

# FINAL TRANSCRIPT

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## **NYX - Q2 2007 NYSE Euronext Earnings Conference Call**

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Aug. 02. 2007 / 8:00AM, NYX - Q2 2007 NYSE Euronext Earnings Conference Call

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## CONFERENCE CALL PARTICIPANTS

**Roger Freeman**

*Lehman Brothers - Analyst*

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**Don Fandetti**

*Citigroup - Analyst*

**Rich Repetto**

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**Patrick Pinschmidt**

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the second-quarter 2007 NYSE Euronext earnings conference call. My name is [Shaquana] 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, Investor Relations Officer. Please proceed, sir.

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**Gary Stein** - NYSE Euronext - IR Contact

Thank you. Good morning. I'm Gary Stein, Investor Relations Officer for NYSE Euronext. Welcome to our conference call for NYSE Euronext's second-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 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 obligation to disclose material information under the federal Securities laws, NYSE Euronext undertakes no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after this conference call.

With me on today's call are Duncan Niederauer, President and Co-Chief Operating Officer, Joost van der Does de Willebois, Deputy Chief Financial Officer and Chairman of the Amsterdam Market, and Nelson Chai, Executive Vice President and 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.

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**Nelson Chai** - NYSE Euronext - CFO

Good morning. Thank you for joining our discussion on NYSE Euronext's second-quarter earnings results, which were disclosed in a press release issued earlier this morning. Considering our April 4 merger, this is the first time we've reported earnings on a combined basis.

I'd first like to review a few business highlights before addressing our strong quarterly results, then we will take your questions. Since our last call, financial markets in America and Europe have been very active, leading to a surge in trading volume in our core derivatives and cash markets. We're well on our way to exceeding last year's volume and listings totals in our NYSE Group and Euronext marketplaces. We are encouraged by the developments among U.S. and European regulators towards more harmonized cross-border standards. Also, we are confident that the SEC's new risk-based guidelines for Sarbanes-Oxley Section 404 compliance costs lessen the cost and burden for the public companies that register and list their shares in America.

As consolidation is well underway among the world financial markets, there has been a great deal of speculation on what's next for NYSE Euronext. We continue to explore a range of opportunities that align with our strategic business goals, those that build upon our product and geographic diversification and strengthen our leadership positions globally.

As we demonstrated with the NYSE Euronext combination and the merger with Archipelago, we take a measured, disciplined approach towards consolidation opportunities. We will only undertake transactions that make both strategic and financial sense for our customers and shareholders.

We are the leader in global listings in cash equities trading. We have a strong and growing presence in futures, options, bonds and market data, businesses that hold great promise for NYSE Euronext. Our goal is to produce long-term, balanced growth across all our business lines. Our strong second-quarter results demonstrate our commitment to that goal. They also underscore the diversity and earnings power of the newly formed NYSE Euronext and the increasing demand for our offerings on a global scale.

Since the completion of the NYSE Euronext merger, we've made great progress in our ongoing business integration initiatives. Our Board, management team, and business-unit personnel are working extremely well together, and we are far down the road on our future technology and market infrastructure roadmap. As we noted previously, we remain highly confident in our ability to deliver on the \$375 million in merger-related costs savings and revenue synergies which we had previously outlined.

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On June 6, one day before our first NYSE Euronext shareholder meeting, our board of directors declared a \$1.00 dividend payable quarterly. We are proud to note that our first quarterly payment of \$0.25 was made to shareholders on July 13.

Turning to our second-quarter financial results, this morning in accordance with U.S. GAAP, we reported net income of \$161 million or \$0.62 per diluted share for the three months ended June 30, 2007. This is a 164% increase as compared to net income of \$61 million or \$0.39 per diluted share for the three months ended June 30, 2006.

On a non-GAAP basis, giving effect to the combinations as if they had occurred at the beginning of earliest period presented but including merger expenses, exit costs and other non-recurring items, NYSE Euronext's net income for the quarter would have been \$172 million or \$0.65 per diluted share, a \$39 million or 29% increase as compared to net income of \$133 million or \$0.50 per diluted share for the year-ago quarter. In addition, on a non-GAAP basis, operating income grew 27% to \$275 million from \$217 million.

Quarterly revenues are up in every one of our primary business lines year-over-year. I'd like to highlight that, on a non-GAAP basis, both European cash equities and European derivatives set new revenue records, delivering year-over-year growth of 28% and 14%, respectively. With a constant exchange rate, on a non-GAAP basis, adjusting for acquisitions and divestitures, combined NYSE Euronext revenues for the quarter, net of activity assessment fees, increased 12% while fixed operating expenses decreased 9%, or \$44.9 million, year-over-year on a quarterly basis. In particular, compensation would have decreased \$21.6 million, systems and communication would have decreased \$3.3 million, and professional services would have decreased \$14.8 million. We continue to reduce our fixed expense base through aggressive cost management, which is driving further expansion of our operating margin.

As of June 30, NYSE Euronext had \$1.4 billion of cash, cash equivalents and short-term financial instruments, including Section 31 fees, and \$3.5 billion of debt. Please note that this cash balance does not include the EUR339 million we received last week from LCH.Clearnet, which redeemed all its outstanding convertible preference shares and 20 million of the ordinary shares held by NYSE Euronext. Under the terms of the agreement, LCH.Clearnet is expected to buy back an additional 6.2 million ordinary shares from NYSE Euronext at a price of EUR61.8 million by April 2008.

