International Conference Call
B3
First Quarter 2017 Earnings Results
May 15th, 2017

Operator: Good afternoon, ladies and gentlemen, and welcome to the audio conference call about the earnings results of B3 for the Frist Quarter of 2017.

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 B3.

Mr. Daniel Sonder: Good morning everybody, thank you so much for joining into our call. I'd like to welcome you to B3's first quarter 2017 results conference call.

I am sitting with the investor relations team as well as the finance team with colleagues from both former BVMF as well as former Cetip and before we start, I just wanted to thank them for the excellent work that they've done, in particular in this quarter when we had, as you have noted, all the impacts of the combination and, you know, the materials that you see in front of you are obviously they work.

So, this is our first earnings call after the approvals of the business combination between BM&FBosvespa and Cetip, and on behalf of the entire executive team I'd like to thank our shareholders and the analysts' community for the confidence that you have put in us throughout this process. We are honored and humbled by the challenge of leading this outstanding organization and the team at B3 into an exciting future.

Going to the first quarter 2017 results, in order to help shareholders and analysts to better understand B3's performance in the quarter, we based our analyses on a combined non-audited income statements, which includes BM&FBosvespa and Cetip's figures for the entire quarter. We also eliminate revenues and expenses of transactions carried out between the 2 companies, although these are rather small.

So, if you move now to slide 3, it shows first quarter 2017 highlights. We present our operating and financial highlights for the quarter, we will then go into more details in the following slides. As you can see on the top of the slide, B3 net revenues reached almost R$1 billion, growing 6.7… sorry, 7.6% in comparison with first quarter 2016. This is a result of a solid performance in 4 of our 5 segments, especially in equities and liens and loans registration. The only exception was the BMF segment derivatives that showed revenue reduction. We will go into more details in the operating highlights in the following slides.

Our adjusted expenses reached R$252 million for the quarter; an increase of 8.5% mainly impacted by the annual salary adjustments. It's important to say that the company’s net income was impacted by nonrecurring items related to the business combination with Cetip, which we will explain in more details in a minute. Excluding those in nonrecurring items, net income would've grown 9.6%.

We also announced the distribution of the R$140 million in interest on capital, which represents 50% of the IFRS net income for the quarter. As we have said in previous earnings calls, we intend to pay out 50% of our accounting net income in the first three quarters of the year and then adjust and decide whether to increase this rate in the last quarter of the year.

It's always important to mention that this is a discretionary decision of our board in each and every quarter as to the final earnings distribution.

Moving to the new budget, we just announced we announced guidance for Opex between R$1,050 billion and R$1,100 billion for 2017, which means a 4.9 growth considering the midpoint of this range.

Starting from this year, we also included a depreciation and amortization budget to guide the market on this expense line. The guidance for this expense is between 790 million and 840 million and this includes the amortization of intangibles. Our budget for Capex for 2017 will be between 250 million and 280 million.

As you know, we improved in the shareholders meeting the new board of directors for the next 2 years. The number of directors increased from 11 to 14 with 3 members coming from the board of Cetip. Also in the beginning of May, Gilson Finkelsztain became CEO of B3. We have already started the integration program, which has 3 main pillars: One company, pleased clients and motivated teams. We expect to conclude most of the integration projects within the next 18 months.

In the next slide, there are some more details about the nonrecurring items before we go into the business itself in a minute. So, we tried to summarize in this table the nonrecurring items that impacted our first quarter results. The expenses directly related to the business combination with Cetip reached 341 million and they are made up of: First, the impairments of the iBalcão platform at a value of 65.5 million; write-offs and provisions for fines related to contract cancelation reaching… sorry, 35.5 million; third-party services including banks, lawyers and advisory fees and accountants and others to close the transaction in the amount of 100 million; and the payments related to the cancelation of long-term incentive plans to the tune of 141 million.

Additionally, we recognize 134 million in nonrecurring provisions related to some legal disputes which we updated and registered here.

And now I will turn to Rogerio and he will give you more details about our operational performance.

Mr. Rogerio Santana: Thank you Daniel. Good morning everyone. I'd like to ask you to move to slide number 5, where you will see the revenue performance and breakdown for the first quarter of 2017.

In the bar chart on your left side, we see that only the… only… sorry, the BMF segment is the only segment where we saw revenue reduction in this quarter, while all the other 4 segments (I mean Bovespa segment, the security units and the finance units and also the other revenues sources) show revenue growth.

In the pie chart on the right side, we see the breakdown of total revenues for the quarter. By combining the BM&FBosvespa and Cetip business, we have an even more diversified revenue base with equities listed derivatives and securities and OTC derivatives registration represent roughly 1/4 of total revenues each of them.

Moving to slide 6, we will find details on the performance of the financial and commodity derivatives market, where we had a 9.8% revenue reduction. As you can track through the monthly operational data we released, we had an important reduction of 30% in the average RPC that was partially offset by a 20% growth in the ADV in this segment.

Another important information related to the segment is that we adopted a cash flow hedge account for part of the US dollar-denominated revenues in this segment, which came from the fiscal active in the trading and post-trading of FX rate, interest rates and US dollar and some commodity contracts.

