

## Q2 2015 Earnings Call

### Company Participants

- Clovis Poggetti, CFO & Director-Investor Relations
- Plínio Cardoso da Costa Patrão, Executive Director-Technology & Operations
- Rômulo de Mello Dias, Chief Executive Officer

### Other Participants

- Alexandre Spada, Analyst
- Craig J. Maurer, Analyst
- Gerardus Vos, Analyst
- Marcelo Cintra, Analyst
- Mario Pierry, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, everyone and thank you for waiting. Welcome to Cielo's Second Quarter 2015 Results Conference Call. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Cielo's remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and may be accessed through Cielo's website at [www.cielo.com.br/ir](http://www.cielo.com.br/ir) where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via webcast may post their questions on our website.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Cielo's management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Rômulo de Mello Dias. Mr. Rômulo, you may begin your presentation.

### Rômulo de Mello Dias

Good morning. I'd like to start by thanking all for joining us today on this conference call in which we'll talk about the results for the second quarter of this year. Joining me today are Clovis Poggetti, CFO and Investor Relations Officer, as well as members of the management, finance and IR teams.

On slide three, we can compare the main highlights of the quarter against the same period last year. Before we start presenting, I'd like to remind you that, for the first time, this report will include the consolidation of Cateno's figures for the full quarter. So standard relations will be relevant.

Cielo's consolidated net income reached almost R\$870 million up 9.1% year-over-year with a margin of 31%. And Cielo's adjusted net income considering the cash contribution of Cateno totaled R\$937 million, up 17.6% year-over-year. EBITDA was 1.3%, up 42% year-over-year and with a margin of 48.5%. The total financial volume totaled R\$130 billion, up by 3.5% and, excluding the Agro product, the growth would be 6.1%. Net operating revenue reached R\$2.8 billion, 52% increase.

Now, we will present other highlights and awards received during the quarter. We are now partners with 30% stake in Stelo, which operates as a facilitator for online payments and as digital wallet. With this investment, we want to strengthen our position in ecommerce, add in Stelo facilitator to our portfolio available to customers, which also includes our own platform for e-commerce in the case of .

We raised a loan on June 19 with Bank of Tokyo-Mitsubishi in the amount of R\$630 million, at the equivalent rate of 99.74% of the CDI. Another highlight of pride for Cielo was the fact that it joined the Euronext-Vigeo EM70 sustainability index, which is a new benchmark index launched by Euronext in June this year, including 70 companies from a total of 900 in developing countries with the highest performance in corporate responsibility in their regions.

Cielo will continue to integrate information security global council, PCI Security Standard Council, which is a global forum for development, improvements, dissemination and application of information security standards for electronic payments. We are the only company in Latin America to be part of this council composed by only 28 companies, which motivates us to continue our work, develop it, to provide maximum security for all of our customers and consumer transactions.

For the ninth consecutive time, Cielo was ranked first place in the service category in the Biggest and Best company by Exame Magazine. We were ranked Among the Best Companies to Start your Career, according to the ranking by Você S/A Magazine for the fifth consecutive time.

From the point of view of innovation, we were among the 10 most innovative companies in Brazil, according to the Innovation Brazil Ranking prepared by Valor Econômico newspaper in partnership with a strategy consultancy firm. Last but not least, Cielo took the eleventh place among the most valuable brands in the country, a study conducted by Dinheiro/BrandAnalytics.

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Let's now move to slide four where we present the evolution of the financial volumes for credit and debit transactions. Our capture financial volume increased by 3.5% compared to the second quarter last year, reaching R\$130 billion. And it's noteworthy, as just mentioned, excluding the impact of the AgroCard, the growth would be 6.71%. In the same period, the increase in credit volume was 1.9% while the debit volume grew 5.9%. If we exclude the Agro product on the debit volume, the growth would be 13.4%. On a sequential basis, total volume was up by 2.5%, with the credit volume growing 2.6%, reaching R\$77 billion, while the debit volume grew 2.4%, reaching R\$50 billion. In the AgroCard product, which is included in the total amount of debit, the financial volume of profit transactions totaled R\$2.5 billion in 2Q, a decrease of 55% compared to Q2 of last year.

