

## Q308 Earnings Call Prepared Remarks October 29, 2008

*Statements in this press release 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: our ability to realize the benefits and control the costs of our merger with NYMEX Holdings, Inc. and our ability to successfully integrate the businesses of CME Group and NYMEX Holdings, including the fact that such integration may be more difficult, time consuming or costly than expected and revenues following the merger may be lower than expected and expected cost savings from the merger may not be fully realized within the expected time frames or at all; 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 and implementation 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; our ability to adjust our fixed costs and expenses if our revenues decline; our ability to generate future revenues from processing services; our ability to maintain existing customers and attract new ones; our ability to expand and offer our products in foreign jurisdictions; changes in domestic and foreign regulations; changes in government policy, including policies relating to common or directed clearing, changes as a result of a combination of the Securities and Exchange Commission and the Commodity Futures Trading Commission, or changes relating to the recently enacted Emergency Economic Stabilization Act of 2008; 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 decreased demand or the growth of electronic trading; 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; changes in price levels and volatility in the derivatives markets and in underlying fixed income, equity, foreign exchange and commodities markets; economic, political, geopolitical and market conditions, including the recent volatility of the capital and credit markets; natural disasters and other catastrophes, our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of performance of our 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 on futures and options on futures transactions; the seasonality of the futures business; changes in regulation or our industry as a result of a combination with the Securities and Exchange Commission and the Commodity Futures Trading Commission and changes in the regulation of our industry with respect to speculative trading in commodity interests and derivatives contracts. 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 and our Current Report on Form 8-K, filed on October 29, 2008, 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.*

### **Non-GAAP Financial Measures**

*In this presentation we refer to non-GAAP financial measures. A reconciliation of these measures to our GAAP financial results is available on our Web site under the Investor Relations section.*

## **Craig**

Thank you for joining us this afternoon. The third quarter has seen many key developments for our business, including the completion of the NYMEX acquisition, record volumes in our equity and FX product lines, and the announcement of our CDS initiative, which will facilitate migration of existing CDS to our Clearing House, allow for submission of bilaterally executed trades into Clearing, and provide an optional electronic

platform for execution and clearing of CDS trades. I will discuss each of these items in detail in a moment, but first I'd like to share a few thoughts regarding the recent, unprecedented market turmoil.

- ◆ Throughout September and October, tumultuous market conditions were driven in large part by concerns about counterparty credit. The ensuing upheaval in financial markets has affected us all, and continues to prompt regulatory and legislative action from governments around the world.
- ◆ CME Group's proven risk management and financial safeguard techniques have allowed our markets to continue to operate above the fray of counterparty credit concerns. During September and October, our markets remained liquid, daily pay and collects took place on schedule and without incident, and, as has always been true over our 110-year history, no customers lost any money due to counterparty failure.
- ◆ What we are most proud of is that this is business as usual for us. Our markets, our clearing methodology and our technology are designed for robust, seamless functionality during the most chaotic conditions imaginable. These systems are backed by management and staff with extensive experience and a deep commitment to principled, transparent, secure and efficient markets.
- ◆ While we are pleased with our track record and historical performance, by no means do we feel complacent. We continue to look for ways to build on our proven strengths and create value for customers and shareholders. I will now discuss our third quarter accomplishments and future strategic plans.
- ◆ First of all, we are very proud of the successful completion of the NYMEX acquisition on August 22<sup>nd</sup>. With the addition of NYMEX, which contributed \$204M in revenue on a pro forma basis in the 3<sup>rd</sup> quarter, or 26% of total revenue, our already diverse product set now includes energy, metals and the ClearPort over-the-counter clearing

platform. The NYMEX-CME Group combination offers many strategic benefits, and we are very focused on executing on these benefits. To that end,

- NYMEX integration is well underway. We have been able to apply many lessons learned from our successful CBOT integration, which was completed ahead of our original schedule and will achieve our \$150 million annual synergy target on a run rate basis by year end. We met an integration target last week when we communicated our staffing decisions to employees, which was an early step on our way to achieving \$60 million in operating synergies.
- We are excited about the growth potential of NYMEX's energy and metals complexes and the ClearPort OTC clearing platform when coupled with CME Group's established global capabilities and strategic momentum. We see tremendous opportunity in energy derivatives. To highlight, for 2007, energy was 72% of the Goldman Sachs Commodity Index, but global energy futures were only 6% of overall futures volume, compared to commodities weighted at 18% of the index and comprising 9% of derivatives volume. We believe that energy is a globally significant product and we will be actively pursuing growth strategies for this asset class.
- Another NYMEX asset that we are tremendously excited about is ClearPort, which shows considerable strategic possibilities.
  - ◆ The platform's value is underscored by recent market events and we believe that market dynamics have aligned to drive increased usage of ClearPort's central counterparty clearing and swaps performance guarantee services. Customer recognition of the benefits of centralized clearing to reduce counterparty risk and multilateral netting to alleviate balance sheet constraints has never been higher. Besides year-over-year volume growth of 40% for the third quarter, we have seen a 25%

increase in customer registrations year to date through September.

