

FINAL TRANSCRIPT

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NYX - Q1 2007 NYSE Group Earnings Conference Call

Event Date/Time: Apr. 26, 2007 / 8:00AM ET

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the first-quarter 2007 and NYSE earnings conference call. My name is (inaudible) and I will be your coordinator for today. At this time all participants are in a listen-only mode. We will facilitate a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS). I would now like to turn the presentation over to your host for today's call, Mr. Gary Stein. Please proceed, sir.

Gary Stein - NYSE Euronext - SVP, IR

Good morning. I'm Gary Stein head of investor relations for NYSE Euronext. Welcome to our conference call for NYSE Group's first quarter 2007 results which were outlined in a press release issued earlier this morning. During this call, our comments may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. These statements are based on NYSE Euronext's current expectations and involve risks and uncertainties that could cause NYSE Euronext's actual

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

results to differ materially from those in the statements. Please refer to our SEC filings for a full discussion of the risk factors that may affect any forward-looking statements. You should not place undue reliance on forward-looking statements which speak only as of the date of this conference call. Except for any obligations in disclosed material information under the federal securities laws, NYSE Euronext undertakes no obligation to release publicly any revisions in any forward-looking statement to reflect events or circumstances after this conference call.

With me on today's call are Duncan Niederauer, President and co-Chief Operating Officer and Nelson Chai, Chief Financial Officer. I will now turn the call over to Nelson. At the conclusion of Nelson's prepared remarks, we will take your questions.

Nelson Chai - NYSE Euronext - EVP & CFO

Good morning, thanks Gary. Due to the fact that our merger with Euronext did not close until April 4th, today's call will address NYSE Group's first quarter 2007 results only. Consistent with our press release issued earlier today starting with the second quarter results, we will report NYSE Euronext financials on a consolidated basis. Please note too that due to reporting requirements, Euronext will separately report its first quarter 2007 revenues on May 15th and its full first-quarter financial results on May 22nd. While we will not be commenting on the financial performance for Euronext during this call, I would like to highlight the fact that Euronext volumes have been up sharply so far this year, in both cash trading and derivatives. Year-to-date through March 31st, the number of cash trades has increased 29% versus last year, the number of interest rate contracts traded on Euronext.life has increased by 23% and equity contracts traded has increase by 19%. This strong performance reinforces the earning power and balance of the newly formed NYSE Euronext.

As demonstrated by our December 31st, 2006 pro forma combined company financials, NYSE Euronext revenues are highly diversified by product and geography. From a product standpoint, futures and options contributed approximately 20% of our pro forma combined revenues, followed by listings, market data and European cash equities, each of which generated approximately 15% of our pro forma revenues. U.S. cash equities, including the activities of the NYSE and NYSE Arca, contributed approximately 10% of NYSE Euronext pro forma combined revenues. From a geographic standpoint, our pro forma revenues are evenly split between Europe and the U.S.

As NYSE Euronext, we are the global leader in listings and cash equities trading with a strong presence in futures, options, bonds and market data. Moreover, were are poised for growth on all fronts, offering numerous value creation opportunities for our customers and shareholders. NYSE Euronext is the world's first truly global marketplace group and we're extremely well positioned to continue as the leader in the consolidation of the global exchange industry.

Before reviewing our financials, I will briefly review several business highlights from the first quarter, then we will take questions. NYSE Group recently marked its first year as a public company. During this period, we have successfully transformed our business and advanced our strategic objectives of diversification and globalization. NYSE Group's first quarter results demonstrate our commitment to strong financial performance and balanced growth.

With the NYSE Euronext merger now complete, we are well along our integration activities on all levels, starting with our Board and management team and extending to our products, services and technology. The \$375 million in cost savings and revenue synergies we outlined previously are real, apparent and achievable.

Consistent with our strategic goals, we recently acquired a 5% equity position in the Mumbai-based National Stock Exchange of India which is the leading cash equities and financial futures exchange in India. In January we signed a letter of intent with the Tokyo Stock Exchange to establish a strategic alliance exploring several areas of mutual interest.

With the launch of NYSE Bonds this past Monday, we now have the ability to trade most corporate debt issues of NYSE equity listed companies. We are very confident that our all-electronic bond platform provides customers superior performance and greater transparency.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

In U.S. cash equities, handled average daily volumes increased in every product category traded by NYSE Group during the quarter compared to last year. Volumes are up 15% in NYSE listed securities, 1% in NASDAQ listed securities, 50% in both NYSE Arca and AMEX listed securities as well as ETF, and option volumes increased 46%.

During the quarter, we completed the first full implementation of the NYSE Hybrid Market. With Hybrid in place, the NYSE is producing faster order executions and outstanding market quality as illustrated by the following statistics. We are now a fast market 99.8% of the time. In the quarter, the NYSE's deep fill rates improved even more, increasing to 74.6% from the fourth quarter level of 71.4%. The NYSE Hybrid Market has further tightened to our quoted spreads by more than 5 basis points while maintaining the superior liquidity traditionally associated with the NYSE.

During the first quarter, almost 20% of share volume was handled by floor brokers and specialists utilizing new Hybrid Market electronic tools. We are in full compliance with the SEC's Reg NMS and during the quarter we also doubled message capacity which reduced latency by approximately 25% and will accommodate anticipated increases in volume and messaging.

