**Q4'14 Earnings Call Prepared Remarks**
**February 5, 2015**

**<u>Gill</u>**

- Thank you John, and thank you for joining us today. I am very pleased with our team's effort and our performance during 2014. Further, the Q4 results we are going to talk about today were outstanding and I am proud of our staff for their hard work during some pretty difficult times. During the fourth quarter our ADV reached almost 15 million contracts, up more than 30 percent, and it is our second highest volume quarter in our history, during a normally slow time of the year. We saw significant growth in every product area, ranging from 14 percent growth in metals to 41 percent growth in interest rates. Record options ADV increased 38 percent and futures rose 29 percent. Q4 revenue of $841 million was the second highest we have ever had. Most importantly, our earnings per share on an adjusted basis in the fourth quarter was up more than 50 percent.

- Over the last 3 to 4 years, we have been investing organically in a very targeted way to broaden our global reach and to drive more core volume growth as trading conditions improve. I have spoken about this on every earnings call since I became CEO, and we are making progress.

- During the quarter, we traded 3 million contracts per day from outside the United States, by far the highest level we have ever seen. Revenue from outside the US accounted for approximately 30 percent of our Globex revenue, and 24 percent of the volume. Our liquidity is building around the clock. You certainly saw that on our record day in October, when a much higher proportion traded from outside the US than an average day.

- Fourth-quarter electronic ADV from European clients was 2.4 million contracts, up 45 percent on a year-over-year basis, outperforming North America which rose 31 percent. In Europe, we saw growth of 61 percent year-over-year in our interest rate business and 32 percent growth in equities during the quarter. About three years ago, we made a concerted effort to reach out to educate European clients about the product suite, client by client. In 2014, we spent considerable time talking to these clients about our OTC rates offering, and marketing how Eurodollars, Treasuries and other products can be utilized. We also pointed out that the interest rate curve was more dynamic in the US and provided more opportunity for them than other alternatives. Based on our efforts and market conditions, both hedgers and speculators from this region have ramped up their activity in our markets. The portion of our interest rate swap business coming from outside the U.S. is increasing, particularly from European based clients. This is surprising, since the European mandate for clearing is still several quarters away. We have successfully transitioned some businesses from these clients into futures driven by superior capital efficiency relative to swaps.

- In Asia, our volumes rose 51 percent compared to the same quarter a year ago. Our equities volume grew 96 percent, energy jumped 56 percent and interest rates were up 54 percent. In Asia, in our view we are at very early stages in terms of awareness and education and ultimately the conversion of new clients. Many of our client meetings are about explaining the full breadth of our product offering, and when we make progress the discussion turns to connectivity to our trading platform and establishing clearing relationships. Once we successfully engage, the ongoing trading activity tends to be fairly sticky. Based on where we are at this point, and the large number of potential clients, I anticipate this region will be the fastest growing area for CME Group over the next 3 to 5 years.

- I will now shift to talking about a few of our product areas, starting with rate futures, options, and cleared swaps. Our OTC efforts continued to progress in the fourth quarter. We had the highest clearing revenue to date in Q4, which John will touch upon. In interest rates swaps, during 2014 we overtook our competitor in

D2C dollar-based clearing, moving from 32 percent market share in 2013 to 49 percent in 2014, including 55 percent in the fourth quarter. We recently have picked up market share as well in non-Dollar swaps clearing, which you can see on slide 9. In addition, to significant customer engagement, our unique portfolio margining value proposition is clearly drawing more US and European clients to our platform. As an update, we are now up to 36 firms utilizing portfolio margining, double the 17 we had at the end of 2013. We are currently providing $3.9 billion of savings vs. $1 billion at the end of 2013. We added two additional FCM's who are live with our clients, increasing the total to 9 FCM's. Trade count market share, which is most closely tied to revenue, jumped from 47 percent from 2013 to 51 percent in Q4 2014. Lastly, we are currently at 64 percent of the open interest in terms of the global OTC clearinghouses.