These statistics highlight the value of ClearPort's services during market uncertainty.

- ◆ In addition to ClearPort, we have been working actively on other initiatives to bring the security and soundness of CME's proven clearing services to the OTC markets.
  - The benefits of centralized clearing have never been more apparent. As the world's largest derivatives clearing house, with a 110-year history of no defaults and no loss of customer funds, CME is ideally positioned to provide increased security and soundness to the over-the-counter markets. CME maintains financial safeguards that, as of the end of the third quarter, include over \$100B in posted collateral, nearly \$10B of which was in excess of requirements, all protected by proven 24x7 risk monitoring and financial surveillance. As an example of the scope of our Clearing operations, our twice daily mark-to-market resulted in average daily pay and collects of \$4.9B in the third quarter.
  - As part of our over-the-counter initiatives, we are excited to be rolling out our flexible and open Credit Default Swaps initiative, which provides the benefits of central counterparty clearing and netting while supporting existing over-the-counter trading paradigms. The initiative will facilitate migration of existing CDS to our Clearing House, allow for submission of bilaterally executed trades into Clearing, and provide an optional electronic platform for execution and clearing of CDS trades. We believe we are further advanced than our competitors in our operational readiness and preparedness to launch our services, and like our competitors, we are subject to regulatory review and approvals.
  - As with any new product that we clear, we have devoted significant resources to determining the appropriate margining and risk management practices for

CDS. Since CDS margining techniques are an important consideration, I'd like to make a few observations on our abilities and methodology.

- ◆ In 2007, CME cleared 2.3 billion contracts with notional value exceeding \$1 quadrillion. The notional value of our open interest at the end of the third quarter was \$35 trillion. The notional value of outstanding CDS contracts is estimated at \$55 – 64 trillion, and it is important to note that CDS estimates are gross figures, which would be reduced significantly in a central counterparty clearing environment.
- ◆ These numbers speak to the scope and scale that CME brings as a clearing provider. As to risk management and margining methodology, we recognize that credit default swaps have some unique characteristics and we have developed a robust framework to ensure effective protections for our customers.
  - CME will apply our traditional, time-tested risk management practices to CDS, including twice daily mark-to-market and daily margining. CDS will also be subject to enhanced risk management practices, including periodic default drills, account level profit and loss reviews, and CDS-specific stress testing.
  - We will be using a multi-factor model for margining, which addresses seven unique risk factors, including several components of macro-economic risk and liquidity risk, among others.
  - Our clearing team has conducted extensive testing of sample CDS portfolios using these margining models, with recent market events providing many 'worst case scenarios' against which to test. We

are pleased that the results of these tests confirm our abilities to manage CDS risk through even the worst market conditions.

- Full details on margining methodology and the testing we have conducted have been shared with regulators.
- Beyond counterparty risk management, centralized clearing also provides balance sheet relief to CDS market participants from multi-lateral netting.
- We have been in active discussions with dealers and buy side market participants and believe that each will need to assess the various CDS offerings by many factors, among which are financial safeguards, creditworthiness, clearing expertise, established track record, and operational readiness. As we have described above, our initiative offers substantial benefits in all of these areas and addresses current issues in the marketplace, reducing systemic risk for all participants.
- We have structured the offering to allow market participants the opportunity to be Founding Members and share an equity stake in the platform, as well as benefit from certain market maker privileges.
- We are confident that our initiative has tremendous benefits for all market participants and look forward to launching the platform.
- ◆ Now, I will discuss our volume for the third quarter. Our diverse product set saw several key records during the third quarter, even as interest rate volumes were lower. October overall trading volumes to date are trending approximately 15 percent higher than October of last year.