There are 41 new ETF listings in the first quarter, giving NYSE Group a total of 178 ETFs. This represented more than 56% of the assets under management for all ETFs traded in the U.S. Including our new ETF listings, NYSE Group had 72 new listings in total during the quarter, including six IPOs by U.S. domestic operating companies.

New closed-end funds listed on the NYSE in the first quarter raised \$10.2 billion in new equity, and amount that already exceeds the total capital raised by closed-end funds during all of 2006. The Eaton Vance Tax-Managed Global Diversified Equity Income Fund raised \$5.5 billion in connection with its listings and is the largest closed-end fund IPO in history. We're also proud to note that in 2007 year-to-date, 100% of the capital raised by closed-end funds has been listed here at the New York Stock Exchange.

We also continued our success in attracting listing transfers from other markets such as NASDAQ. During the quarter we had four transfers from NASDAQ to the NYSE, including Navios, Maritime, American Eagle, Washington Group International and Petrohawk which had been the second-largest oil and gas company on NASDAQ. In the same period, we had no transfers from the NYSE to any other market center.

Looking ahead in 2007, our pipeline for IPO listings from both U.S. and international companies remains strong. With the recent listings of China's Simcere, the NYSE now lists 35 companies from greater China, representing more than \$876 billion in combined market cap, an amount that's almost 30 times greater than the \$30 billion market cap of Chinese companies listed in the over-the-counter market here. The NYSE Composite Index continues to outpace other major market indexes, hitting new highs during the first quarter, underscoring the superior quality of companies listed on the NYSE.

Consistent with our strategic objectives, we continue to seek opportunities to innovate and provide our customers with the most diverse range of products and services. Last week, we launched our trade reporting facility which provides a viable competitive alternative to other print facilities. We're expecting our first print on the system today and several other customers are engaged in the permissioning process with the NASD to begin using our facility. Yesterday, we announced the combination of NYSE TransactTools with SIAC's Sector and SFTI businesses. We believe NYSE TransactTools' unique ability to provide an intelligence single connectivity platform to global liquidity will enable market participants to get out of the infrastructure business and focus on trading.

We're also making solid progress with MatchPoint, our electronic block trade matching engine, that will replace our legacy crossing technology. Assuming SEC approval, we're looking toward launching our innovative portfolio crossing solution this summer. Lastly, NYSE Arca options introduced new options pricing in conjunction with the penny pilot program launched by the SEC on January 26th. Our platform uniquely rewards participants that improve market quality and provide liquidity. Notably, NYSE Arca options traded over 1 million electronic contracts on February 27th, a record for the platform. Since the pilot began, our market share in the pilot options has increased 38% through Wednesday, with about 70% of the volume being executed electronically, demonstrating the market's enthusiasm for our best-in-class trading platform and innovative pricing.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Importantly, our options technology platform, which is the same platform that powers NYSE Arca Equities and NYSE Bonds, is performing very well. Given the benefits of tighter option spreads for investors, we welcome the potential expansion of the penny pilot program to include more options issued.

I would now like to turn to our financial results. In accordance with U.S. GAAP, NYSE Group reported net income of \$67.6 million, or \$0.43 per diluted share for the three months ended March 31, a \$37.3 million or 123% increase as compared to net income of \$30.3 million or \$0.24 per diluted share for the three months ended March 31, 2006.

Included in the NYSE Group's results for the first quarter are \$11.1 million in merger-related expenses consisting of professional and other fees incurred in connection with both the acquisition of Archipelago's businesses and the recently completed combination quarter Euronext and exit costs associated with the previously announced trading floor consolidation.

On a non-GAAP basis, giving effect to the Archipelago merger that occurred at the beginning of the earliest period presented and excluding the merger and exit costs, the net income of NYSE Group for the three months would've been \$74.2 million, or \$0.47 per diluted share, a \$21.2 million, or 40% increase as compared to the net income on a non-GAAP basis of \$52.9 million, or \$0.34 per diluted share for the three months ended March 31, 2006.

Excluding the effect of activity assessments fees and Section 31 fees, the pretax margin of NYSE Group on a non-GAAP basis is 24.3% of the total revenues for the three months ended March 31, 2007. Our pretax margins are a reflection of our focus on delivering against the cost saving targets established in conjunction with the merger of NYSE and Archipelago. Fixed operating expenses, defined as operating expenses excluding Section 31 fees, liquidity payments and routing and clearing fees, on a non-GAAP basis for the first quarter of 2007 were \$229 million, a \$56.7 million or 20% decrease versus the first quarter of 2006. Included in the first quarter of 2007, there were \$2.4 million of operating expenses associated with the NYSE TransactTools with no comparable amount in the first quarter of 2006 as the acquisition closed in January of 2007.

For the three months ended March 31, NYSE Group's compensation expense included a \$12.8 million nonrecurring gain due to the elimination of certain employees' postretirement benefits. This nonrecurring gain partially offset \$15.2 million in charges that were incurred by the NYSE Group for the routing of customer orders from the NYSE to other market centers for the period from January 2 through March 2, 2007. Commencing March 5th, consistent with industry practice, the NYSE Group implemented new routing fees to mitigate the expense incurred from other market centers.

