

## **BME business areas**

BME RANKS AMONG THE 10 LEADING STOCK MARKETS IN THE WORLD IN ALL ITS BUSINESS AREAS.

BME IS THE SEVENTH LARGEST STOCK MARKET IN THE WORLD BY EQUITY TRADING VOLUMES, THE SIXTH LARGEST IN TERMS OF CORPORATE FINANCING, THE WORLD LEADER IN PRIVATE FIXED INCOME TRADING AND RANKS FIFTH IN SINGLE STOCK FUTURES CONTRACTS TRADED.



**BME X**  
BOLSA Y MERCADO ESPAÑOL

**EDIFICIO 1**

RENTA VARIABLE



COMPENSACIÓN  
Y LIQUIDACIÓN



RENTA FIJA

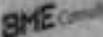
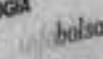


DERIVADOS



**EDIFICIO**

ÁREA DE  
TECNOLOGÍA



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2006 was an excellent year for the Spanish securities markets, with record operating activity both in absolute terms and in terms of growth. As we have seen in the previous chapter, positive environmental conditions have driven this performance whilst at the same time improving the income statement of all of BME's business areas. There have been many decisive factors which have enabled us to successfully harness the potential of the Spanish stock markets which have seen a massive demand for associated services for the securities traded. These include the liquidity of the securities traded on their platforms, the efficient services available to issuers and investors, the

wide range of products and markets on offer as well as the advanced technological know-how and the ability to take advantage of positive synergies whilst integrating the Group's activities. The combination of these factors resulted in a net profit of 130 million euros in 2006, 28% higher than in 2005, and a 21.4% increase in revenues to 288 million euros. These operating figures for 2006 and an assessment of the company's financial position once again confirm BME's position as the manager of a business which stands out for its technology, diversification, dynamism and which comprises the market's whole value chain.



THE YEAR IN PICTURES

Celebrating the flotation of BME

## Equities

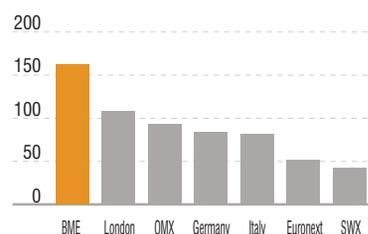
### Activity on the electronic market (SIBE)

Figures for shares



### Electronic share trading systems in Europe

Difference in effective volume traded (%) 2002-2006



BME's equity products and services are its flagship business. 2006 saw revenue from this business area rise sharply on the back of investor and corporate dynamism leading to record figures for trading, liquidity and financial operations.

In the year as a whole, the cash value of equity securities traded rose 35.6% to 1.15 trillion euros, on the back of a 34.2% increase in the number of transactions executed, to 22.9 million. In fact, the cash value of the equity securities traded on the Spanish electronic trading platform reached an all time high of over 20,115 million euros on 15 December.

Also in 2006, trading volume in warrants and certificates was 34.1% higher, at 2,966 million euros, and the number of trades 36.5% higher, at 0.48 million.

In the Latibex trading segment, trading volume totalled 718 million euros in 2006, 28.9% higher than in 2005. The number of trades increased by 41.6% to 53,000.

It is therefore clear that the increase in trading volume for equity securities was one of the determining factors which helped BME obtain such strong results in 2006. This was thanks to the increased liquidity which the Spanish bourse has enjoyed in recent years and is borne out by these figures. Market turnover in 2006 was much higher than the previous year and four times higher than ten years ago.

Therefore, during the four year bullish run marked by share prices (2003-2006), trading volume on the Spanish stock market has advanced at a greater rate than its

peers. According to data from the World Federation of Exchanges (WFE), trading volumes in 2006 were 161% higher than in 2002, compared to 107% for the London Stock Exchange, 93% for the Scandinavian exchanges, 83% for the German bourse, 81% in Italy and 51% for Euronext.

### INCREASED LIQUIDITY

Over the past few years, liquidity has become one of the principal attractions of the Spanish stock market, contributing solidity, depth and confidence to the market. The increase in liquidity in the market is especially visible in the main listed stocks. Based on 2006 figures, two Spanish stocks were the most liquid in the euro zone: Santander and Telefónica. Using the pan-European Eurostoxx 50 index (which comprises the 50 main listed stocks in the euro area) as a benchmark, both ranked high on the list in terms of trading volume. Another Spanish stock, BBVA, was in fourth place, Endesa was in 13th, Repsol YPF in 15th and Iberdrola in 28th place. In terms of cumulative volume in 2006, six Spanish stocks made up 24% of the volume traded out of a total of 50 stocks which comprise the index.

The weight of Spanish stocks on the Eurostoxx 50, the main pan-European equity index, further underscores the significance of Spanish equities. As of 15 January, 2007, the six Spanish stocks included on the index accounted for 14% of its capitalisation, well above the weight of the Spanish economy in the region.

In the context of this notable increase in the liquidity of Spanish listed stocks, we would highlight three main points. The first is the increasing interest investors around the world are showing in Spanish mid-cap companies. These companies' resolve to expand their activities abroad is reflected in the significant number of new shares being issued to finance non-organic growth which will eventually lead to higher trading volumes for their shares. If we exclude the ten main listed stocks, the effective volume traded by the rest of the companies between 2002 and 2006 has more than trebled while in terms of the number of shares exchanged, their weight during this same period has risen from 18% for the market as a whole to 39% in 2006. Another factor worth noting is how, over the past ten years, BME has managed to strengthen and improve its services to become the irrefutable pool of liquidity for Spanish listed companies. Currently, trading in Spanish stocks on the New York Stock Exchange is 0.56% of the effective amount traded on the BME whilst, in 1995, this was around 14%.

Finally, it is worth noting the intense interest non-resident investors have for the attractive business projects to be found on the markets operated by BME. In recent years, non-residents have held an average of 30-35% of Spanish shares, however in terms of daily activity (trading) this is around 60% of volume traded. The presence of foreign investors in other products traded on BME's other systems, such as fixed income and derivatives, is also expanding.

#### CORPORATE DYNAMISM

However, these are not the only reasons behind the increase in the company's equity business. The intense corporate activity being undertaken by listed companies and the new products and services offered by BME are also key to supporting market activity and the recurrence of BME's revenue both for its equity and listing businesses.