The deceleration of volume growth reflects the trends seen in the first quarter of 2015, however, with greater intensity. Thus, the weaker macroeconomic environment led us to review our soft guidance related to the financial volume growth for the industry. Previously, we expect volume growth for a range of 11% to 13%.

Now, we estimate that the range will be from 9% to 11%. Just to point out, the universe of this soft guidance are the four companies that reports information about the financial volume. It means [Foreign Language].

Moving on to slide five, we present the number of captured transactions. Cielo registered an increase of 10% in Q2, compared to the same period of last year, representing 1.5 billion transactions. Compared to Q1, the number of transactions increased by 4.9%.

About our operating indicators on slide six, we present a number of active points of sale under the criteria of one transaction in the last 30 days and the number of installed POS. As can be seen in the graphs, all indicators expanded this year. Compared to the second quarter, the installed POS grew by 9.5% to 2.1 million units, and compared to the previous quarter, the increase was 2.5%.

The share of wireless equipment in Q2 reached 65%. The growth in active points of sales reached 13.6%, compared to the same period last year while in comparison with Q1, it grew by 2.3%.

Now, I'd like to hand the call to Clovis, who will continue with our presentation.

**Clovis Poggetti** {BIO 16529642 <GO>}

Thank you, Rômulo, and good morning everyone.

On page seven, in accordance with the model adopted since the first quarter this year, we present a frame with the managerial information related to Cielo's business. With regard to the information related to Cielo's consolidated numbers presented in table one, we can see that the net operating revenue in the quarter totaled R\$2.8 billion, up 51.9% from second quarter last year and 18.9% higher than first quarter this year. The increase in net revenue is mainly related to the beginning of Cateno's operation,

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consolidated as from February 27 and due to the effect of dollar appreciation and the revenues generated in the new apps in the subsidiary Merchant e-Solutions and due to the ongoing business expansion.

Our total consolidated expenses were R\$1.7 billion in the second quarter of this year, 68.5% higher than in the same quarter of 2014 and 26.1% higher compared to first quarter this year, mainly due to the impact of Cateno's consolidation.

On table two, we present Cielo's info excluding Cateno and the financial expenses incurred to set the company. On table three, considering Cateno, we present the impact of a full quarter, including the financial expenses of the issued debentures. As can be seen if we consider the expense with amortization of R\$96.4 million in the quarter, Cateno contributed negatively with R\$87.2 million to Cielo's consolidated results.

We also explain Cielo Brazil on Table Four and other subsidiaries Merchant e-Solutions, M4U and Braspag on table five so that you can follow our soft guidance of evolution of expense per transaction at Cielo Brazil and also to isolate the impact of revenues viable to the business, such as exchange rate situations impacting our U.S. subsidiary.

In this case, we can see that expense per transaction in Cielo Brazil reached R\$0.61 of Brazilian reais, remaining in line with the second quarter last year figures and down compared to the first quarter this year. It's important to highlight at this point that we gave you a soft guidance that this indicator would reach between R\$0.49 and R\$0.51 in the year. The weaker macroeconomic environment has negatively impacted the number of transactions, bringing an additional challenge for the achievement of this guidance. We are still confident that we will be able to reach the disclosed range, however, close to the top of this range.

Regarding the other subsidiaries, we should remember here that we had an impact from the exchange rate. The average rate of the U.S. dollar in the second quarter was R\$3.07, an increase of 37.8% and 7.3% over the second quarter last year and first quarter this year, respectively.

On slide eight, we present Cateno's numbers. As previously done, on the left side of the table in the first column, we present the numbers not considering the amortization. We can name this column, Business Results. With this approach, we will have the net operating revenue of R\$572 million, total expenses of R\$308 million and net income of R\$187 million.