Please note that the non-GAAP measures we've discussed are fully reconciled in the tables attached to the text of the release. We believe that these tables provide investors useful information about our business trends and improve compatibility considering the timing of the Archipelago merger. However, non-GAAP measures do not replacement and are not secure to GAAP measures.

This concludes my financial review and we will now open up for questions for Duncan and myself.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Roger Freeman, Lehman Brothers.

Roger Freeman - Lehman Brothers - Analyst

On market data fees, they came in somewhat higher than we were expecting and I was wondering, is that an impact of the new NMS rules at all in terms of the market data sharing fees, or has the pie gone up on the recalculation, or has proprietary data revenue really increased? And maybe can you talk a little bit about proprietary maybe as a percentage of the mix?

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Nelson Chai - NYSE Euronext - EVP & CFO

There was some revenue recovery, and then what I would say is that the NMS impact actually isn't sorted out yet, so we're still going through the analysis. Right now, we don't think that it would be that big a difference. Roger, what we should probably do is maybe off line, we will just walk you through how that builds up.

Roger Freeman - Lehman Brothers - Analyst

Okay, we can do that. And then I guess in terms of employee compensation costs, they seemed to not have come down that much during the quarter, at least relative to the staff reductions in the fourth quarter which I think were weighted towards the back end. Can you talk a little to that? Is there still a leg down or have we seen I guess at this point all of the impact of the layoffs that you announced in the fourth quarter?

Nelson Chai - NYSE Euronext - EVP & CFO

We announced them in the fourth quarter, but as you know, they get staggered over the period at the end of the fourth quarter and some this year, so I still think you'll see continued improvement in the run rate, if that's your question.

Roger Freeman - Lehman Brothers - Analyst

Yes, that is a question. It seemed that there was not much of a tick-down versus what we might have expected.

Nelson Chai - NYSE Euronext - EVP & CFO

Because if you add back the onetime gain, it looks like it's about a \$4 million or \$5 million between the fourth quarter. Is that what you're commenting on?

Roger Freeman - Lehman Brothers - Analyst

Yes.

Nelson Chai - NYSE Euronext - EVP & CFO

And there will be some pickup in the out quarter.

Roger Freeman - Lehman Brothers - Analyst

Okay.

Nelson Chai - NYSE Euronext - EVP & CFO

And then the only other thing I would recommend, and you heard in my prepared comments, is in the fourth quarter we didn't have TransactTools, Roger. So there's about \$1.3 million that you would have to add back to the fourth quarter so you have the kind of apples-to-apples comparison on TransactTools. So we've picked up that business in January.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Roger Freeman - *Lehman Brothers - Analyst*

Got it. And then lastly and I will jump back in the queue. In terms of strategically, there were some comments I guess out maybe this morning or yesterday quoting John and the FT saying that perhaps you would be looking at acquisitions again near-term, and I think more recently he has indicated that you were going to take some time to digest the Euronext acquisition. How should we interpret what seems to be some conflicting comments coming out of NYSE?

Nelson Chai - *NYSE Euronext - EVP & CFO*

I would say we're totally focusing on the integration of Euronext and delivering against the integration benefits we previously announced, and I would say those are going very well. So that process has worked out well. We are largely set on the management side and we're very confident in terms of the integration plans. So I would say that's our first order of business. But as you know, our aspirations on globalization in terms of growing out our product lines is there and you cannot always time the moves. So as you recall in Euronext, we moved very quickly after completing the secondary after the NYSE Arca deal, and as opportunities come up, we are going to have to be prepared. We fortunately have the financial capabilities to prepare and react to situations. There obviously are strategic moves we would like to continue to make, but we also don't get to time those. So I think what all John was suggesting was that, yes, we are focused on the integration with Euronext, that is going well. The businesses that Euronext has and the combination now of the NYSE Euronext businesses are very well positioned across a number of different product lines and geographies, but we are going to continue to look to expand and if we think it provides shareholder value, we are not going to shy away from moving forward.

Operator

Don Fandetti, Citigroup.

Don Fandetti - *Citigroup - Analyst*

Thanks for the color on the Euronext volumes. If I look at April derivative volumes on Euronext, it looks like they're up about 3% year-over-year in April. Can you comment on that and are you comfortable with where volumes are trending there?

Nelson Chai - *NYSE Euronext - EVP & CFO*

Yes, and there's a little bit has just the seasonality about where Easter falls, and so there's two days off for Easter in Europe and so you would have to go back and look through the year-ago comparison because Easter fell early last year, Don. So I think there's a little bit of the seasonality. As the month continues to pick up, the gap gets smaller and so we're not at all worried about where the volumes are. The business continues to be very, very strong.

Don Fandetti - *Citigroup - Analyst*

Lastly, when would you expect to provide an updated combined EPS guidance for the combined entity?

Nelson Chai - *NYSE Euronext - EVP & CFO*

As you know, we don't provide guidance so what we're trying to do is make sure that we put out statistics that help you. As you know, it's very hard to dictate what the overall market volume is going to do. We are talking internally about when we might be in the right position to maybe do an analyst day to break down the whole business, but you will never see us provide guidance.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Operator

Richard Repetto, Sandler O'Neill.