Listed Spanish companies stole the limelight in 2006 with their corporate forays abroad making them one of the world's leading financial phenomena. The increasingly larger Spanish multinational enterprises have been involved in many of

### Liquidity of spanish stocks

RANKING OF TRADING OF EURO STOXX 50 STOCKS IN 2006. RANKING IN TERMS OF TOTAL EFFECTIVE TRADED VOLUME.

POSITION	NAME	WEIGHTING IN INDEX AT 15 JAN 2007	TOTAL SECURITIES TRADED	VOLUME TRADED	DAILY AVERAGES	
					SECURITIES TRADED	VOLUME TRADED
1	Banco Santander Central Hispano SA	4.10%	16,020,534,001	195,063,165,000	63,072,969	767,965,217
2	Telefonica SA	3.33%	13,682,388,487	186,251,628,300	53,867,671	733,274,127
3	ENI SpA	2.82%	6,655,439,917	155,929,204,400	26,202,519	613,894,506
4	Banco Bilbao Vizcaya Argentaria SA	3.09%	8,751,954,332	150,494,380,700	34,456,513	592,497,562
5	Total SA	5.44%	2,722,686,352	144,150,037,800	10,677,201	565,294,266

the biggest acquisitions carried out during the year. Meanwhile, Spanish listed companies have piqued the interest of foreign companies and investors, either to acquire them or secure shareholdings.

More specifically, investor and corporate confidence is reflected in the ten registered IPOs in 2006, a new record giving a total volume of 3.1 billion euros. At 31 December 2006, the market value of these new companies stood at 16,921.4 million euros.

According to Price Waterhouse Coopers' IPO Watch Europe, the volume of IPOs completed in 2006 catapulted the Spanish stock exchange to second place in IPOs among European markets, second only to the London Stock Exchange.

Of the ten companies which came to the market in 2006, five did so via both an Initial Public Offering and a Subscription Offering while the other five used only one of the two options.

In terms of volume, the largest IPO of the year was BME's own. Bolsas y Mercados Españoles began trading on 14 July following an Initial Public Offering whereby it placed 25,139,996 shares or 30.07% of its capital, priced at 31 euros per share (779.34 million euros in total).

Also in 2006, the Spanish securities market continued to consolidate its role as a financial tool. The volume from capital increases topped 26,700 million euros, six times the amount in 2005.

2006 was also the most active in terms of corporate operations,

mergers and acquisitions and takeovers. Twenty-two takeover bids, equivalent to 102,000 million euros, were authorised in 2006 with 16 of them being resolved successfully for a total of 43,274 million euros. Of the operations which took place not only in Europe but also worldwide, those involving listed Spanish companies were particularly noteworthy. Were it not for the high level of maturity obtained by the Spanish Stock Exchange in recent years, these moves might never have come about. The Spanish Bourse has been key in channelling foreign financing to Spanish multinationals enabling them to undertake strategies which would not have been possible had they relied solely on Spanish savings or self-financing.

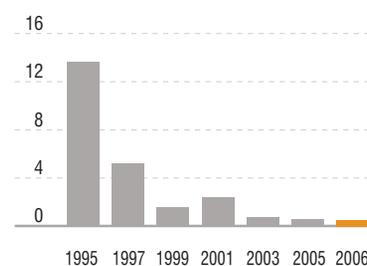
#### NEW PRODUCTS AND SERVICES

Of all the initiatives put in place by BME to expand the services on offer and which have helped to strengthen the income sources for the equities business and raise the company's competitive standards, it is worth mentioning the MAB or Alternative Equity Market, which began operating at the end of May, and the introduction of Exchange Traded Funds (ETFs), at the beginning of July.

The MAB is BME's second initiative to provide Sociedades de Inversión de Capital Variable (SICAVs) with a means of resolving their liquidity and disclosure obligations easily and in an orderly manner. This is a legal requirement under the new regulations gover-

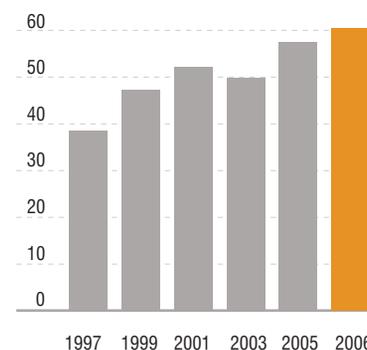
#### Trading weight of spanish securities on NYSE vs. total traded on the Spanish Stock Exchange by years (%)

Source: New York Stock Exchange, CNMV and Sociedad de Bolsas Reports



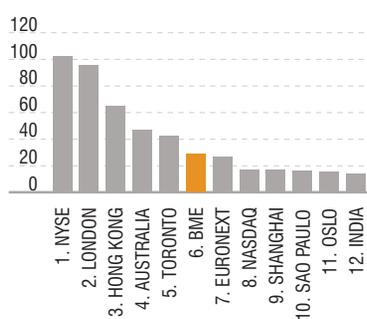
#### Foreign investment in listed shares (%)

Calculations made using BME data and official figures from General Directorate for Trade and Investments



### Flows of new liquidity channeled through stock exchanges worldwide in 2006

Includes capital increases, IPOs and PO and non-IPO listings. Figures in thousand million euros  
Source: WFE



ning Collective Investment Institutions. There are now 3,000 listed SICAVs, which have formally moved from the stock market's general trading system to the MAB. It is anticipated this year that the MAB will also act as support for securities issued by venture capital firms and unlisted SMEs. The main innovation this year in terms of financial products traded on BME's platforms was the introduction of Exchange Traded Funds (ETFs). ETFs are subject to the same fiscal treatment as shares and can be easily traded on the secondary market thanks to the market makers in charge of constantly maintaining positions. With the introduction of ETFs our market now offers the same equity products as Europe's leading bourses.

The presence of ETFs on the IBEX 35 not only favours the liquidity of Spanish blue chip companies but also paves the way for new benchmarks in this kind of products. Since November 2006 two ETFs indexed to the Eurostoxx 50 have been traded on the SIBE. Thanks

to the passive management of ETFs and their ease of transmission, they are the ideal vehicle for many different investors to easily and efficiently invest (management and deposit fees for ETFs listed on the Spanish stock exchange are 0.20- 0.40%). The versatile nature of ETFs has made them one of the leading products in securities markets throughout the world in recent years with total assets under management of around half a billion euros.

