as the Central Bank of Brazil.

Any additional disclosure regarding this subject will be made exclusively through the legal formal channels."

So, I'm going to begin the presentation on slide 3, with the 4th quarter 2016 highlights. I am surrounded by the Finance and the Investor Relations teams, which will be available during the Q&A period, as well as my colleague in the Executive Committee, Juca Andrade, Chief Products and Clients Officer in the company, and just before I begin, I wanted to thank the Finance and the IR team for, once again, preparing the materials and putting together all the financial presentations and the releases that you have in front of you. Once again, this is very helpful I hope.

So, we open our earnings presentation in slide 3 with an overview of what happened in our operating and financial results during the 4th quarter of last year, as well is in 2016. Then we will go into some more details in the following slides.

On the top of the slide, we see the operating and financial highlights for the BMF and Bovespa segments, as well as for other revenues not tied to volumes traded. Revenues from BMF segment (derivatives) remained flat in 4th quarter 2016 when compared to the same period of 2015, and lightly negative in the full-year comparison.

In both quarter and full-year, the growth in the ADV was offset by a lower average revenue per contract (RPC). In the Bovespa segment, revenues grew 22.5% and 8.3% in quarter and in the full-year respectively driven by higher ADTV.

Revenues from other business lines showed double-digit growth in both comparisons, highlighting the strong performance of *Tesouro Direto*. Average assets under custody in this platform increased 76.8 and 82% in the quarter and full-year comparisons respectively.

Moving to the bottom of the slide, in 4th quarter 16 total revenues totaled 692 million; an increase of almost 15% compared to the same period of last year, while adjusted expenses grew 21.2%, impacted by some nonrecurring items, which will be discussed in the next slide.

In the 4th quarter of 16, IFRS net income was 927.9 million, impacted by nonrecurring items. Excluding those extraordinary items, net income would have been 525 million.

For the entire year of 2016, total revenue reached 2.6 billion; 4.8% above 2015, while adjusted expense totaled 653 million; 6.8 growth in the period within the budget set for the year and in line with overall inflation. Excluding extraordinary items, net income would've been R$1.8 billion.

Finally, we distributed 900 million in interest on capital over 2016, representing 62% of the 2016 IFRS net income. As you know, the company is preparing to pay for the cash portion of the Cetip transaction, and this explains why our payout ratio in 2016 was lower than the level in the past years.

We move now to slide 4. We summarized in the table the nonrecurring items that impacted our 4th quarter 2016 and 2016 full-year aiming to help you on your analysis. For this reason, we show the amount before and after taxes.

As you can see, the largest items in the year were related to our sale of the CME shares, and some provisions which we discussed in the 3Q. We can go into more details about these nonrecurring items in the Q&A if you wish.

Moving to slide 5, I'd like to highlight some landmarks of the execution of our strategic plan in 2016 by listing some of the strategic initiatives that aim at offering growth opportunities and value creation to shareholders.

The first one is the proposed business combination with Cetip: this transaction was approved by the vast majority of shareholders of both companies, and I'd like to take the opportunity to thank you once again for all the support in this transformational transaction. Now, while we wait for the conclusion of the analysis by the regulators, we have begun planning some aspects of the integration, always within the boundaries set by regulation to ensure service excellence will be preserved, expected efficiencies will be delivered, and potential synergies will be captured over time.

We are very excited about this transaction and we have received nothing but support from clients and staff on both sides.

Second: we have had significant progress in the equities phase of the clearing house integration project. As you know, this is a project that is expected to deliver capital as well as back-office efficiencies to market participants, and it has been a key focus of our company. We look forward to delivering it in the next few months.

We also continue to focus on products and market development: we hired market makers for the inflation-linked contracts in addition to some other enhancements. A new ETF reference in the Bovespa index was launched, increasing to 15 the number of ETFs available. We are in the process of reviewing our special listing segments rules aiming to raise the bar in corporate governance standards for companies listed in the *Novo Mercado* and level II segments.

