

FINAL TRANSCRIPT

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CME - CME Group Chief Executive Officer to Present at William Blair Growth Stock Conference

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Chicago Mercantile Exchange Holdings Inc. - CEO

CONFERENCE CALL PARTICIPANTS

Mark Lane

William Blair & Company - Analyst

PRESENTATION

Mark Lane - *William Blair & Company - Analyst*

Good afternoon, everyone. Welcome to the CME Group company presentation. For those of you that I don't know, I'm Mark Lane. I head the financial services research group at William Blair & Company. I cover the asset managers, brokers, exchanges, investment banks, all areas of insurance. I'm the analyst on the CME.

I need to tell you that the first does have an investment banking relationship with the CME Group. And, for a complete list of research disclosures or potential conflicts of interest, you can go to our corporate Website at WilliamBlair.com.

With us today from the CME is CEO, Craig Donohue; Managing Director of Products and Services, Rick Redding; CFO, Jamie Parisi. And John Peschier, Head of Investor Relations, is somewhere in the building.

Let me just start by saying that we think the CME Group remains well positioned to drive strong long-term growth and returns. It dominates the fast-growing U.S. futures market. We believe it will continue to be a major consolidator of exchanges and trading entities globally. The economics of this business are fantastic. The Company maintains minimal balance sheet risk, no credit risk. Importantly, we think the recent unconditional DOJ clearance for the NYMEX acquisition will hopefully dampen some of the regulatory concerns in the market. We think there are a lot more problems in financial services for regulators to worry about than picking on futures exchanges. While even the exchange space has lost a lot of luster over the past six to nine months with the credit crisis and concerns about growth, this remains a very dynamic industry, very fast growing. And we think that CME will continue to navigate through this environment quite well.

With that, let me turn it over to Craig.

Craig Donohue - *Chicago Mercantile Exchange Holdings Inc. - CEO*

Thank you, Mark. And thank you very much. It's a pleasure to be with you here today. I have a fairly lengthy presentation, so I'm going to jump right in and start to talk about some of our key business model strengths.

Mark mentioned at the outset some of the issues that have been confronting the financial services sector. And so maybe before I talk about our particular business model strengths, I should start by saying that we're not a bank. And we don't have a lot of the issues that many of the investment banks are dealing with right now in terms of the kind of way in which we offer trading services, as well as clearing services.

We're really very uniquely different in the financial services market because we have diverse liquidity across almost every major asset class in the most centralized and transparent market in the world and one that is very carefully regulated not only by us but also by the Commodity Futures Trading Commission.

Secondly, we're unique in that we're a totally vertically integrated company in terms of technology for electronic trading, as well as for central counterparty clearing services. And the scope and scale of what we represent, both in electronic trading

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technology through the CME Globex platform and also in terms of counterparty risk management through the CME clearing house, is unparalleled in exchange and over-the-counter derivatives markets.

Last, I want to talk about our average daily volumes, which have been extremely strong in June, and then, most importantly, talk to you about the fundamental growth drivers in our business.

I mentioned deep liquidity across every asset class. Very, very few exchanges anywhere in the world represent what we are in terms of deep liquidity in short-term interest rate products, fixed income sovereign debt products, stock index equity derivative products, foreign exchange, agricultural commodities of almost every kind, and also energy and metals. And you can see on the right side of the chart that this means that we have incredible revenue diversity, and we benefit, frankly, from a lot of the different market conditions in each of these different asset classes. 41% of our revenues come from interest rate and fixed-income products, 27% from equity derivatives, 10% from commodities, 9% from quotation and market data sales, 6% from foreign exchange, and then we're continuing also to build our business by providing transaction processing services to other exchanges and trading platforms and market participants.