- We continue to market our interest rate futures and options to our more than 500 OTC clearing customers. Clearly, this is one of the drivers of our 40 plus percent growth in rates volume during Q4, and almost 20 percent growth in 2014. Comparatively, the FICC businesses at banks, European rate volumes and cash treasury volumes were all under pressure. I wanted to share a couple of updates on statistics that we follow very closely. Large open interest holders in rates jumped by 15 percent during 2014 to 1,615 firms spread over our rate futures complex. About half of this increase was in our Eurodollars, 2-Year Treasuries and Fed Funds contracts, so we are seeing more focus on the front-end now. Our Treasury futures notional volume as a percent of reported Cash Treasuries jumped to 75 percent for full year up from 67 percent in 2013. Lastly, block volumes are up 80 percent in 2014 for rate products, outperforming other venues. This is an indicator of large participants entering our markets and using futures for OTC-style trading.

- Our focus is to continue to aggressively draw attention to the advantages of our products, and I would expect the debate about the FED decision making to remain in place. Because we list contracts up to 10 years, one of the nice things for us is we benefit financially prior to the actual first increase and then beyond. Within Treasuries, we have seen increased volatility and market events recently. In January, Treasury futures were up 25 percent, and Treasury options were up 31 percent. Activity that is clearly hinged to both domestic and global events has us interconnected.

- Lastly, we are working to leverage our connectivity and relationships with credit trading clients to increase activity in our credit default swap business. During Q4, our revenue exceeded $1 million for the first time, and was up 67 percent sequentially as we achieved the highest revenue market share yet. While the current revenue is fairly small, this is worth watching in 2015, as we expand our offering.

- Turning to FX, we had a challenging time during the first 8 months of 2014 with extremely low volatility and turmoil in the cash FX market. Volumes averaged around 700,000 per day during that time. From September to December we averaged 1 million per day, up 36 percent vs. the prior year, as volatility returned to normalized levels. In January, our FX business rose more than 20 percent from the prior year. Our expectation is that market participants will continue to be drawn to the deep liquidity we have in FX and the safety and soundness of a cleared market. Our trading and clearing processes functioned very smoothly during the Swiss Franc event that occurred a few weeks ago. We are pleased that we are at near record open interest, and continue to grow the number of large open interest holders, which in a higher trending volatility environment should support our volume growth.

- We have seen a pickup in our energy business, and our market share grew during the year in natural gas and crude oil. Volatility hit an all-time low in energy in the second and third quarters last year, and we have seen outsized activity as that has changed. WTI prices were range bound between about 80 and 105 dollars for a few years, and we have clearly rebased, which very few experts projected last June.  Volatility now is back near historical norms, and as we know these markets are difficult to predict.  Our team is heavily engaged with energy customers about our full suite of products and the unique possibilities in the marketplace. We are increasingly focused on the European energy markets, where a large percentage of the business remains uncleared.

- As you all know, innovation has been a hallmark of our exchange, and we have certainly not slowed down on that front.  Recently, we calculated the volume and revenue from products launched since closing our mergers.  In total since 2010, we have driven 450 million new contracts traded and $380 million dollars of incremental revenue from these products.  Over the last quarter we have announced many new product extensions including palm oil swaps, iron ore futures, European natural gas, kilo gold futures, and physically settled cocoa futures in Europe.  We are working as closely as ever with both domestic and non US based clients I mentioned, and they are looking for more alternatives from us. In particular, our new European natural gas activity has exceeded our own expectations during the first few weeks of trading, driven by commercial user participation.

- Finally, we made some important decisions in October to right size our company, and to reorganize our structure.  The new accountability and structure has worked well, and will help as we execute our goals in 2015 and beyond.  We are completely focused on efficiency throughout the organization, and meeting the demands of our customers in practically any environment.  Our focus is on driving operating margins, earnings and free cash flow higher, which is currently how our compensation targets are set throughout the firm.  I thank my colleagues for their significant effort and engagement.

- With that – I am going to turn it over to John Pietrowicz to discuss the financials. Thank you.

**John**

- Thank you Gill, and good afternoon everyone.