Innovation in IT is key to preserving our excellence in providing high-quality services and products for our clients. Recognizing that, our Board of Directors established an IT committee with outside experts in order to further help the company in monitoring new technologies that may bring opportunities or impacts to the business.

Finally, we advanced in implementing our strategy in Latin America: we acquired 4% of the Mexican Exchange and 10% of the Colombian Exchange, while increased our stake in the Santiago Exchanged to approximately 10.4. Additionally, in January 2017 we acquired 8.6% of the Lima Stock Exchange an appointed a representative to the Board of Directors of that Exchange.

Now, Rogerio will give you more details about our operational performance.

Mr. Rogerio Santana: Thank you Daniel. Hello everyone. I would like to ask you to move to slide 6, where you can see on the left side chart that shows the greatest contribution to revenue in the 4th quarter 2016 came from the Bovespa segment, shown as cash equities and equity derivatives in the chart and reflecting a pickup in volumes in the segments.

Revenues not tied to volumes kept its positive performance and also contributed to revenues growth, mainly due to the strong performance of *Tesouro Direto*, as Daniel mentioned a few minutes ago.

Finally, roughly 20% of the company's topline were US dollar-linked in this quarter; slightly lower than the level we saw in the previous quarters, mainly as a consequence of depreciation of the Brazilian Real against the US dollar in the period.

Moving to slide number 7, you will find details of the performance of the financial and commodity derivatives markets. Revenues in the BM&F segment (as we call) was flat in the year-over-year comparison since the 55.9% increase in the total ADV was offset by the decrease of 35.8% in the RPC in the comparison with 4th quarter 2015.

As we can see the chart on the right side, the higher ADV in interest rates in reais and mini contracts drove total ADV growth. On the other hand, lower RPC in all group of contracts and changes in the mix with higher participation of mini contracts resulted in a significant reduction in the average RPC in this segment.

The mini contracts have an RPC that is significantly lower than the average of other groups of contracts, so a higher participation of them in the overall volume had a negative impact on the average RPC, as shown in the bottom right side of the slide.

Note that last year, in the 4th quarter 15, mini contracts represented roughly 25% of total ADV and contributed for almost 4% of the BMF segments revenues, while in the 4th quarter 2016 we see the representativeness of mini contracts in the total ADV increasing the roughly 34%, while the revenue contribution was slightly lower than 7% of the segment.

Additionally, the Brazilian Real appreciation against the US dollar also had a negative impact in the average RPC, since in 4th quarter 2016 48% of the revenues in these segments were US dollar linked.

On slide number 8, we have the performance of the equity's markets, where we saw 25% growth in the ADTV. This growth was driven by the 21.6% increase in the average market capitalization, that reached R$2.3 trillion in the 4th quarter 2016, combined with higher turnover velocity, that reached 82.3% versus 79% in the 4th quarter 2015.

On the other hand, trading and post-trading margins reached 5.064 basis points in the 4th quarter 2016, or 3.6% decrease year-over-year. This reduction is explained by a higher participation of day trades in the overall ADTV, for which fees are lower than the average, and higher participation of volumes connected to the expiration of options on equity indices, for which trading and post-trading fees do not apply to most of the volumes.

Moving to slide number 9, we highlight other sources of revenues that are not related to volumes traded. This group of revenues, as you can see in the great piece of the chart, represented 23% of total revenues in the 4th quarter 2016 and group 18.5% year-over-year.

This growth resulted from solid operating performance of some products and services, notably the *Tesouro Direto* as previously mentioned. It is important to highlight that this group of revenues was also impacted by a R$16.9 million nonrecurring and non-cash reversible of provisions connected to changes made by the company to its health care plan in 2016.

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

Mr. Sonder: Thank you. In the next slide, slide 10, we show the expense breakdown for the quarter. For the year 2016, adjusted expenses were 653 million, within the guidance of 640 to 670 million and representing 6.3% growth versus 2015, in line with overall inflation for the period.