The accounting number in the second column takes the intangible assets amortization during a 30-year term into account, as mentioned before, resulting in an impact of R\$96 million. In this view, net income was R\$123 million. Analyzing the contribution of Cateno to Cielo after the impact of the financial expenses related to the creation of the new company, we reach a negative result of R\$87.2 million in the quarter, as shown in the same column slightly below and also shown in the previous slide.

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This number comes from a contribution of R\$86.3 million that corresponds to 70% of the net income net of financial expenses taken by Cielo post-taxes in the amount of R\$173.5 million. It's important to observe however, that this result is impacted by intangible assets amortization effect. When we performed the same analysis, excluding this effect, that is somehow in the cash basis direction, we came to the figures presented on the table on the right.

In this analysis, the net income would be R\$219.7 million. Making the same analogy of the contribution of Cateno to Cielo, that is after the financial expenses impact, we reach a negative result of only R\$19.7 million in the quarter. The message we want to leave with this analysis is that, the results are within our estimates and that, as already mentioned in the previous quarter, Cateno is already accretive as of the second half of next year in the cash basis concept which means ex-amortization. Now, by the traditional way of accounting, the accretion will begin from the second half 2017 on.

On the next page, number nine, we highlight how to calculate Cielo's adjusted net profit. Before getting into the details on how, we would like to mention why we are making such adjustment in our net profit. And this is directly related to the difference of Cateno's contribution to Cielo between the traditional accounting methodology and the cash basis one, due to the amortization of intangible assets in the new company.

The adjustment is done considering the cash contribution of Cateno to Cielo's net income, excluding Cateno and related financial expenses that total R\$956.6 million. One added the Cateno's cash contribution calculated in the previous slide, which in the quarter was negative R\$19.7 million. Thus, we reach the adjusted net income of Cielo that totaled R\$936.9 million in the second quarter of 2015, up 17.6% year-over-year.

On slide 10, we present the [entire] end results from the prepayment of receivables operations. In the table, we can see that the prepaid volume increased by 5.9% compared to the second quarter last year and down 2.9% compared to the first quarter this year. The amount in the quarter totaled R\$14.4 billion, or 18.5% of total credit volume with credit installments accounting for 70% and regular credit for 30%.

Regarding income from prepayment of receivables, it reached R\$493.6 million in the second quarter this year, 40.4% up from the results in the second quarter last year and 6.6% above the previous quarter. The increase substantially represented by the continued expansion of the prepaid product, mentioned above and by the higher rates due to the change in the mix of the customer base, with an increase in the retail situation regarding major accounts.

As usual, we also present the managerial analysis of pre-paid revenue. In this analysis, as shown in the table, we apply a cost of funding of 104% of CDI in 100% of the financial pre-paid volume, a cost that is similar to what we have when we anticipate our flow of receivables with issuing banks.

According to this analysis, net revenue in the quarter was R\$311 million, an increase of 42.6% and 17.3% year-over-year and quarter-over-quarter respectively. Regarding our

financial performance on slide 11, we present the EBITDA in both absolute amounts and margins.

In the second quarter this year, EBITDA totaled R\$1.3 billion, up 41.9% over the second quarter of 2014. The EBITDA margin was 48.5%, down 3.4 percentage points. When compared to the first quarter this year, EBITDA increased by 14.3% and the EBITDA margin fell 2 percentage points.

On the next slide, number 12, we show that Cielo's net consolidated income totaled R\$869.4 million, 9.1% higher than the second quarter last year, with a margin of 31%. Finally, compared to the first quarter this year, net income fell by 4.6%, representing 7.7 percentage points in the margin.