### RETURNS AS A MARKET STIMULUS

In order to fully appreciate the results of BME's equity business area in 2006, we must look at the performance of listed stocks, in other words, share returns. In 2006 the world's leading bourses recorded increases for the fourth consecutive year, with the Spanish exchanges performing especially well. Throughout the year, the Spanish stock market's key performance indicator, the IBEX 35, continually beat its own records, rising 31% in the full year. Total sharehol-

### Initial Public Offerings and Subscription Offerings in 2006

OFFERING ENTITY	ADMISSION DATE	TYPE IN OPERATION	NO. SECURITIES PLACED	EFFECTIVE VOLUME (MILLION EUROS) TO MARKET	TOTAL SECURITIES ADMITTED	% SECURITIES PLACED (EUROS)	PRICE ON FIRST DAY OF TRADING
Renta Corporación	05/04/2006	IPO and PO	8,280,000	240.12	25,029,301	34.57	30.6
Parquesol	05/05/2006	IPO and PO	12,381,543	284.78	39,724,284	31.17	21.75
Grifols, S.A.	17/05/2006	PO	78,000,000	343.20	213,064,899	36.61	5.09
Astroc	24/05/2006	IPO and PO	30,297,500	193.90	121,190,000	25.00	6.77
General de Alquiler	13/06/2006	IPO and PO	13,750,000	113.44	28,500,000	48.25	7.60
Técnicas Reunidas	21/06/2006	IPO	21,284,962	361.84	55,896,000	38.08	17.25
Bolsas y Mercados	14/07/2006	IPO	25,139,996	779.34	83,615,558	30.07	29.75
Riofisa	19/07/2006	IPO	13,538,717	243.70	45,132,060	29.99	19.51
Vocento	08/11/2006	IPO	22,231,563	333.47	124,970,306	17.79	15.60
Vueling Airlines, S.A.	01/12/2006	IPO and PO	7,009,148	210.27	14,952,259	46.88	32.99



THE YEAR IN PICTURES  
**New Operational  
 Headquarters**

der returns were over 35% as measured by the IBEX 35 plus dividends. Shareholder remuneration, once again on the rise, meant 4% additional returns.

As a result of the good trends in 2006, the Spanish stock market consolidated its privileged leadership position in total returns (including gross dividends), the highest in the last decade among the major international markets, according to data released by Morgan Stanley Capital International. The annual cumulative return in the last 10 years stands at 15% vs. 8.3% in the US, 13.6% in Italy, 11.4% in France, 7.3% in the UK and 2.6% in Japan.

Despite the more than noteworthy gains in equities, excellent earnings momentum has left average market valuations relatively tight. According to analyst consensus

### Returns of leading securities markets worldwide.

CAGR (%) CALCULATED AT END OF DECEMBER 2006. LOCAL CURRENCY.

	WITH DIVIDEND REINVESTMENT (GROSS) 3 YEARS	10 YEARS
Spain	25.00	15.00
Sweden	28.10	13.30
Italy	21.00	13.60
Canada	19.00	11.60
France	19.50	11.40
Switzerland	19.70	10.50
Australia	25.20	12.90
EMU Index	20.70	11.30
European Index	19.20	10.10
EU Index	19.00	10.10
Germany	19.00	9.30
US	10.50	8.30
Worldwide Index	14.70	7.90
Worldwide Index ex USA	19.60	7.60
Worldwide Index ex Europe	12.80	6.90
Netherlands	18.20	8.00
UK	15.30	7.30
Japan	19.90	2.60

Source: Morgan Stanley Cap International

THE YEAR IN PICTURES

The Spanish Stock Exchange celebrated its 175th Anniversary in 2006



forecasts compiled by FactSet-JCF, at the end of December 2006, the average price/earnings ratio (P/E) for IBEX 35 companies for which earning estimates for 2006 and prices at 4 January 2007 exist, stood at 16x. Using consensus earnings estimates for 2007, the P/E ratio stands at 14.7x, relatively tight considering long-term interest rates are below 4%. We cannot conclude this point

without mentioning one of the most attractive aspects of the Spanish bourse in recent years: the shareholder remuneration programmes launched by the majority of listed companies.

**THE SPANISH STOCK MARKET'S INTERNATIONAL POSITIONING**

The positive correlation of the events and initiatives mentioned

**10 largest stock exchanges in the world in terms of size and activity in 2006 (US\$ billion)**

CAPITALISATION		EFFECTIVE VOLUME TRADED	
NYSE	15.42	NYSE	21.79
Tokyo	4.61	Nasdaq	11.81
Nasdaq	3.86	London (LSE)	7.58
London (LSE)	3.79	Tokyo	5.82
Euronext	3.71	Euronext	3.81
Hong Kong SE	1.71	Deutsche Börse	2.74
Toronto SE (TSX)	1.70	<b>Bolsas y Mercados Españoles (BME)</b>	1.94
Deutsche Börse	1.64	Italian SE	1.60
<b>Bolsas y Mercados Españoles (BME)</b>	1.32	Swiss SE	1.40
Swiss SE	1.21	Korea SE	1.34

Source: WFE. Figures at end December 2006.

above fully explain the strong growth in equity products traded on the systems managed by BME to over 1 trillion euros, the entire Spanish GDP. This is not the only driver to have reached this symbolic figure: the capitalisation of shares on the Spanish market also surpassed the 1 trillion mark in 2006 recording a new record of

1,14 trillion euros at the end of the year.

If we compare these figures to other international markets, the Spanish bourse ranks seventh in the world in terms of volume traded in 2006, ninth in terms of capitalisation and sixth for flows of new liquidity channelled into equity products.

## Fixed Income

The existence of fixed income markets in the various activities which comprise BME's business and the services it offers, enables the company to diversify its revenue sources, provides new growth opportunities and complements revenues from other key business areas such as Listing and Clearing and Settlement .

