

# 4

## BME Business Areas

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Equities.

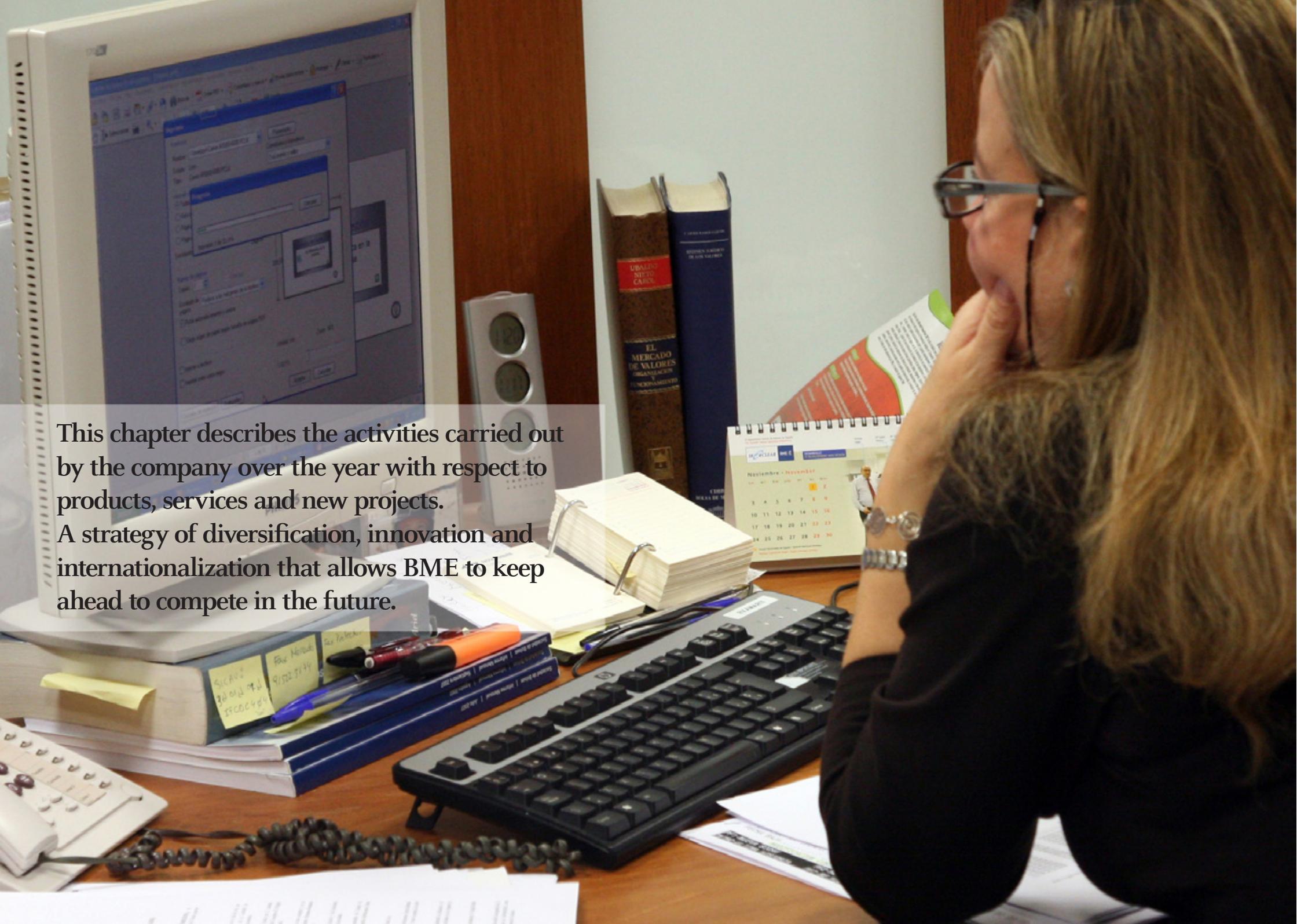
Derivatives.

Fixed Income.

Clearing and Settlement.

Information.

IT and Consulting.



This chapter describes the activities carried out by the company over the year with respect to products, services and new projects. A strategy of diversification, innovation and internationalization that allows BME to keep ahead to compete in the future.

## BME Business Areas

2008 was therefore characterised by high volatility in the markets and a progressive downturn in the global economic context in terms of credit and growth, having a particularly strong effect on the financial intermediation sector.



As we have seen, 2008 will be marked as one of the most complex and significant years in the history of financial markets worldwide. The crisis originated in the US real estate market, which crashed in the summer of 2007, and spread to financial markets via the so-called subprime mortgages, affecting all types of financial assets and generating a great deal of mistrust between economic agents.

The sharp correction in Stock Exchange share prices has been reflected in a 39.4% decline in the benchmark index for the Spanish market, the IBEX 35®.