I would now like to highlight the quarterly results within our primary business lines. During the second quarter, our derivatives business, comprising 21% of net revenues, performed exceptionally well. Liffe, NYSE Euronext's leading futures and options platform, achieved a record 233 million contracts traded during the quarter, nearly 14% higher than the year-ago quarter. Year-to-date, interest rate contracts have grown by 14% compared to the same period a year ago, another record with a daily average of 1.9 million contracts traded.

European equity derivatives on Liffe reached new highs with 113 million contracts traded during the quarter, and the first half of 2007 was by far the most active period since Liffe's inception. A large part of this growth is attributable to the success of B-Clear, Liffe's wholesale clearing service for OTC trades which processed 44 million contracts, a 71% increase compared to the year-ago quarter.

NYSE Arca Options has become one of the industry's fastest-growing and most efficient options trading platforms in the U.S. Average daily volume traded on NYSE options for all contracts in the SEC's penny pilot are up 106% since the beginning of the year through June 30, and our market share in these options was up 62% during the same period. The addition of four more market makers gives NYSE Options 29 in total as of June 30.

I would now like to turn briefly to NYSE Euronext's cash trading activities. Our European cash markets, which represent 16% of our net revenues, produced their best quarter ever with almost 75 million trades, a 28% increase over last year and more than double the trading activity in the second quarter of 2005. NSC, Euronext's cash trading platform, processed 149 million trades in the first half of the year, or 1.2 million trades per day on average, the highest figure ever.

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NYSE Euronext's U.S. cash markets, the largest liquidity pool for NYSE-listed securities, led all markets with 63.7% of matched trading volume in the quarter. We set a volume record on Friday, June 22 with nearly 5.2 billion shares traded while NYSE and NYSE Arca together set new monthly and quarterly record volume records with almost 61 billion shares traded in June and 166 billion shares traded in the quarter.

NYSE Arca continues to be the largest single liquidity pool for ETF trading in the U.S. with 42.3% of the handled trading volume in the quarter.

On April 26, we introduced the FINRA/NYSE trade reporting facility as a low-cost, reliable, competitive alternative for reporting off-exchange transactions. The FINRA/NYSE TRF has been adding customers and processing more than 200 million shares daily for all NMS-listed securities, including 7% of the trading for NASDAQ-listed issues.

On June 11, NYSE floor brokers received SEC approval to trade all securities from the Group, including stocks listed on other markets. In addition, we continue to work with the SEC on rule revisions for specialists.

During the quarter, we more than doubled message capacity with the NYSE trading infrastructure and further reduced order-flow latency from approximately 290 milliseconds to around 110 milliseconds. We are now a faster marketplace and even more reliable. As demonstrated by our ability to seamlessly handle the volume and message traffic spikes in recent weeks, including four consecutive record volume days last week and new message traffic records. Over the second half of the year, we will continue to reduce latency and offer increased connectivity for our customers through the upcoming implementation of a new, Common Customer Gateway designed for better, more streamlined interfacing with all NYSE Group trading platforms, including equities, bonds and options.

We are also proud to note that, for the fifth consecutive quarter, the NYSE has the world's lowest all-in cost of trading according to Elkins/McSherry in its May issued Global Trading Cost Analysis.

I would like to now discuss our listing business, which represents 13% of net revenues. Today, we have more than 3,900 listed issuers on NYSE Euronext. Our listed operating companies represent over \$30 trillion in total global market capitalization, greater than the next four largest equity marketplaces combined.

In the second quarter, the NYSE added 70 new listings, which included 24 operating company IPOs that raised \$13 billion in connection with listings, compared to \$7 billion last year. For the first half of 2007, the NYSE totaled 142 new listings, including 6 NASDAQ transfers and 34 operating company IPOs that raised \$16 billion in connection with listing. Our U.S. domestic IPOs accounted for approximately 90% of qualified IPO proceeds while our non-U.S. listings in the NYSE represented 100% of the qualified IPO proceeds raised.

27 closed-end funds that listed on NYSE in the first six months of 2007 raised an industry-leading total of \$24 billion. We also added to our leadership in ETFs with 60 new listings compared to 36 in the first half a year ago. Euronext added 45 new issues during the quarter, 4 more than the year-ago period. These new issues raised EUR3.3 billion in connection with listing. Of these new issues, 15 were newly listed on NYSE Alternext, which now has more than 100 listed companies. In just over two years, companies listed on NYSE Alternext have raised more than EUR1 billion and now represent a total market cap of over EUR5 billion.

Turning briefly to market data, which represents 15% of net revenues, growth in the quarter was fueled by an increase in data usage in both our European and U.S. markets. In addition, our European market data activities continue to see solid growth in indices and from expansion of Hugin, which provides a range of value added services to listed companies.

Moving beyond our primary business lines, NYSE Bonds was successfully launched on April 23. Based on NYSE Arca's advanced order matching technology, this innovative platform provides investors with transparent and highly efficient order flow execution

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in nearly 2,500 debt securities with NYSE listed companies. Our goal is to have over 5,000 issues trading on NYSE Bonds within the next few months.

