CME Group Q2 2011 Earnings Prepared Remarks – July 28, 2011

Craig

- Thank you for joining us this morning. I will discuss our strong performance in the second quarter, and provide updates on a few of our strategic initiatives, before turning things over to Jamie to review the financials.

- During the second quarter, we delivered excellent top line results with revenue of $838 million, driven primarily by strong trading volume, which we also saw last year during the second quarter. Volume accelerated during the quarter with 12.1 million in April, 13.5 million in May and 14.9 million in June, and averaged 13.5 million for the quarter. We had record open interest during the quarter that surpassed 100 million. We also delivered a highly profitable quarter with earnings-per-share of $4.38. This was driven by a heightened expense focus, which is reflected in our revised guidance for the year. Building on our second-quarter results, average daily volume is off to a relatively good start with July up 18 percent compared to last year.

- Interest rate volume was strong in the second quarter, highlighted by a 50 percent increase in June, with Eurodollars up 58 percent and Treasuries up 44 percent. This growth was likely driven by increased volatility due to the turmoil in Europe, the end of the second round of Quantitative Easing and concerns about potential downgrade of U.S. debt. Our interest rate market share increased from April to July relative to U.S. and European competitors, which can be attributed to our diverse customer base, our strong liquidity in futures along the yield curve, our healthy options business and our significant depth of book.

- We have seen some customers increasing the proportion of business they do on our exchange. For example, according to the CFTC's most recent

"Traders in Financial Futures" report, there has been a sizable increase in asset manager open interest positions in Eurodollar futures contracts, as well as an increase in the number of large open interest holders in many of our interest rate contracts. The open interest from this customer group, which traditionally executes the majority of its business in the OTC, has jumped from nearly 1 million to 3 million. This now represents almost 20 percent of total Eurodollar futures open interest, up from 10 percent a year ago.

- In addition, commodities volume remained impressive during the second quarter. Agricultural products and metals products were up more than 30 percent during the quarter. The Ag markets are clearly being impacted by supply and demand dynamics, exacerbated by recent weather patterns.

- Turning to company initiatives, we continue to lead the industry in successful product innovation and extensions, in technology, and in clearing and risk management services.

- Last quarter, we launched the sovereign yield spread futures. In addition, we will continue to build out our non-dollar denominated products by launching the Euribor, which we currently expect to go live at the end of this quarter. We also announced the late August launch of new foreign exchange futures contracts based on the Chinese Yuan or Renminbi. In order to meet growing global customer demand for products denominated in the Chinese currency, these innovative new futures contracts will be quoted in interbank terms, reflecting the number of Yuan per U.S. dollar. These futures products are aligned with the OTC market convention for non-deliverable forwards, while providing the benefits of counterparty risk mitigation from exchange-traded derivatives.

- Our efforts with partners continue to progress. Development of our multi asset class trading platform, which we are jointly developing with BM&FBOVESPA, remains on track, and the derivatives module will go live in Brazil in stages over the next few months. At that point, we will begin receiving a fixed and variable per transaction license fee, expected to be $8 to $10 million per year <u>based on current derivatives volume levels</u>. This revenue will increase as our partners derivatives volume grows.

- During the second quarter, while the overall volume was relatively flat vs. the prior year, the volume we track coming from South America and Mexico in CME's products grew 60 percent. In June, it grew more than 100 percent, and averaged a record 46,000 contract sides per day.

- In addition, we are pleased to further build on our strong relationship with Osaka Securities Exchange, the premier Japanese derivatives and securities exchange, with a strategic arrangement to cooperate on joint product development, marketing and promotions. Under this arrangement, the companies will offer Japanese yen-denominated products for their global customer base. The addition of yen-denominated futures based upon the Dow Jones Industrial Average at Osaka Securities Exchange and the E-micro Nikkei 225 contract at CME Group will provide market participants with nearly 24-hour access to global benchmarks sized for their needs and denominated in their currency of choice. Both products are expected to be offered by early 2012.

- We also continue to extend our central clearing capabilities globally with CME Clearing Europe (CMECE). CMECE is up and running and we have started to see activity in both energy and agricultural OTC cleared products. Our main focus is on building the 'network', which will connect new clearing firms, and enabling customers and brokers. We currently have 16 clearing firms and a strong clearing member pipeline. At the same time, we are continuously expanding our European and Asian customer base for CMECE. At this point, we have more than 60 clients and brokers registered for CMECE on CME Clearport. In addition to this, we are in the process of broadening our CMECE cleared product suite; which includes the deepening of our OTC Commodities offering by adding to the 150+ launch products, as well as pursuing readiness to make our OTC IRS clearing solution also available through CMECE.

- To conclude, the world is changing before our eyes. Financial markets, always dynamic and innovative, are changing at an even faster pace than the world at large. CME Group is uniquely positioned to take advantage of these profound changes by ensuring that we have the products, technology, clearing capabilities and global distribution systems to benefit from the opportunities created by changing market dynamics. We are confident about our potential and our progress going forward.

- At this point I would like to turn the call over to Jamie, who will touch on the financial highlights.

Jamie

- Thank you Craig and good morning everyone.