Nelson Chai - NYSE Euronext - EVP & CFO

Usually it's my name that gets bastardized, not yours.

Richard Repetto - Sandler O'Neill - Analyst

It's happening more often, I don't know why. Anyway, first question, I have to ask this. How do you categorize the \$12.8 million as going into your non-GAAP -- what is the operating number? I just don't get that whatsoever.

Nelson Chai - NYSE Euronext - EVP & CFO

It's a curtailment gain, so when we made a decision to change some of the benefit plans here, over the period of time we were actually taking those charges. And so we stopped the plan, and so there, you would reverse that back into the P&L. The actuarial assumptions changed. So I guess we would view that as part of the business that we're operating here and really the stuff we really backed away was really just some of the merger-related expense.

Richard Repetto - Sandler O'Neill - Analyst

You backed away, right, which I think are legitimate nonoperating activities I guess.

Nelson Chai - NYSE Euronext - EVP & CFO

Right, but this would be an operating activity. This is an operating decision that we chose when we reduced the cost.

Richard Repetto - Sandler O'Neill - Analyst

Because you were incurring costs then in say '06, you were incurring more costs in '06?

Nelson Chai - NYSE Euronext - EVP & CFO

That's correct.

Richard Repetto - Sandler O'Neill - Analyst

Okay.

Nelson Chai - NYSE Euronext - EVP & CFO

The costs have already been in the P&L.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Richard Repetto - Sandler O'Neill - Analyst

Understood. I guess the reason why I'm asking this is because as you now merge with Euronext, I think just the accounting and us and our ability to sort of follow the expenses relies on certainly on how you present them and your evaluation of what's recurring and nonrecurring, so that's the only point why I drilled down on this. Anyway, to move on, on -- the deal has closed and there has been -- you had mentioned before about the secondary because now there is plenty of float out there and a potential release -- or maybe not a secondary -- but release of the lockup on the members and the people that are locked up in an extended period. Any more color on that?

Nelson Chai - NYSE Euronext - EVP & CFO

Well that is really -- it's a decision our Board will continue to look at, and you are right now, the trading float to the company now is much larger. It's something that the Board will continue to look at and I would say that it would be premature for me to comment on that.

Richard Repetto - Sandler O'Neill - Analyst

Fair enough. And then on TransactTools, you gave \$2.4 million in expenses in 1Q one \$1.3 in 4Q. Any revenue that goes to that?

Nelson Chai - NYSE Euronext - EVP & CFO

Yes, there's a little bit of revenue. It's pretty breakeven to where the costs are, the business is pretty much breakeven.

Richard Repetto - Sandler O'Neill - Analyst

Okay. And that goes in the data processing on the revenue side, correct, the revenue TransactTools?

Nelson Chai - NYSE Euronext - EVP & CFO

Yes.

Richard Repetto - Sandler O'Neill - Analyst

And then you said in the market data, there was revenue recovery. I'm just trying to see whether there was one-time gains in the market data revenue.

Nelson Chai - NYSE Euronext - EVP & CFO

You want to know how much of that was -- how was in the market recovery, is that the question?

Richard Repetto - Sandler O'Neill - Analyst

Exactly.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Nelson Chai - NYSE Euronext - EVP & CFO

We have not previously provided that number. I would say it's a couple million dollars.

Richard Repetto - Sandler O'Neill - Analyst

Okay, very last question, Nelson or Duncan. The specialists, how do I refer to them, support payments that are scheduled to go to June now. I know they're being picked up in your transaction costs, but is there talk of keeping it fixed? Are you contemplating keeping the -- it's supposed to go variable on a performance basis post-June. Is it even a possibility that it could be extended to be fixed for a longer period of time this year?

Duncan Niederauer - NYSE Group - President & co-COO

Richard, this is Duncan, I will give you my best guess on that two weeks into the mission here is that it would surprise me if we're able to convert right away on June 1 to a performance-based model. I think we are clearly heading there, I've made it clear to the specialists that we're going to stick to that because I think that's the only way to go forward. I think we'll keep all of you guys posted once we make a final decision of how long we're going to have to extend it, but I think we're going to have to extend it a bit because I couldn't ask the group to be tied to a performance-based system unless I'm comfortable that I've got the right performance-based system in place and they can actually perform. And given some things I'm working on with market structure here, I would say we'll push that out a month or two, but we're certainly going to endeavor to get there as soon as we can.

Richard Repetto - Sandler O'Neill - Analyst

Understood, thank you.

Operator

Patrick Pinschmidt, Merrill Lynch.

Patrick Pinschmidt - Merrill Lynch - Analyst

Just to follow up on the synergies, the \$375 million which you reiterated, now that the deal has closed, Nelson can you maybe give us a little bit more color on maybe the timing of some of those saves? I realize a lot of them are back ended, and also maybe potentially on the drivers of some of the revenue synergies, whether kind of new products or pricing or do you have a better feel for what the composition might be?

