

CME Alternative Investment Products

An Introduction to CME Weather Products



Global Leadership in the Financial Marketplace

CME is the largest and most diverse financial exchange in the world for trading futures and options – handling nearly 800 million contracts worth more than \$460 trillion in a single year. Founded in 1898, we serve the risk-management needs of customers around the globe by offering the widest range of benchmark financial products available on any exchange, traded via our CME Globex electronic trading platform and on our trading floors. Our innovative products cover major market segments including interest rates, equities, foreign exchange, commodities and alternative investment products.

CME Alternative Investment Products

Consistent with its history of innovation, CME is committed to developing alternative, non-traditional investment products to enable customers to better diversify and manage their risks. Accordingly, CME has created a new product group – CME Alternative Investment Products – which includes both futures and over-the-counter instruments. All CME Alternative Investment Products are cleared by the CME Clearing House. At present, this product group includes CME Economic Derivatives, CME Ethanol Futures and CME Weather Derivatives.



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About CME Weather Products

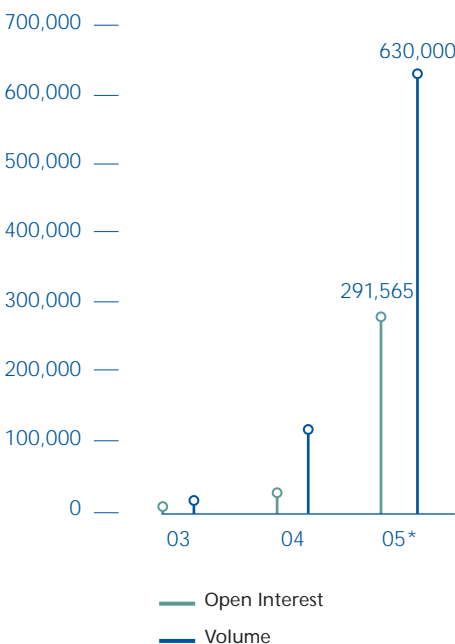
Until recently, very few financial tools offered protection against weather-related risks. Companies had insurance policies for coverage of catastrophic damage, but a gap remained in terms of protection against the problems that businesses experienced as a result of weather. CME Weather products fill that gap.

Even in our technology-based society, weather still influences our daily lives and choices and has an enormous impact on corporate revenues and earnings. It is estimated that nearly 20 percent of the U.S. economy is directly affected by the weather, and that the profitability and revenues of virtually every industry – agriculture, energy, entertainment, construction, travel, and others – depend to a great extent on the vagaries of temperature. In 1998 testimony to Congress, former Commerce Secretary William Daley stated that, “Weather is not just an environmental issue; it is a major economic factor. At least \$1 trillion of our economy is weather-sensitive.”

The risks businesses face due to weather are unique. Weather conditions tend to affect volume and usage more than they affect price. Warm winters, for example, can mean excess supplies of oil or natural gas for utility and energy companies. Cold summers can result in empty hotel rooms and empty airline seats. Although the price of a commodity, hotel room or plane seat may change in response to unusually high or low demand, price adjustments don’t necessarily compensate for lost revenues. Weather risk is also unique in that it is highly localized, cannot be controlled, and despite great advances in meteorological science, still cannot be predicted precisely and consistently.

Launched in 1999, CME Weather products have shown tremendous growth as the products have begun to solidify their place in the financial markets and traders have started using the products to help predict where natural gas prices may go. Notional value of CME Weather products in 2004 was \$2.2 billion, and grew nine-fold to \$22 billion through September 2005, with volume surpassing 630,000 contracts traded.