In this sense, Corporate Debt was the star performer in 2006 with impressive growth; in fact the outstanding balance at the end of 2006 was 33% higher than in 2005 and above half a trillion euros. Meanwhile, global trading stood at 900 billion euros and the total volume of new issues admitted to trading stood at 508,000 million euros, 23.4% higher than the previous year. The most noteworthy feature in BME's Corporate Debt market, AIAF, in 2006 in terms of value contributed to the development of the economy and Spanish companies, was the consolidation of its capacity to channel resources to the private sector producing a net financing volume of 146,525 million euros, 9% higher

than the previous year. Foreign financing of the Spanish economy is still firmly rooted in corporate debt tools, mainly mortgage backed tools. In 2006, the trend of progressive internationalisation of Spanish corporate debt which was set some years ago continued, namely: the increased presence of European and international investors in portfolios largely due to the range of assets in this market and the high ratings assigned to its issuers and issues.

We now find that Spanish Corporate Debt issues, securitisation bonds and cédulas hipotecarias in particular, are placed first of all with foreign institutions. Around 300,000 million euros -more than half the outstanding balance in our market - are currently in the portfolios of non-resident investors.

This is good publicity for other potential Spanish issuers and also for extending the securitisation market as a financing tool for different sectors and projects.

The Primary Market played a key role in AIAF in 2006 with even growth in the balance of short and medium to long-term issues. Consequently, the outstanding balance increased significantly in 2006 to over the half a billion euros mark, standing at 588,942 million euros.

In terms of products, company promissory notes became more popular in 2006 as an attractive short-term tool offering the highest returns available on the money market. For some months, returns have been higher than the average increase in CPI which is particularly attractive in times of high inflation. This is why companies are using promissory notes to manage their cash and cash

### THE YEAR IN PICTURES

**Closing of the event during which BME and the Spanish stock market regulator - CNMV - presented their initiatives to boost the competitiveness of the Spanish Fixed Income market.**

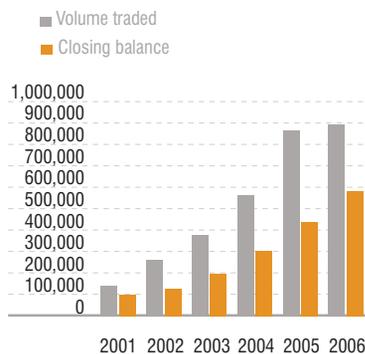


surpluses. Also, throughout the year investment and pension funds followed a similar trend, using these tools to effect their cash placements. The use of the electronic trading platform (CyRE) has been mandatory since December 2006 to transmit information on issues to the market's governing body. This is an automated internet-based platform developed internally by BME which simplifies the sending of data and which is intended to create a "single desk" for not only the market but also the CNMV and IBERCLEAR. The new system is yet another step forward in BME's strategy of offering issuers and members new services and facilities which will help avoid human errors and simplify and standardise supervisory and admission-to-trading procedures as well as improving the execution time in various operations. As for medium and long-term debt, the key performers in 2006 were once again guarantee and collateral issues, specifically covered and securitised bonds which became one

of the major drivers of the AIAF market. Together, volume for both products in 2006 was nearly 130,000 million euros in new issues admitted for trading on the market. This figure confirms BME as the second largest operator in Europe in this asset class in terms of volume of issues. Securitisation has also helped BME become a benchmark market for the economy as it is now one of the basic means of corporate financing in Spain and the segment with the greatest growth potential. This trend can also be seen in other European countries with strong securitisation activity. This offers investors more diversification with limited and known asset risks. Trading in securitised bonds in 2006 stood at 254,933 million euros. New issues totalled 83 billion euros while the outstanding balance at the end of the year was 222,866 million euros. Meanwhile, the *cédulas hipotecarias* sector continued to grow in 2006, with one of the highest volumes traded on the AIAF.

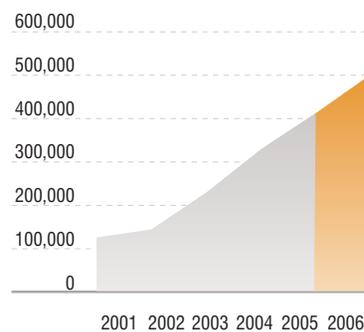
### Corporate debt trading volumes on AIAF market

Million euros



### Corporate debt listing volumes on AIAF market

Million euros



## FINANCIAL ASSETS HELD BY SPANISH HOUSEHOLDS FAMILIES HAVE INCREASED BY 50% IN THREE AND A HALF YEARS



One of the most positive factors for BME when assessing its businesses and their future growth prospects is Spanish household financial wealth. So far this century the growth of financial assets in the Spanish economy has been spectacular and far higher than in Europe's principal economies. Since 1999, the volume of financial assets in Spain has grown at an annual rate of 11.12% and the contribution of this to the development of the securities markets is clear. BME's trading platforms have been able to comfortably absorb the increases in exchange activity that require the existence of solid, growing financial markets and serve as a platform for the

dissemination and expansion of new capital and products. These circumstances explain the proximity of the equities markets to private investors in recent years. Families have undoubtedly benefitted from the expansion of the markets and now perceive investment in them as an accessible and equitable way of diversifying their savings. In the last three and a half years, total financial assets held by Spanish families have increased by almost 600 billion euros, or 50%, providing a solid driver and support factor in the performance of the Spanish economy during this period.

Thanks to the strong performance

of the securities markets in the last four years (2003-2006), Spanish household financial wealth has continued to grow in both absolute and relative terms. At the end of June 2006, based on the latest available data from the Bank of Spain, financial wealth amounted to 1.65 trillion euros, up 6% on year-end 2005 and a 52% increase on 2002, the last year in which Spanish equities fell. The strong performance by the securities markets, notably equities, has a lot to do with these good figures, which are expected to be even better at year-end 2006 thanks to the outstanding performance of the markets in the last two quarters.

In recent years the financial assets held by Spanish families have grown at a higher rate than economic activity measured by GDP. The Financial Assets/GDP ratio rose from 148% at the end of 2002 to 175% in June 2006. Overall there has been a significant improvement, both in absolute and relative terms.

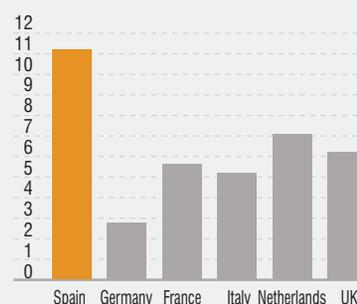
By product type, the highlight since year-end 2002 is the growth of listed and non-listed shares in Spanish households' portfolios, which have doubled in value. Also noteworthy are the 52% growth in investment funds and the 33%

growth in pensions and life insurance policies. Medium- and long-term fixed income securities and bonds grew by 64%.