I talked about the scope and scale of CME Globex, and there's a lot of different ways to measure that. You'll see that elsewhere in the presentation. But this is a sign of the scalability of the business that we have built. In the bar charts, you can see the tremendous growth in order volumes that come into the CME Globex platform, which far exceed, obviously, the number of matched contracts that we have in any given day. And then, on the line graph, you can see the reduction in response times, both for inbound and outbound message traffic. You can see that, at a time when we've experienced exponential growth in new orders and message traffic coming onto the platform, we've been successful at becoming one of the fastest and most reliable and stable electronic transaction platforms anywhere in the financial services industry. May futures response times last month averaged 10.7 milliseconds compared to nearly 20 milliseconds in the first quarter of 2008, while processing over 4 billion orders in that month.

More importantly, we look at technology very holistically because we think that's how our customers look at it. Speed, while very critically important, is but one factor that they rely upon. So we pride ourselves on having the most reliable platform; having the broadest range of functionality to handle the way in which traders trade in electronic markets; having the broadest global distribution, both in the technical sense as well as in the breadth of our customer base; and having the largest scale and the most flexible architecture in terms of bringing new technology, innovations, and solutions to the market.

On the clearing side, we're regarded as the world's largest derivatives clearing organization. We have obviously a very unique system that not only has benefited the growth of our core business but which we think is a key distinction in today's marketplace, where people are increasingly concerned about bilateral counterparty credit risks or the inherent risks of trading in a market that is non-cleared. We guarantee the credit worthiness of every trade that happens on our exchanges, which, last year, meant more than 2.2 billion contracts having a notional value in excess of a quadrillion dollars. And we have a unique mark-to-market, twice-daily system that basically is a zero-debt system and doesn't allow losses to accumulate, which means that, if you're trading in our markets, you have to actually pay and collect to and from the CME clearing house twice a day, depending on the changes in the value of the positions that you're holding at any moment in time, which is why we've had a default-free history for more than 150 years. We think that that's not only very relevant for continued growth in our core business but, as I mentioned, very critical to our success in expanding into the far-larger over-the-counter derivatives markets.

We also have a huge critical mass of global clearing member firms that support activity in our clearing house. We hold approximately \$65 billion of performance bonds, and approximately \$8 billion to \$10 billion of that is typically what we call excess, meaning nobody owes it to us, but they deem us to be a very high-quality credit counterparty. And so that is obviously important as we're looking at ways in which we can further extend. And I'll talk about some of those initiatives in just a moment. We think that the central counterparty clearing system that we operate is best positioned to enhance capital efficiencies for market users who are active in the over-the-counter market. We can provide significant cross margining benefits and multi-lateral netting advantages not only within futures but across futures as well as over-the-counter derivatives exposures. And we think we can foster innovation in the over-the-counter markets through our clearing capabilities.

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In terms of volumes, I won't go through this in great detail, but, obviously, we are continuing to see very strong performance in the business. And, more recently, in June, you can see that we're trading roughly 14 million contracts a day on average. So we're beginning to see an upturn in volumes from that very brief downturn that we saw during April and in May. But I think, most importantly, you've seen continued strong record volumes in a number of different areas, including in foreign exchange, including commodities, and also including, obviously, in energies through our partnership with the New York Mercantile Exchange. June Eurodollar options average daily volume is also averaging 1 million contracts a day, up 32% over May.

Just briefly going across the different product lines, you could see interest rates is up 13%. Equity indexes are up 49%. Foreign exchange is up 22%. Commodities are up 19%, and energy and metals contracts are up 52%. And year-to-date average daily volumes across the whole company are up 22%. So, obviously, very strong continued performance.

What I'd like to do is talk about the way that we're approaching growth and achieving growth for CME Group. And it breaks down logically across a number of different segments. First is what we call continued very strong secular growth trends in the global futures and options and derivatives industry. The second is just very strong continued core business growth. The third is near-term mergers and acquisitions activities, which we think are value creating. And I'll talk about that both in the context of the CBOT merger as well as the pending NYMEX acquisition. And then, fourth, the revenue enhancement that we can achieve through continued transaction processing arrangements with other exchanges and trading platforms. And then, lastly, noncore growth opportunities, mainly in the over-the-counter and international markets.