On April 26, we consolidated SIAC Sector and SFTI businesses within NYSE TransactTools, which rolled out the new SFTI Fix network that connects over 800 market participants, including all U.S. markets.

Following the completion of this second quarter, it's worth noting that, in July, average daily volumes on our European cash markets are up over 80% versus last year, while derivatives are up over 36% from last year. In the U.S., NYSE Group hit a new record in executed volume for the month of July, while average daily volumes on NYSE Arca options are up 84% from last July.

Our strong listings momentum also continued. In July, we added MF Global and Orbitz, among others, and just today Genpact joined our NYSE-listed company family. There are two new NYSE Arca listings, Netezza and Jaguar Mining, and two more are on the way in August. Moreover, with the record seven Chinese companies having listed on the NYSE this year already, we anticipate four more additions from China this month.

Later this month, we expect to begin full operations of the NYSE MatchPoint electronic crossing network with the ability to match NYSE, AMEX and NASDAQ issues. NYSE MatchPoint will become a valuable source of liquidity for our customers and position NYSE Group as a central player in the block-crossing industry.

This past Monday, the combination of NASD and NYSE-regulation member from oversight was completed through the formation of FINRA. NYSE Euronext was proud to help make this transaction a reality, since it will bring significant benefits and efficiencies to the securities industry. This transaction is financially neutral to our shareholders. Nearly two-thirds or approximately 430 former NYSE regulation employees are now part of FINRA. Going forward, NYSE Regulation will continue as an independent, not-for-profit entity within NYSE Euronext.

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 these tables provide investors with useful information about our business trends and improve comparability. However, our non-GAAP measures do not replace and are not superior to GAAP measures.

This concludes my financial review. We will now open it up to questions.

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## QUESTIONS AND ANSWERS

### Operator

(OPERATOR INSTRUCTIONS). Roger Freeman, Lehman Brothers.

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### Roger Freeman - Lehman Brothers - Analyst

Good morning, Nelson. A couple of questions -- one, I guess let me just come back on the strategic front. So, you know, at the analyst day I guess last month, you or John talked about growing the derivatives business. I think, specifically, we were talking more about futures. I guess I wanted to come back on the options front. It is fair to say that you plan to build that business organically off the Arca platform, or are you evaluating any strategic deals in that space as well?

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### Nelson Chai - NYSE Euronext - CFO

Well, I think we certainly hope to plan to continue to build the Arca platform. We think that the performance of the business, particularly in the penny pilot program, gives us a lot of optimism. Certainly, Duncan, Larry, Jerry and others continue to talk to

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market participants, and we feel we're in a pretty good spot with where we are today. Certainly, where our market share is, we would like to see it grow, so to the extent something came available externally, we certainly would have to evaluate it. But I think we feel pretty confident, with this innovative technology, the market structure and the push with where we think the industry is going, with where we are positioned today.

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**Roger Freeman** - *Lehman Brothers - Analyst*

Okay. So I mean, in terms of the market share gains you made, are they on target with what you expect? I think you are running around 12% now, which is up but it's not really up meaningfully from where you've been and (multiple speakers).

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**Nelson Chai** - *NYSE Euronext - CFO*

Well, you know, a little bit has to do with -- we are very comfortable with where the performance is. As you talk to the industry participants, it's hard when you only do a pilot program with a few stocks or a few options. I think that, as the program gets expanded, we anticipate seeing more market share gains, if you will, Roger. So, we are hoping and we're pushing and you know we have sent our letters in and we're hopeful that we will see that the enny pilot program continues to get expanded, because we think it will benefit us.

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**Roger Freeman** - *Lehman Brothers - Analyst*

Okay, great. Then internationally as well, you know, I think the comment had sort of focused more on Asia. What about Latin America, specifically Brazil? Is that a market that you are interested in or would like to do the BMF or (inaudible) sort of fit into potential, strategic plan?

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**Nelson Chai** - *NYSE Euronext - CFO*

We actually already have a very good, strong presence down there, particularly in Brazil, and so there's a number of companies listed here already. We obviously have good relationships with both of the exchanges as well as many of the companies there, and we will continue to evaluate it. Certainly, it is a high-growth economy and marketplace, so we maintain our relationships there but other than that, there's not much else to say.

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**Roger Freeman** - *Lehman Brothers - Analyst*

Okay, let me ask one more and I will jump out. Can you just walk through the impact of the regulatory combination now? So we're going to see the focus revenues come out of the P&L, is that fair? Any associated expenses?

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**Nelson Chai** - *NYSE Euronext - CFO*

Yes, I think what we will do this, as you know, we just announced the deal on Monday, Roger. Over the next period of time, we will put out a pro forma to help you understand it. You know, you heard, in my comments, we talked about being financially neutral. There's some form that's an upfront payment and some of it's going to continue to be as part of a service contract, so we will help you through that in the coming weeks.

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**Roger Freeman** - *Lehman Brothers - Analyst*

I mean, the question I would ask is -- I wonder why it's financially neutral. I think, a couple of years ago, you talked about this being -- the regulatory was running at a slight loss, but given that the Focus revenues drive the revenue component and that's

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driven by the investment banks' profitability, and given the huge increase in profitability it just seems like that business would have been actually running at a profit most recently.