On slide number 13, I would like to comment on our current debt. After the application with Cateno, this investment of R\$8.1 million made by Cielo was based on a new issuance of the debentures. The company's leverage went up. At the end of the second quarter, it was 1.7 times net debt-to-adjusted EBITDA. It's also worth noting that the company remains aware of market opportunities and just as an example, in June, we raised a loan in U. S. dollars amounting \$204.6 million, or the equivalent to R\$630 million with the Bank of Tokyo-Mitsubishi for a period of 18 months in which the total fee already stood at 99.4% of CDI.

Now, I will turn the floor back to Rômulo.

## **Rômulo de Mello Dias**

Finally, on the last slide, number 13, we present the distribution of remuneration approved by the board of directors to be proposed to the shareholders' meeting. For the first half of 2015, we're proposing a distribution equivalent to R\$0.22 per share and R\$0.06 in interest on capital, excluding tax, which represents a 30% payout of our income.

Thus, I conclude my presentation by commenting that despite the revision of the soft guidance for the growth, the financial volume of the industry from the range between 11% and 13% with a new range of 9% to 11% as a result of a more difficult macro-economic environment than anticipated. We are still confident in the other indicators, namely the maintenance of the penetration of pre-payments of receivables in the volume of credits from mid- to high-teens, even though our main goal is to increase the revenues of the products.

Second, reduction in the cost of Cielo Brazil from R\$0.54 in 2014 to a range between R\$0.49 and R\$0.51 for 2015 and most likely at the top of the range and the investment in POS of approximately R\$500 million.

So here, I conclude my comments and thank you for your attention. Now, we're ready to take your questions. Operator, please.

## Q&A

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session.

Our first question comes from Alexandre Spada, Itau BBA.

#### **Q - Alexandre Spada** {BIO 16687974 <GO>}

Hello. Thanks for taking my question. We thought that Cielo's payout ratio is now at 30%, which will allow for a relatively fast deleveraging over the following years. My question is how should we think about this subject going forward? Is it more likely that the payout ratio remains as low as 30% until a certain level of leverage is achieved and then returns at once to maybe 70%, which is the historical number? Or is it more reasonable to expect a gradual improvement of the payout over the following years, as the leverage gradually improves?

#### **A - Rômulo de Mello Dias**

Thank you, Spada, for your question. About the payout ratio as everybody knows, taking into consideration the new debt that was raised by the company to make the association with Banco do Brasil, namely Cateno, I think it's necessary to remember that we are a conservative company. So, our net debt-to-EBITDA came from 2.5 times last quarter to 2.1.

So, this is how we work and when we said that we'd propose to the shareholders' meeting a reduction from 50% to 30% the level of payout, we also said that after a certain period of time, the company could come again to pay additional dividends when and if it's appropriate according to the perception and let's say, the new environment that the company will face. But for sure, 30% is taking into consideration the new of debt that you have, that we have intention to pay as much as we can during the coming years.

#### **Q - Alexandre Spada** {BIO 16687974 <GO>}

Okay. Let me try to put the question another way. Will you try to de-leverage as quickly as possible? Or you wouldn't mind having a slower de-leveraging velocity going forward?

#### **A - Rômulo de Mello Dias**

We will try as keep as much as we can - to decrease the leverage as much as we can.

#### **Q - Alexandre Spada** {BIO 16687974 <GO>}

And as quickly as you can?

#### **A - Rômulo de Mello Dias**

Yes. Yes.

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## Q - Alexandre Spada {BIO 16687974 <GO>}

Okay. Thank you.

## Operator

The next question comes from Gerardus Vos, Barclays.

## Q - Gerardus Vos {BIO 3301062 <GO>}

Hi. Thanks for taking my question, a few if I may. First of all, on the soft guide, on the kind of volumes, the 9% till 11%. As you indicated in the past, you would expect to go a little bit below that, given market share kind of movements. But still, the first half is quite far removed from that. So I was wondering if you really expect that kind of uptick in the second half or, if you could just perhaps, give us some color around that.