- I am very pleased with how we finished 2014 with a strong fourth-quarter performance. We continued to demonstrate the significant operating leverage in our business model. Looking at the adjusted results, revenue increased by $154 million or 22 percent compared to Q4 last year, and expenses increased less than 1 percent. Most importantly, our adjusted earnings per share rose more than 50 percent.

- Now I'll turn to some revenue details:

- The rate per contract for Q4 was 73.1 cents, up from 72.5 cents last quarter despite higher volume. The main driver for the increase was a shift in the product mix – with an increased proportion of total volume from higher-price commodity products.

- OTC swaps revenue totaled $18 million for the quarter, up 16 percent versus last quarter. In Q4, we captured $148 per IRS OTC trade due to positive customer mix shifts this quarter. We cleared approximately 1,780 trades per day in the quarter – up from prior quarters. In January, that has jumped to more than 2,000 per day.

- Market data revenue was up 17 percent versus Q4 last year, driven primarily by our pricing change, but also bolstered by new paying customers.

- Lastly, other revenue is up sequentially driven by approximately $3 million related to platform development with our partners in Brazil. Also, we had higher compliance fines compared to the prior quarter, which is offset in other expense.

- Adjusted expenses in Q4 were $341M, close to Q4 last year when we had elevated technology related costs. Based on the very strong volume in Q4 and higher than expected revenue, our license fees and bonus grew more than we projected during the last call.

- Total compensation was down $2 million sequentially despite the higher bonus, driven by recent staff reductions. At the end of Q3, we had 2,825 employees, and we ended the year at approximately 2,685, which is down approximately 5 percent.

- Turning to taxes, the effective rate for the year ended at about 37 percent on a pro forma basis down from last year's 37.6 percent, with the effective tax rate for this quarter of approximately 36.4 percent.

- And now to the balance sheet – at the end of the year, we had more than one billion five hundred and fifty million dollars in cash, restricted cash and marketable securities. In January, we paid out $671 million in our variable dividend of $2 per share. Following the dividend payout, and the impact of the strong fourth quarter as well as favorable cash flow timing, we start the year with approximately $880 million of cash. We are extremely focused on providing a significant return of capital to our shareholders including our recently announced 6 percent increase in our regular quarterly dividend, to 50 cents per share.

- During the fourth quarter, capital expenditures, net of leasehold improvement allowances totaled $42 million, and for the year we came in at $138 million. This is below guidance provided last quarter and the difference was driven largely by a shift in real estate related timing.

- Now, I would like to turn to our forward guidance for 2015. As you know we don't provide volume or revenue projections. We said last quarter that we would go through our budgeting process, and that we expected to be able to keep expenses flat in 2015.

- After a thorough review, our expense guidance for 2015 is flat at $1.31 billion. Based on the fact our variable expenses increase as transaction fees grow, we will be extremely focused on our discretionary and fixed infrastructure expenses to support this guidance at higher revenue levels than we saw in 2014.

- I will provide some assistance in terms of the expense line items. Compensation is likely to be higher in 2015, as normal merit and promotion increases and some selective hiring more than offset the reduction from our October announcement. Our bonus at the target level in 2015 is approximately $70M, which is similar to the actual payout this year, with obviously higher targets. As information, the ceiling on the bonus is $105 million, and we would have to exceed our cash earnings target by 20 percent to reach that level.

- Turning to the license fee line, there are three product groups that contribute to virtually all of the expense. The largest impact is in our equity business, where we have a profit share with our index joint venture, so as that business line changes the payout will fluctuate. We capture approximately 27 percent of this in non-operating income and expense, due to our ownership stake in the joint venture. The other two product areas which drive license fees are energy, based on Clearport broker incentives, and our Interest Rate Swaps revenue share with founding members.  Volume in our core interest rates, FX, ags, and metals futures products have very little impact on this line.  This means our license fees as a percentage of transaction fees is impacted by product mix. For example, in 2014 the ratio ranged from 4 percent, when interest rate volumes dominated in Q3, and that jumped to 4.8 percent in Q4, when we saw a surge in equities and energy volumes alter the mix.