The performance of the markets has also contributed, and continues to contribute, to the improvement of the net financial position (financial wealth minus debt) of households. Despite the sharp increase in indebtedness in recent years, net financial wealth stood at 876.233 billion euros at the end of June 2006, above the figure of 855 billion euros at year-end 2005 and significantly higher than the 2002 figure of 656 billion euros.

## Development of spanish financial sector (I)

Annual cumulative growth rate of financial assets between 1999 and 2005  
Calculations as per data from Eurostat



## Development of spanish financial sector (II)

FINANCIAL ASSETS HELD BY SPANISH HOUSEHOLDS (1994- 2006)

	1994	%	1996	%	2002	%	2004	%	1° H 2006	%
Banknotes	41,866	7.48%	46,524	6.71%	48,107	4.43%	70,031	5.03%	87,513	5.31%
Sight/demand deposits	35,117	6.28%	36,452	5.26%	70,281	6.47%	84,902	6.10%	279,113	16.93%
Savings deposits	227,184	40.60%	243,729	35.17%	354,176	32.62%	386,314	27.74%	266,753	16.18%
Short-term securities	5,227	0.93%	4,742	0.68%	2,140	0.20%	3,222	0.23%	3,830	0.23%
Debentures	10,692	1.91%	18,624	2.69%	26,161	2.41%	33,131	2.38%	42,917	2.60%
Equities	98,819	17.66%	140,977	20.34%	235,733	21.71%	385,784	27.70%	477,348	28.95%
Investment funds	59,440	10.62%	97,508	14.07%	133,928	12.33%	172,645	12.40%	203,854	12.36%
Pension Funds and Insurance	54,543	9.75%	75,786	10.93%	174,918	16.11%	207,643	14.91%	232,735	14.12%
Other	26,725	4.78%	28,744	4.15%	40,403	3.72%	49,016	3.52%	54,682	3.32%
<b>Total Financial Assets</b>	<b>559,613</b>		<b>693,086</b>		<b>1,085,847</b>		<b>1,392,688</b>		<b>1,648,745</b>	
Gross Domestic Product	389,525		464,255		729,206		840,106		941,220	
(current prices)										
<b>Financial Assets / GDP (%)</b>		<b>143.67%</b>		<b>149.29%</b>		<b>148.91%</b>		<b>165.78%</b>		<b>175.17%</b>

Source: Financial accounts of the Spanish economy. Bank of Spain. October 2006

## THE IBEX 35®: BME'S MOST GLOBAL PRODUCT

### ÍNDICES IBEX (Base 3000 = 31/12/1989)

Daily figures from January 2003 to 29 December 2006



For the fourth consecutive year the listed shares of Spanish companies have attracted the attention of investors around the world. This interest, triggered by attractive valuations in a propitious economic and market scenario, has naturally resulted in a further significant rise in the Spanish stock market's benchmark index: the IBEX 35®. It gained almost 32% in 2006, which means it has grown by 134% since the end of 2002 (when the market began to recover following the Dotcom Crash (24.2% in annualised terms). These percentages increase to around 36% and 164% respectively if we include the impact of dividends. 2006 was a volatile year for the Spanish stock market index. Corporate restructurings and M&A activity resulted in a year with more changes than usual in the composition of the index which, for a short period, had only 33 stocks. At the end of the year the market value of the 35 companies that

comprise the IBEX 35® was close to 600 billion euros, roughly equivalent to 60% of Spanish GDP, and the dividend yield of the IBEX 35® companies once again stood at an average of 4%. As the IBEX 35® is a synthetic indicator for the Spanish stock market, its highly representative nature in relation to Spanish economic performance plus the growth and international expansion of its companies is the main factor behind the strong performance of this stock market indicator over the last two years. With sustained annual economic growth of over 3% for almost a decade, the Spanish economy has repeatedly outperformed the European average by around two points. At the same time, most Spanish companies have used the excellent monetary conditions of the euro zone to bolster and restructure their assets and reorientate their income statements towards solid growth structures which are com-

patible with generous shareholder remuneration strategies. These circumstances, the huge volume of liquidity circulating in the international financial system and a fairly stable market environment (though more tense and unstable than in 2005), meant exposure to equities continued to increase in the portfolios of all kinds of investors in 2006. In Spain's case, most of this demand is channelled directly through stocks which form part of the IBEX 35® or, indirectly, via products linked to this index (funds, warrants, deposits, ETFs etc..) Between 2003 and 2006 applications were made for around 200 new licences to sell products linked in some way to the IBEX 35®; maturities vary, with the most common being three years.

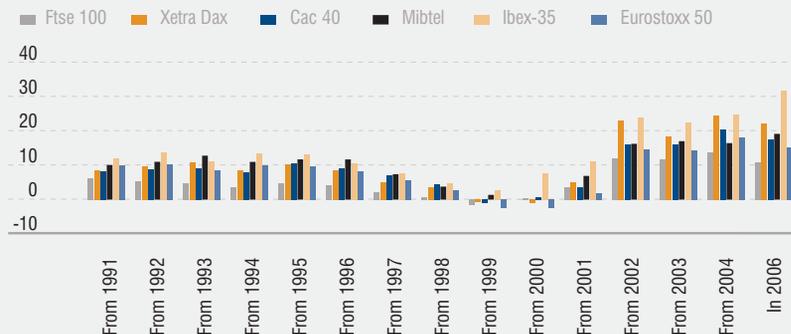
#### Other reasons for the IBEX 35®'s dynamic performance

As a consequence of events on the spot market, there was also

## IBEX 35: THE BEST PERFORMING EUROPEAN INDEX (II)

### Annual cumulative growth rate from December each year to December 2006 (%)

Calculated using reconstructed series data from the Stock Exchanges or Dow Jones Stoxx as necessary



increased activity in IBEX 35® futures and options on the derivatives products market (MEFF) compared to recent years. A total of eight million IBEX 35® futures contracts were traded in 2006, an increase of 31.67% on the 2005 figure. With regard to options, the number of contracts for the same period is 5.5 million, an increase of 25.03% compared to 2005.