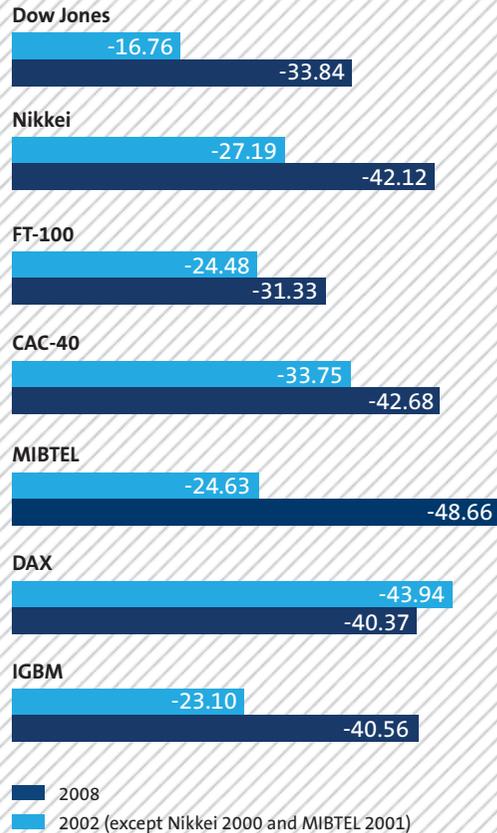
As a result, cash traded on the market and revenue linked to trading have been affected. Nevertheless, the Bolsas y Mercados Españoles (BME) integrated business model has shown its strength: it is efficient in controlling the cost base and is diversified into seven business units generating revenue not associated to trading volumes. These two elements have helped mitigate the impact of the decline in trading volumes.

Bolsas y Mercados Españoles' annual net profit was €190.7 million at year end 2008. This figure is 5.2% lower than the net profit obtained in 2007, a record year in terms of market activity. Against this backdrop, it is significant that the income for the fourth quarter of 2008 was 6.7% higher than in the third quarter of 2008, despite the difficult economic situation. Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) stood at €250.02 million, a 12.2% fall from 2007.

Last year, BME accumulated an annual EPS of €2.28. Hence, it ended the year in an outstanding position within the sector in terms of solvency, liquidity, margin, efficiency and ROE. ROE for the year was 39.4%. This indicator reached 43.4% in 2007.

# BME Business Areas

## Largest drops in indices on the main Stock Exchanges worldwide since 1990 (%)



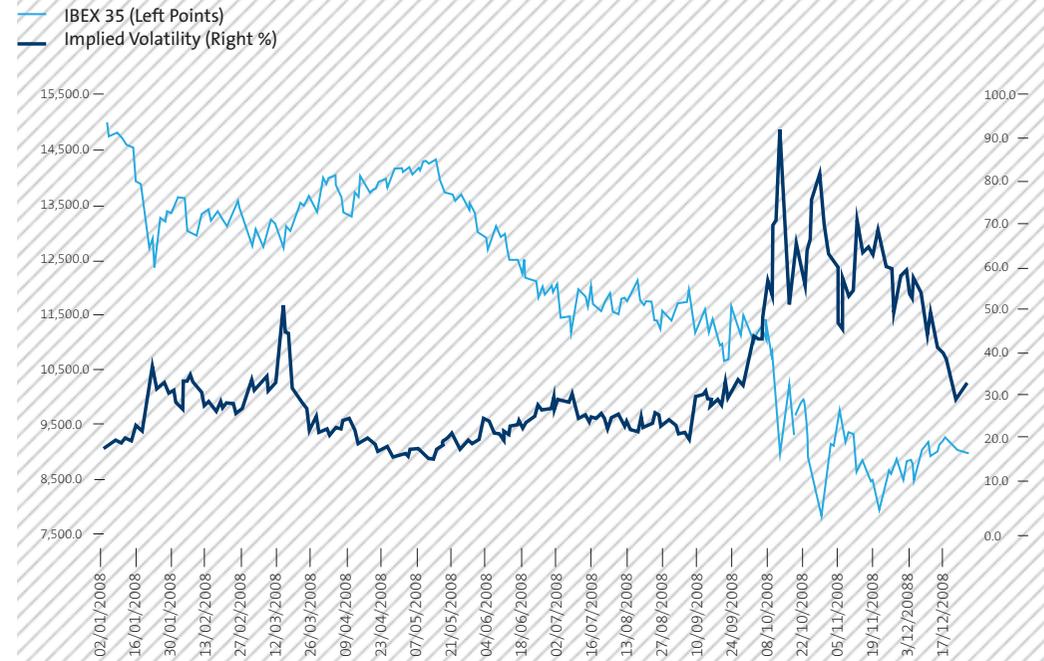
## Equities

BME's main line of business with regard to equity products is the operation of its share trading platform. As expected, the accelerated effects of the financial crisis, particularly visible during the last four months of the year, resulted in a sharp decline in share prices directly impacting the annual volume of shares traded. Cash traded in shares in 2008 decreased 25.5%, to €1.24 trillion. According to figures harmonised for international comparisons by the World Federation of Exchanges (WFE), BME is currently ranked the eighth largest Stock Exchange in the world under this item.