So let me break all those down for you. In terms of continued secular growth trends, this has been something that's been true for, I think, almost 30 years, as we've had very high compounded annual growth rate in our industry of 22% for nearly 30 years. We see continued growth in sophistication among investors on a global basis, who are continuing to learn how to use our products not only for hedging and risk management purposes but, increasingly, for a much broader array of trading strategies. Obviously, in light of what's happening in our world, we see a continued need for risk management in terms of geopolitical and economic risks. And as our marketplace and financial services has become increasingly global, we see opportunities for us to expand our customer base in that way.

Also, we think that we have a tremendous growth opportunity in the over-the-counter market by providing capital efficiencies and reducing counterparty risk. And we're beginning to see very strong growth in emerging markets like China, India, Russia, and other parts of the emerging world. And with that comes wealth creation and the need to manage risks in those economies. So we're looking at new customer segments, including sovereign wealth funds, including Asian central banks, increasingly, hedge funds who are active in our markets on a global basis, and also private equity players.

In terms of core business growth, we're continuing to grow our business through electronification, as well as migration. We're approximately 82% to 83% electronic now. But we continue to see migration from the open outcry trading venue to the electronic market. And with that migration also comes growth as more people are able to access the market through 24/7 trading in all of our products. We're also continuing to see strong growth through algorithmic trading and model-based trading, where people are increasingly developing new trading strategies or trading at a higher velocity with us.

One of the areas that we're extremely focused on right now is globalization of our business. We're looking at building out our sales and marketing and business and product development functions so that we can bring products to market that are relevant to investors and traders not just in North America but also in Europe, Asia, Latin America, and elsewhere. We have a number of telecommunications hubs already throughout continental Europe and in Singapore, but we're adding to that, including new locations in Sao Paulo, Brazil, Seoul, Korea, and Shanghai, China. And we have a particular emphasis on new product development involving emerging market products in terms of currencies, commodities, as well as indexes. And, lastly, we're pursuing strategic partnerships, principally with BRICK country players, and I'll talk in a moment about what we're doing both with the Brazilian exchange and also with the Korean exchange. But you can see that we've had a very strong, consistent annual growth rate - a six-year CAGR of 27% over the last seven years. And, because of the strong core business growth drivers, we expect that to very much continue.

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In terms of globalization, we cover 85 countries in the world that have customers who are directly accessing the CME Globex platform. You can see on the slide all of the areas where we now have these telecommunications hubs that help to aggregate order flow from international investors, reduce their costs of connectivity to the CME Globex platform, and improve the reliability of their trading connections with us. And this has been a huge success for us. In tandem with enhanced marketing and sales capabilities and pricing programs that have helped generate interest in CME Group's core products among international traders and investors, we've seen the total percentage of trading outside of U.S. hours increase from near 4% in the first quarter of 2003 to more than 16% in the first quarter of 2008. And I must say that I think that this is still in the very, very early stages in terms of what we can accomplish. We've only been doing this now for roughly three years, and this is so, I think, a very early stage of development for us in terms of international growth.

In terms of transaction processing, this has been a really successful business line for us. We were very fortunate to strike a very important arrangement with the Chicago Board of Trade prior to our merger, where, together, we consolidated the clearing operations of the Chicago Mercantile Exchange and the Chicago Board of Trade in a way that created huge value for our customers and our clearing member firms, made significant revenue enhancements for both the Board of Trade and the CME, and ultimately led to our successful merger. We extended that by also entering into a very successful trade-matching services arrangement with the New York Mercantile Exchange approximately a year and a half later. And you can see the progression of volumes from when we began. We were trading roughly 70,000 contracts a day in energy on the CME Globex platform, and today we trade more than a million contracts for NYMEX and for the COMEX division of NYMEX. So it's been a hugely successful arrangement in much the same way that the CME/CBOT common clearing link was and I think also proved that we could work together and has led now to our definitive merger agreement with the New York Mercantile Exchange.

We're now extending that on an international basis. We've been successful in entering into a strategic investment partnership with the combined BM&F Bovespa exchange in Brazil, which is the world's third-largest exchange company. And, pursuant to that arrangement, and I'll talk more about it in a moment, we'll actually be providing global order routing and distribution services to BM&F and Bovespa, and that will create a new revenue stream for us as well as help us participate in the growth of their company through our equity investment in BM&F.