One of the most notable effects of the positive international reception for the IBEX 35® as an exponent of the Spanish stock market is the growing popularity and presence of its largest companies in the leading Pan-European and international indices. This is one of the main reasons why such a large number of Spanish stocks offer high liquidity at present, especially in Europe. Based on figures from the beginning of December 2006, six Spanish companies were present among the fifty which comprise the Euro Stoxx index which is most

used as a benchmark for other financial products. Santander Central Hispano (SCH) is the second largest stock on this indicator and Telefónica is the sixth largest, whilst BBVA ranks eleventh.

### The Ibex Medium Cap and the Ibex Small Cap

The performance of these two young indices in 2006 has confirmed the existence of a large number of "second-tier" companies with good earnings multiples and attractive expansion plans. They outperformed the IBEX 35® both in 2006 and over a longer term if we look at the series' historical values from previous years. The second MEDCAP forum for Spanish small- and mid-cap companies in June 2006 confirmed the interest of leading national and international investors and analysts in these types of companies,

which have been implementing major growth plans in recent years. The strong performance of these indices is a good gauge of the effectiveness of these and other initiatives which BME has introduced over the past five years aimed at reducing the capital cost of the companies in question and improving their visibility and transparency so that they receive greater recognition from investors and analysts.

The performance of both of these new indices has been spectacular in terms of returns, both if we look at their performance since their launch and if we extend the analysis to the retrospective series drawn up for this purpose. In 2006 the Ibex Medium Cap (20 stocks) gained 42.1%, while the Ibex Small Cap (30 stocks) rose 54.4%. If we extend the series to 100 stocks from 30 December 2003, the results are even more impressive since, whilst the IBEX 35® would be slightly below 180 points, the two new indices would be around 240-260 points.

In total the Ibex family is comprised of 85 stocks representing over 90% of the domestic capitalisation of the Spanish stock market and a slightly higher percentage of trading. Of these companies, between January and 11 December 2006 just five had registered losses compared to the end of 2005. Two are listed on the Ibex Small and three on the IBEX 35®, with the latter all forming part of the media sub-sector. With regard to gains, five Ibex stocks rose by over 100% in the year, twenty by between 50% and 75% and a further 32 by between 25% and 50%.

## Derivatives

In 2006, the Spanish futures and options market, MEFF, posted a new trading volume record, with 47.2 million new contracts traded with a face value of over 922,000 million euros. This is 17% higher than in 2005 whilst open positions saw 5.7 million contracts traded, 8% more than the previous year. The strategy pursued by the Spanish derivatives market in recent years has yielded very satisfactory results in terms of market size and liquidity as well as placing it in a strong position for the future. BME currently manages the fourth largest derivatives market in Europe and holds a leading position in equity futures trading, with 21.2 million contracts traded in 2006. The figures for 2006 also indicate the strong performance of the IBEX 35 Future which is the most widely traded product on the MEFF. With 6.4 million contracts traded in 2006, this benchmark rose 30% compared to 2005. Also, trading in Mini Futures rose 40%, indicating the dynamism of private investors, the majority of whom trade via internet,

taking advantage of the technological advantages and service offered by the market and intermediaries who trade there.

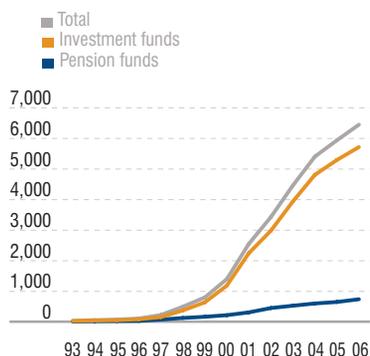
Also in 2006, MEFF sought to bolster its position in both the Spanish market and abroad based on three strategic goals: by seeking out new members, especially non-residents; by standardising its technology and procedures and by improving the service offered and security. The success of this strategy can be seen by the fact that, out of 109 members there are now over 40 non-resident members including large investment banks who contribute over 50% of the volume traded.

We have achieved this goal by offering ease and speed of access plus security and have doubled our bandwidth enabling 500 messages a second to be received.

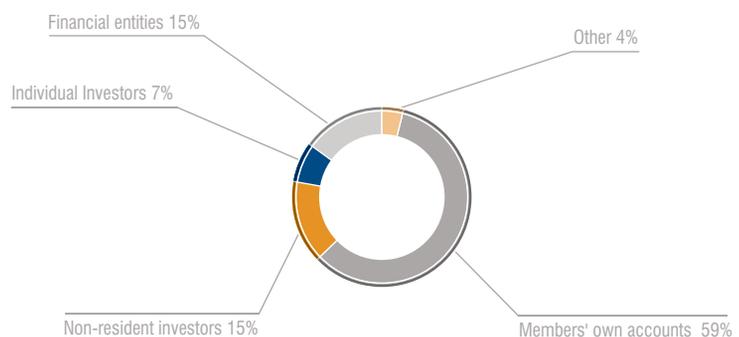
In November, MEFF put into operation a new version of its S/MART electronic platform, yet another step towards adopting the most advanced standards for settlement services used internationally.

### Accounts open in MEFF with Investment or Pension Funds as holders

Figures at end of period



### MEFF-Trading by investor 2006





Another figure which validates the renewed dynamism of the market and its players in 2006 is the number of Investment and Pension Funds using MEFF with over 6,400 accounts open in the market. Another key event in 2006 was BME's backing of new businesses in these markets. In 2006 MEFF launched a pioneering activity within the Spanish utility sector when it began providing Red Eléctrica de España (REE) with a central clearing counterparty service to manage the guarantees,

collections and payments deriving from the new settlement functions assigned to the utility in its role as electricity system operator. MEFF's function as a Central Clearing Counterparty for the options and futures exchange has been a significant factor in this agreement with REE.

Another success was MEFF's collaboration with MEXDER, the Mexican Derivatives Market, which backed efforts to seek out new agreements with various Latin American bourses.

## Clearing and Settlement

2006 was an excellent year for BME's clearing and settlement business, operated by its subsidiary, IBERCLEAR. The nominal balances registered at the end of the year showed a continuation of the strong growth trend seen in previous years, up 36% compared to 2005 in AIAF's fixed income market and up 1.9% in the public debt market. At year end 2006, the total of fixed income assets being custodied represented a nominal value of 954,000 million euros having risen 16.5% a year between 2001 and 2006. Equity settlements were also up to an average of 4,500 million euros a day compared to 3,300 million euros in 2005. The number of operations settled also rose 32% compared to the previous year.