In the 4th quarter of 2016, adjusted expenses were 207 million; a 21% increase year-over-year. Adjusted personnel expenses, which exclude long-term incentive plans, were 19.1% higher, mainly explained by the annual salary adjustments of 8.6 applied in August a 16 and higher bonus expenses. This has to do with how we provision bonuses over the first three quarters of the year since there was no increase in total bonus expenses for the company versus 2015.

The growth in data processing, our 2nd largest expense item, is explained by inflation adjustments to some IT maintenance contracts and the impact of depreciation of the US dollar against Brazilian Real between January 15 and December 15, given that a cash flow hedge was setup for a portion of these contracts denominated in foreign currency in those months.

We also had in the 4th quarter 16 an 18 million expense related to the transfer of proceeds to our self-regulatory organization (BSM) compared to only 8.3 million in 4th quarter last year.

We move now to slide 11. We issued new debt in December 2016 in order to be prepared for the payment of the cash portion of the proposed business combination with Cetip. As a consequence, the company's financial leverage has increased temporarily.

On the top of the slide, we provide this new debt profile beginning with the bilateral loan of U$125 million at 2.57 per annum interest with equal monthly amortizations of 10.4 million plus interest and final maturity on January 2, 2018.

It's important to point out that the monthly amortization of this loan will be matched against our US dollar-denominated revenues from derivatives contracts, hedging this revenue against changes in the exchange rate. By adopting this cash flow method of accounting, any gains or losses related to exchange rate variation on the loan and on most of the US-denominated revenue in the derivatives market will be booked in the shareholders' equity; no longer impacting the company's quarterly results until the loan matures.

We also issued R$3 billion in debentures at a cost of 104.25% of the BI rate, roughly 50 bps over the benchmark, and with semiannual interest. We have the final maturity on December 1, 2019 with 50% principal payment on December 1, 2018.

Finally, our US dollar senior and secured notes in the amount of U$612 million issued in July 2010 has a final bullet maturity on July 2020 and semiannual payments of 5… coupon payments of 5.5.

In March 2016, the principal amount of the 2020 notes was hedged against changes in the Brazilian Real versus the dollar through swaps, and in September 2016 the company entered into NDS nondeliverable forwards to hedge certain coupons.

It's important to highlight that this higher financial leverage is a temporary situation due to the Cetip combination, and we expect to pay down this new debt within a three-year period assuming the business performance according to plan.

Moving now to slide 12, we 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 markets.

Total cash amounted to 14.7 billion at the end of the year, composed by BM&FBosvespa's own cash and third-party cash, mainly related to collateral pledged in cash by our clients.

On the left and blue side of the graph, we can see the third-party cash, which amounted to 2.3 billion, mainly composed by market participants' cash collateral of 1.7. It's important to highlight that the company earns interest on most of these cash balance.

On the right-hand side, represented by the green bar, you will find BM&FBosvespa's own cash composed of restricted and unrestricted cash amounting to 12.4 billion as of December 2016.

BM&FBosvespa's own cash includes the necessary cash to run the day-to-day activities of the company, that totals between 2 and 2.5 billion. This amount includes approximately 1 billion in clearing houses required safeguards.

The remaining add to the liquidity that supports our activities as a central counterparty and general corporate needs.

Excluding this cash position, that is necessary to run the business, we have almost 10 billion in available cash, including 5.5 in gross proceeds from the divestment from CME Group and 3.4 billion in proceeds from that transactions concluded in December 2016.

As mentioned before, we are retaining this significant additional cash position to fund the proposed transaction with Cetip.

Moving now to slide 13, we see the financial results. 4th quarter financial results amounted to R$188 million; a decrease of 35% over the 4th quarter of 2015. This comparison was impacted by an extraordinary dividend of R$173 million paid by CME Group last year, which added to the number in the 4th quarter of last year and offset the growth in financial revenue from higher cash balance carried by the company during 2016.

On the right side of the slide, we show the financial expenses that were mainly impacted by the derivatives cost to hedge the 2020 notes, which totaled 67.6 million in the quarter. This amount reflects the cost of the hedge for the principal and some coupons for the 2020 notes.