Nelson Chai - NYSE Euronext - EVP & CFO

Here is what I would suggest is that we take a pretty operational view towards integration, for each of the teams. So for instance if on the derivatives side, Jerry and Hugh Friedberg, who runs Liffe, are kind of the co-heads of the project and they have a project plan that they've put together that we're reviewing and we meet at the management committee every week right now with NYSE Euronext and we actually go through and present where things are. So what I would tell you is so for instance, the financial team presented a week ago and we have very detailed targets that we have to hit, mostly operational and on the financial, particularly with Q2 coming up, and we kind of addressed that. As you think about the synergies, so the technology team has been well underway, they've been working together from even pre-closing in terms of laying out the go-forward technology plan that leads to those synergies. And I would say that those discussions are obviously very far along and we're very comfortable with where they are.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

On the revenue side there has been a fair amount of brainstorming that is going on and it's not going to necessarily be pricing, I wouldn't count on too much pricing, but it is going to be more on product development related areas and areas where we could leverage each of our respective positions in the marketplace, but it would be a little premature for me to start spouting out specific product ideas.

Patrick Pinschmidt - *Merrill Lynch - Analyst*

And when you talked about looking at opportunities, at being opportunistic on the acquisition front, are the goals there in terms of the big strategic goals Asia and derivatives, do those remain the same or has your thinking there perhaps changed, given the current situation in the U.S. derivatives market?

Nelson Chai - *NYSE Euronext - EVP & CFO*

I guess what I would do is I would point to where our businesses are, so I think there were some add-ons within where we already have significant scale, so both in the U.S. and Europe, and then you have heard John talk about some of the major Asian countries, particularly India, Japan and China and you've obviously seen us make some moves in India. Across the product lines, certainly we are going to look to expand the derivatives business, we think that's a great business, we think Liffe gives us a great platform to grow and there's some opportunities there that we're thinking through, both organically and inorganically. And then obviously there is some potential opportunities to expand both the cash businesses that we have. So I would say that would be kind of the framework that we are thinking through.

Patrick Pinschmidt - *Merrill Lynch - Analyst*

In terms of the options market, are you happy to let that play out with the penny pilot? You noted that you're picking up share there.

Nelson Chai - *NYSE Euronext - EVP & CFO*

We're certainly happy with the results of the penny pilot. As you know, our market structure is a little different because we are really going after what I would call more of the professional trader, if you will, with the liquidity provision. And so for us, we think the penny pilot works really well. We understand why some marketplaces that are still in the pay for order flow, or more retail mode, are probably less enthusiastic about it and we would like to see the penny pilot extended to all of the stocks. We think we will do well, we think our market structure and more importantly our technology is well positioned to capitalize on that. That being said, we don't want to stay where we are in terms of our market share and like to be bigger. And so if there's an opportunity that made sense, we would certainly have to consider it. So we'll see.

Patrick Pinschmidt - *Merrill Lynch - Analyst*

Thanks.

Operator

Richard Herr, KBW.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Richard Herr - KBW - Analyst

Maybe just follow up briefly on the options. ISE said yesterday on their conference call they had not made a determination as to whether they wanted full implementation here and you kind of alluded to possibly entering the options space in a more sizable way through an acquisition. Does it make sense to acquire an options exchange ahead of what could be a compression in trading fees?

Nelson Chai - NYSE Euronext - EVP & CFO

I guess we'll see what happens. There has been some speculation in the press, which obviously we couldn't comment on, and so we'll see what happens and it is an interesting question, particularly when our business continues to look promising relative to our market structure as well as our technology. It's something certainly we will think through and I guess that's all I can say at this point, Rich.

Richard Herr - KBW - Analyst

That's fair. Two quick follow-up questions, one on the OTC share. Obviously competition is intensifying in the NASDAQ listed market, particularly with BATS and some of other ECNs, as well as NASDAQ cutting rate. And Arca's share of that market has done very well in the last year, but it looks like it's starting to give back a little bit. I guess the first question is, do you think that you may have to address the pricing of Arca? And secondly just Nelson if you could maybe walk us through and if you said it in your prepared comments, forgive me, but maybe you could walk us through kind of New York's stance on the three-letter ticker symbol issue and whether this is really meaningful for garnering new listings. Thanks a lot.

Nelson Chai - NYSE Euronext - EVP & CFO

I'll let Duncan talk about the marketplace, but in terms of the three letter, we submitted our common letter to the SEC; NASDAQ I think also submitted theirs. I don't really want to comment much beyond that because it's a little bit of a conversation and we'll see where the outcome is. Certainly we think that our marketplace is one where we would like to keep, maintain the symbology we currently have today, which is our clear position and then we'll just have to see what the outcome is. Beyond that, I don't want to comment too much because of the process that's going on right now with the SEC. I will let Duncan comment in terms of the marketplace.

Duncan Niederauer - NYSE Group - President & co-COO

I will give you my initial reaction on the Arca pricing issue. I think certainly from the seat that I was in that I just left, it was always my impression that while everyone understood that Arca's pricing was considerably higher than NASDAQ's and more recently BATS pricing, that the marketplace was pretty committed to making sure that no one venue had outsized market share. So I think that is among the reasons why Arca has historically been able to maintain the pricing. I think you could argue that it's also a different model and it has something to do with service as well, but I think largely it was viewed as a reasonably good competitor and the pricing was not a problem. Like everything else, you have to reconsider, certainly re-examine the pricing model in light of recent market share declines as small as they have been, so it's something we're going to keep looking at, but no plans to do anything differently in the foreseeable future.

