Company Participants

- Daniel Sonder
- Rogério de Araújo Santana

Other Participants

- Alexandre Spada

MANAGEMENT DISCUSSION SECTION

Operator

Good afternoon, ladies and gentlemen, and welcome to the audio conference call about the Earning Results of BM&FBOVESPA for the Third Quarter of 2015. 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. 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.

Daniel Sonder {BIO 18250247 <GO>}

Good morning and good afternoon to all of you, depending on your time zone. Welcome to our third quarter 2015 earnings conference call. I'm in the room with our Investor Relations and our Finance teams.

I would like to start with the following statement. As disclosed to the market by BM&FBOVESPA, the company is engaged in preliminary non-binding negotiations with Cetip aiming at the possible combination of the two companies. All relevant information until now on this matter, have been disclosed through the Material Fact and Notice to the Market released on November 3 and November 4 respectively. Therefore, we will not make any additional comments. And we will not answer any questions on this subject in this conference call today. Any additional disclosure regarding this subject will be made exclusively through the formal channels as defined by securities regulations.

Thank you for your understanding. And with that, I would like to ask you to please turn to your books and flip to page three, where we start with our highlights for the third quarter. We have here an overview of what happened in our operations and our financial results, including the non-recurring impact related to the sale of part of our investment in the CME Group. We'll then go into the details in the following slides.

On the left side of page three, we see a solid growth in the BM&F segment, which had all-time high results in this quarter, and also in other business lines not tied to volumes traded. On the other hand, Bovespa segment showed weak volumes in the quarter compared to last year.

In the middle of the page, we see that the solid operating performance resulted in double-digit top line growth year-over-year, mainly driven by revenues from the BM&F segment and from other business lines. Adjusted expenses grew slightly above inflation compared to the same period last year, mainly reflecting wage adjustments under our annual union bargain and also non-recurring write-off.

Accumulated adjusted expenses in the nine months through September 2015 is up 6.3% versus the previous year, within the 2015 budget and significantly below inflation. Our adjusted net income grew by 27.9%, while IFRS net income, excluding the impact from sales of CME shares, increased 65% year-over-year.

On the right side of the slide, we show the main impacts from the partial divestments of CME shares and from the discontinuing of the equity method of accounting for the remaining investment. The aggregate net impact was R$1.6 billion, R$474 million came from the partial divestment and R$1.1 billion from the discontinuity of the equity method of accounting for the remaining 4%.

As announced in early September, we sold 20% of our equity stake in CME Group, which represented 1% of the total CME shares, reducing our investment from 5% to 4% of total CME shares. Discontinuity of the equity method of accounting was a consequence mainly of this partial divestment. We will go into more details during the presentation.

Moving to page four, I would like to emphasize that we maintained our focus on the two main strategic objectives of the company, namely, building a world-class IT and operations infrastructure and at the same time, seeking to add revenues through the continued development of products and markets. We concluded substantially all of the IT developments related to the second phase of our new integrated clearinghouse, which will migrate the post-trading of equity and corporate debt securities into the new BM&FBOVESPA Clearinghouse.

The first phase migrated the listed and OTC derivatives into the new BM&FBOVESPA Clearinghouse in August 2014. And since that date, it has handled increasing volumes of derivatives. For example, the average number of trades per day grew more than 50% in 2015 when compared to 2014. This growth in market activity puts to the test the resilience of our infrastructure and shows the importance and the value of all the investments we have done over the past years.

The effort and investments in terms of equipment and human knowhow that we have put also in the PUMA Trading System continues to bear fruit, since we have witnessed no operation interruption in this system for more than 850 consecutive days. This number becomes even more important if we consider that today, the average number of messages per day in our trading platform is four times what we had in 2010, before the PUMA project was started in partnership with CME. Notably also, not only do we track average number of messages, but also peak volume of messages. And in that metric, we are today with peak volumes, in past weeks, close to seven times what they used to be at peak times during the day in 2010.

In another highlight of our IT and operations plan, in this quarter, we migrated flexible options with and without CCP to our new OTC derivatives platform, following the migration of NDF and Swaps in the first half of 2015.

With respect to product and market development, on the right side of the page, we are concentrating our efforts in increasing liquidity for listed products. With this goal, we're expanding our market maker programs, increasing the number of active programs to 22. And we're working to attract new participants to our securities lending platform, mainly local pension funds and foreign investors.