Other impacts shown are: 17.6 million in interest on the debentures issued in December; and 11 million cost of standby facilities of 2.7 billion, which were engaged by the company in connection with the transaction with Cetip, but were not drawn.

In slide 14, we show the company's cash generation before payment of interest on capital or dividends or repurchase of shares. The cash generated in 2016 reached almost 2.1 billion; an increase of 19% year-over-year. The net cash from operating activities was positively impacted by the higher financial revenue coming from a higher cash position.

On the right side of the slide, we show the cash destinations for the 4th quarter made up of: 221 million in Capex; 188 million in investments in Latin America; and 532 in interest in capital paid in 2017 with reference to 16.

We also highlight the 826.7 million in 1st quarter 2012 obligations, which include 368 in interest on capital already paid in January, 400 million for the settlement of the FX swap as of December, and 59 million in interest on the 2020 notes, already paid in January. Considering all this, the cash retained in the company amounted to R$313 million.

We conclude in page 15, where we show the timeline for the business combination with Cetip, which is currently in the regulatory analysis process. And as you may already know, we filed a request to CADE (the Antitrust Agency) for 60-day extension of the period, which will extend the analysis until at maximum April 24.

The extension was required in order to allow us to send additional information to the regulators and also to coordinate the action between the several regulators we are acting with.

I'd like to end now this presentation and open for 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 you may press star 2.

Our First question comes from Gustavo Lobo, JP Morgan.

Mr. Lobo: Hi everyone. I have 2 questions. First one is regarding operating expenses. In the quarter, there was this increase in personnel expenses, I was just wondering how much of it (or if any of it) is related to projects being concluded and some personnel expenses migrating from Capex to Opex.

And then my 2nd question is: Regarding your guidance for 2017, it implies a total Opex growth of 3.4 to 8%. I just wanted to understand what is the churn expected to each one of the lines, and mainly personnel expenses, which should be impacted by this shift from Capex to Opex, and potentially the IT expenses or any other US dollar-denominated expenses that can be benefited by this stronger PNL. Thank you.

Mr. Sonder: Thank you Gustavo. So, with regards to your first question, we have not yet seen a significant migration from our expenses from Capex to Opex. The items that were a little bit higher in this 4th quarter in terms of other expenses were some provisions that we made for some changes in the management of the company that have taken place and will take place in 2017, as well as, as I mentioned, we accrued slightly lower bonuses during the first three quarters, and this was adjusted in the 4th quarter. So, it's a sort of one-off in the 4th quarter that basically made the total bonus line equal to what it had been in last year.

Our adjusted personnel expenses, if you look at the adjusted personnel, it grew by 4.6% only, so we have not yet seen this effect that you are correctly pointing out, which we will begin to see in 2017 in fact.

Regarding the guidance for 17, we do not give sort of detailed broken down guidance by expense lines, you know, we do give the general number, which obviously makes the commitment of the company in terms of where it sees expenses going and yet preserves some flexibility from management to manage between lines as the year progresses.

So, we are going to begin in 2017 to experience the end of these projects and, therefore, some additional expenses in personnel. But we are taking measures with that in mind in order to keep overall growth aligned with inflation once again.

Mr. Lobo: That's very clear, thank you. One more quick question if I may. You have all of these investments in LATAM Exchanges. Given the very big size of BM&FBosvespa, this is not that much material for you, but just wanted to understand what can we expect from this relationship that you have with these other exchanges? Should we expect a new revenue line related to it, or just an improvement in relationship with our neighbors? What is exactly the rationale here? Thank you.

Mr. Sonder: Okay. Well, thank you again. I think I've addressed this a few times already, but I think it's always good to touch on it again.

I think we have, you know, moved sort of along this project in the direction that we had intended from the outset. We have completed 4 investments, we have allocated R$218 million in this, which is less than U$100 million. Again, it's not money that we don't think it's a lot, but, you know, in the context [0:26:53 unintelligible] everything else that we are doing, we think this is a sound amount to invest in diversified opportunity through several Exchanges. So, it's not putting all the eggs in one basket.