CME Weather Volume and Open Interest
(Contracts Traded)



* Through September 30, 2005



CME Weather Products: What They Are and How They Work

CME Weather products are temperature-based index futures and options that are geared to seasonal and monthly weather in 18 U.S., nine European and two Asia-Pacific cities. CME Weather products quantify weather in terms of degrees above or below monthly or seasonal average temperatures, and attach a dollar amount to the number of degrees a month's or season's temperature deviate from an average value, based on a specific index. Quantifying weather makes it possible to trade weather in a way comparable to trading the varying values of stock indexes, currencies, interest rates and agricultural commodities.

CME Weather products were the first standardized weather futures and options on futures offered on any exchange. Unlike over-the-counter (OTC) weather derivatives, which are privately negotiated, individualized agreements made between two parties, CME Weather derivatives are standardized contracts traded publicly on the open market, in an electronic environment and on the CME trading floor, with complete price transparency.

CME Weather products are legally binding agreements made between two parties under the auspices of CME. The trade is settled in cash based on the final monthly or seasonal index value determined for each contract by Earth Satellite (EarthSat) Corporation, an international firm that specializes in geographic information technologies. EarthSat uses temperature data provided by the National Climate Data Center (NCDC). European and Asian weather firms calculate the indexes for the European and Asian contracts.

Weather contracts for the winter months in U.S. and European cities are classified according to an index of Heating Degree Day (HDD) values, days in which energy is used for heating. The contracts for U.S. cities in the summer months are geared to an index of Cooling Degree Day (CDD) values, days in which energy is used for air conditioning. In Europe, CME Weather contracts for the summer months are based on an index of Cumulative Average Temperature (CAT). Both HDD and CDD values are calculated according to how many degrees an average daily temperature varies from a baseline of 65° Fahrenheit in the U.S and 18° Celsius in Europe and Japan. (The average daily temperature is the average of the day's maximum and minimum temperature on a midnight-to-midnight basis.)

CME Frost Day products are also offered for Amsterdam, the Netherlands. These products are futures and options on the number of days that frost is recorded on weekdays from November through March, and can be traded in monthly or seasonal contracts.



Monthly, Seasonal and Seasonal Strip Spreads

CME Weather products are available in monthly and seasonal strip contracts. The seasonal strip products enable customers to choose from two to six months in a customized “season.” The months must be consecutive and within the same general season – November through April for winter, and May through October for summer.

Note: CME introduced flexibility in seasonal trades in fourth quarter 2005. Previously, entire seasons could only be traded and did not include what are considered the seasonal swing months of April and October. A simplification of weather product codes also took place at this time. Now, codes simply use the city code and the month or months to be traded. For example, to trade the months of November and December in Chicago in 2005, the code would be H2XZ5. A complete listing of CME Weather codes is available at cme.com/weather.

Measuring Daily Index Values

An HDD value represents the number of degrees the day's average temperature is lower than 65°. For example, an average daily temperature of 40° would generate a daily HDD value of 25 ($65 - 40 = 25$). (Note: If the temperature exceeded 65°, the value of the HDD would be zero, since theoretically, there would be no need for heating.)

CDD values are calculated according to the number of degrees an average daily temperature exceeds 65°. For example, an average daily temperature of 80° would generate a daily CDD value of 15 ($80 - 65 = 15$). (Note: If the temperature were lower than 65°, the value of the CDD would be zero. Again, remember that in theory there would be no need for air conditioning.)

Measuring Monthly Index Values

Monthly HDD or CDD index values are simply the sum of each daily HDD or CDD value recorded during a given month or season. For example, if there were 10 HDD daily values recorded in November 2005 in Chicago, the November 2005 HDD index would be the sum of the 10 daily values.

Thus, if the HDD values were 25, 15, 20, 25, 18, 22, 20, 19, 21 and 23 the monthly HDD index value would be 208.

The value of a CME Weather futures contract is determined by multiplying the monthly HDD or CDD value by \$20. Using the example above, the CME November Weather contract would settle at \$4160 ($\$20 \times 208 = \4160).