Operator

Mike Vinciguerra, BMO Capital Markets.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Mike Vinciguerra - BMO Capital Markets - Analyst

Nelson, could you talk a little bit about say what inning we're in as far as the streamlining at SIAC and just your tech group in general?

Nelson Chai - NYSE Euronext - EVP & CFO

I would say we're probably in the middle of the game. I think there's a lot to come and I think we've set the game up nicely and we started off okay. I would like to think we are ahead, but we will have to see how our middle relief does, but I think we have a pretty good game plan. I hope we're better than the Yankees, Mike.

Mike Vinciguerra - BMO Capital Markets - Analyst

So at this point, is it another, say, 12 months before you think you had that team exactly where you need it as far as streamline?

Nelson Chai - NYSE Euronext - EVP & CFO

When you say team, team is the wrong answer. We actually have a good team in place. The question is executing against the plan and we're in a market mode now where we have finalized the rollout of hybrid. Some of the work is actually going to happen here in terms of lightening up the load, in terms of -- on the cost of operating the NYSE trading model. So it's not about the team, it's more about making sure we're managing the priorities and we have a lot of balls in the air and we cannot make -- or let any of them drop. And so there's some complexity towards that, and so I would say we have a very good plan to address that.

Mike Vinciguerra - BMO Capital Markets - Analyst

I guess I chose the wrong words there. I wanted to ask on the bond platform you just announced, I'm not that familiar with exactly how you set up the market structure for that. Is it similar to equities? Do you have market makers posting quotes? Could you just give us some color on how that's going to work?

Nelson Chai - NYSE Euronext - EVP & CFO

We're going to try to have a flat open model with incenting people to provide liquidity on the system, and again we just announced and rolled it out this week and I think there's more color. We're just doing a little bit more of what I would call trying to get market information, to make sure we have a serviceable segment out there. We're confident over time that it will benefit investors, the question is, the market is going to have to grab hold and so we understand that it's a little bit of a project, if you will.

Duncan Niederauer - NYSE Group - President & co-COO

I think to your other part of your question, I think in terms of the fee structure, I think it's not going to be the traditional providing and taking model that you've seen in other places, but it will certainly be cheaper to provide than to access liquidity as hopefully an incentive. And John Holman, who's running that business for us, has already gotten commitments from several liquidity providers who have joined the system as of day one.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Mike Vinciguerra - *BMO Capital Markets - Analyst*

Okay, thank you for the color. Just one follow-up on market data. When we look at your professional subscriber number that you provide for Tape A, it continues to grow nicely. Do you have a sense for where the new subscribers are actually coming from?

Nelson Chai - *NYSE Euronext - EVP & CFO*

It's more broad-based; we don't have the specifics. To the extent a growing segment comes out of it, we can communicate that with you off-line, Mike.

Operator

Ken Worthington, J.P. Morgan.

Ken Worthington - *J.P. Morgan - Analyst*

I think you have gotten to most of my questions, maybe just for Duncan. What we are hearing is price improvement on the floor has been deteriorating with the launch of hybrid and volatility has been increasing. I guess, how are you working with the specialists to maybe address those issues, and are those issues even possible to address? And what is the outlook for those issues going forward?

Duncan Niederauer - *NYSE Group - President & co-COO*

Very good question, because it's one of the first things I have been working on right as I got in the seat. It's not just working with the specialists, I think it's working with the SEC as well. As is true about a lot of things in life, some of the reasons why you may end up in various situations has to do with the rule set that's put in place. It's my view that the rule set that was put in place as we entered into the hybrid world, that combined with things speeding up almost guaranteed that you would see a reduction in price improvement, which I think is not necessarily good for market quality. So I think there's two things we're going to do. One, we're going to talk to the SEC about tweaking a couple of the rules so that it is easier for our primary market makers to provide price improvement and add more liquidity without some of the hurdles that have been I think artificially put in place, because I think the knockon effect of that, which is why you have seen the reduction in price improvement, is some of the other liquidity providers that are off the floor who historically would have felt they had to compete with our primary market makers to provide price improvement are now recognizing that the primary market maker's ability to do so has been diminished, and therefore they seem to have elected to do less of it as well. So I don't think it's that difficult a change. I've already talked to the SEC about it. I'm optimistic we'll have something to say about that in a few weeks and it will be a minor change that I think will increase quote competition and have the obvious effect of increasing price improvement.

Ken Worthington - *J.P. Morgan - Analyst*

Okay. And then hopefully this is not self-evident, but if you are successful there, what are the implications for improving price improvement? Are there implications for either your ability to price this business or are there market share implications?

Duncan Niederauer - *NYSE Group - President & co-COO*

I think it's more the latter. I think it's -- as you think about the official implementation of NMS, which I personally don't see as that big an event, I think most of our key order and quote providers have been complying with NMS for a long time already. So I think the July date and the October date are, I don't want to say completely irrelevant, but I think everyone is already set up

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

for it. So I think what it does is if you improve your market quality, people can then come here and feel that they are more likely to get completed inside the display quote or get more liquidity at the display quote. I think that that has a direct impact on what your market share is and then where your venue is in everybody's routing engines. So I think it's much more about that than what impact that has on our ability to price the business down the road. I think this is about improving market quality and therefore increasing market share by doing so.