We find that, you know, there is dialogues that we can begin with these Exchanges; we needed to be investors first. Now we are going to move into getting Board seats and trying to influence the discussion, and further down the line I think we can look at a few opportunities which will have to do with, you know, attracting investors and issuers from those markets into our Exchange, and also trying to see if there are some product initiatives or other corporations that we can do in order to increase the liquidity in those markets and, therefore, the value of our investments.

So, we can make money either through additional revenues that are brought our way or through, you know, the pickup in the value invested in these Exchanges. These are, however, long-term initiatives, there is no cookie-cutter formula that we work in every country; in each place we are going to have a different set of interactions and plans, and as they become more concrete, we will share that with the market.

But this is a medium to long-term project and I think we are moving along in the speed that we had envisioned.

Mr. Lobo: Understood. Thank you very much.

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 now.

Our next question comes from Marcelo Cintra, Goldman Sachs.

Mr. Cintra: Hi good morning everyone, thank you for taking my questions. I have 2 questions actually. The first one is an update and a follow-up on your comments regarding the business combination with Cetip. On slide 15 you show here that the deadline for CADE on the transaction would be on April 24th, the possible final deadline could also be May 24th.

I would just like maybe some clarifications here: Will CADE be able maybe to ask for another maybe 30-day extensions following these 60 days, or the April 24th will be the final deadline for the transaction? I'd just like some visibility on that.

And then I'll follow-up with my 2nd question.

Mr. Sonder: Thank you Marcelo. So, this is a slide that was put together, you know, with the help of our Legal team because technically it is in fact possible for them to ask for an additional 30 days after the first 60 days have expire year.

However, we have been interacting with them and with the CVM and we agreed with them that we would request the 60-day period, so I think it would come as a surprise to us at this point if they were to ask for the additional 30 days between April 24 and May 24th.

Mr. Cintra: Okay, thank you. That's very clear. And my 2nd question is: I'd just like to hear from you like you mentioned that you expect to pay down the other debt in 3 years, but what is the dividend payout ratio that you are considering under these assumptions?

I'm just asking this in order to maybe better understand if it's possible to have 80% PL ratio in 2017 or if this 80% PL ratio could be postponed maybe to 2018 or something like that. Thank you.

Mr. Sonder: Yes. Well, thank you. So, we don't give out a very sort straight guidance on payouts because the Board and us would like to keep flexibility for every meeting for us to consider how the business is doing and our needs.

However, having said that, under reasonable business assumptions, it seems to us that we could probably have payout, you know, in the range of 70% for the next 3 years, and yet it still paydown the debt in that period. How would that be possible? The fact of the matter is that that’s a ratio calculated on IFRS net income, and there is a lot of non-cash items that will impact our IFRS net income.

So, you have the current goodwill, you have future additional goodwill, and amortization of intangibles that will come our way after the completion of the combination. So, there is a lot of non-cash items that impact the bottom line, and that's why, you know, the payout ratio sounds pretty high.

But, in general, what we are working with is to pay the maximum interest on capital we can on every single one of these years and don't do any buybacks, and that would allow us to have a robust distribution to shareholders and yet amortize the debt.

Mr. Cintra: Good, okay, perfect. And if I may, just a quick follow-up. On the non-cash items that you mentioned, of course you have the goodwill amortization from the merger between BM&F and Bovespa, I would just like to understand from you if this goodwill is indeed… the amortization of the goodwill should be ending by the end of 2017, so you wouldn't have this benefit in 2018. Does it make sense or you are still having any benefits on 18 as well?

Mr. Sonder: No, you are correct; the goodwill of the Bovespa transaction is in its last year, 2017 is the last year. So, as of 2018 we don't have that anymore; we will have the new one.

Mr. Cintra: Okay, that's perfect. Thank you very much.

Operator: 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, I just wanted to thank everyone for joining the call and more broadly for following our company and keeping up with our information. As always, please, make sure you reach out to the Investor Relations team if you have any more specific questions that we weren't able to properly address in the call.

Thank you so much. Bye-bye.

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