Measuring Frost Day Index Values

CME Frost Days are calculated by counting the number of days in a given month or the entire winter season in which frost takes place, based on meeting specific temperature qualifications at 7:00 a.m. and 10:00 a.m. For complete details on calculating CME Frost Days, please go to the Weather section on the CME Web site at www.cme.com/weather.

How CME Weather Derivatives Differ from Weather Insurance

In general, weather derivatives cover low-risk, high-probability events, while weather insurance typically covers high-risk, low-probability events, as defined in highly tailored or customized policies. CME Weather products are based on the fact that temperature deviations of even a few degrees can be financially damaging while not at all life threatening.

For example, a utility company may use a CME Weather derivative contract to hedge against a winter that forecasters think will be 5° warmer than the historical average (a low risk, high probability event) since the company knows its revenues would be affected by that kind of weather. But the same company would most likely purchase an insurance policy for protection against damages caused by a flood or hurricane (high-risk, low-probability events).



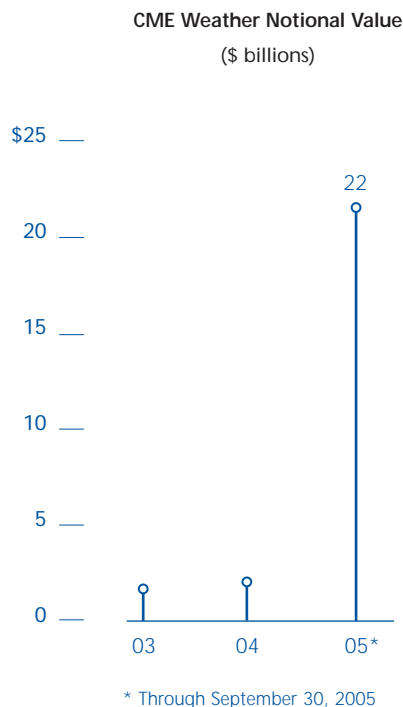
Who Uses CME Weather Derivatives?

Users of CME Weather products include companies in energy-related businesses as well as a growing number of agricultural firms, restaurants, and companies involved in tourism and travel. Many OTC weather derivative traders also trade CME Weather for purposes of hedging their OTC transactions. The CME Weather market is not necessarily about extreme weather but about the more frequent changes in weather, that while less dramatic, can seriously affect a company's bottom line.

- » A home improvement company knows that cool weather in spring means customers will not get started on spring and summer projects, and that this will have a negative effect on profitability. To hedge against the potential risk of a cool spring, the chain can sell (go short) CME CDD futures. They could sell at a CDD level of 400, for example, which might be close to the average in that area. If the weather is indeed cool and the CDD level only reaches 300, they could buy back their CDD contracts at 300, and make a profit of \$2,000 per contract (100 index points x \$20 per point = \$2,000). The profit on the weather futures could help offset the losses due to reduced sales.
- » A ski resort depends on cold weather to stay in business. To protect against the possibility of a warm winter, the resort can sell (go short) CME HDD contracts at a level they decide upon with assistance from a weather-analysis company. A warm winter will result in a low HDD index, and the resort will hope to buy back its contracts at a lower price and use the profit to offset losses in the business.
- » A professional trader who specializes in weather has found research indicating that hurricanes in the south and southeast often tend to lead to colder weather in the northeast in the following winter. After several hurricanes hit in the south and southeast, the trader decides to go long (buy) CME HDD futures, hoping that the index value will increase as temperatures plummet, and that he will be able to sell his contracts at a profit.

Growth in CME Weather Products

CME Weather products are demonstrating significant growth. More than 630,000 CME weather contracts traded through September 2005, with open interest exceeding 300,000 and a notional value of \$22 billion. The recent upsurge in growth shows that the weather derivatives industry is beginning to mature. Growth can be attributed to an increase in industry participants, a better understanding of how CME Weather futures work, the benefits of the products, and support from a Lead Market Maker (LMM), Wolverine Trading.