- On a pro forma basis, third quarter average daily volume was 13.2 million contracts per day, with multiple volume records across our diverse asset classes. Overall, volume was down 7% year over year, largely due to reduced activity in interest rate products, which I will address.
- Our interest rate products have seen impacts due to the ongoing credit crisis and were down 25% year over year. There are many factors affecting interest rate volumes, including the decoupling of LIBOR from Fed Funds, a trend to the shorter end of the yield curve in Treasury products, a slowdown in corporate debt originations, difficulties in the agency market, and a decrease in mortgage-related transactions. We continue to see these factors as cyclical in nature.
- Offsetting the effects of the interest rate products was strong third quarter performance in other asset classes.
- Our E-mini equity indexes averaged a record 3.6 million contracts per day, up 19 percent versus the prior year.
- FX products also had record quarterly volumes of 710K contracts per day, up 12% year over year. Additionally, we believe CME's FX futures are gaining strength versus over-the-counter FX markets, and one data point we note in the third quarter is that our record average notional value of \$97 billion per day was up 24%, while EBS was up only 10%.
- We are pleased with these records, both as an indicator of the growth potential and strength of the individual asset classes, and also as an indicator of the diversity and strength of our product base.
- NYMEX and COMEX had outstanding volumes, with NYMEX trading 1.8M contracts per day during the third quarter, up 23%, and COMEX metals

averaging 250,000 per day, up 66%. Finally, we cleared 492,000 contracts per day through the ClearPort over-the-counter clearing platform, up 40% compared with the third quarter 2007. October-to-date ClearPort clearing has also been strong, with average daily volumes up 54% versus last year. As we mentioned previously, this strong growth underscores the value of ClearPort's central counterparty clearing model, including its performance guarantee of swaps transactions.

- Given the severity of the recent financial crisis, we recognize that certain potentially negative trends, including de-leveraging, hedge fund redemptions and customer consolidation, are occurring, but we firmly believe that the forces causing these phenomena highlight the strengths of CME's business model and strategic opportunities on which CME Group is well positioned to capitalize.
  - ◆ First, I will discuss customer trends we have observed to date. While it is difficult to classify our volumes by customer type, we have insight into certain firms that participate in special programs or are clearing members and can track their volumes closely. We have noted in the past that bank proprietary trading has historically been 15-20% of our volumes, and it remained within that range in the third quarter. While banks use our markets for many reasons, it is important to understand that a considerable amount of their transactions is hedging related to their ongoing, proprietary swaps exposure.
  - ◆ We also have insight into the volume of the 25 hedge funds who are our largest hedge fund customers, and we have seen their participation decrease slightly from the first quarter to approximately 10% in the third quarter.

- ◆ This has been offset by increased participation by high velocity proprietary traders. The volatility of the markets, as well as the low carrying cost of trading strategies involving rapid moves in and out of the markets, made conditions ideal for this style of trading. We have always noted the strength that our diversified asset classes bring to our business, and we also have a diverse customer base using our markets in multiple ways through a variety of market conditions.
  
- ◆ Diverse customers and diverse asset classes are key elements of our strong business model, and with these as the core, there are additional positive factors that we see for the business in the coming months.
  - We continue to implement technology upgrades that provide speed and functionality enhancements for our customers. This coming weekend, we will complete server upgrades for our interest rate match engines. These upgrades will allow for sizeable speed improvements and they will allow us to launch implied, intercommodity spreads for Treasury futures and Swaps futures in mid-November. This product should provide customer benefits including increased matching opportunities, concentrated liquidity and reduced legging risk for customers.
  
  - There are many secular factors that we believe create favorable, long-term conditions for growth. Recognition of the need for risk management has never been greater. Exchange-traded and cleared markets offer compelling value propositions compared to over-the-counter markets. Growth and interest from global customers continues. The next year should see an increase in Treasury issuance and increase the need to hedge Treasuries.

These factors all contribute to growing, worldwide demands for our markets.

- Finally, we have long recognized the security, transparency and efficiencies that our exchange model could bring to the over-the-counter markets. The success of ClearPort demonstrates the market's desire for these services, and we look forward to extending our clearing capabilities to CDS, Cleared Interest Rate Swaps, and several other over-the-counter initiatives that are under development.
- ◆ We are also excited about our global progress to date, the opportunities we see and the global strategies we are pursuing, which I will discuss now.
  - Our non-US hours trading volume has remained at 17% for the third quarter. We see this as a positive, reflecting the entrenched nature of the customers using Globex during non-US hours.
  - We have been working very diligently on our global marketing strategy following the NYMEX acquisition. We have been able to hire for several key global positions and have identified others that will be critical to the strategic cross-selling plans we have in place. Additionally, we have been actively engaging CME management with NYMEX customers to foster those relationships. Finally, we are using customer feedback to further hone our cross-selling plans and our product innovation, and will continue to develop globally compelling products, such as our Euro-denominated S&P contract.
  - During the quarter we also made progress with our order routing agreement with BM&F. Several ISVs have established connectivity, while others continue to make progress. We have successfully routed some volume to BM&F, and

are working actively with them on additional components of the strategy, such as the roll out of south-to-north order routing in Q4. We are pleased to announce our telecommunications hub in Brazil is now operational, bringing our total hubs to seven globally. Plans for a joint clearing structure are in place and we are pursuing required regulatory approvals to launch this. Finally, we are working closely together on joint product development. As a first step, we have shared settlement prices for select CME FX products in order to create better trading opportunities for BM&F currency pairs.