- We posted revenue of $838 million during the second quarter, while effectively controlling expenses, which were down $4 million sequentially. Q2 average daily volume of 13.5 million contacts was flat compared with Q2 last year, in spite of the record May 2010 average daily volume of 16.8 million contracts. This **significant** revenue generation, coupled with effective expense management, drove a 4 percent increase in operating income to $535 million. Operating margin of 63.8 percent, was one of our highest quarterly margins ever, and up from 63 percent last quarter. This morning, we reduced our 2011 expense guidance by $25 million, and our CAPEX guidance by $15 million. Lastly, the potential reduction in our expected tax rate to 42.5 percent for the second half would decrease second half income tax expense by approximately $5 million based on consensus estimates.

- The second quarter total average rate per contract was 80.7 cents, up 2 percent from second-quarter 2010. Although there was an unfavorable product mix relative to first-quarter 2011, with a higher percentage of interest rates activity, the second quarter average rate per contract was in line with first-quarter 2011 due to lower volume discounts and a favorable venue mix.

- Within market data and information service, we saw a sequential increase due to an audit assessment which offset a slight drop in base screens, while our Dow index business grew from the prior quarter due to higher commodities and ETF related revenue.

- Within Other Revenue, we recognized $9.8 million related to the sale of an asset, with a related expense of $3.2 million recorded in Other Expenses.

- Turning to Compensation and Benefits expense, this line item was $118 million, down $5 million on a sequential basis. We reduced our bonus accrual relative to the first quarter, and our base compensation and benefits was also down due primarily to a decrease in our vacation accrual. Non-compensation expense increased less than one percent versus the first quarter.

- In terms of our expense guidance, originally we had guided to $1.26 Billion in 2011, which we've reduced by $25 million to $1.235 Billion. While we continue to invest in the growth initiatives we have spoken about before, including Co-location, OTC clearing and our new multi–asset class trading platform, we are being as efficient as possible on this spend as well as on the core spend. From the first half to the second half of the year, we expect to see increases in occupancy and depreciation related to Colo and our new London office, in compensation related to positions filled during this year, and in professional fees tied to growth initiatives.

- Non-operating expense was $25 million during the second quarter. Investment income was less than $5 million, reflecting the reversal of a $2.7 million dividend from IMAREX originally recorded in Q1, which is now being characterized as a return of capital.

- Our effective tax rate was 42 percent, primarily related to tax planning efforts underway. For the second half of 2011, we estimate our effective tax rate will be approximately 42.5 percent, down from our prior guidance of 43 percent.

- Capital expenditures, net of leasehold improvement allowances, totaled $44 million in the second quarter, driven primarily by continued work on co-location and build-out in our newly completed London location. This brings us to $83 million of CAPEX during the first half of the year. We now expect total capital expenditures for 2011 to be $165 million, down from $180 million estimated previously.

- During the quarter we purchased approximately 220,000 shares of CME stock, following our buyback announcement on May 9th.

- In summary, it was a nice quarter for CME Group from a financial perspective, with robust profit margins and cash generation. We saw volume accelerate during the quarter, and so far the summer volumes have been solid. While we continue to invest in top line growth, the expense related to our growth oriented projects is leveling off. Our first half 2011 expense growth was 9.7

percent, excluding the write-down we had in Q2 last year. Our revised expense guidance implies year-over-year growth of approximately 5 percent for the second half. We intend to prioritize and intensify our focus on cost efficiency as we build our plans for 2012 and beyond during our annual budgeting process in the fall. When our plans are completed, we will share the highlights with you.

- We will now take your questions - Please limit yourselves to one question and one follow up, so we can get to everyone. Given the number of analysts on the call, please expect us to strictly enforce this rule this quarter.

Statements in this document that are not historical facts are forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. Among the factors that might affect our performance are: increasing competition by foreign and domestic entities, including increased competition from new entrants into our markets and consolidation of existing entities; our ability to keep pace with rapid technological developments, including our ability to complete the development, implementation and maintenance of the enhanced functionality required by our customers; our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services, including our ability to provide effective services to the over-the-counter market; our ability to adjust our fixed costs and expenses if our revenues decline; our ability to generate revenues from our processing services; our ability to maintain existing customers, develop strategic relationships and attract new customers; our ability to expand and offer our products outside the United States; changes in domestic and non-U.S. regulations; changes in government policy, including policies relating to common or directed clearing and changes as a result of legislation stemming from the implementation of the Dodd-Frank Act; the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; our ability to generate revenue from our market data that may be reduced or eliminated by the growth of electronic trading, the state of the overall economy or declines in subscriptions; changes in our rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs) and the impact of our tiered pricing structure; the ability of our financial safeguards package to adequately protect us from the credit risks of clearing members; the ability of our compliance and risk management methods to effectively monitor and manage our risks, including our ability to prevent errors and misconduct and protect our infrastructure against security breaches and misappropriation of our intellectual property assets; changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange, interest rate and commodities markets; economic, political and market conditions, including the volatility of the capital and credit markets and the impact of economic conditions on the trading activity of our current and potential customers stemming from the financial crisis that began in 2008 and any other future crises; our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of performance of our trading and clearing systems; our ability to execute our growth strategy and maintain our growth effectively; our ability to manage the risks and control the costs associated with our acquisition, investment and alliance strategy; our ability to continue to generate funds and/or manage our indebtedness to allow us to continue to invest in our business; industry and customer consolidation; decreases in trading and clearing activity; the imposition of a transaction tax or user fee on futures and options on futures transactions and/or the repeal of the 60/40 tax treatment of such transactions; the unfavorable resolution of material legal proceedings and the seasonality of the futures business. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available in the Investor Relations section of the CME Group Web site. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.