Benefits of Trading CME Weather Products

As exchange-traded products, CME Weather derivatives offer a number of advantages not available with OTC trades. For example:

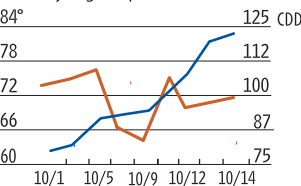
- » **Market integrity** – By assuming the role of buyer in every CME sell transaction, and seller in every CME buy transaction, the CME Clearing House ensures the integrity of each transaction. It also uses sophisticated risk management and financial surveillance techniques to protect customers from the possibility of default on any transaction, i.e., the possibility that either side in a trade may not perform its buy or sell obligation.
- » **Price transparency** – CME Weather products offer all traders, large or small, equal access to the best bids and offers. The CME Weather futures contracts are traded electronically on the CME Globex electronic platform, nearly around the clock five days a week, with complete price transparency and views of the top five bids and offers. The options are traded on the CME trading floor.
- » **Liquidity** – CME Weather markets are supported by automated trading systems supplying continual price feeds from global weather market makers. These price feeds are real-time, dealable quotes, which allow CME to provide exceptional market liquidity and a dynamic trading venue for a large pool of financial and asset managers, multinational corporations, speculators, day traders, retail investors and investment banks.
- » **Accessibility** – CME Weather derivatives are easily accessible to those seeking to take immediate market action in response to unanticipated weather situations, as well as to those in various locations around the world.

As seen weekly in the Wall Street Journal Saturday edition, this graph highlights current weather trends and its economic impact.

Atlanta Temperatures On A Roller Coaster Ride

Early autumn temperatures in Atlanta indicated normal levels for the month of October. Forecasts then changed to a warmer outlook that increased the value of cooling degree day futures at the CME. Traders now expect 125 CDDs, more than double the average.

— Daily Avg Temp — CDD Forecast



	Oct '05	30-yr avg
Temp	69.0°	62.3°
CDD	125	57.5
Value	\$2,500	\$1,150

*For information about weather futures please visit www.cme.com/weather.



Electronic Trading Around the Clock, Around the World

As a leader in electronically traded derivatives products, CME enables customers to access the widest array of benchmark futures and options contracts available on any exchange, via our CME Globex electronic trading platform. Trading on CME Globex is available on a single platform, virtually 24 hours a day – more than any other exchange in the world. Our customers can access the CME Globex trading platform through 740 direct connections in 27 countries around the world, as well as through telecommunications hubs – located in London, Amsterdam, Dublin, Frankfurt, Gibraltar, Milan, Paris and Singapore – that provide reduced connectivity costs, increased accessibility and fast, efficient trading of CME products.

The platform's open architecture enables customers to access CME Globex using their own proprietary trading applications or the systems provided by futures brokers and independent software vendors, as well as a CME-provided trading application. In conjunction with the security of the CME Clearing House guarantee, the CME Globex trading platform offers speed of execution, transparency, anonymity and market integrity. Traders are able to see the top prices and other data right on their screen and transactions are executed in less than a second. The advanced capabilities of the CME Globex platform allow traders to execute all of the traditional (outright) transactions in futures as well as a variety of spread trades, including highly complex options spreads.

Fully Integrated Clearing

At CME, we operate our own clearing house that matches and settles all trades and guarantees the creditworthiness of every transaction that takes place in our markets. Our integrated clearing function ensures the safety and soundness of our markets and helps differentiate us from our competitors.

With the CME Clearing House serving as counterparty to every trade – e.g., in the clearing process it becomes the buyer to each seller of a futures contract and the seller to each buyer – the risk of default is virtually eliminated. Performance bond (collateral) deposits are required at each level in the clearing process – customer to broker, broker to clearing firm, clearing firm to clearing house. The performance bond is a good-faith deposit that represents the minimum amount of protection against potential losses.