This hedge was set by designating be one-year US-dollar loan we entered into December 2016 to cover part of the US dollar-denominated revenues generated by these contracts.

In the slide number 7, we have the performance of the equities markets where we saw 21.2% growth in revenues. This growth was mainly driven by the increase of ADTV from 7 billion to R$8 billion; a 15.6% growth. We also saw 1.5% increase in the trading and post-trading margins for these segments.

This performance reflects the recovery of the Brazilian equities market, which we can see in the chart… in the market capitalization of Brazilian companies in the chart on the bottom right of this slide.

In the slide number 8, we have the performance of the Cetip UTVM segment, where revenues from the registrations of fixed income securities and OTC derivatives grew 4.6% over the first quarter of 2016. The main sources of revenues in this segment are the fees charged on the registration of securities, maintenance or custody fees on the open positions, monthly utilization fees and fees per transaction paid by our clients.

In the first quarter 2017 particularly, the main driver for revenues growth was the increase in the number of transactions made by our clients in our system.

Moving to slide number 9, in the finance unit segments (also called Cetip UFIN) the revenues are generated by fees charged on the registration of liens and loans related to the vehicles, credit activities. Revenues in the segment grew 15.8% year on year.

This growth was mainly driven by a 7.2% increase in the number of vehicles financed, which reflects the combination of growth in the number of vehicles sold with higher penetration of credit in this market.

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

Mr. Sonder: Thank you Rogerio. In the next slide, which is page number 10, we show the adjusted expenses and how they performed for the combined company. Adjusted expenses reached 252 million for the quarter; an 8.5% increase, mainly impacted by the adjusted personnel expenses, which exclude long-term incentive plans. This increase in adjusted personnel was mainly explained by the annual salary adjustments applied in August 2016.

We move now to slide number 11, where we have the cash position and the other financial highlights. We show that the company has maintain its 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 R$15.7 million at the end of the quarter composed by B3's own cash as well as a third-party cash. This third-party cash is mainly related to collateral pledged in cash by clients.

On the right side, you see that B3's own cash (made up of restricted and unrestricted cash) amounts to 13.4 billion in first quarter 2017.

Our own cash includes the necessary cash to run the day to day activities of the company that totals between 2.5 and 3 billion. This amount includes approximately 1 billion in clearing houses required safeguards. The remaining assets of liquidity that support our activities as a central counterparty and other general corporate needs.

Excluding this cash position that is necessary to run the business, we had almost 10 billion in available cash that was retained as of the end of the first quarter to fund short-term obligations, including first of all R$8.5 billion regarding the payment of cash portion to the Cetip shareholders that was made in April 28; 511 million to settle the FX swap the company entered into to hedge the principle of our 2020 notes, this swap was set on April 3. It's important to mention that we entered into a new swap to hedge this FX exposure related to the bonds; and 1.1 billion in debt of the patients that are due throughout 2017 including principal and interest.

On the blue bars on the graph of the left we see that third-party cash, which amounted to 2.3 billion and it's mainly made up of market participants, cash collateral of 1.8 billion. It's important to highlight that the company does earn interest on most of this cash balance.

Moving now to slide 12, we see the first quarter of 17 financial results, which amounted to R$199 million; flat compared to the same period of 2016. We show the financial income of the top part of the slide and these were impacted by a higher cash balance carried by the company for the payment of the cash portion of the combination with Cetip, and which was paid out on April 28, and on the bottom in lighter blue we show the financial expenses. In this quarter, we have the full impact on the interest accrual on the debentures issued in December 2016, which amounted to 96.2 million.

We also had the impact of hedging costs for the 2020 notes, which amounted to 79 million in the quarter and includes the hedge of the principal and certain coupons.

In slide 13, we call attention to some balance sheet highlights. We show the balance sheet for the combined company, we have already performed a preliminary purchase price allocation or PPA analysis for the Cetip combination transaction. This appraisal showed approximately R$5 billion in intangibles mainly made up of softwares and technological platforms, which we expect to amortize in approximately 7 years, and this will impact our company's expense through the depreciation and amortization line.

The goodwill, which is another amount, adds to 7.9 billion according to recent evaluation, which we estimate will allow us to have roughly R$7 billion of goodwill for tax amortization.

This is a preliminary evaluation which could be reviewed within a 12-month period for the company. Although we don't expect material changes to that.

We also had 2 other significant balance sheet impacts for the quarter: The impairment of the iBalcão platform amounting to 665.5 million and 134 million for the provision of some legal contingencies after we reviewed the criteria for probable losses in these contingent liabilities; and lastly, the payment of the cash portion of the Cetip transaction of 8.4 billion was down and completed on April 28th, as mentioned before.

So, we now move to the new guidances, and as we announced last Friday, they are as follows: Adjusted expenses for 2017 will be from 1,050 billion to 1,00 billion, considering the midpoint of the range it means a 4.9 growth from last year, depreciation and amortization should be between 790 and 840 million and includes the amortization of intangible assets I mentioned in the previous slide, and Capex for 2017 will be between 250 and 280, which is lower than the combined numbers we saw in previous years for the separate companies.