**Nelson Chai** - NYSE Euronext - CFO

Yes, I think you're right in terms of where the trends are regarding Focus revenues and the impact, so yes, a few years ago, it was losing money. I think, today, it probably is slightly on the upside, right?

So the question is that you have to look in terms of -- into the crystal ball, what's going to happen. One of the reasons why we put the business together was for efficiencies, and the reality (technical difficulty) will be shared with the Street. So I think you have to take that into account as you think about why this thing was done. This was not done as something that was a huge win for us financially; this was done because this is the right thing to do for the industry. I think both us and the NASD recognized that going in and we took a very, I would say, cooperative approach to make sure that we put together a fair deal for the industry and neutral to the constituents involved.

**Roger Freeman** - Lehman Brothers - Analyst

I got it. Fair enough. Okay, thanks, Nelson.

**Operator**

Ken Worthington, JPMorgan.

**Ken Worthington** - JPMorgan - Analyst

First, maybe talk a little bit about internalization in Europe, post MiFID. Is there a structural or other reason why European internalization levels in cash equities won't be similar to those in the U.S. over time? Then, even though MiFID doesn't address futures directly, we hear that some brokers are using MiFID as an excuse to press internalization in futures products as well. Is that a threat and ultimately is there anything you can and are doing to protect market share abroad?

**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

It's Duncan. I will try to respond to that, Ken. I think, on your futures question, to go backwards, it's way too early to tell because the only place we really heard about people talking about derivatives in a different way is on what I would call the OTC derivatives business, so I think those efforts there are so embryonic, it's too early to tell.

Now, if you think about your first question, you know, the internalization rates in NASDAQ in this country have been more tied I think historically to the nature of the beast, right. It was a market-making model, so by definition, if any trade that was done as principal, you could argue it was an internalized trade. So the percentage of NASDAQ trades that never really got discovered in kind of a central marketplace has always been quite high. I think the European market structures are quite different.

So in advance of MiFID, you see a couple of start-ups like Chi-X making a little bit of ground in a handful of stocks. I think we're certainly going to play offense there and not just defense, but I think it's very, very early to tell. Given the market structure in Europe, I would be surprised if a lot more gets traded upstairs. A lot of volume, as we all know, is already traded upstairs in Europe now, whether it's on German stocks or our stocks or on UK stocks. I don't see why MiFID is necessarily going to change that.

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**Ken Worthington** - *JPMorgan - Analyst*

Okay, perfect. Thank you. Then, maybe this is another one for you, Duncan. How high were payments made to specialists this quarter? I guess are they acclimating to hybrid? Are the execution statistics improving from where they had been over the last quarter or so? Then, to what extent in the future do you have the ability or willingness to start to reduce those payments, the life support to the specialist system?

**Duncan Niederauer** - *NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets*

I think, to go back to what we talked about in the last earnings call, you know, the payment plan is what it is right now. It's I guess just under \$9 million a month, collectively, to the specialist group, so call it roughly \$105 million or \$106 million a year.

As I said in the last earnings call, I'm less interested in reducing that number from \$105. I'm more interested in having it tied to performance and market quality metrics. So, I've got a draft of a proposal in front of the SEC now that they responded pretty favorably to. What I would imagine is you will expect to see us, on or about September 1, begin to distribute a similarly sized pool, all other things being equal, but it will be much more tied to quoting performance and liquidity provision performance, which I think are much more closely tied to market quality.

Now, one thing I'm putting in this new plan, or at least contemplating, is the size of that pool could go up if we do a lot more volume; the size of that pool could go down if we do a lot less volume. So I'm trying to align everybody's interest so that the specialist is motivated to perform better and be a more consistent liquidity provider. Their participation rate is down to about 4%. I've said many times I don't think the higher participation rate is directly correlated to higher market quality, but I do think that the more you set the NBBO, the more liquidity you provide at the NBBO and the more flexibility I'm able to give the primary market maker in their ability to hedge the exposure. You know, liquidity begets liquidity and you start to turn it into -- in a very positive direction.

**Ken Worthington** - *JPMorgan - Analyst*

Okay. So the first part of the question -- are the execution statistics actually -- are they starting to improve as the specialists acclimate, or are we still at about the same place we were last quarter?

**Duncan Niederauer** - *NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets*

Having moderately more success in terms of their ability to take action, because since 290 milliseconds has gone to 100 milliseconds now or 110, the throttling time has obviously gone down commensurately, so they are having a little more success getting involved. There's slightly more (inaudible) available to bid and offer. The fill rates are down a little bit. Volatility is down a little bit. It's hard to separate whether that's them getting more or less acclimated from what's going on since July 9 with the NMS pilot, so I'm still evaluating that. But it seems like it's fairly consistent with last quarter, with some signs of movement, and I think really the rules are going to be -- the rule changes are going to be the key to seeing a marked difference.

**Ken Worthington** - *JPMorgan - Analyst*

Okay, great. Last question -- cash equity volume has been exceptionally strong in Europe. Can you just talk about the growth drivers and the sustainability potential for that growth? Thank you.

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**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

The European markets (technical difficulty).

**Ken Worthington** - JPMorgan - Analyst

Yes, in the European cash markets.