The CME Clearing House handles more than 92 percent of all futures and options contracts traded in the U.S. This requires management of the substantial exposure that results from transferring more than \$460 trillion of risk and guaranteeing the performance of each of nearly 800 million contracts annually. On a daily basis, CME holds nearly \$45 billion of collateral deposits to support the transactions made in CME markets, and twice daily moves between \$1.5 billion and \$6 billion of funds to and from market participants.



CME Weather Futures and Options: FAQ

Why trade weather at CME?

CME Weather products offer what traders want: market integrity, liquidity, superior security, flat fees, rapid electronic trading, leverage and support.

Are CME Weather products traded electronically?

CME Weather futures trade on the CME Globex electronic trading platform. Options on CME Weather futures are traded on the CME trading floor.

How does leverage work in trading CME Weather products?

CME requires that traders of its products maintain performance bond requirements (as good faith deposits) to protect against trading losses. These requirements allow traders to use leverage to hold a position larger than their initial deposit amounts.

Does CME offer support to customers trading its products?

The CME Globex Control Center (GCC) provides registered users with 24-hour assistance that includes technical and customer support for the CME Globex electronic trading system. CME customer support provides exchange users support via e-mail or telephone.

What are Block Trades and are CME Weather products eligible for block trading?

A Block Trade is a privately negotiated futures transaction executed apart from the public auction market, either on or off the Exchange trading floor, then recorded with the Exchange and cleared by the CME Clearing House. There are minimum order size requirements that vary according to product and order type, and eligibility for engaging in such trades is strictly regulated. For more information on CME Weather block trading, visit <http://www.cme.com/files/CMEWeatherBlockTrading.pdf>.

What is the difference between CME Seasonal Strip Weather contracts and CME Seasonal Weather contracts?

CME Seasonal Strip Weather products enable customers to select the months within a season they would like to trade, rather than having to trade the entire season, as is the case with the CME Seasonal Weather products. Currently, seasonal CME Weather products are based on a winter season (November – March) and a summer season (May – September). CME Seasonal Strip Weather products add April to the summer season and October to the winter season so that all calendar months are available for trading. The months that customers choose in designating a seasonal strip trade do not have to be consecutive, but do have to be in the same season. For instance, in the winter season a customer can trade January versus March, without including the months of November, December and February.

Why trade specific months in a season rather than an entire season?

Some cities may traditionally have more weather volatility in certain months. CME Seasonal Strip Weather products enable traders to focus on the months that pose the greatest risk in each location.

A more extensive CME Weather Product FAQ is available on the CME Web site at www.cme.com/weather.

Does the final settlement occur in whole numbers (i.e. – 210, 211, 212, ect.) or decimals?

Final settlement for all weather contracts settle in decimals frequently. The US products settle only in 0.5 increments (i.e. – 210.5, 211.5 or 212.5) and Europe can settle in 0.05 increments (i.e. – 210.05, 211.05 or 212.05).



CME Weather Contract Specifications

Trading hours	<p>Futures products trade electronically only on CME Globex, Monday through Friday from 3:45 p.m. (5:30 p.m. on Sunday) to 3:15 p.m. (CT), the following day (9:00 a.m. on the last trading day (LTD)).</p> <p>The options products trade Monday through Friday, 8:15 a.m. to 3:15 p.m. (CT), on the CME trading floor.</p>
Contract size	\$20 times the monthly Index. The monthly Index is provided by the Earth Satellite Corporation.
Minimum tick fluctuation	One degree day index point (one degree day index point has a value of \$20).
Settlement	Cash settled. All contracts remaining open at the termination of trading shall be settled using the respective CME Degree Days Index reported by the Earth Satellite Corporation for that city for that contract season, using the methodology in effect on that date, on the first Exchange business day that is at least two calendar days after the derivatives contract month.
Maximum order size	10,000 contracts net long or net short in all contract months combined.
Trading venue	Only options can be traded via open outcry; the futures products are traded exclusively on the CME Globex electronic trading platform.
Contract rollovers	None available
Block trades	Yes.
All or none trades	Not available.