Moving now to slide 15, we show the Opex and Capex budget that relates to the combination with Cetip itself. It’s divided into 2 main groups: In the first group, we show the expenses and other impacts in the accounts that arise from the completion of the business combination with Cetip. These were the expenses we incur to conclude the transaction effectively, they are mainly made up of contractual commitments and other accounting impacts, expenses related to retention and severance programs approved in our last annual meeting and; three, fees paid mainly to advisors and consultants. The estimated… these are estimated as a total for 2017 as 420 million, of which 304 million have already impacted our numbers in the first quarter of 2017.

The other group in the bottom half of the page shows the expenses and investments that we expect to incur to capture synergies. These includes severance payments and also payments to service providers, and they should range between 175 and 190 million, of which 150 in 2017.

In the case of Capex, we expect to spend roughly 15 million equally split between 2017 and 18 to make the changes in our technological infrastructure as well as our physical infrastructure necessary to put the 2 companies together.

So, I'd like to and now the formal presentation and open our Q&A session. Thank you very much.

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 Mario Pierry, Bank of America Merrill Lynch.

Mr. Pierry: […] if you could explain to us the impact of a lower interest rate environments on your 5 business units. So basically, trying to get a feeling here how do you see your business units performing as interest rates come down in Brazil.

And then the second question is: I just wanted to understand a little better here this guidance that you are providing, especially on the Opex. Basically, trying to understand how much of the synergies are being… are already reflected on your guidance.

And also, it wasn't clear for me here on page 15, you are showing that you are going to incur expenses of R$175 million but you only going to capture 100 million in synergies. So just trying to understand, seems like you have much higher costs than benefits from capturing synergies. Thank you.

Mr. Sonder: Okay Mario, thank you very much for your question. So, let's start with the first one with lower interest rates and I think I'll just highlight a few points which I think are worthy of note.

On the BMF segment, I think that the lowering of rates essentially means that the total outstanding balance of transactions that could be hedged, especially interest rates, grow. Banks are lending more through… because of lower interests and the economy is moving faster, they will need to, you know, sort of increase their balance sheets on both sides and hopefully that will combined with a movement of lengthening of maturities as well as, you know, changes in the profile of fixed to floating or floating to… sorry, less floating to more fixed or inflation-linked securities, and all these things I think that help us in the traditional derivative business, particularly for rates.

In Bovespa I think you know how to do this math better than anyone, so lower rates higher likely being higher market capitalization, growing businesses with higher earnings and particularly interesting I think will be to experience again what we may have seen in the last cycle of rate slowing, which is investors not being happy anymore with just sitting on government bonds and seeking other ways to increase their returns, particularly looking for opportunities in equities.

So, you know how skilled the investment profile of most of Brazilian individuals' pension funds and asset management is towards public government debt, and I think he we should benefit greatly in the equities business should we see a prolonged and sustained period of lower rates the with a consistent fiscal policy backing it up differently from what we saw last time.

In the securities unit of Cetip, you know, UTVM, I think, again, you see 2 things there: one is the same thing that I mentioned earlier for listed derivatives, you should see for OTC derivatives; but also I think importantly you have the whole corporate sector and the corporate bonds, the debentures in Brazil, and the fact that have lower rates again in a scenario of a growing economy as well as you know less access to public bank funds, such as BNDS and others, should lead to a more active captive market activity in fixed income.

So, that's I think is an exciting part of the securities business in Cetip, which we look at one rates are lower.

And finally, in the auto loan and lien registration business and, you know, in the real estate further down the road, you know, those 2 definitely benefit from lower rates as not only demand picks up, but also the coupon payments or the monthly payments that are due on cars and on real estate become lower, I think willingness to borrow should go up.

So, I think we are pretty well-positioned in all fronts and that's one of the headwinds that… sorry, one of the tailwinds it's going to push us forward.

With respect to the guidances, which you asked, we have released a guidance for synergies of R$100 million that will seek to capture by the third year of the combination, that means that our expenses will be lower as a total company by 100 million compared to what we had as separate companies.

Some of that is already being captured in 2017, we are not at this point giving this breakdown by year, but, yes, some of it is already incorporated into 2017 as you look at the numbers that we have released, some of that will be there and we will be sort of keeping everyone posted as we move forward, but we are keeping the combined goal of 100 million as the number we are sharing with the market, although internally obviously we have a more specific target for how should scale up or grow over the next 3-year cycle.

And then, finally, regarding your observation on the cost of the integration, the 100 million is annual recurring number, so the right way to think about it or the better way to think about it is to model it out for several years and then compare that number at present value terms with the cost that we are incurring with the integration, which is one-off. So, it's not 185 versus 100, but rather 185 versus 100 throughout many, many years.

Mr. Pierry: Got it, that's very clear. Just if you can provide just a little bit more color where the synergies are coming from, specifically line items?