And then, just lastly, we've entered into a preliminary agreement with the Korean exchange for trade-matching services involving their very popular Korean stock index futures contract, the KOSPI 200, and we're working on finalizing that agreement right now. I should mention that both Brazil and Korea are respectively the tenth- and eleventh-largest economies in the world, with rapidly expanding financial services sectors. And so we've hit the timing of these investments and partnerships, I think, very well.

Often times, people might be reluctant to talk about mergers and acquisitions activity as a growth and value driver, but in our case I'm very comfortable doing that because we've proven in just a very short time the power of what we were able to accomplish in our merger with the Chicago Board of Trade. When we first announced that merger, we said that we expected to complete the integration of the two companies within 12 to 18 months following the closing of the transaction. And I'm very proud to report that, in less than 10 months, we've completed every major milestone for integration of the two companies. We said that we would achieve at least \$150 million a year in expense synergies, and we are exactly on track to the attainment of that objective. Expense synergies of \$22 million were realized in the first quarter. On an annualized basis, that's \$87 million. And we will be achieving the full \$150 million annualized run rate when we get to a full-year impact. We have successfully completed the integration of all of the electronically traded CBOT products onto the CME Globex platform. We've also just recently completed the total trading floor integration. And we have two remaining milestones, and that's the balance of the staff reductions that will occur in the middle part of this summer-- actually, as we speak-- and then, in July, the decommissioning of the eCBOT platform with LiffeConnect. So we're in great shape. And we're also on track in terms of the attainment of our revenue and growth synergies that we thought we would achieve.

In terms of NYMEX, we had a major milestone achievement yesterday, which was the clearance from the Department of Justice to proceed with the completion of the transaction between CME Group and NYMEX. Similar to the Board of Trade, we expect there to be significant cost synergies on an annualized basis of at least \$60 million a year. And, like the Board of Trade and, I

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think, even much more so, we expect significant revenue and growth opportunities through new product development, product extension, and the benefits that the larger CME Group footprint can have on the energy and metals business of NYMEX and COMEX. We expect the transaction to be accretive on a GAAP basis within 12 to 18 months after close. And with the clearance from the Department of Justice, at this point, we just have to work our way through the SEC review process with our proxy materials, mail the notice dates for the shareholder and member meetings, and then hopefully close the transaction in the fourth quarter of 2008.

I mentioned that we have a multitude of long-term, noncore growth opportunities outside of our current very highly successful futures and options business. And I'd just to take a minute to frame that for you. First of all, on the upper left side in the pie chart, you can see that the over-the-counter market is actually much, much larger and has been growing at a rate that is equal to or, at times, greater than the listed futures market. You can see that in terms of the total notional value of derivatives outstanding in the over-the-counter market actually accounts for 84% of that. And that's a market that, up until recently, we haven't been a major player in. But we think, given the current trends in the marketplace, the capabilities of our technology, and our clearing house, that we have a strong value proposition for helping to further evolve the over-the-counter market in ways that will make it more successful as well as reducing the risk of transactions in that market; in particular, counterparty credit risks.

By asset class, if you look at the lower, left-hand pie chart, you can see that we're actually very well matched up because we happen to have very significant businesses and deep liquidity pools in the largest segments of the over-the-counter market; most notably, the interest rate segment, which is 68% of the over-the-counter market, the foreign exchange market, which is 9%, and then the commodity and energy segments, which are roughly, together, 13%. So those are all areas where we have significant customer bases, deep liquidity, and, we think, a lot of commonality for our extension into that market.

I'll talk in just a moment, but we're also looking very carefully at the credit default swaps market as a very significant opportunity for us, in addition to the interest rate, foreign exchange, and commodities area.