Joost van der Does de Willebois: I think one of the -- this is Joost. One of the key value drivers there is the market (inaudible) changed a little bit. This maybe a little bit later than was the case here in the U.S., but algorithmic trading is taking place, which now account for more than 30%-- -- between 30% and 40% of our volume and is one of the big volume drivers in the European markets. Okay, great. Thank you.

**Operator**

Don Fandetti, Citigroup.

**Don Fandetti** - Citigroup - Analyst

Good morning. A quick question about -- I'm trying to get a sense of how important your priority is to get self-clearing for Liffe derivatives. Do you think you can solve this through acquisition or can you build it internal? I just want to get updated thoughts.

**Nelson Chai** - NYSE Euronext - CFO

Well, I think, first of all, Don, you saw that the announcement about LCH and the actions there so we are taking our position down there. I think that is certainly something that we're spending a lot of time on, on both thinking about it and working through, and have had some good discussions already with the folks over at LCH. I think, for us, what we want to do is we do understand the position of the futures clearing business relative to the other competitors in it, and we will spend some time focusing on it. We don't think, necessarily, that you necessarily have to go start something de novo; we're hopeful that we will be able to work through it. But again, it's something that we're spending a lot of time on.

**Don Fandetti** - Citigroup - Analyst

Okay. Then just lastly, Duncan, at the analyst meeting, you seemed to imply that you are doing some serious thinking about Arca pricing. Any thoughts today?

**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

I think -- look, it's something that you have to continually evaluate. We are cognizant that our pricing is different than other marketplaces. I thought it was inappropriate to do anything in front of the Reg NMS pilot, the rollout of the pilot at least to start. So, I've been analyzing very closely how the performance has been since July 9. It actually seems to be quite stabilized and very steady since July 9 on the Arca side. So, we are hanging in there at 15% to 18% now.

Remember, as I alluded to earlier, the denominator of what's going on in NASDAQ is really 70% to 75%, because the other 25% to 30% is just upstairs trades that I don't think are really part of the equation. The Arca model is not positioned to get those other than through the TRF that Nelson referred to earlier. So we're looking at it and we're watching it closely but no decision made.

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**Don Fandetti** - Citigroup - Analyst

Okay, great. That's all I had. Thank you.

**Operator**

Rich Repetto, Sandler O'Neill.

**Rich Repetto** - Sandler O'Neill - Analyst

Good morning, guys. The first question, Nelson, is on your remarks about consolidation or acquisitions. It seemed like a little bit refined comments. I guess just the point, just to take it one step further, can you define it? Will you do a dilutive deal or what -- how many years do you need for a deal to be accretive to really think seriously about it?

**Nelson Chai** - NYSE Euronext - CFO

Rich, obviously it depends on a deal-by-deal basis, right. So to the extent a property came across the we had 0 strategic value, there's no synergies and no overlap, I guess, in that scenario, we would say that we would not do a dilutive deal at any cost, right. To the extent there is the chance to have a grand slam home run on every metric in terms of synergies, in terms of strategics and anything else, we certainly would evaluate it.

I think the comment was there that we're going to balance the strategic versus the financial on both of them and certainly are very focused on shareholder return and shareholder value. Hopefully, you'll see the two deals that John Thain has done since he has been here have been extremely strategic as well as financially beneficial to shareholders.

**Rich Repetto** - Sandler O'Neill - Analyst

Okay. Okay, the next question goes to one of always my favorite, one of my topics on the expense cuts. Granted, this is the first quarter of the official merged company, but could you talk about either headcount reductions or -- if you look quarter-to-quarter, it looks like the expense levels, away from the variable transaction costs -- expenses -- were up 5% -- were up in line with revenue.

**Nelson Chai** - NYSE Euronext - CFO

Yes, and Richard it is harder, so we're trying to figure out a way to better do it with you and the other folks on the phone. So you have to take a few things into account. As you know, the European business is the GL Trade, and we bought Hugin and we brought TransactTools. There have been some small adds on the expense side there, roughly \$10 million, \$11 million on the expense side, that have been basically neutral on the bottom-line to day. At the same time, you've got to really take into account the impact of forex, which had an impact. So just as an example, the forex impact in the second quarter of this year versus last year on compensation in Europe was roughly \$8 million. So you have to take those things into account. We are trying to work through the best metric to show it to you.

From a headcount perspective, if you just look at the second quarter of this year versus the second quarter of last year, headcount at the NYSE is down about 17%. So, there would have been about 3,000 employees a year ago in the quarter and now there's 2,500, so I think that's a pretty good metric in terms of some of the moves we're making here.

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**Rich Repetto** - Sandler O'Neill - Analyst

Wouldn't you say it would be fair to judge that both yourselves and the Euronext had their own separate cost-cutting reductions programs, and successful programs, going on in place already? That's why I'm saying since you had the merged company, what are the changes in headcount since then?

**Nelson Chai** - NYSE Euronext - CFO

Well, since we've had the merged company, Richard, we've really been focused on getting the integration plans finalized and working through it. I think, as you know, a lot of the synergies are going to come primarily on the technology side. But we're finalizing those plans right now. We actually have a pretty good action plan and game plan going forward. So they are to come, and I think we were pretty clear when we announced the NYSE Euronext deal that does -- we would be working on those to date, which we have been. Those will be coming in the following quarters.