Mr. Sonder: Yes, so we have companies that are very similar in terms of the breakdown of their expenses, either in both cases between 50 and 60% of expenses are related to personnel. So, it's not surprising that we should see the majority of these savings coming from debt, but we also have savings in contracts in certain service provider, both things such as accounting fees and other sort of corporate overhead, but also IT contract maintenance for some of the systems which are overlapping which we can simplify. So, this is what we are focusing on as I have mentioned before.

In the client facing activity, if you will, in the main business of operating the platforms of derivatives, equities, trading, post ratings, registration of securities, registration of derivatives, registration of auto liens and loans, these things don't change. These things don't overlap.

So, we don't expect to see much savings in converting one platform to the other or something like that as you might expect in a merger that would be a more vertical merger. This is a horizontal merger, we don't do the things that… each company didn't do the things that the other company did, so we are basically parking the 2 companies side-by-side from an operating standpoint and most of the 100 million will actually come from corporate functions and overhead.

Mr. Pierry: Okay, just related to this question of synergies, when I look at your Capex guidance here, if I can properly read the lines here, seems like your Capex for BVMF alone would've been higher in 2017 than in 2016. So, I was under the impression that you would be at the end of your Capex cycle at the BM&F. So, I'm just wondering why your Capex still be going higher for BM&F in 2017.

Mr. Sonder: The guidance we had given earlier in the year for the BM&FBovespa standalone was 165 to 195 compared to an actual of 224 for 16, so, you know, we were already lowering our own Capex standalone and as we look at this if you take some midpoint of 180 here and you add the number for Cetip from last year, that's essentially where we are for this year, at the top of the range. So, let's say 180 for BM&FBosvespa, 100 for Cetip, that takes us to 280, that's the top of the guidance. So, I think we are not increasing our Capex vis-à-vis what we had announced earlier in the year, neither is Cetip.

Mr. Pierry: Perfect. Thank you. Very clear, thank you very much.

Operator: The next question comes from Thiago Kapulskis, BTG Pactual.

Mr. Kapulskis: Good morning everyone and thanks for the opportunity to ask. I have a couple of questions. The first one is in terms of the integration of clearings.

With the end of the process with Cetip, is there any update on that? Is the calendar or the estimates of the final dates for that changing? Or if you guys could give us an update on this it would be interesting.

And my second question is in terms of the public hearing of pricing. Is there… how is it going? Is there an update on that? If you guys could provide that that would be interesting as well. Thank you.

Mr. Sonder: Okay, thank you Thiago. So, with respect to our clear integration project, it is moving forward. We are doing a number of rounds of tests with the market as well as engaging with the regulator.

This does not become affected by the merger, neither in terms of technology or requisites or requirements that we need to adjust in the system itself, nor with respect to any different regulatory approvals and neither, lastly, with respect to teams because we have made a very clean cut in the company in terms of who is dedicated to projects in the integration front versus who is dedicated to projects in the clearing house front.

So, we are separating these out and we, again, we are moving forward, let's say, as you know it's a complex and mission-critical project not only for us, but for, you know, close to 70 brokers in the market and financial institutions and custodians and so forth, so there is a big effort on the way and we expect that during the third quarter we should complete that.

The public hearing for pricing, the period for comments ends at the end of May, we have not received any comments this far. So, when we have something that we receive we will make that public.

Mr. Kapulskis: Great Sonder. Thank you very much.

Operator: The next question comes from Alex Spada, Itaú BBA.

Mr. Spada: Hi gentlemen, good morning. I have a few questions. First one is on your strategy to pay back the debt you have maturing in the following years. So, what can we expect in terms of dividend payout ratio in this period? And also, would B3 be willing to distribute IOC to the point where it creates tax credits or would you rather distribute dividends if that's the case? And then I come back with another question. Thank you.

Mr. Sonder: Spada, welcome back. Nice to have you.

Mr. Spada: Thank you.

Mr. Sonder: So, first of all, with respect to debt and dividends, we have published, you know, the schedule for our debt amortization as it's hired right now, as it's in the book as of now, we expect to amortize all of our debt on time and our target is to reach a level of a maximum of one time growth debt to Ebitda by the end of 2019, okay?

So that's what we have in mind. And to do that we will pay the maturities as they come due and, you know, according to what we have planned and (obviously with some degree of flexibility here) we find that over the next 3 years we will basically pay between 70 and 80% of our accounting net income in terms of payout, which as you know, our accounting net income is smaller than our cash generation, it roughly means that 50% of the cash generated by the company will go to amortize debt and 50% will go to payout to shareholders. That's roughly the calculation we work with right now.

But obviously, that will depend on the performance of the business and on each decision that the board will make regarding that.

We will mainly use interest on capital to do that and we will evaluate when we reach that level whether, you know, we should pay more IOC and accumulate tax credits for the future or whether we should change to dividends. There is no decision made on that point yet, but there will be a priority given to interest on capital for obvious reasons as the preferred instrument of paying out this portion during this period.

Mr. Spada: Okay, that's very clear, thank you. And a follow up: You provided guidance for depreciation, amortization, I just wonder if that includes also the amortization of goodwill, which doesn't flow through the income statement or if that range you gave refers only to what we are going to see in your income statement as an expense?