Then secondly, on the POS terminals, you said it was up 9.5%. If you look at the main terminal vendors like Ingenico and Verifone, they're growing a lot faster in Brazil - like, Ingenico, for example, last night was up 30% there in volumes. Is that implying that there is some stuffing of the channel happening there, some inventory kind of build-up, or is that simply related to ASPs?

And then, finally, one thing I missed was the FX impact. Just want to clarify if that was 37% from the dollar. And if so, what drove the step-up in growth in the other subsidiaries?  
Thank you.

## A - Rômulo de Mello Dias

Thank you, Gerardus, for your question. I'm going to answer the first one. The second, I will ask Plínio to answer that question. About the soft guidance, we just provided the new range considering the new macro-economic environment. And we also said that Cielo would grow below the industry. So it's just what we are doing, let's say, just reflecting what's happening in the economy right now. And the economy, as everybody knows, will not present the same growth of GDP of this year.

But just remember that when you provide the soft guidance between 11% and 13%, this budget was concluded by the end of the November, and the propose was done to the beginning of September. So it took two months to negotiate with the board of directors. And after the conclusion, and as everybody knows, the perception about the growth of the economy changed dramatically. So we are just putting this new guidance considering the new economic macroeconomic environment. About the second question, Plínio will take your question.

## A - Plínio Cardoso da Costa Patrão

Thank you for the question, Jared. The main difference between the two numbers are related to not only the expansion of our terminal base, or our customer base, but also the renewal process that we continuously do. So the numbers they publish add both. So it's the growth that we have plus the renewal that we always maintain.



**Q - Gerardus Vos** {BIO 3301062 <GO>}

Thanks. Thank you.

**A - Rômulo de Mello Dias**

And about the third question, FX, let's remember that we did a swap in terms of the debt that we raised in 2012. So in terms of net earnings, nothing will affect our net earnings. It will go directly to the net worth. But when you see that with respect to revenues as well as of the cost, you see the increase, or the result of the FX combination increasing the revenues as well as the cost. I don't know if you – if my answer addresses your question.

**Q - Gerardus Vos** {BIO 3301062 <GO>}

Yea, that does. Very clear, thank you.

**Operator**

The next question comes from Craig Maurer, Autonomous.

**Q - Craig J. Maurer** {BIO 4162139 <GO>}

Yeah, hi. Thanks for taking my question. I just wanted to see if you could dig in a little further up on the share trends. Do you expect to regain some market share in the back half of the year?

Secondly, if you could discuss at your partners, how the issuance is trending with Elo, is Elo starting to eat a bit more into the Visa issuance, or are things remaining basically steady state? Thank you.

**A - Rômulo de Mello Dias**

About the first question to regain market share, as we always like to say, our main goal is to deliver growth in EPS, earnings per share, profitability. Of course, market share is important, but we don't pursue market share, per se. Our goal is to deliver growth in earnings.

About the second question, if you can repeat your question, because myself and Clovis, we did not understand very well the point.

**Q - Craig J. Maurer** {BIO 4162139 <GO>}

Frankly, I am trying to gauge how aggressively your partners Banco do Brasil and Bradesco are pushing Elo network as a competing product to Visa?

**A - Rômulo de Mello Dias**

Okay. Elo. You're talking about the new network Elo, local network. That's right?

**Q - Craig J. Maurer** {BIO 4162139 <GO>}

That's right. That's right.

## A - Rômulo de Mello Dias

E-L-O. Okay. I think Elo, for sure, as they said will increase and they have the target to go to a market share of around 15%. Today, they are very strong on debit, but they are also growing credits. And I would say that for sure, it's going to happen because they have the power in terms of distribution. They have the customers in their hands. So having said that, the current networks, Visa, MasterCard and others, of course, to some extent will suffer a little bit.

## Q - Craig J. Maurer {BIO 4162139 <GO>}

Thank you.

## Operator

Our next question comes from Marcelo Cintra, Goldman Sachs.