Getting Started Trading CME Weather Products

Today's greater need for risk management and hedging tools has required investors to become increasingly sophisticated about futures and options on futures products. With customers around the world; a diverse product line; deep, liquid markets; and strategic alliances with other exchanges, CME is truly a global marketplace. Why not make it yours?

For additional information about CME Weather products, please visit our Web site at www.cme.com/weather. You will be able to access a number of other brochures and marketing and education materials that can answer your questions or help you to begin trading these products. Additionally, if you would like to talk to a CME representative, please call our Customer Service Line, 1-800-331-3332. Outside the U.S., please call 312-930-2316.

All traders of CME products must have an account with a National Futures Association (NFA) registered broker or Futures Commission Merchant (FCM). Traders who wish to trade CME Weather futures need access to CME Globex. Customers who do not have access to a personal computer can have their brokers execute trades on CME Globex on their behalf. To place orders and receive market data directly via your computer, customers can select from a variety of certified CME Globex trading applications.

These trading applications include CME-certified front-ends provided by most FCMs and Introducing Brokers (IBs) to their customers, as well as those provided by Independent Software Vendors (ISVs). In addition, CME provides a CME Globex-only trading application, CME Globex Trader. Before choosing either CME Globex Trader or a third-party trading application, please make sure that your broker is able to support that front-end.

More information about these trading applications, as well as links to solutions provided by FCMs, IBs and ISVs is available on the CME Web site at www.cme.com (in the CME Globex eTrading section).



Additional Resources

The CME Weather team offers free services to enable customers to view the current weather markets, including free, up-to-the minute quotes and market data, such as:

- » An interactive quote page, offered by First Enercast Financial, that includes block trading and options trading information, as well as a free newsletter that recaps weather markets activity (www.firstenercastfinancial.com).
- » A CME-created quote page that also offers volume activity (www.cme.com/weather).
- » A quote page created by Wolverine trading (<http://weather.wolve.com/index.html>).
- » Intra-day weather block trades and block trading procedures, available at www.cme.com/weather.
- » *The Wall Street Journal* Saturday edition, which offers a map and a CME Weather Market Overview with re-cap of the week.

CME Weather Products: Cities Traded

In the U.S, CME Monthly and Seasonal Weather products are traded on 18 cities:

Atlanta, Baltimore, Boston, Chicago, Cincinnati, Dallas, Des Moines, Detroit, Houston, Kansas City, Las Vegas, Minneapolis-St. Paul, New York, Philadelphia, Portland, Sacramento, Salt Lake City, Tucson.

In Europe, CME Monthly and Seasonal Weather products are traded on nine cities:

Amsterdam, Netherlands; Barcelona, Spain; Berlin, and Essen, Germany; London, England; Madrid, Spain; Paris, France; Rome, Italy; Stockholm, Sweden