Operator

Scott Appleby, Deutsche Bank.

Scott Appleby - *Deutsche Bank - Analyst*

I guess a couple of questions for Duncan. I'm intrigued with your crossing network launch in the summer and I'm trying to understand how you will position that. Will it be with respect to using your broker-dealer customers? As order flow providers, will you then be competing with the products that they have invested in? And I guess in an era of co-op-etition, how do you plan on positioning it?

Duncan Niederauer - *NYSE Group - President & co-COO*

I think it's something that, to be honest, I've just learned about it since I've gotten here. I wasn't really familiar with what MatchPoint was until I got in the seat and I met the gentleman who is running that four or five days ago, so it's probably premature for me to comment. The only thing I would say is if I understand it right, it's more of a portfolio-based temporal cross, so it would be something -- it would look like Posit, which we're all familiar with, kind of the hourly cross. So I don't think it's in direct competition with some of the other crossing venues that the broker-dealers have invested in, but I would like a little more time to be able to understand exactly what it is and where we're going to fit it into the market structure if that's okay, Scott.

Scott Appleby - *Deutsche Bank - Analyst*

Sure. The other question is on MiFID and how you expect that to affect your European exchanges.

Nelson Chai - *NYSE Euronext - EVP & CFO*

I think there's a fair amount of discussion in Europe already about the impact of MiFID. I think my -- an opinion is all I have at this point. We certainly think it's going to happen probably more in London first and then move into the continent. Certainly we think already it's not just MiFID, but really what happens with MiFID and you're already seeing the Project Turquoise a number of the broker-dealers banding together. And so I think over time, you will see more competition. From our perspective, I think it creates an opportunity for us to trade in our markets outside of where we already trade within Europe, and so that's how we're viewing it, and so we would welcome the opportunity to have a competitive marketplace over there.

Operator

Joshua Carter, Goldman Sachs.

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Joshua Carter - *Goldman Sachs - Analyst*

The first question I just wanted to dig in a little bit more on was the compensation gain. I think you mentioned earlier that it was a change in actuarial assumptions. Is that a discount rate change or a change in the investment return on the pension? Can you be a little more specific about what that was and why the timing now?

Nelson Chai - *NYSE Euronext - EVP & CFO*

What happens is at the end of the year, we had to take a look at, under FAS 106, we had to take a look at the curtailment of the postretirement benefits. So as you know when we did the -- in conjunction with the NYSE-Arca merger, there was a fair number of cost items we looked at, and one of them was changing the benefit plan at the NYSE. And so as part of that process, and remember that the deal with Archipelago closed in the first week of March of 2006, so at year-end we then took a look at the balance sheet and what we had there and there was a curtailment gain, which is what it was. So basically what we did was we froze the benefits, even though we had taken the expense for a number of employees, and that is what that number reflects.

Joshua Carter - *Goldman Sachs - Analyst*

Okay.

Nelson Chai - *NYSE Euronext - EVP & CFO*

We can give you more of the accounting language, if you will, off-line.

Joshua Carter - *Goldman Sachs - Analyst*

That sounds great, super. Second question, maybe for Duncan, I think John and the Company has talked in the past about the Exchange being at the best bid or offer sort of within the context 90% of the time, I think recently it was mentioned 80% of the time. I'm just wondering if we could get a little more color in terms of, is that across all securities or is it volume-weighted and where can we sort of see that? And then also, has it come down from 90% recently?

Duncan Niederauer - *NYSE Group - President & co-COO*

My impression -- Josh, as far as I know and I'm just beginning to digest the numbers, the 90% is more like 88% or 89% right now and in looking at it, it looks to me that it is not just taking the 3,500 stocks. I guess by definition it's volume-weighted because you get more instances in the more liquid stocks than in the lower liquid stocks. So I think I will try to tighten that up a bit, but that's my impression. And then I think what I'm busy trying to assess is I think that having the best quoted price and having competition around that best quoted price I think is more important than our ability to route out really quickly to other venues. I don't disagree that -- we all agree on the call, we need to be faster, everybody needs to be faster. But I think as long as we can create a market structure where we are the best price most, if not all, of the time and we also have the highest opportunity for price improvement, which I'm also working on, that combined with the average trade size continuing to get smaller, it just doesn't make me that nervous about where the market share is likely to go.

Joshua Carter - *Goldman Sachs - Analyst*

Great, that is helpful, thanks Duncan. Maybe Nelson just a question on Euronext. There's talk about the retrocession fee with both LCH and Clearent and frankly I don't feel like I understand them 100%. Could you walk us through what those are and sort of what the changes have been there?