- We also continue to pursue long-term opportunities through strategic partnerships with exchanges around the world such as KRX, where we have an agreement to list KOSPI 200 futures on Globex, and OSE, where we have MOU to jointly develop products and services, and through equity stakes where appropriate, such as the Dubai Mercantile Exchange.
- ◆ To conclude, market events over the last year highlight the value of both our business model and our market model. Our market is well regulated and transparent with regard to participants and position reporting and provides a deep pool of centralized liquidity. Our central counterparty clearing services reduce systemic risk and benefit all market participants. Throughout extraordinary market turbulence, CME Group has been one of the best functioning parts of the financial market structure. We believe recent events create tremendous strategic opportunities for CME Group, and we intend to leverage our core strengths to actively pursue over-the-counter opportunities, global growth and the ongoing expansion of our core business.

With that, let me turn the call over to Jamie.

**Jamie**

- ◆ Thank you Craig.

- ◆ Despite the turmoil brought about by the credit crisis, CME Group turned in a solid financial performance. The third quarter was also a busy one from a financial perspective. We closed the NYMEX transaction, entered the debt markets, began our share buyback program in mid September, completed the sale of the legacy CBOT metals business, and started winding down FXMarketSpace.
- ◆ Today, I'll go through the details of Q3 on a pro forma basis, as if we owned NYMEX and CBOT for all periods considered. We have also posted a view of the quarter including the NYMEX revenue, expense and shares from August 25<sup>th</sup> forward on our Web site, as I know some of you modeled the business that way. Finally, I'll touch on a few of the non-core and merger-related items included in our GAAP statements
- ◆ Let me start with the pro forma results. On a pro forma basis, we generated \$787 million in revenue for the quarter and \$518 million of operating income. While average daily volumes were down 7% year over year, driven solely by interest rate volumes, – a strong rate per contract in Q3 and disciplined expense management more than offset this cyclical volume decline.
- ◆ The rate per contract for the legacy CME business was 65.9 cents, up two percent sequentially and up 6 percent vs. Q307. The primary mix drivers of the increase were a lower percentage of interest rate products and a slightly higher proportion of non-member activity. On the NYMEX side, the average gross rate was \$1.57, up one percent both sequentially and year-over-year, driven primarily by a larger percentage of trades cleared through ClearPort, a higher percentage of COMEX metals volume and a higher percentage of non-member volume.
- ◆ Now turning to the **quotation data fees**. They were \$92 million for the quarter, up 24 percent from Q3 of 2007. This increase is explained by the year-over-year price increase that went into effect at the beginning of this year and to a market data audit assessment during the current quarter totaling \$4 million. At the end of the quarter, we

had approximately 437,000 users who subscribed for the base devices across CME, CBOT and NYMEX products.

- ◆ I'll now take a few minutes to review **expenses**.
  - **Total pro forma operating expenses** were \$269 million for Q3, down three percent both sequentially and versus Q3 last year. Our largest expense, compensation, was down about \$1 million sequentially to \$90 million. Our combined headcount at the end of Q3 stood at 2,337 people. We announced approximately 150 headcount reductions related to the NYMEX acquisition, with the vast majority of reductions occurring in 2009. Compared to Q307, compensation expense is down 10 percent, driven by lower annual bonus estimates, lower earnings on deferred compensation and synergies from our merger with the CBOT.
  - Non-compensation expenses were down about \$8 million sequentially due primarily to the expiration of the CBOT electronic trading contract with Liffe. This was an important expense synergy, which drove a reduction in the technology support, depreciation and communication expense lines. This savings was somewhat offset by increased marketing spend, primarily driven by our efforts to highlight the benefits of our centrally cleared model during a period when users are becoming justifiably concerned about counterparty risk and capital efficiency.
  - Looking forward, we expect pro forma operating expenses for Q4 to come in at \$270 to \$275 million.
  
- ◆ Q3 pro forma **operating income** was \$518 million resulting in an **operating margin** of 66 percent, up from 63 percent in both the prior quarter and the year ago quarter. This was the second highest operating margin in the history of the combined company, which

illustrates the operating leverage in the model, even during periods when volume may be impacted by cyclical headwinds.