Mr. Sonder: Okay, that does not include the goodwill portion, it includes only the items that flow through the, let's say, top part of the PNL, and for the goodwill you should take the 7 billion number and we are planning to amortize it in 5 years.

So, you can run the taxable calculation on the side and then bring that back through the tax line, as you well know.

Mr. Spada: Okay, very clear. And then one quick follow-up: Do you have an estimate on when you will really start amortizing debt? If I'm not wrong, you depend on certain procedures to really be able to start amortizing that.

Mr. Sonder: Yes, it's going to be in the third quarter, so we are working hard now to get all those things done that are necessary for legal, let's say, legal merger, you know, *incorporação* of Cetip into B3 and we should expect to start amortizing in the third quarter.

Mr. Spada: Okay, and that applies to the goodwill and also intangibles created in the merger.

Mr. Santana: Yes, in the case of the intangibles, you are going to see the amortization in the income of statement, but the tax credit we are going to benefit from that only in the third quarter, after the legal merger, as Daniel mentioned. But you are going to the amortization in the income statement and then in the third quarter we will start the benefit.

Mr. Spada: Okay, that's clear. Thank you all.

Operator: The next question comes from Tito Labarta, Deutsche Bank.

Mr. Labarta: Hi good morning Daniel and everyone. Thanks for the call. A couple of questions. One is a little bit technically in terms of extraordinary expenses. Just want to reconcile the difference between the managerial and the IFRS because you had expenses around 235 million in the managerial but on IFRS it was 45 million, and comparing that to what you said I think roughly around 400 million in extraordinary expenses for the year, I just wonder how is that going to be calculated. I just want to understand the difference between those 2 numbers there and how this is going to show up throughout the rest of the year.

And then my second question, in terms of financial income given the payment to the Cetip, is it fair to assume I guess the financial income should fall roughly in half, roughly 200 million this quarter with that payment? I guess also interest rates coming down I would expect the financial income is going to fall. I just wanted to confirm that. Thank you.

Mr. Sonder: I will start with the second one, Tito, you are absolutely right. So, financial income will drop significantly. In fact, if you think of BM&FBosvespa prior, we always had a very positive financial income with a lot of cash and all that particularly over the last few months when we were caring the cash for the transaction. this will now split, right, because we now have a lower cash balance and we do have debt indeed.

So, financial income would change, again, I think the general numbers are what I mentioned earlier in the discussion, you know, carry cash for our own purposes of R$2.5-3 billion and then whatever cash we carry from third-party which also generates financial income for us.

Mr. Santana: Hi Tito, it's Rogerio. Regarding your first question, you are right: there is a difference between the numbers you see in the IFRS income statement and the numbers in the combined income statements we provided you.

The difference is related to the fact that all the impacts that comes from Cetip side is not in the IFRS income statement because it was included in the equity base used in the purchase price allocation. So, what you see in the IFRS numbers is only the part that comes from Bovespa, BM&FBosvespa, so you have the impairment of the iBalcão platform and the expenses related to the fees paid by BM&FBosvespa to their advisors.

This is the difference between these 2 lines in the IFRS versus the combined numbers.

Mr. Labarta: Okay, great. So, we won't see any additional related to those Cetip expenses. What is left to is roughly 100 million for the rest of the year that you talked about earlier, is that correct?

Mr. Santana: Yes, now on everything that you are going to see will impact both IFRS and any other combined numbers because we are already a single company.

Mr. Labarta: Okay, great. That's very clear. If I can do just one follow-up question I guess on the tax rate, excluding the goodwill amortization and with payments on interest on capital, what kind of tax rate you are expecting for the year? Because I guess this quarter was not impacted by interest on capital, correct?

Mr. Santana: Yes, you are correct. The first quarter was not impacted by interest on capital, we approved IOC distribution that will impact the second quarter. So basically, you can deduct the amount we pay on interest on capital from your EBT days that you have in your model then you are going to find probably a tax rate that would be around 20% in the accounting numbers.

Mr. Labarta: Okay perfect, thank you very much.

Operator: The next question comes from Frederic de Mariz, from UBS.

Mr. de Mariz: Thank you, good morning everyone. Thank you for the call. Congratulations for the consolidation. I have a few follow-ups. The first one on the one-off that we saw in the first quarter. Can you just repeat or confirm what kind of other one-offs you may expect for the second quarter and for the following quarters?

The second question has to do with the depreciation. We got the guidance you gave for the full year, it looks like a large acceleration in the depreciation expense in the PNL, so should we expect something like R$200-250 million in depreciation in the PNL per quarter?

And then the final question on the integration on the clearings. We saw the guidance for 2017 for Capex, should we expect the Capex to come down meaningfully next year as you are already done with those projects? Thank you.

Mr. Sonder: Okay, let me start with the Capex. Thank you for the question. We find that we are finishing the clearing house integration at BM&FBosvespa and this is already a year where we are seeing a reduction compared to the 2 previous years in our company. You know, Cetip also finished some investments, in particular the migration of their main platform to São Paulo from Rio, which was also, you know, waving a little bit on their Capex for the past 2 years.