**Rich Repetto** - Sandler O'Neill - Analyst

I'll just do it. Then the last question goes to Duncan and the topic is about the specialists. I guess what I hear you say is that this proposal you have to the SEC also has rule changes, not only rule changes on how you support the specialists but also rule changes on how they trade, I guess the whole parity issue, because you get really pay them -- at least from what they are saying, they can't perform their jobs until they get some sort of regulatory parity -- not regulatory but, you know, parity in how they can trade. Is that correct or --?

**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

Among the rules I have in front of them right now, Rich, none of them is tied to parity. I think it is an issue that has to be addressed. We've said pretty publicly that, look, a lot of these rules made a lot of sense two or three years ago. I think now that hybrid has been fully rolled out, the market is a lot more electronic, we get to learn from what we've seen in the market. But my point to the SEC is that rules that made sense two or three years ago may have already outlived their usefulness and should be reevaluated.

You know, one could easily argue that one of them is parity. To say to someone who sets the NBBO that after everyone joins them, they go to the back of the line, it doesn't make obvious sense to me or anyone else that I talk to. So you can safely assume that I will eventually put something in front of the SEC on that, but that is not among the rules I put in front of them right now.

**Rich Repetto** - Sandler O'Neill - Analyst

One quick last follow-up -- if you take, Nelson or Duncan, if you take a look at your liquidity and routing expenses as a percent -- in the NYSE alone, just in the U.S. business, as a percentage of your transaction revenues, it upticked slightly. It went from like 69%, say, up to 72%. I found that surprising because now you are charging for the routing and you don't have that negative sort of spread that you had before. Was it a mix issue? I'm just trying to understand that.

**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

(multiple speakers)

**Nelson Chai** - NYSE Euronext - CFO

Yes, Richard, I think it's a combination of mix and then some DTTC fees and some other fees might even increased a little bit. But I don't think that you should read too much into the trend.

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**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

Not at all.

**Rich Repetto** - Sandler O'Neill - Analyst

Okay, thanks, guys.

**Operator**

Patrick Pinschmidt, Merrill Lynch.

**Patrick Pinschmidt** - Merrill Lynch - Analyst

Just a quick question on the Liffe business, I'm trying to look at the sequential trend there. If I look at the volumes, the volumes were up 7%, but then if you look at the gross margin, that seems to have declined sequentially. Can you maybe help me understand? Is this a product mix issue or pricing or --?

Joost van der Does de Willebois: This is Joost. Yes, I think it's a product mix issue because you might know that especially let's say the fees we earn, let's say, on the Bclear business are substantially different from the ones you see in the normal on-exchange business. So I think that must be the key issue, especially if you take into account the big volume growth in Bclear.

Nothing has changed on the short-term interest rate contracts. There has been a little change in Amsterdam on the equity option business, but that has been leveling out with volume. So really the only swing factor is the Bclear business then?

Joost van der Does de Willebois: Quite so. Okay, great. Nelson, a few quick modeling questions -- in terms of the intangibles amortization, I think, for the pro forma the first quarter, that release at the end of May, you had 35 million; now we're at 25. Is 25 the run rate now going forward?

**Nelson Chai** - NYSE Euronext - CFO

It is. Then in the first quarter, we hadn't finalized the purchase accounting. We put that out there to help you guys with your modeling, so I guess there's roughly 35, if I recall correctly. But Patrick, if you look at your model, we also put out some minority interest around 7, I believe. We would have had to net that. If you look now, in terms of now we've finalized everything, the 25 is the good run-rate. You won't see the counter in the minority interest line. So we've just kind of finalized our purchase accounting (inaudible).

**Patrick Pinschmidt** - Merrill Lynch - Analyst

Okay, great. That's helpful. Then in terms of the tax rate, that came in a little bit lower sequentially. I mean, how should we think about that for the balance of the year?

**Nelson Chai** - NYSE Euronext - CFO

Well, in the quarter, it has to do, obviously, as you know, with the mix between in the U.S. and Europe. In Europe, you don't get taxed on some capital gains, so that helps a little bit. I think, if you look at the six-month numbers, it still is around 34%, and I would plan on using that for modeling purposes.

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**Patrick Pinschmidt** - Merrill Lynch - Analyst

Okay. Then finally, in terms of merger expenses, you have \$16 million in the GAAP and then there's a footnote in the pro forma that cites a \$99 million figure for the second quarter. Can you help me understand what the difference is there?

**Nelson Chai** - NYSE Euronext - CFO

Sure. The GAAP number would be for the NYSE side from April 1 until June 30 and for the Euronext side between April 4 and June 30. And so that total is \$16.

Right before the deal got closed, Euronext expensed through, on their side -- so April 2/April 3 -- roughly \$83 million of expense costs. So, that would have included some of their banker fees, success fees, legal fees and other things. That's why, from a GAAP basis, it wouldn't show up in the GAAP numbers.

**Patrick Pinschmidt** - Merrill Lynch - Analyst

Okay.

**Nelson Chai** - NYSE Euronext - CFO

You've got that?

**Patrick Pinschmidt** - Merrill Lynch - Analyst

Okay, but we are still looking, in terms of a GAAP figure, of \$70 million for the full year in merger expenses? Or \$70 million or \$76 million?