In terms of credit, a lot has been talked about recently there. And, of course, there's a keen interest by the dealer community to try to find effective solutions for central counterparty clearing in the credit market. But I want to be clear that the CME Group is very committed to being a competitor in this market. We think that we have far more value to bring to the table in terms of scope and scale advantages; independence and neutrality in the risk management functioning of a CDS clearing house; time to market advantages, given that we're already in business operating on a wide-scale basis; and interfacing with all of the world's largest financial institutions and credit market participants and also given the strong track record that we have in terms of operational excellence and risk management capabilities, having operated our business for 150 years on a default-free basis.

I should mention as well that we have now three different companies that are operating in the over-the-counter markets. We have FXMarketSpace, which is a joint venture with Reuters that we're using to help penetrate the foreign exchange over-the-counter market. We have a company called swapstream, which is a platform for automated trading of standardized euro- and dollar-denominated interest rate swaps. And, more recently, we've acquired a company called Credit Market Analytics, which is one of the leading providers of market data and valuation services to the credit derivatives market. And all three of those will be key cornerstones of our growth opportunity in the over-the-counter market.

So, in summary, we're very well positioned for long-term growth with, I think, the most diverse product set of any exchange in the world, the most advanced technology, and the most widely regarded clearing facility in the world in terms of managing value at risk. Our near-term volumes have strengthened very strongly. The CBOT merger has resulted in significant value creation for our shareholders and has been executed, I think, brilliantly by my colleagues. And we have very strong long-term secular growth trends that will continue for the foreseeable future and, I think, a wide array of very exciting growth opportunities in new markets, particularly the over-the-counter, interest rate and swaps, foreign exchange, agricultural commodity, and credit default swaps market. So we're looking forward to all of these, and I'm happy to answer your questions if we have some time.

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QUESTIONS AND ANSWERS

Mark Lane - *William Blair & Company - Analyst*

Yes. We have a few minutes for just a few questions in this room. Let me just start with one, Craig, regarding some of the regulatory dialog specifically directed at the commodities business. What do you think the real threat is there? What scenario would be a negative for your business, and how likely would you expect that to happen or the probability of that happening.

Craig Donohue - *Chicago Mercantile Exchange Holdings Inc. - CEO*

This is obviously an intense area of scrutiny in Washington right now. I will tell you, having spent a lot of time there with my colleagues over the course of the last month, I think congress, first of all, has a very strong appreciation for the importance of a functioning futures market. And I think, in general, they regard it to be well regulated and transparent with access to information that they need to determine whether there are problems or dislocations happening in any of the commodity or energy markets. I think they also very much appreciate the fact that futures markets don't function without speculators. And I think they understand that speculators are not just buyers; they're also sellers. And I think they also understand that margin is not normally something that one would use to incent or disincent trading behavior in the market but, rather, is used to just ensure the financial safety and functioning of the clearing house. And I think most people in Washington have moved away from consideration of doing anything draconian with respect to the well-regulated, transparent, domestic futures markets. And I think they've moved away from thinking that margin would be an effective tool for doing that. I think they have also a very keen understanding of the fact that, if you do something that sort of impacts the futures market here, you likely drive more activity offshore or to the more opaque over-the-counter markets, and that's certainly not in keeping with what their end goals or objectives are. And so they're very cautious and tentative about that.

I think what you've seen emerge in the last week or two is a very strong focus on closing what they regard as the Enron loophole or what they sometimes describe as the London and Dubai loophole. And these are essentially off-exchange or foreign trading venues that are facilitating trading in the WTI crude oil contract, which they view as a domestic contract. And so they're looking to impose a higher degree of regulation, transparency, position limits, and price reporting in those over-the-counter and foreign markets as a way to make sure that they have access to information that helps them determine whether there's excessive speculation in the market. So I think, in the end, politics aside, I think they'll be cautious and careful in not overreacting in a way that could actually harm the functioning of the futures market, which I think they all agree is actually working well.

Mark Lane - *William Blair & Company - Analyst*

We're going to continue the discussion in the breakout room. Thank you, Craig.

Craig Donohue - *Chicago Mercantile Exchange Holdings Inc. - CEO*

Thank you very much.

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