- In addition, in 2015 we plan to reduce marketing and other expenses by approximately $10 million.

- I know it is difficult for you to triangulate where our expenses would be at various revenue levels.  The management team is very focused on delivering expenses at $1.31B in 2015, and we all realize that variable expenses may be impacted at different revenue levels.  We will do our best to reduce costs without impacting our growth plans, if volume grows significantly.  The bottom line is that if our expenses end up being materially higher than our guidance due to the variable expenses, because our revenue is so high, I will be happy and I suspect our shareholders will be too.

- One final point on expenses - We have traditionally guided to mid-single digit expense growth for the company, and we were at that level during the last few years, even as we invested in new growth areas. With much of the infrastructure in place now,  we are revising our expense outlook to low to mid-single digit range for the next few years.  We will methodically look at our business to drive efficiencies.   An example of that is the announcement last night concerning the closure of most of our futures pits, and two of our options pits, which we anticipate completing in July.  As a result, we will reduce annual expense by approximately $10 million.

- We expect capital expenditures to be approximately $150 Million in 2015, in line with where we have been the last few years, and that includes some of the real estate carry over from last year.

- Our tax rate is expected to be 37 percent, assuming no change in Illinois income tax laws or any corporate tax changes at the federal level.

- In terms of market data, we are working with intermediaries to help them appropriately categorize subscriber usage and we will complete our first billing process in late February for those that operated under our now expired market data electronic trading waiver. Therefore, we will provide more color on the expected financial impact of the change on our Q1 earnings call. As a reminder, beginning in January 2015 we started to charge 50 percent of our monthly rate per screen to previously waived professional subscribers, which equates to $42.50 per month per CME Group exchange. We have been working closely with our client base and provided the market a 2 plus year transition period before charging the full rate which will take effect in January of 2016. At that point we will be in line with other exchanges that eliminated the market data waivers several years ago. For now, the consensus estimate of $375 million of market data revenue is an appropriate placeholder. I look forward to providing you more clarity in a few months.

- Finally, we adjusted transaction fee pricing across all 6 products in a targeted way, which went into effect earlier this week. We expect the transaction fee revenue to increase approximately 1.5 percent assuming the same mix levels in 2015, and the largest percentage change will be in interest rates, primarily in treasuries.

- Now for a brief comment concerning our transaction with GFI. As you saw CME and GFI mutually terminated our merger agreement. The battle that unfolded over the last few months was over the IDB business and was not our fight, which led to our decision to ultimately take a step back from the transaction. However, we still have an agreement with JPI, GFI's largest shareholder, that limits their ability to sell their shares or vote their shares for an alternative transaction for 12 months. Looking forward, we have been a part of the Trayport platform for some time and we have a long-term commercial agreement with Trayport. We will continue to build our energy business through that platform. As Gill mentioned, we recently launched European natural gas products which are off to a good start.

- Activity in January continued to be robust, we averaged more than 15.6 million contracts per day for the month, up more than 20 percent. Similar to Q4, we saw strength across the board, with all product areas up double digits, and outperforming other multi asset class derivatives exchanges.

- With that, we'd like to open up the call for your questions. Given the number of analysts who cover us, we ask that you limit yourself to one question, so we can get to everyone. Please feel free to get back into the queue if you have further questions. Thank you.

*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. We want to caution you not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. 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 while maintaining reliability and ensuring that such technology is not vulnerable to security risks; 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 swaps market; our ability to adjust our fixed costs and expenses if our revenues decline; 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, including the impact of any changes in domestic and foreign laws or government policy with respect to our industry, such as any changes to regulations and policies that require increased financial and operational resources from us or our customers; the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others; decreases in revenue from our market data as a result of decreased demand; 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 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; our ability to accommodate increases in contract volume and order transaction traffic and to implement enhancements without failure or degradation of the 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 strategy for acquisitions, investments and alliances; 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 repeal of the 60/40 tax treatment of such transactions; the unfavorable resolution of material legal proceedings; and the seasonality of the futures business. For a detailed discussion of these and other factors that might affect our performance, see our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q.*