We're also pursuing what we think could be a nice market opportunity in inflation-linked future contracts, having relaunched this product family in June, in order to better meet the needs of our market participants. We plan to add market makers to these inflation contracts as well.

The company has been making an effort to drive revenue growth by implementing enhancements to our policy of pricing and incentives. These have been gradually announced and put in place over the last few quarters. In third quarter 2015, we implemented the new commercial and pricing market data policy, and altered the fees charged on OTC derivatives.

Last but not least, in September 2015, we launched the Corporate Governance Program for State-Owned Companies, which provides a framework for companies to improve disclosure, board and management selection, internal controls and compliance.

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

Rogério de Araújo Santana

Thank you, Daniel. Hello, everyone. I would like to ask you to move to slide five, where we highlighted the resilience of our business model. Revenue diversification across markets and currencies coupled with initiatives to drive non-volume related revenues underscore this aspect of our business.

We see on the left slide that the greatest contribution to revenue growth in this quarter came from the financial and commodity derivatives market within the BM&F segment, where we have a long exposure to U.S. dollar as well as exposure to volatility around interest rates and FX rates. Another relevant contribution came from other business lines not related to volumes, which were impacted by the solid performance of some products, coupled with recently implemented enhancements to our price and incentive policy.

The performance of financial and commodity derivatives and other business lines were more than enough to offset the weak equity performance and, as a consequence, the decrease in revenues from the Bovespa segment.

On the right side, the pie chart shows that the derivatives market are the main sources of revenues for BM&FBOVESPA. If we sum up financial and commodities derivatives, that represented 45.4% and derivatives of single stocks and indices with another 3.1%, we reach 48.5% of total revenues coming from derivatives versus 30% of cash equities. Additionally, 26% of the company's top line were U.S. dollar-linked, showing once again the narrative of our revenue diversification.

Moving to slide six. You will find details on the performance of the financial and commodity derivatives. The 34.2% revenue growth in the BM&F segment was driven by a combination of 24.3% increase in the ADV of contracts, with 8.9% growth in the average revenue per contract, what we call RPC. The bar graph on the left side, you see the relevance of both contracts priced in U.S. dollar and contracts exposed to interest rates. And we are seeing high volatility related to these two underlying factors, which has impacted the trading activity in a positive way.

We see that the main contribution to revenues growth in this market has come from contracts priced in U.S. dollar, mainly FX contracts, interest rates in U.S. dollars and commodity contracts, from which the combined revenue grew more than 50% year-over-year. In 3Q 2015, contracts priced in U.S. dollars generated around 52% of total revenues in the financial and commodity derivatives.

In the slide seven, we have the performance of equity market. Revenues in the equity business from Bovespa segment fell 15.4% -- sorry, 15.8% in comparison with 3Q 2014, reflecting the negative performance of both cash equity and equity derivatives market.

Regarding the 8.7% decrease in cash equity ADTV, it was directly impacted by 14.5% reduction of the market capitalization, which was partially offset by a higher turnover velocity of 70.8% versus 66.8% in 3Q 2014. Trading and post-trading margins reached 5.246 basis points in 3Q 2015, a 4.7%

fall year-over-year, or 0.26 basis points lower. This reduction is explained in – by smaller participation of equity derivatives in the overall volumes, since we charge higher than average fees for this market, coupled with higher participation of day traders that benefit from discounted volume tiers.

Moving to slide eight, we highlight the importance of the sources of revenues that are not related to volumes. One of the drivers of the company's strategy is to increase the revenues coming from this group of products and services. We pursue this goal mainly by actively marketing these products to our clients and altering prices and incentive policies applied to them every time we see opportunity to develop even more these products and services.

This group of business lines within the grey piece of the pie chart represents a 20.3% of total revenues in Q3 2015 and in aggregate grew 33.1% year-over-year. This growth results from solid operating performance of some products and services, notably securities lending in Tesouro Direto (13:17) combined with price and incentive adjustments I detailed in the slide four previously.

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

Daniel Sonder {BIO 18250247 <GO>}

Thank you, Rogério. In the next slide, we show the expense breakdown for the quarter. Our adjusted expenses grew by 11.4% year-over-year, mainly impacted by wage adjustments and a non-recurring write-off. Our adjusted personnel expenses, which exclude long-term incentive plans and personnel expenses capitalized towards projects, increased 4.2%, significantly below wage adjustments of around 9% under the annual collective bargaining agreement applied since August 2015. The lower increase in personnel expenses compared to the wage adjustment is explained by the constant efforts made by us in managing the company's head count.