IBERCLEAR continued to follow the strategy implemented several years ago and remains committed to improving and increasing the services offered.

In 2006, IBERCLEAR began to carry out registration, clearing and settlement operations for securities held by SICAVs in the MAB, an Organised Trading System authorised by the Spanish government and regulated by section 31.4 of Spanish Securities Market Law.

When ETFs were admitted to trading on the stock exchanges for the first time in July 2006 pursuant to section 49 of Royal Decree 1309/2005, of 4 November, IBERCLEAR was able to offer its registration, clearing and settlement services to a broader range of securities.

Also, in the past year we have been putting the finishing touches to a project which will implement a new order matching mechanism for parti-

cipating members, a SUC (Single Matching System): the Fixed Income SUC will provide services to those securities which are registered with and settled via the CADE platform. This will enable participating entities to communicate and match their orders more flexibly and efficiently using a new mechanism of retaining and freeing orders which will remove the need for communicating pre-matchings by phone. As with the transfer and loans operating system which was introduced in 2005, the messaging service and defined formats for the settlement of securities fully comply with the ISO 15022 standard.

The introduction of the last phase of the Fixed Income SUC, due to be rolled out in the first half of 2007, will see the culmination of the "Unified Communications Window" (UCW), aimed not only at creating a single matching system in accordance with the ISO 15022 standard but also at offering IBERCLEAR's participating entities the same means of communicating orders and information via both settlement platforms: the SCLV for equity securities and the CADE for fixed income, which includes SwiftNet.

Finally, IBERCLEAR has begun an action programme for managing equity settlement risk aimed at reducing the number of sales which have been completed at the time of settlement, optimising risk management and bolstering the mechanisms which guarantee the integrity of issues. A series of measures have been adopted to optimise the valuation and risk management of operations awaiting settlement in the stock market system. These are due

**In 2006 IBERCLEAR has cooperated with ECSDA on different European clearing and settlement initiatives**



to be put in place at the beginning of 2007. Various studies have been carried out on how to reform the "Centralised Loan" system used by IBERCLEAR in the event of sellers failing to deliver the equity securities on the settlement date.

On the international stage, the highlight of 2006 was without doubt the signing of a Code of Conduct on 7 November championed by Charlie McCreevy, European internal services and market commissioner plus the European Central Bank's Target 2 Securities project. The Code of Conduct is an alternative to a possible European directive on clearing and settlement systems and consists of a series of intentions to establish market practices which will guarantee competition and interoperability between European infrastructures.

The three main points of the Code of Conduct are: price transparency, access and interoperability plus service unbundling and account separation. The Code of Conduct has

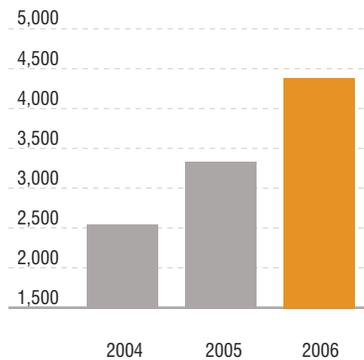
been signed by all stock exchanges across Europe and is an indication of their commitment to facilitate competition.

Its implementation will be staggered with the first measure, price transparency, being introduced before the end of 2006 so that the rest can be put in place throughout 2007 (interoperability measures by 30 June and service unbundling and account separation by 31 December).

However, despite the industry's best efforts to standardise flows, standards and procedures as well as making the local infrastructure more transparent to competitors, we must stress that it is also necessary to work at the same pace to remove the barriers identified in the Giovannini report. In this sense, throughout 2006 IBERCLEAR worked alongside the ECSDA to remove the barriers identified in the report and to define European standards for matching operations. A report on the latter has already been published and the measures shall be put

**Average daily settlement**

Million euros



in place within three years. Target 2 is a proposal for central securities depositories (CSDs) to use a common technical service that would execute settlement instructions. This will facilitate a cross-border settlement service which is as cheap and efficient as that currently offered by IBERCLEAR for domestic settlement. Given the project's scope and impact, in-depth studies and discussions are currently taking place. Feasibility studies and a functional and user description of the project will continue in 2007, after which the CSDs will decide whether or not to take part in this project which the ECB expects to come into effect by 2013 at the earliest. 2006 also saw the consolidation of the Spanish Registry for Emission

Rights for Greenhouse Gases one year after its formation. The result was highly satisfactory, even more so considering how little time it has been operating and the large number of participating entities. During the year, accounts for the plants included in the 2005-2007 National Allocation Plan were opened, leading to a massive assignation of exercise rights whilst the verification of issues and delivery of rights was carried out for the first time as well as the cancellation process. We would also note that there were various modifications to the National Allocation Plan in 2006 leading to the incorporation of new plants classified as new entries. Finally, the volume of transfers in 2006 was significantly higher than the previous year.

## Dissemination of Information

This area of activity performed strongly in 2006. The increase in content offered by the Information unit and the harmonisation of the fee scheme with the benchmark international markets drove a 3.4% increase in the number of information services clients and a 10.4% increase in the number of end users of real-time information in 2006. This underpinned record revenues for the unit. If we look at a wider timeframe, since 2003 services offered to private investors have risen 52.34% while the overall number of subscribers rose 33.76%. Both these figures show the increased interest market agents have in the information and services offered by BME, although professional agents make up a broader base in this area of activity.

Another highlight of 2006 is the inclusion of information on those companies which have joined the MAB and also the new ETFs in the information package.

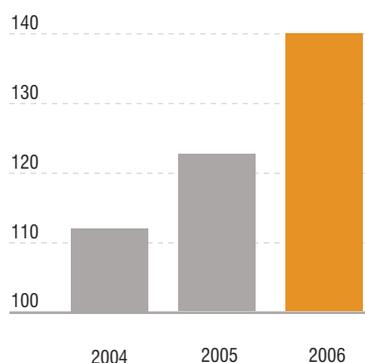
More specifically, Infobolsa, BME's information dissemination business and the most widely recognised of all its products, maintained its lead in 2006 in Spain and has continued to consolidate its presence in Germany through its subsidiary Infobolsa Deutschland. Meanwhile, the performance of its Portuguese business through its subsidiary Difubolsa, remained stable and we saw a successful expansion into Latin America thanks to an agreement with the Mexican Stock Exchange (BMV) with Infobolsa providing information services. This service is directed at



THE YEAR IN PICTURES

Meeting of the FIAB  
at BME's  
headquarters

**Subscribers to primary information sources**



BMV's wide customer base.