- ◆ Within the third-quarter **non-operating expense category**, we had a few positive and a few negative impacts. On the positive side, we received a dividend of \$9 million from BM&F, which increased investment income, while within the securities lending area, we accrued a \$6 million loss due to an investment in a money fund that had Lehman exposure.
- ◆ **Pro forma net income** was \$278 million and **EPS** was \$4.13. During the quarter, our pro forma **effective tax rate** was 43.3 percent. In Q4 and 2009, we would expect an effective tax rate of between 41% and 42%.
- ◆ So basically, if you offset the quotation data audit assessment and the BM&F dividend, with the securities lending loss and the temporary increase in our effective tax rate, the pro forma EPS would have been a few cents higher.
- ◆ I know some of you did not have a full pro forma model; instead you had **NYMEX business included from August 25<sup>th</sup> through September 30<sup>th</sup>**. A view of the third quarter using that methodology is available in the historical Excel file on our Web site, but let me give you the highlights. Bringing in NYMEX volumes on August 25<sup>th</sup> resulted in average daily volume for Q3 of 12.2 million contracts. Pro-forma revenue totaled \$673 million; operating expenses would have been \$231 million with an operating margin of 66 percent, still the second highest quarterly operating margin ever. Net Income would have been \$245 million, and EPS would have been \$4.07 per share, with share count at just above 60 million shares.
- ◆ There are a **few items on the GAAP income statement** that we have excluded from the pro forma view that I would like to mention. We are writing off our investment in FXMarketSpace, which you can see in the processing services, depreciation and equity in losses of unconsolidated subsidiaries lines. In addition, we are impairing our original

investment in Swapstream, which you see in other expense and depreciation. We have shifted our focus to more of a cleared-only solution, and we are very actively meeting with dealers and buy-side clients. There is a positive reduction of the ERP guarantee expense of \$8 million due to the proposed settlement between CBOE and CBOT members. We also had a \$7 million gain in our BM&F currency hedge for the quarter. That hedge has been terminated, as the counterparty was a subsidiary of Lehman Brothers who as you know is in bankruptcy. Upon termination, we retained possession of the cash collateral associated with the hedge. The cost to set up a new hedge is currently uneconomical, so we continue to examine our options. Turning to securities lending, NYMEX had a \$25 million dollar investment in the SIGMA fund, which is currently valued at \$2.5 million. \$16 million of this loss is recognized in CME statements, while the remainder was recognized in Nymex's pre-acquisition financials. We were well aware of the potential for this write-down when we completed the NYMEX transaction and accounted for this in our own valuation work. Lastly, we revalued our deferred tax liabilities, as a result of the merger, and had a non-cash adjustment of \$48 million in income taxes.

◆ Moving on to the **balance sheet**:

- ◆ As of September 30th, we had \$700 million of cash and marketable securities, and total debt of \$2.9 billion, resulting in a net debt position of approximately \$2.2 billion.
- ◆ With regard to our debt, we issued \$1.3 billion of public debt in three tranches – 1-, 2-, and 5-year, and we have a 3-year \$420 million term bank loan. In addition, we currently have approximately \$1.6 billion in commercial paper outstanding, which is backstopped by a 3-year revolver and a 364 day bridge facility. We have fixed the rate on our public debt, as well as on our term loan, and we currently expect to pay a blended rate of approximately 4 percent, including the amortization of all upfront fees. On the bridge, we are scheduled to pay a \$6.4 million cash continuation fee in mid-November, based on our current structure, and we are currently working on various alternatives to replace the

bridge on the facility on more favorable terms. If we replace the bridge, we will avoid the \$6.4 million duration fee and accelerate certain one-time, upfront costs that have already been paid related to the bridge. This acceleration will result in additional interest expense of approximately \$9 million in the fourth quarter.

- ◆ **Capital expenditures**, net of leasehold improvement allowances, totaled \$40 million in the third quarter driven by \$37 million of technology investments, including \$17 million of construction related to data centers. In Q4, we expect CAPEX to range from \$85 to \$95 million primarily related to data center and staff space construction.
  
- ◆ Now, turning to other matters,
  
- ◆ At the end of June, we announced that our board had authorized a share buyback program of up to \$1.1 billion over the next 18 months. Through yesterday we have purchased approximately \$100 million of CME Group stock.
  
- ◆ So far in October, we are averaging 12.7 million contracts per day, up approximately 15 percent compared to the full month of October last year.
  
- ◆ In summary, this was a busy quarter in which we met many challenges and continued to execute on our plans while turning in a solid financial performance.
  
- ◆ With that, we would now like to open up the call for your questions.