In Europe, CME Frost Day products are traded in one city: Amsterdam, Netherlands

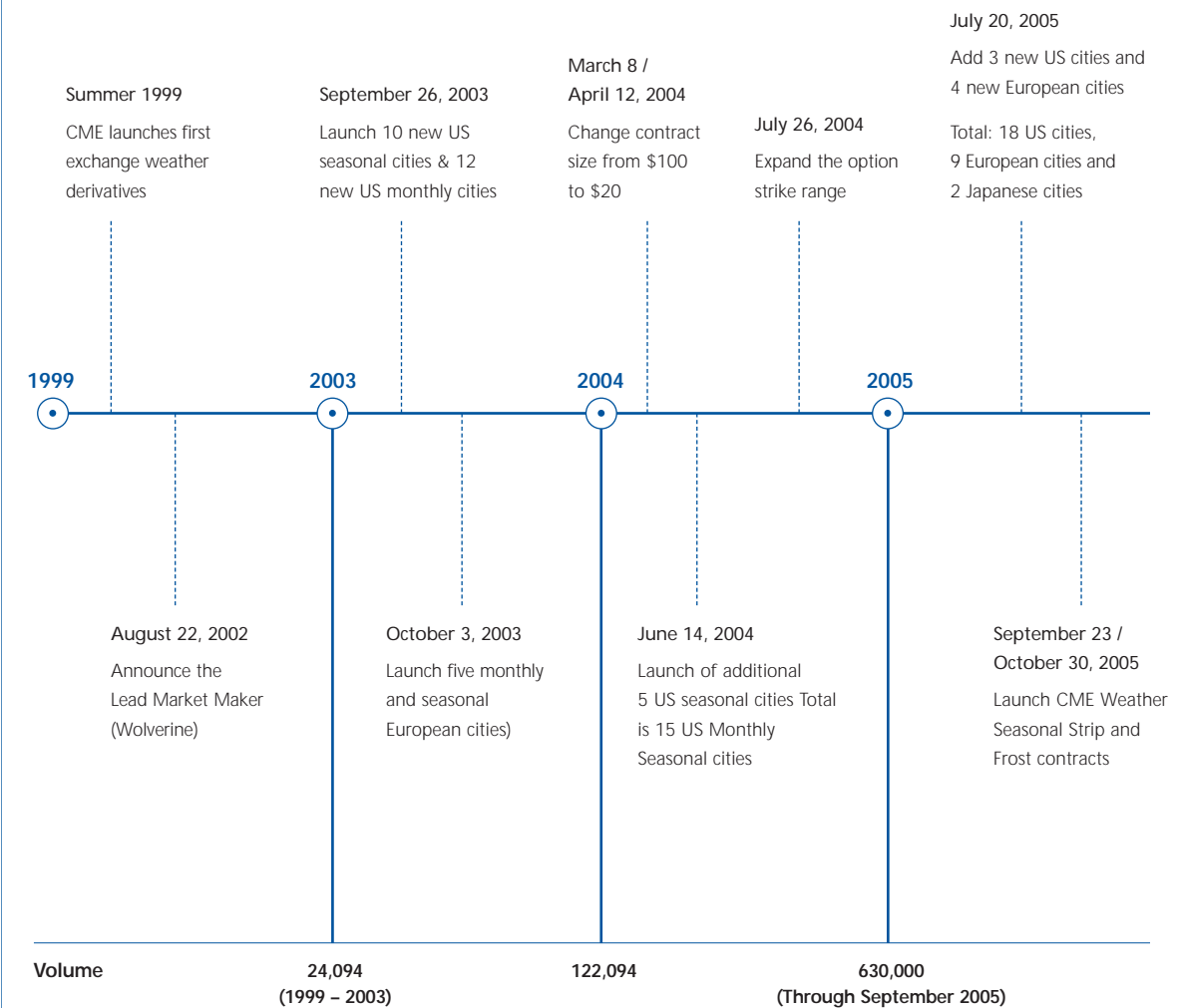
In the Asia-Pacific region, CME Monthly and Seasonal Weather products are traded on two cities:

Tokyo and Osaka, Japan

Visit www.cme.com/weather for details on each city.



CME Weather Market: Evolution Timeline (1999 – 2005)



Futures trading is not suitable for all investors, and involves the risk of loss. Futures are a leveraged investment, and because only a percentage of a contract's value is required to trade, it is possible to lose more than the amount of money initially deposited for a futures position. Therefore, traders should only use funds that they can afford to lose without affecting their lifestyles. And only a portion of those funds should be devoted to any one trade because a trader cannot expect to profit on every trade.

All references to options in this brochure refer to options on futures.

For further information on CME Weather futures and options, please call 1 800-331-3332 (outside the U.S., call 312-930-2316) or visit the CME Web site at www.cme.com/weather.

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