Third-party services expenses were R$4 million higher or a 47.3% increase, mainly reflecting certain professional services expenses in connection with projects and product development. We find that these projects and product developments are good for the company and merit such an increase in our expenses for this quarter. Other expenses grew 36%, mainly reflecting a R$6.4 million non-recurring write-off of an investment and higher provisions and energy costs.

If we exclude the R$4.4 million non-recurring write-off, adjusted expenses would have increased 7.1% instead of 11.4%. So, below inflation. In the nine months period also, adjusted expenses grew by 6.3% significantly below average inflation of 9.5% in the period.

Finally, we're reaffirming our 2015 adjusted expenses guidance between R$950 million (sic) [R$590 million] (15:12) and R$615 million. This comes as a result of significant efforts by the entire company, all my colleagues and teams who are very, very committed this year to reducing expenses whenever possible, without hurting our priorities.

We had this year, as you know, to absorb a unexpectedly high inflation in wages, in contracts, and in energy since the time when we wrote our budget in the fourth quarter of 2014. And therefore, to keep within the OpEx guidance for 2015, we have to make a number of decisions to which the company was able to deliver on.

In slide 10, we discuss the partial divestment of CME shares. As announced in early September, we sold 20% of our stake in CME, equivalent to 1% of CME total shares. The motivation for the sale was to rebalance the company's assets by reducing the risk exposure to FX rates and CME Group share price.

We were able to do so while maintaining the strength and the relevance of this partnership for us. The total proceeds from this partial divestment amounted to R$1.2 billion and are now part of the company's financial investments. The pre-tax gain generated by this transaction was R$724 million, and the net gain after tax R$474 million. Taxes due from this transaction amounted to $250 million – R$250 million, sorry, and will be compensated against tax losses generated by the interest on capital distribution, including the R$254 million approved in August, and the R$315 million approved yesterday.

In slide 11, we discussed some of the accounting changes that will derive from the divestment of 1% in CME. In the income statement, the recurring impact, starting from next quarter, will be the following. One, the equity in income of investees line will no longer contemplate investment in CME Group. And two, the dividends receive from the CME Group will be recognized as financial income and will be included in the company's tax base.

You do not see these impacts in the third quarter income statement because this change happened only in September 2014, and we recognize the equity and income of CME until that date. Also in third quarter of 2015, we had an extraordinary non-recurring impact of R$1.7 billion from this transaction that will not be repeated in the following period.

In the balance sheet, the CME Group shares cease to be treated as an investment under non-current assets and are now treated as available for sale and will be measured at fair value, marked to market. The marked to market, however, will impact the shareholders' equity only. There will be no impact on the income statement on a quarterly basis after third quarter 2015.

Finally, the deferred income tax and social contribution line on the liabilities side of the balance sheet will now include a tax provision on the potential gain to be generated by this investment.

On slide two (sic) [12] (18:33), we show our net income reconciliation. Adjusted net income is the metric through which we measure the performance of our business on a recurring basis. And as expected, we treated both the discontinuity of the equity method as well as the gain on the partial divestment in CME as non-recurring events. And therefore, we excluded these two items from the base used to calculate our adjusted net income as well as our payout ratio.

We also show in this slide the reconciliation of the adjusted net income. In addition to the usual (19:13) adjustments and the impacts from CME I just mentioned, I want to point out the interest on capital adjustment. As you may know, starting from 2015 second quarter, the company opted for distributing its payout preferably through interest on capital in order to generate tax losses that can be offset in future periods against taxable earnings. Therefore, we are adjusting the tax benefit generated by the payment of IoC within the quarter to ease comparability of this adjusted net income.

Moving now to slide 13, 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. This robustness is the main reason why BM&FBOVESPA is rated above the sovereign and was maintained as investment grade by S&P and Moody's in their latest reviews. Total cash amounted to R$8.2 billion at the end of the quarter, being composed of cash held as collateral on behalf of third parties, and BM&F's own cash.

On the left side and blue side of the graph, we can see the third party cash which amounted to R$4.6 billion mainly composed by the market participants cash collateral of R$4.1 billion. This was extraordinarily high in comparison with previous quarter, and this is a cash balance that we don't particularly manage this size, as you know, we only hold it for market participants.