## Q - Marcelo Cintra {BIO 16463628 <GO>}

Hi. Good morning, everyone and thanks for taking my question. So my first question is basically a follow-up of the previous comment that Rômulo did is if you look on slide nine, you guys are providing very insightful details of Cielo excluding Cateno and the financial expenses. And here we can see that basically there's no sequential growth on earnings for Cielo.

So I'd just like to hear from you, if you are expecting costs to remain at the top of the guidance, cost per transactions, and also revising down the growth for the industry for transactions, how should we see the trends going forward? What should contribute for earnings? Would it be just receivable discounting? Or is there anything else that could be missing? And then I will follow up with my second question. Thank you.

## A - Rômulo de Mello Dias

If I understood correct your question about the costs and the guidance - about the growth of the company, I understand there are two questions related here. And the cost is going to be at the top of the guidance, because we were expecting a bigger number in terms of number of transactions when the budget was done and conclude, as I said by the end of last year. And the number of transactions is not exactly the same as we were expecting.

And second, even though the number of transactions is lower compared to the budget, on the other hand if I take into consideration the growth of the number of transactions, I mean 10% compared to the volume growth - total sales volume, which was 3.5% - at the end of the day, these are some things that is not helping in terms of cost per transaction because we divide the total financial volume by the number of transactions. In other words, we are having lower tickets, which in this regard does not help the performance of the range - the R\$0.51 total expenses per transaction.

About the second question in terms of the guidance, if I don't talk about the guidance, if I talk about what we deliver, what I can tell you is the following. We had a very good performance in terms of revenues, rental business - revenues that come - which comes from rental business and as well from the prepayment.

So prepayment plus this second line is helping, let's say, Cielo to deliver good results. And there is also a disconnection, if I understood also about your question, in terms of revenues and also total sales volume. I don't know if it was, let's say, a question behind what you said. What's behind - what explains the difference between the performance of the revenues in Cielo Brazil in terms of total sales volume that we deliver?

First, the performance of AgroCard - AgroCard went down 55% in the second quarter and second - which affects the mix and as well the revenues in a good way, let's say, because the net revenues of AgroCard is very small; and, second, also because of the performance of the rental business.

**Q - Marcelo Cintra** {BIO 16463628 <GO>}

Okay. Thank you. So if I may, just a quick follow-up here on the prepayment business. So I believe that in the end it's the - you mentioned prepayment and also rental business, but prepayment is contributing significantly for your profitability.

So I'd just like to - you mentioned that maybe high-teens should be a level going forward. But what about next year? We need a level that is still sustainable maybe in the mid-term for, like, one or two years or this is maybe a guidance just for 2015? Thank you.

**A - Rômulo de Mello Dias**

We said that we expect to have a penetration between from mid- to high-teens, but this is not a target per se. Our target is to deliver also profitability, which comes, of course, first, with the revenues. So what we're trying to pursue is the reason why even though having a lower penetration compared to the first quarter - in first quarter, we reached 19.6% and this quarter 18.5%.

So even though we have a lower penetration, at the end of the day, we were able to deliver a better performance in the product because also the SELIC interest rate went up and also because we tried to work, let's say, with a better mix of clients in order to deliver what is our target to deliver growth in terms of earnings.

For the coming years, the product for sure is more mature. We shouldn't expect the same growth that we are delivering, so far, because more and more the product is becoming more mature. And one of the things that helps the performance of the product, as I said before, was the growth of the SELIC.

So SELIC in this regard also helped because their cost of funds is higher, but we also were able to some extent to charge more from some clients. But coming years for sure, the product will continue to present good performance but not exactly on the same kind of

speed and the same kind of growth that you had so far because the product is more mature.

**Q - Marcelo Cintra** {BIO 16463628 <GO>}

Okay, perfect. Thank you very much. And if I may just, a quick follow up. Are you - there was an increase in tax for financial revenues, the fiscal fees for financial revenues. I would just like to understand if you guys - if Cielo is increasing the price in order to offset such tax, or if we should expect some pressure for the following quarters?