In Germany, as well as developing Deutsche Börse's website as agreed last year, a new portal for private investors was launched with content produced in house and aimed at the German market which was supplemented by information from other international markets. It also includes new and more advanced functions for warrants and certificates, new graphical software while assets are now classified according to different criteria, all of which provides the private investor with professional decision-making tools.

In Spain, Infobolsa consolidated its position as a content provider, especially for dataflow to banks and other distributors, where it not only provides domestic content but also international content in competition with the large distributors. The terminals and

ASP business lines remained stable.

In order to extend the services on offer to private investors, Infobolsa launched an information service system for mobile devices (PDAs, Blackberry), giving real time access to information at any time; also, its ASP services included contents streaming. The integration of trading tools with Infobolsa's services, in conjunction with Visual Trader, is a new business line which the company has been working on recently. These services are aimed at the Spanish and Portuguese markets which have been requesting combined information and order routing systems. It will be possible to send orders to all the company's services (for professional and private investors and ASP services), granting the entire financial community access to these functions.

## Consulting and Technology

BME Consulting (BMEC) exports technological solutions and offers strategic consulting services for financial markets. Revenues rose 33% in 2006 due to more intense activity based on the reliability and technological solvency offered by BME's services. BME's initiatives bore fruit because of: the general adoption of market standards throughout the EU increased the demand for consulting services; the proliferation and development of markets necessitated the use of advanced and solvent trading platforms where BME leads the field; and finally, because the conditions imposed by the MiFID directive to act in markets prompted the need for IT solutions and consulting work

for which BME is well positioned. A balance of activities in 2006 sees the technology business area focused on trading platforms of which we would highlight the SIBE. The most recent version of SIBE began operations in February 2006 on the Caracas Stock Exchange following a complex project to fine-tune it to the Venezuelan market. BME Consulting is currently in talks with various markets to deploy SIBE as their trading platform.

In 2006 BME carried out various strategic consulting projects. In Thailand, BME Consulting, in collaboration with Serfiex, offered technical assistance to the Bond Market Development Committee to



### THE YEAR IN PICTURES

**BME exports its technology and consulting services to over 20 countries, ranging from Latin America to the Far East**

develop a pricing mechanism for illiquid debt and its derivatives. The World Bank provided financing for the Finance Ministry and the Thai Bond Market Association. In Chile, BME Consulting has successfully concluded a technical cooperation programme to create and develop a central clearing house for the Chilean Products Exchange which was financed by the Inter-American Development Bank.

In Serbia BME set up a technical assistance project for the country's central bank to improve the financing of credit lines for SMEs in order to improve the financing lines for those SMEs where the NBS is an agent. Work lasted throughout 2006 before ending in November.

In May, a technical assistance project was rolled out for the Romanian Securities Commission in order to

set up and develop a fixed income market. Also, in February, the technical assistance project to consolidate the Financial Intelligence Department in Bosnia-Herzegovina was concluded.

With regard to 2007, we would mention that in September 2006 the European Commission awarded BME Consulting an ambitious project to compare products, market structures, costs, distribution systems and consumer savings patterns for a study into savings products in member states. BME Consulting is working alongside Oxford Analytica, a consulting team comprised of senior Oxford faculty members and researchers from other major universities and research institutions.

And once again, BME Consulting's technical and consulting areas are involved in various tenders in Latin America, Africa and Asia.

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## Visual Trader

Visual Trader Systems, which belongs to Bolsas y Mercados Españoles, is involved in the development, operation and commercialisation of Visual Trader, the multimarket trading system. The platform offers users an integrated system providing access to the markets. Currently, Visual Trader offers direct access to trading systems on the Spanish markets, Euronext plus the German and Italian bourses. It also connects over 50 markets thanks to its interfaces with the international Global Brokers systems.

One of Visual Trader's main objectives in 2006 was to continue with its global growth strategy to increase its international visibility whilst increasing the volume of orders coming into the Spanish securities market.

Throughout the year, new interconnections with trading platforms were established as well as order routing for which BME is internationally renowned. Consequently, Spanish market members have experienced an increase in the number of entities who may send them orders with all of them using the same equipment and technology. Consequently, the volume of orders received from entities outside of Spain for the SIBE using Visual Trader systems has risen 35%.

Also, new warrants issuers have connected to Visual Trader to release their prices and also prices for ETFs. More specifically, in 2006 the number of issues processed by Visual Trader rose by 130% to 2,033 live issues.

From a technical point of view,

throughout the year work continued to migrate the central systems to the new LINUX platform using the IBM Blade Center system. The choice of system is proving to be a success as it is extremely quick in processing messages and has reduced access times to the market ten fold. Also, thanks to its scalability, this solution can be easily adapted to the market's growing needs.

In order to offer its customers the highest quality in terms of connection to markets and to improve real time information transmission, Visual Trader has entered into an agreement with BT-Radianz to replace its satellite connections with terrestrial lines which will reduce the delays in sending messages tenfold and notably improve information integrity ratios, all competitively priced for the user. This initiative comes in response to the ever-growing demand for more stable and faster connections as well as the need for greater data integrity. Nevertheless, and given that many of BME's projects and services are multiyear, we would mention two events which will be particularly relevant in 2007. Firstly, Visual Trader will conclude the adaptation of its entire system to comply with the MiFID regulation which will come into effect in November. The aim is to meet all Visual Trader clients' requirements and needs regarding the routing of orders, apply best execution policies, consolidate order books with data flows from new execution centres and comply with record-keeping requirements.

We would also highlight the setting



THE YEAR IN PICTURES

**The Spanish market's IT systems have been developed by BME and its subsidiaries since the 1980s.**

up of Algorithmic Trading which will be rolled out in 2007. The Algorithmic Trading systems are a new generation of programmed and automated trading systems (programme-trading) and are a huge advance in the stock market business as well as involving chan-

ges to the market's microstructure. Its use is spreading throughout the leading US and European brokers with an estimated 11% of US market volumes managed through these systems in 2004 while forecasts pointed to this figure reaching 27% in 2006.