There was a sharp reduction in this balance right after the close of the financial statements in September 30 with, as you see, in the note in page 13, a transaction that was settled on October

1, equivalent to R$2.7 billion, and therefore this photograph - this picture of September 13 - sorry, September 30, 2015 is not representative of the current recurring balance that we expect to see in this third party cash.

With respect to our own cash on the right side of the graph, in green, it is composed of restricted and available cash, and amounted to R$3.6 billion at the end of the quarter. The growth in comparison with the previous quarter reflects a R$1.2 billion in proceeds from the partial divestments in the CME Group.

And finally, to close the presentation on page 14, we are continuing with the company's practice of consistently returning capital to shareholders. Yesterday, our board approved the distribution of R$315 million in interest on capital, and that represents 80% payout ratio based on our net income for the quarter, excluding all CME impact. And therefore, we continue to distribute significant portion of our cash generation excluding extraordinary events.

The CapEx executed for the quarter reached R$48 million. In the nine months period, we invested R$167 million, within our budget range of R$200 million to R$230 million for the year.

I would like to end my presentation now and open for questions. If anyone has joined the presentation during my speech, I would just like to restate what I stated at the very outset. As disclosed to the market by BM&FBOVESPA, the company is engaged in preliminary non-binding negotiations with Cetip, aiming at the possible combination of the two companies. All relevant information until now on this matter have been disclosed through the Material Fact and Notice to the Market released on November 3 and November 4 respectively. Therefore, we will not make any additional comments and as we will not answer any questions on this subject in the conference call today.

Any additional disclosure regarding this subject will be made exclusively through the formal channels as defined by securities regulation. Thank you.

Q&A

Operator

Ladies and gentlemen, we will now begin the question-and-answer session from investors and analysts. Our first question comes from Alexandre Spada, Itaú BBA A.

Q - Alexandre Spada {BIO 16687974 <GO>}

Hello. Good afternoon all. I have two questions actually. First one is during the BM&FBOVESPA Day hosted a few weeks ago, you discussed the odds and consequences of losing the status of qualified CCP granted by European regulators. Could you provide an update on this front? And then I will come back with a second question. Thank you.

A - Rogério de Araújo Santana

Hi, Spada, it's Rogério. Thanks for the question. As far as we know, the Brazilian Central Bank's discussing with the European Commission and they are evolving this discussion. We are optimist that they will get a solution for that and we cannot also discard the possibility of having extension in the waiver period that should end by the end of this year, but there is a possibility of the European Commission to extend that for an additional six months. So we are optimist waiting for a solution from the Brazilian Central Bank and from the European Commission, and once we get this news from them, then we'll of course disclose to the markets and let you know about that.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. And in case you don't, what again are the consequences for you guys?

A - Daniel Sonder {BIO 18250247 <GO>}

We don't expect that to happen, as Rogério mentioned. The consequences would be that some of our counterparties, particularly European banks and investors, would have certain restrictions on transacting here.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Thank you. And my second question that also refers to the Analyst Day. It was stated back then that Bovespa does not intend to sell the remaining 4% stake of CME. I just want to confirm that the decision of not selling additional shares remains the same and that the change in the consolidation methodology is totally unrelated to any changes in this decision. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

You are correct, the change in the accounting treatment is unrelated to the decision to – how to deal with the remaining 4%. It was motivated by the sale of 1% and the decision at the time on the – based on the information available, as put in the relevant notice, was that we feel that under the current scenario for the company, we're comfortable with the position of holding 4% and selling 1%.

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. And how often is this decision revised?

A - Daniel Sonder {BIO 18250247 <GO>}

It was discussed at the time of the sale for the last time.

Q - Alexandre Spada {BIO 16687974 <GO>}

But then on a recurring basis, once a year, twice a year?

A - Daniel Sonder {BIO 18250247 <GO>}

There is no particular schedule for reviewing this or any other decision. We may review it at any time or at any non regular schedule for reviewing this part (26:46).

Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. That's very clear. Thank you.

A - Daniel Sonder {BIO 18250247 <GO>}

Yeah.

Operator

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

A - Daniel Sonder {BIO 18250247 <GO>}

Thank you everyone for listening in. Thank you for your continued support and attention to our investment story and our earnings releases, and I just want to extend to the IR team and to the Finance team here also, everyone's thanks for their hard work these few days. Thank you.

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 review (27:57).