**A - Rômulo de Mello Dias**

Marcello, it's possible, of course. We will, let's say, best is through price. Always paying attention, the idea is not to be out of the business because of this pricing strategy.

**Q - Marcelo Cintra** {BIO 16463628 <GO>}

Okay, thank you very much.

**Operator**

Our next question comes from Mario Pierry, Merrill Lynch.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Hi, everybody. Good morning. Let me ask you one question related to Cateno. I was wondering if you were going to start providing us with some of the drivers of revenue for Cateno, such as volumes. I think that would be very helpful in the future. Also, I wanted to understand better, now maybe you have closed this transaction, you probably have a better sense of synergies now. If you can give us a little bit more details on what are you expecting for costs going forward.

And then, finally, you mentioned that you still expect this transaction to be accretive in the second half of 2017 on a reported basis, not on a cash basis. So just doing a quick math, I don't know if my math is right or not, but it implies that in order for you to breakeven with Cateno, assuming that your level of financial expenses and depreciation expenses stay the same, if you are expecting EBITDA to grow close to 80% from current levels. So I'm just trying to understand, again, where is the earnings growth coming from? Is it primarily from revenues? And then, if you could, break down the revenues between volumes and prices, or is it between more like efficiency gains? Thank you.

**A - Rômulo de Mello Dias**

First question. Thank you, Mario, for your questions about the volume of Cateno. At this stage we don't expect to provide additional information. I think what we're providing here in terms of with the stuff Cielo consolidates - Cielo ex-Catiano and financial expense; Catiano by itself, Cielo Brazil, other subsidiaries, the P&L of Cateno, and after we adjust income with Cielo consolidated ex-financial expenses and on a cash basis to come to Cielo adjusted net income. I think it's a level of detail that at this stage we consider appropriate.

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About the second question, in terms of the synergies that you're expecting in this joint venture, the first, it was not a synergy, but it was something good, as I like to say. Amortization of an intangible asset is about something that when we made the announcement, this was not included in our calculations.

About the synergies, per se, I will say that some synergies for sure will be raised. And we have a committee responsible for the transition. Let's remember this is a very, let's say, complex operation that works inside Banco do Brasil. And some of the parts, or some of the expenses that they have such as the processing, if it decides to move from Banco do Brasil to here, if you think it's appropriate in terms of costs and so on and so forth, it's going to take some time. There are also other line of expenses, such as call center, such as , such as personnel and other things that, for sure, we'll try to continue to look and to see what can be done in order to continue to have the operation going well and, as well, to increase. Because let's remember that some of these expenses were higher, because of the lower price - which means it's not necessarily the better service that you can have, because Banco do Brasil needs to follow the law of [elicitation].

So having said that, we need to balance, it's not just a question about synergy in terms of cost and an expense, but also what's the relation between revenues and costs and expenses, if you're going to be able to increase. And about the last question that you raised, if we understood correctly, we continue to say that we expect the deal would be accretive by the end of 2017. And if I understood correctly your comparison about the level of amortization and financial interest rates, you said that should be almost the same, is what you said?

#### **Q - Mario Pierry {BIO 1505554 <GO>}**

No. Sorry. So what I meant on this question is your financial expenses are annualizing close to R\$1 billion, depreciation expenses are annualizing at about R\$380 million. So you would have about R\$1.4 billion in expenses from this two line item. So meaning in order for this transaction to breakeven or for the earnings to breakeven, the EBITDA would need to increase roughly 80% from current levels. So I was trying to understand, okay, it seems like you see plenty of opportunities there, but if you could provide us with a little bit more color, okay? You know, maybe EBITDA grows 80% but I was trying to understand more how much of that is coming from revenue generation and how much of that is coming from cost synergies? And it's a combination - if you could, then, tell us what you think is the EBITDA margin of this business in the future? Thanks for the help.