Now, having said that, the number… sort of the longer-term number that we are guiding for is around 250 million for the 2 companies. We think that technology is obviously a key asset and a key advantage and an attribute that we are recognized for and we will make the necessary investments to keep our platforms very, very up-to-date.

So, if you look at the amounts that were invested in both companies to build the current systems and put all, let’s say, assets that we have in terms of computers as well as capitalized development of [0:46:16 unintelligible], softwares that are key to do what we do, I think you will see that this number of 250 is not much higher than simply the replacement cost of things that are amortizable over a period of 5 to 10 years, which is the case for our technological assets.

And then you asked a question on depreciation, right? Depreciation we guided the number that we see for depreciation and amortization, which is around 790 to 840 million per year, so the number you mentioned, which is 200 per month, I think… sorry, 200 per quarter I think is right in terms of what we expect as well.

And finally, you asked on the one-offs. You know, we try to give as much [0:47:22 inaudible - background noise] as we can on the combination-integration related expenses, you know, this is a number that we are working on internally, we don't expect any surprises there, I think the way we try to handle this budget we announce publicly they are very tight process internally, so we don't expect deviations from those numbers in terms of one-offs, but other one-offs are other one-offs. So, I don't know, I do want a promise that we are not going to have any one-offs, ever.

Mr. de Mariz: Sounds good. Thank you Sonder, that's very clear.

Mr. Sonder: Thank you.

Operator: The next question comes from Domingos Falavina, JP Morgan.

Mr. Falavina: Thank you Sonder and Rogerio, congratulations on the quarter and the M&A fully concluded. My question is more I guess directioned on margins: How should we think about it? I have an understanding that you have a new pricing committee that will also have clients participating and I believe there is a directional view of sharing some of the scalable gains with the clients.

So, my question is: is volumes… let's assume volumes do pick up and we start having more activity in Brazil, can we assume like margins significantly increasing or is it more a scenario where we should think of margins more flat and most likely up because the pricing would decrease in order to share some of the gains with clients? Thank you.

Mr. Sonder: Thank you Domingos. I think you're obviously thirst on a very important point, we don't like to guide on margins, but I think, you know, as we think about this, we have to ponder exactly those elements that we mentioned, right, that you mentioned, which is we have a highly scalable business which is very good and should be to the benefit of our shareholders and yet the fact that we now dominate most of the services here in our market should give us pause and make us think about how the market and the regulators are also viewing our financial performance vis-à-vis the benefits that they are getting from a growing market.

So, you know, that means making the proper investments in technology, in systemic risk, in robustness of our platforms, which is something that obviously our regulators will look at, as well as sharing the benefits of the gains of scale with market participants.

So, you know, I think both companies have had a successful track record in doing that, in having close enough relationship with the clients where they field that, you know, if we are making an additional return how they are participating in that. That doesn't mean giving away 100% of our operational leverage at all, but we will be conscientious of the fact that having a one-sided view of a growing market might be interesting in the short term, in the next quarter, the next 2, but is definitely not to the companies' long-term benefit.

So, you know, I think this new forum will bring an additional layer of governance perhaps and seniority to something that was already very much in the DNA of both BMF Bovespa and Cetip.

You know, Cetip had an actual pricing committee as an advisor to the board, we had several chambers or forums in the market where we put together brokers and clients and investors of different products and users of different products and we shared with them what we were doing, both in terms of investments and the view of where we were headed, but also in terms of pricing.

I think that will continue to be a very healthy exercise and that's most of what I know for now.

Mr. Falavina: Perfect, it sounds like something in between... some benefits and some sharing.

My second question is a simple one, it is actually: Seems to me… I noticed you hedged some of your dollar contracts and I had an understanding that some of these were interpreted by the company as a benefit to have some dollar revenues as well as well as some hedge versus the Capex, which according to the company has a dollar component in it.

What's the strategy going forward? Should we expect that dollar derivatives contracts to be fully hedged or was something very unique on this quarter?

Mr. Sonder: Yes, thank you. It's not unique for the quarter, but it's the first time we do it and it will be there for the remainder of the year, okay.

So, essentially we had some financing needs and we chose to finance part of those needs that were related to Cetip's funding with US dollar-denominated debt, and as we looked into that and we looked to the fact that we had some dollar-denominated revenues, we said, you know, there is more than one way to structure this but let's do the following for this year, which is, you know, we hedged for accounting purposes the debt with the revenues so that we have this matched month by month, and this is the impact that you see, you know, the impact of a lower dollar is not reflected fully in lower revenues and it's also not reflected fully in lower cost of finance, you know, financial expense.

So, this is something we will have for the year, you know, the board will review this and it was intended again to, let's say, mitigate the impact of these variations in these 2 lines during the year.

We've also practiced for a number of years a hedge of our dollar expenses as well as the investments in dollar that we can foresee at the beginning of the year. That doesn't cover 100% of our dollar expenses nor does it come 100% of our dollar investments, but for those things that we can see and have a clear contractual obligation that we can see at the beginning of the year, we do hedge and that's I think a way of, again, managing the company without being impacted by FX in our expenses. I think it gives management a better view of how the different areas are managing the money that was allocated to them under a certain FX scenario at the outset of the year.