### Sharp decline in share prices and volatility

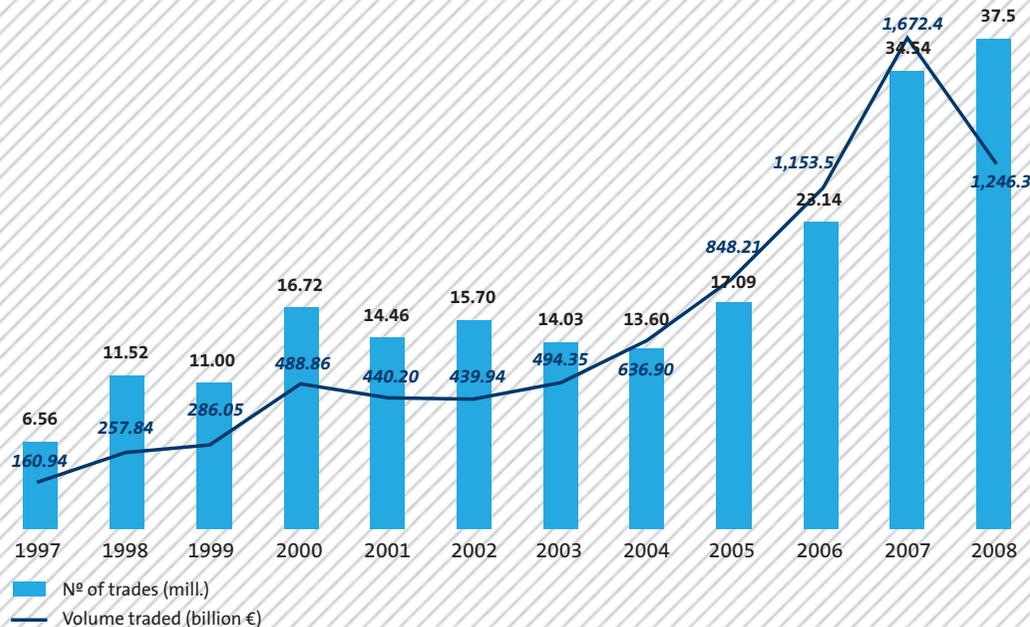
In 2008, the stock markets, which escaped the first episodes of the crisis almost untouched, were increasingly affected by the effects and negative expectations caused by the financial crisis on global economic activity and on listed companies in particular. The main indices of the leading Stock Exchanges worldwide recorded annual losses of between 40% and 50%, in many cases the biggest drops in history or, in the case of the US S&P500, such losses were only seen during the Great Depression and the oil crisis of 1974. In Spain, the main stock market indicator, the IBEX 35, fell 39% in 2008, the worst annual drop in history and the worst on the Spanish Stock Exchange during the 135 years that general indicators have existed.

## IBEX 35 and daily implied volatility on IBEX options 2008. Daily data



## BME Business Areas

Share trading on SIBE (1997-2008)



The year was marked by large variations in share prices, both daily and intra-day, and the Spanish Stock Exchange recorded three of the 10 biggest daily drops and six of the 10 largest daily gains of the last 50 years. Nine of the 20 largest variations during the same session (intra-day) in the history of the IBEX 35 were also recorded in 2008.

### Excellent liquidity and its promotion by BME

Nevertheless, the role of the Stock Exchange as a provider of liquidity and detailed information on asset prices, even in the most extreme conditions, has been strengthened. Although the fall in share prices resulted in a 25.5% decline in the volume of cash traded compared to the record level reached the previous year, as previously mentioned, the € 1.24 trillion traded in 2008 still ranks as the second largest volume in its history. Numerous indicators show excellent performance in terms of liquidity: more than half of the IBEX 35 stocks increased the number of shares traded in 2008 compared with the previous year and, as a result, the total number of shares traded slightly exceeded 127.2 billion, almost 4% more than 2007. Further, the number of trades executed within the market, including securities, ETFs and warrants, increased by 5.9% compared to 2007, reaching a record high of 37.5 million. The increased number of trades was key in offsetting the negative effect of the decline in share prices on BME's revenue from this vital area of its business structure. Fruit

of this efficiency within the market is the data obtained for the last quarter of the year. During this period, when the crisis was in full thrust, almost 40 million securities were traded on the BME equities platforms, 17.9% more than the same period in 2007.