#### **A - Rômulo de Mello Dias**

I understand your question right now. I think we are considering only Cateno to pay that.

#### **Q - Mario Pierry {BIO 1505554 <GO>}**

Only Cateno. Exactly.

#### **A - Rômulo de Mello Dias**

Yes. But I think what you're saying that you're considering Cateno plus Cielo, okay. Because when we include the financial interest expenses in Cateno, what was the idea?

Because the financial interest expense is not, from an accounting perspective, is not including Cateno. It's including Cielo. We decided to put financial interest expenses in Cateno just to give an idea how is the performance of this Cielo standalone, okay? So when we say that, for the company as a whole, that you're going to have accretion by the end of 2017, we are including Cielo for sure. And also...

**Q - Mario Pierry** {BIO 1505554 <GO>}

I thought you meant break even in this business by the second half of 2017?

**A - Rômulo de Mello Dias**

Yeah, for instance, if you take a look on page 8, you're going to see here that what was the result of the company? Net revenue was almost R\$572 million, and this cannot be compared to the first quarter as I said during the conference call in Portuguese. Because in the first quarter, we have a month, let's say, of 33 days, because if the deal was concluded February 27 and the cost and expense was almost R\$310 million. Operating income R\$264 million, the financial income, because for Cateno we have a positive financial income, because there is some money there and income tax was R\$63 million. So the net income was R\$220 million.

When you appear here with the share of Cielo 70% with R\$154 million of the net income of R\$220 million and when we close, the financial expenses post-tax of R\$173 million, these financial expenses came from Cielo. Okay? So we are comfortable that the deal will be accretive.

And let's not forget that how we are going to amortize the public debenture that you raised last April. You're going to amortize one-third per year. It's not a bullet debenture. So the first down-payment is going to be done next April, and it's going to be R\$4.6 billion divided by - R\$1.5 billion, let's say, so R\$1.5 billion next April, another R\$1.5 billion next April of 2017, and the last remaining portion - the last one for in 2018.

So it's the reason why together, with the performance of the company, plus the fact that you are including Cielo, because you must include Cielo. Because in our opinion when you bought the company - when you made the association, we decide to raise the debt, because we are very comfortable with the situation and also with the performance of the resilient revenue that you have there. So I don't know if with this additional information I clarified your point.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Yeah, sure. No, you helped understand, showed in your financial expenses, there's room. What I meant is the financial expenses related to this transaction, right? So the financial expenses, there's room for them to improve as you amortize part of the debt. And then the other is coming from improved revenues or improved results at Cateno from volume growth and I guess also from some synergies on costs.

**A - Rômulo de Mello Dias**

You're right.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Okay, okay. Just if I can make a comment, Rômulo. I know you're providing a lot of information on Brazil standalone everything, which is great. But, you know, just for some better understanding Cateno and the real drivers of Cateno, I think if you could consider this for next time - if you could provide us with volumes. I think we can get some of the volume data out of the Banco do Brasil release. But since you own 70% of the business, and this is a very important business now for the future of Cielo, I think it would be helpful as well for us to have a little bit more of the details on the drivers of the business. It's just a suggestion.

**A - Rômulo de Mello Dias**

Okay. I understand your point.

**Q - Mario Pierry {BIO 1505554 <GO>}**

Okay. Thank you very much.

**Operator**

This concludes today's question and answer session. I would like to invite Mr. Rômulo de Mello Dias to proceed with his closing statement. Please go ahead, sir.

**A - Rômulo de Mello Dias**

So thank you again for having all of you participate in this conference call and as usual we're here with our team, IR team, and financial team to answer your additional questions that you might have. Have a nice day, thank you.

**Operator**

That does conclude the Cielo's audio conference for today. Thank you very much for your participation, have a good day, and thank you for using Chorus Call.

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