Joost van der Does de Willebois: I think those are the deal-related costs, or the (inaudible) costs, the one-time deal costs.

**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

I wouldn't change any of those numbers (inaudible).

**Patrick Pinschmidt** - Merrill Lynch - Analyst

Okay, great. Thank you, guys.

**Operator**

Mike Vinciguerra, BMO Capital.

**Mike Vinciguerra** - BMO Capital - Analyst

Thank you. Good morning. I want to ask a couple questions on the European business. When you look at the derivatives, the strength appears to be mostly in individual equity products, up much stronger on a year-over-year basis than, say, interest rates.

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Anything particular going on between the two product categories that is driving the equities and not so much on the interest rate side?

Joost van der Does de Willebois: Well, there again I think most of the growth is coming out of the Bclear businesses. What will happen there is we started to offer, let's say, (inaudible) equity options on just 300 companies. It's nice to know (inaudible) but we're now offering them on 500 companies. What you should know is that they are not just companies coming out of the former Euronext, let's say, countries. They are coming from all the other countries as well, Italy, Spain, Germany, and Switzerland. At this moment, more than 20% of the volume generated by Bclear is coming out of those countries, so I think that's the main reason. Okay, no, that's helpful. Thank you very much. Nelson, can we dig a little deeper into the liquidation of the LCH position? Talk about your plans for the cash. I can come up with a few myself, but just curious. It's going to be north of, what US\$550 million. Are there any tax implications on any gains that you'll have to pay some taxes on? What do you plan on doing with the cash overall?

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**Nelson Chai** - NYSE Euronext - CFO

No, it's very limited in terms of the gains off the -- the tax we pay on it. You know, we're going to use it for general corporate purposes, (inaudible) out the dividend. We still have commercial paper that we're committed to paying down, and other than that, we will see.

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**Mike Vinciguerra** - BMO Capital - Analyst

Okay. Just on the debt itself, you've got \$3 billion classified as short-term debt. Can you just remind me how that is structured? Is there going to be a need to refinance over the next 12 months or are you going to pay down some of that and have to refinance a much smaller piece?

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**Nelson Chai** - NYSE Euronext - CFO

Well, as you know, the \$3 billion is in commercial paper, and so, by definition, it is, so you continue to pay it down or roll it over, and so that's what we are continuing to do. It's actually working very well.

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**Mike Vinciguerra** - BMO Capital - Analyst

Okay, and then just one last follow-up on someone else's question that was asking about the passing-through of the routing charges. You guys have a nice table at the end talking about the revenues from the different categories and cash trading in the U.S. It says \$268 this year, \$268 million versus \$187 million last. Can you give us, ballpark, what was the difference purely based on volume and growth in your business, and what was actually related to passing through the routing charges?

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**Nelson Chai** - NYSE Euronext - CFO

I don't think we are disclosing that information. We will talk about it internally and we'll see, but I don't think we are disclosing that level of detail.

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**Mike Vinciguerra** - BMO Capital - Analyst

Okay, thank you.

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**Operator**

Christopher Allen, Banc of America Securities.

**Christopher Allen** - Banc of America Securities - Analyst

Just in terms of the \$55 million in expense savings you guys laid out as part of the merger, where do you guys stand after one quarter?

**Nelson Chai** - NYSE Euronext - CFO

When you say --

**Christopher Allen** - Banc of America Securities - Analyst

For year one of the -- like for year one?

**Nelson Chai** - NYSE Euronext - CFO

Yes, we -- again, most of that stuff is going to come on the back half of this year, so Joost, for instance, is kind of leading that effort for us internally. We actually have been working with all the business unit leaders, I think. This is the non-technology stuff that we're working through. You know, people have signed off and we actually have plans in place to go after that.

**Christopher Allen** - Banc of America Securities - Analyst

I got you, so don't expect it for probably another quarter or two to start really dropping?

**Nelson Chai** - NYSE Euronext - CFO

You probably wouldn't see it, realistically, until the first quarter of '08 because a lot of action is going to happen in the back half of this year.

**Christopher Allen** - Banc of America Securities - Analyst

Okay. Were there any severance charges this quarter?

**Nelson Chai** - NYSE Euronext - CFO

No.

**Christopher Allen** - Banc of America Securities - Analyst

Okay. Then just one little modeling question -- the marketing and other expenses jumped pretty significantly, sequentially. Was there anything seasonally there or how should we (multiple speakers)?

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**Nelson Chai** - NYSE Euronext - CFO

(multiple speakers) see some seasonality, so market expenses tend to go based on programs. So if you sponsor an activity, for instance activity that happens in that quarter, that's when you recognize it. So there will tend to be spikes, so for us, you tend to have a little bit higher in the second and third quarter based on whether it be media buy or media schedules or else (inaudible) type stuff we would do.

**Christopher Allen** - Banc of America Securities - Analyst

Great. Thanks a lot, guys.

**Operator**

Rob Rutschow, Deutsche Bank.

**Rob Rutschow** - Deutsche Bank - Analyst

Good morning. I guess if we could delve in a little bit further on the compensation, I think that was up about 8%, linked-quarter, so I'm wondering if that was primarily in Europe, in the Euronext piece or if there was some growth there in the U.S.