Mr. Falavina: Super clear. I forgot the dollar-denominated debt. Thank you.

Operator: The next question comes from Carlos Gomez, UBS.

Mr. Gomez: Hi, 2 questions. The first one refers to your legal contingency expenses at Cetip for 834 million as part of your one-off expenses. If you could give a little bit more information about the nature of them and whether there are more to become in the future.

Second, and now related to merger, could you give some update about where you're standing towards your dispute with the federal authorities regarding the tax advantage from the merger of Bovespa and BMF?

We understand that you already had their solution, not a positive the one from CARF. We wonder whether you have already appealed to the ordinary court or you plan to do it in the future? What time will it be and whether there might be a cost associated to that? Thank you very much.

Mr. Sonder: Okay, thank you. So, with respect to the provisions (I think it was your first question, Carlos), we basically put the legal teams to work together over the last one month to look through the whole inventory of contingencies that both companies had and we found that for certain items there was a slightly different treatment of cases of a similar nature and in particular these cases with Cetip, they have to do something that we already faced at BM&FBosvespa, which are litigation regarding the demutualization process, so former quota holders of the previous mutual identities, you know, suing for certain amounts that they find are due to them.

So, we have a, let's say, a portfolio of these cases if you will, and I'm not getting get into the minutia of how we treated them, but we found that some of the cases at Cetip should be treated as they were for analogous cases at BM&FBosvespa. So, that's why we treated them like that.

And since on that subject, most of the discussions, you know, relate to the fact that people who had these quotas understand that they should have had shares of the 2 companies and therefore these mitigations, until they are completed, the value at risk is a function of the price of our share because should we be found to have to make any payments to these guys it would probably be linked to what our stock is worth at the time of that final judgment. So, that's just to, you know, give you some more detail that could fluctuate further in other periods going forward.

With respect to the CARF and all the dispute we are having with the government at administrative level with our tax issues of the Bovespa merger, we have the first case, which is the 2008 and 2009 period, we were unsuccessful in our appeal, we have not yet received the official notice from the court, this is now in a sort of bureaucratic process, there is no discussion anymore of whether they could change their mind regrettably, they can't, but we haven't received the formal documents from the end of those procedures.

Once we receive we will go to court, this will happen at some point during this year. I'm not able to give you a precise time right now, and then we will start at the lower levels of the judiciary and it might take a few years for us to have a final resolution on that.

With respect to the second case, which covers the 2010-2011 period, we will, again, continue to appeal, we have a hearing scheduled for tomorrow, we have had a first hearing on this, which was interrupted in the middle as one of the board members of the administrative court asked for some additional time to familiarize himself with the documents. So, it's coming back tomorrow for judgment.

And, again, it will follow the same steps that happened to us in the first case, which is lower court. If we are in either scenario, whether successful or not, there is a chance of the other party appealing, it depends a little bit on how the ruling comes out, but we would, again, have an opportunity to evaluate whether we can appeal to the higher court of CARF, the government has the same right to do that should we be successful at the first level and then in any case, if we are unsuccessful, we can take this to the judiciary.

Mr. Gomez: Thank you very much. And, again, to clarify on the first case you implied that depending on the evolution of your share price we could see this provisions for contingencies go up and down in value over time.

Mr. Sonder: That's correct.

Mr. Gomez: Okay. And in the second one, if you appeal to the ordinary court, again, it is just a matter that you might have to [1:01:38 unintelligible] a bond. Do you have an estimate of the possible cost of having a provision for that?

Mr. Sonder: Yes. So yes, we will likely have to post bond and to the full amount of the discussions, so the report numbers that you see for case 1 and case 2 we have already, you know, engaged with some counterparties to provide us insurance and/or letter of guarantee. This will have a cost, it's not a very significant cost, it's below 100 basis points per year for a company of our size and credit risk, and this will mean no provisions from the principal amount standpoint.

We have this now expense for carrying this bond, this insurance, but there will be no provisions made because our legal opinions continue to be very firm that we will win the case.

Mr. Gomez: Okay, that's very clear. Thank you so much.

Operator: The next question comes from Marcelo Cintra, Goldman Sachs.

Mr. Cintra: Hi Sonder and thank you for taking my question. Actually, I just have 2 quick follow-ups on your nonrecurring expenses. Here when we look at slide 4, you show that you had expenses related to long-term incentive plans of roughly R$140 million, and when I look at the presentation that you guys provided in April you mentioned that there could be nonrecurring expenses also regarding incentive plans of R$81.3 million.

So, I just would like to hear from you if these 81.3 million they were considered on the first quarter or not and if this is something that it's going to impact the second quarter results?

And then my second question is regarding the impairments. You mentioned that you don't expect any other impairments. So, just a quick follow-up on the CCP that Cetip was developing.

Is there any chance that we could have an impairment regarding these assets maybe in the midterm or not? This is something that it's already decided by the company that there won't be any impairment on these assets specifically? Thank you very much.