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Nelson Chai - NYSE Euronext - EVP & CFO

It really just has to do with when LCH.Clearnet was set up, and this was obviously set up before our time, if you will, and it's really when Liffe was purchased. And it just had to do with returning some of the clearing profits, if you will, back to Liffe. I think over time, as you know, those will continue to go down. I think that it creates an opportunity for us because in terms of the clearing and we will be able -- and we're working on it now, is what I would say. So we think there's an opportunity in the marketplace and we think we are a large business and our clearing business is a very competitive -- our strategic business and we think that we are working on making sure that we have the appropriate business model for it. And so we're spending a fair amount of time with the folks in London looking at that right now. I think over time in terms of what we get back from LCH will continue to decline, but meantime I think that you will see us be very proactive on the clearing front for Liffe.

Joshua Carter - Goldman Sachs - Analyst

And then, were those fees, as well as the reduced income from LCH.Clearnet factored into the revenue synergies as part of the deal, I think the \$100 million number?

Nelson Chai - NYSE Euronext - EVP & CFO

Not necessarily. So what I would say there is that the opportunity to -- if you look at clearing, and again I'm a little new to this in that we've been looking at this part of the business. But if you actually look at, if you do a third-party clearing contract, and there are a few out there to do it, the actual operating margin of that business, let's say it's in the 25% to 30% range, if you look at companies that actually own the clearing themselves, that margin is a lot higher. And so we think to the extent that the LCH.Clearnet things come down, we can augment that with an appropriate clearing solution and hopefully it should even be better.

Operator

Edward Ditmire, Fox-Pitt Kelton.

Edward Ditmire - Fox-Pitt Kelton - Analyst

You guys had already commented on how the share dynamics with Arca are influencing the way you're thinking about pricing. It seems like a lot of the same things are at work with the Hybrid. How should we think about that?

Duncan Niederauer - NYSE Group - President & co-COO

In terms of how we're thinking about the pricing or --?

Edward Ditmire - Fox-Pitt Kelton - Analyst

That's right, yes.

Nelson Chai - NYSE Euronext - EVP & CFO

What I would say is regarding the NYSE, we are by far the best place if you want to take liquidity into the marketplace. So if you come directly into the New York Stock Exchange today and you come through hybrid and you take off our book, we are by far

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

cheaper than anyplace you could take liquidity in the marketplace. By the way, when you're routed outside our marketplace as well, we're actually the cheapest place to go as well. So if you go into the NYSE and we cannot fulfill your order here and we go out to NASDAQ, the actual rate we charge you for that is less than what NASDAQ is going to charge you. So there's really no reason why everybody shouldn't just take liquidity from the NYSE. And as we mentioned earlier, we actually have the deepest and most liquid markets. Duncan talked before about fill rate, so I'm not quite sure where the question is coming regarding the comparison.

Edward Ditmire - *Fox-Pitt Kelton - Analyst*

It seems like the market share goes down every single month.

Nelson Chai - *NYSE Euronext - EVP & CFO*

There is, and we're working on it. Duncan is actually spending a fair amount of time looking at it. There's some stuff that has to do with order types, and so for instance, we have some order types coming into the marketplace over the next month or two that we think will help. There's some functionality as we continue to improve. But that being said, there are some customers that do want to trade electronically, so you also have to look at the different customer segments which we've talked about on past calls, and there are some people that we do want to trade in the liquidity provider model, and that's hopefully where they will start using NYSE Arca.

Operator

Richard Herr, KBW.

Richard Herr - *KBW - Analyst*

Nelson, I'm just kind of curious your thoughts on the trading split between New York/Euronext on Euronext and New York/Euronext on New York. Are you surprised at the skew towards New York? Euronext trading on New York, and why do you think that is?

Nelson Chai - *NYSE Euronext - EVP & CFO*

I think it probably has to do with the different markets and the people who are trading, and if you look at the customer base and people trading in the marketplace, I think if you looked at the size of the marketplace here versus Paris, for instance, I think you would also see a skew. The other thing that has happened is that within the Euronext Paris market, there is a liquidity provider and we have had to go and put that into place and there was a little bit of a legal regulatory thing and that is now in place so we were hoping that we will seek increased volumes in Paris. I think you will always see a skew. I think a lot of the people who are buying and trading the stock and following trading strategies that some analysts will put out are more in U.S., and so I think you will continue to see that skew.

Richard Herr - *KBW - Analyst*

What is the liquidity provider structure -- I'm sorry, I'm not as familiar -- on Euronext that you're referring to?

Apr. 26. 2007 / 8:00AM, NYX - Q1 2007 NYSE Group Earnings Conference Call

Nelson Chai - NYSE Euronext - EVP & CFO

Just in Paris, what happens, it's a unique model where you actually get a third party, a broker-dealer and here, we have a specialist model that helps provide two-sided bids and offers in stocks. So it's not unique to the trading of our stock, but it's a unique feature to Paris. In Paris, what you do is there is a broker-dealer there that you sign up for as a third-party party and they engage and their role is to provide some liquidity in the stock. And as we completed the Euronext deal, we needed to put that in place with our third-party provider, which is SocGen, and that has just been in place over the past couple of days.

Richard Herr - KBW - Analyst

Okay, thank you very much.

Operator

I would now like to turn the call over to Nelson Chai for closing remarks.

Nelson Chai - NYSE Euronext - EVP & CFO

First of all, Rich, I guess we're even in terms of the name butchering. But anyway, thank you everybody, and obviously if there's follow-ups, please feel free to give Gary a call.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect and have a good day.

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