**Nelson Chai** - NYSE Euronext - CFO

No, it was actually primarily in Europe. There's three different things there that would be different from the run rate. One was the (inaudible) on the forex side and that was a couple of million bucks. One was GL Trade, and Hugin made -- we made acquisitions that roughly added about \$2 million of cost. As I mentioned in previous remarks, businesses are roughly breakeven.

Then on the NYSE side in the first quarter, we had a curtailment charge of \$12.8 million. Again, that's also included now in the second-quarter numbers. So the combination of all of (inaudible), if you actually take those out, I think you would see the reductions on linked-quarter.

**Rob Rutschow** - Deutsche Bank - Analyst

Okay. One other housekeeping item -- the share count is different between the pro forma and the GAAP numbers. Why is that?

**Nelson Chai** - NYSE Euronext - CFO

The GAAP number is the weighted average number on the pro forma is kind of the ongoing.

**Stefan Biehler** - NYSE Euronext - Corporate Controller

The GAAP number, if you will, is calculated based on the fact that Euronext has been acquired on April 4, so you only take -- you pick up the shares from April 4 on, whereas the pro forma number assumes it happened on January 1. So it's full-blown.

**Rob Rutschow** - Deutsche Bank - Analyst

Those are share equivalents in the 266 number? That's the difference? And so should we expect the share count to rise towards that?

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**Stefan Biehler** - NYSE Euronext - Corporate Controller

No, you would expect the share count to be in line with the pro forma. (multiple speakers)

**Nelson Chai** - NYSE Euronext - CFO

That was Stefan Biehler, our Corporate Controller.

**Rob Rutschow** - Deutsche Bank - Analyst

Okay. So 266 going forward, okay. Then the last question -- a lot of the media attention you've gotten has been related to M&A, potential M&A activity, and it seems like you're setting us up for a deal in the second half of this year. Is it your desire to get something done by the end of the year, or sort of what's the timeframe that you're looking at?

**Nelson Chai** - NYSE Euronext - CFO

Actually, I was actually hoping not to do that. I was actually just hoping -- there has been -- we are obviously mentioned a fair amount about what may or may not happen. What I want to do is just reassure people that, as we think about these projects, if you will, that we're taking a very measured approach to them. I can't comment on whether or not anything could happen in the first or second half of this year or anything in the future. I would say that, as opportunities arise, we do evaluate them but we're going to be pretty judicious in terms of our evaluation of them. So we're actually not trying to set anybody up for anything just in terms of just reiterating our position of being judicious and thorough in terms of our evaluation practice.

**Rob Rutschow** - Deutsche Bank - Analyst

Okay, thank you.

**Operator**

Roger Freeman, Lehman Brothers.

**Roger Freeman** - Lehman Brothers - Analyst

Duncan, I wanted to follow-up on a couple of things about the specialist business. So I guess I was expecting that the parity rules would have been something that would have been addressed at this point. I'm just wondering why that's being pushed out to a later point. Can you also just clarify then what the key issues you are addressing with the SEC now? Is it about the ability to narrow the quote in terms of the increments that they can quote at?

**Duncan Niederauer** - NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets

I think -- we will get to all of these, Roger. I'm just trying to do it in what I think is the most appropriate and orderly fashion. You also have to keep in mind where the SEC has an appetite, or our clients have an appetite, etc. So I think I'm just trying to do it in what I think is the most sensible order of operation that I've been able to devise.

So what we have already changed is the ability to hedge after 4:00 and before 9:30 AM; that's already done. Because I think the important thing (technical difficulty) liquidity and run bigger positions, then I've got to give them the ability to hedge.

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The ones that are down there right now are amending some of the (inaudible) rules that I think are outdated, which you've seen some comment in the press from specialists on. We have a different set of rules for stabilization and destabilization in the S&P 500 as opposed to the rest of the universe. So I'm trying to extend the rules we have in the S&P 500 to all stocks.

Then lastly, the other one I'm working on with them right now is the one you alluded to, which is I think the concerns about penny-ing were pretty rampant two or three years ago. Given that 96% of our volume is in stocks with a nickel spread or lower, I'm trying to eliminate the price improvement parameters where a specialist, as anyone else would be, is free to improve the quoted spread by as little as \$0.01. Even though you can do it by sub-pennies in NASDAQ and that I think what's happened is that rule has eliminated anyone trying to compete inside the spread. I thought that was a more important one to change earlier than the parity one, but I will change it.

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**Roger Freeman** - *Lehman Brothers - Analyst*

Got it. That's very helpful. Then the last question on this is you quoted that the specialist participation is down to 4%. I'm wondering if you can break that down by market cap. In other words, are the mid and smaller-cap names considerably higher than that?

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**Duncan Niederauer** - *NYSE Euronext - President & Co-Chief Operating Officer & Head of U.S. Cash Markets*

Only slightly higher, not considerably higher.

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**Roger Freeman** - *Lehman Brothers - Analyst*

Okay, thank you.

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**Operator**

At this time, I would now like to turn the call over to Nelson Chai for closing remarks.

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**Nelson Chai** - *NYSE Euronext - CFO*

Well, thank you, everybody, and thanks for calling. If you have any follow-ups, please feel free to call Gary. Thanks.

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**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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