Mr. Sonder: Okay Cintra. I don't have in front of me the number you referred to from the previous quarter, and we are going to look it up and then reach out to you off-line if you are okay with that. But the number of… the impact of the long-term incentive plan that you see of 140.6 is essentially the payroll effect, payroll tax effect of buying out or canceling the stock option programs of former Cetip employees as well as their matching programs.

So, we had these colleagues of ours which obviously had the proper long-term incentives to… that are linked to the share price of the Cetip and as the transaction was triggered (and it's not uncommon that this happens these programs all called for, let's say, the early vesting of these options), so we did a program with them of canceling and paying the proper compensation for the cancelation of early cancelation of all these options and it was presented as these numbers now.

So, the other thing that you mentioned was the CCP, right? And the CCP was in fact… the CCP project at Cetip was in fact written off in this quarter and I know there is a lot of numbers going around regarding these one-offs, but this is described in page 4, it's asset right off and fines related to the cancellation of contracts in the second line in page, that’s R$35 million. That's the writing off of the CCP project and on the BM&FBosvespa side there was a provision made for impairment, which is the 65.5.

Effectively, it is the same thing, but with 2 slightly different accounting treatments. Don't let the accountants hear me saying it's the same thing.

Mr. Santana: Cintra, it's Rogerio. Let me ask one thing: You mentioned that in the documents we released on April we mentioned an 81 million expense related to stock option; are you referring to the general meeting documents when we approved some extraordinary stock grant programs to access retention and severance of the management?

Mr. Cintra: Yes, exactly, it is the material that you guys provided for the shareholders meeting, where you mentioned that there would be R$166.8 million of thorough compensation for board meeting of which 81.3 would be nonrecurring.

Mr. Santana: Yes, in the page number 15 of the earnings presentation in the table on the top you can see that there is a line called "retention of severance programs approved in the general meeting" of April 28, right? So, out of the programs that were approved in the meeting only R$4.1 million impacted the first quarter 17. So, the remaining should impact the second quarter, the part related to severance should be entirely recognized in the second quarter, and the R$44 million related to the retention program should be accrued over a four-year period.

It's important to mention that the R$81 million that was approved in the general meeting is related only to the principle of the shares that we are granting, so on top of that we need to calculate payroll taxes. That's why you find a higher number here.

Mr. Cintra: That's clear. So, just to clarify, the R$81 million difference will be impacting the second quarter results, right?

Mr. Santana: Part of it.

Mr. Cintra: Part of it, okay, that's perfect. Thank you very much.

Operator: The next question comes from Eduardo Nishio, Brasil Plural.

Mr. Nishio: Hi, good morning, thank you for the opportunity. Just a question on your reporting. I noticed you had a change the way you report this quarter, no adjustments on the free tax liabilities, so it does affect her cash earnings. Of course, adjustments are quite subjective, but I just want to know your thoughts about, you know, the way we should look at that, especially to the goodwill tax benefit and the tangibles.

How are you going to provide us with those numbers going forward and if there is any charge, any write-off amortization from Cetip acquisition this quarter, the seven-year amortizable impairment, if there is any this quarter? This is a second question, but just related to the first one.

And, again, how should we think about those adjustments going forward if you are going to provide us with some kind of cash earnings calculations so we can make adjustments in our numbers? Thank you.

Mr. Santana: Hi Nishio, thanks you for your question. In the first quarter, we had the impact of the deferred tax granted by the goodwill amortization of Bovespa, that was granted in 2008. So, the number is R$133 million and we should see that impacting the coming quarters in 2017.

Regarding the new intangibles and the new goodwill that were created by the combination with Cetip, it will start to impact our numbers in the second quarter in the case of intangibles, and in the case of goodwill amortization the deferred tax should impact our numbers in the third quarter.

So, we are working on that, we should give you visibility on the amounts related to each of these items and by doing that give you some tools to help you to calculate what would be our cash earnings.

Mr. Nishio: Okay, but this quarter you haven't adjusted the cash earnings for the goodwill amortization of Bovespa, right? Next quarter, are you going to adjust that or is it going to be the only at the Cetip acquisition tax benefit?

Mr. Santana: What we showed here in our documents was the nonrecurring items, but of course there are other no-cash items as it is the case of the goodwill deferred liabilities that impact our earnings. So, this quarter we preferred to highlight what was the recurring and what was nonrecurring numbers and in the next quarter, when we start to have the impacts of intangibles and goodwill from Cetip, then we will revisit it and see how would be the best way to show what is the cash earnings of the company and what is the recurring earnings of the company, what is the accounting earnings of the company.

Mr. Nishio: Clear. Thank you, thank you so 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, thank you very much for taking the time, thanks for keeping up with the coverage and with all the extraordinary items and movements that you've seen in our books over the last several quarters. I think we have tried to give as much visibility as possible, but please feel free to give a call to our team.

And finally, thanks for the team for putting all this together. We are available and have a good day.

Operator: That does conclude the B3 audio conference for today. Thank you very much for your participation, have a good afternoon and thank you for using Chorus Call Brasil.