Market liquidity is visible in the main listed stocks. In 2008, the three most liquid stocks within the euro zone were once again listed on the Spanish Stock Exchange: Santander, Telefónica and BBVA. Another Spanish stock, Iberdrola, was ranked 16th, while Repsol was in 24th place. In terms of cumulative volume, the five Spanish stocks made up 21% of the total traded by the 50 stocks which comprise the EuroStoxx 50 index, well above the weight of the same stocks on the indicator, 14.6%, and even above the weight of the Spanish economy within the euro zone in terms of GDP.

BME is making a wide range of efforts to ensure that liquidity remains high, given that it is a key and fundamental element for the market and a decisive competitive factor.

## BME Business Areas

### Ranking of trading of Euro Stoxx 50 stocks in 2008. Ranking in terms of Cash Value Traded.

Ranking	Stock name	Cash volume (€)	Daily average (€)	% weighting on index at 30 December 2008
<b>1</b>	<b>Banco Santander SA</b>	<b>277,340,599,280</b>	<b>1,091,892,123</b>	<b>4.26</b>
<b>2</b>	<b>Telefonica SA</b>	<b>239,334,180,784</b>	<b>942,260,554</b>	<b>5.13</b>
<b>3</b>	<b>Banco Bilbao Vizcaya Argentaria SA</b>	<b>171,509,568,120</b>	<b>675,234,520</b>	<b>2.43</b>
4	UniCredit SpA	161,919,587,592	639,998,370	1.84
5	ENI SpA	154,984,674,560	612,587,646	3.22
<b>16</b>	<b>Iberdrola SA</b>	<b>99,224,548,104</b>	<b>390,647,827</b>	<b>1.89</b>
<b>24</b>	<b>Repsol YPF SA</b>	<b>76,292,414,180</b>	<b>300,363,835</b>	<b>0.94</b>

The stock exchanges have been, together with Central Banks, the sole provider of liquidity in the financial markets. In 2008 the three most liquid stocks within the euro zone were once again listed on the Spanish Stock Exchange.

## BME Business Areas

### The ten largest capital increases paid in by cash on the Spanish Stock Exchange during the period 1993 - 2008

Issuer	Date	Nominal amount (euros)	Cash (euros)	No. of shares	COMMENTS
<b>Banco Santander</b>	<b>13-nov-08</b>	<b>799,405,940</b>	<b>7,194,653,460</b>	<b>1,598,811,880</b>	<b>Consolidate the equity structure</b>
Repsol YPF	7-july-99	240,000,000	4,646,400,000	240,000,000	Public subscription offering to raise funds and finance the purchase of YPF
Banco Santander	12-july-00	172,500,000	3,821,250,000	345,000,000	Public subscription offering
Mapfre, S.A.	2-mar-07	108,082,063	3,447,817,819	1,080,820,633	Mixed payment. Final Group Restructuring (Demutalisation)
Iberdrola, S.A.	29-june-07	255,000,000	3,374,500,000	85,000,000	Restricted subscription
Banco Bilbao Vizcaya Argentaria, S.A.	24-may-00	109,270,000	3,055,958,892	222,868,137	Public subscription offering
Banco Bilbao Vizcaya Argentaria, S.A.	28-nov-06	78,947,368	2,999,999,992	161,117,078	Subscription restricted to institutional investors
Telefónica, S.A.	7-apr-98	256,651,515	2,566,515,152	85,406,438	
Terra Networks	29-aug-00	70,967,742	2,200,000,002	35,483,871	Telefónica committed to subscribing for 100% of the increase if this was not covered in the market
Banesto	15-apr-94	1,081,821,788	2,060,870,506	450,000,000	

Company fundraising via capital increases on the Spanish stock exchange totalled €16 billion in 2008. BME ranks sixth in the world in terms of new capital flows channelled by stock exchanges in 2008.

## BME Business Areas

### Flows of new liquidity channelled through the stock exchanges in 2008

Position	Stock Exchange	Billion Dollars
1	EURONEXT*	156.7
2	NYSE	151.20
3	LONDON STOCK EXCHANGE	124.60
4	HONG KONG STOCK EXCHANGE	51.90
5	AUSTRALIAN STOCK EXCHANGE	50.40
<b>6</b>	<b>BME</b>	<b>32.20</b>
7	BM&FBOVESPA	28.80
8	SHANGHAI STOCK EXCHANGE	27.60
9	INDIA S.E.	27.00
10	SHENZHEN STOCK EXCHANGE	17.40

\* Provisional data.

Source: World Federation of Exchanges (WFE).

### Impact of the crisis on the capitalisation of the main stock exchanges worldwide

Billion Dollars and %

Position	Stock Exchange	Year end 2008	Year end 2007	Record high 2007	% Loss at year end 2007	% From record high 2007
1	NYSE	9,209	15,651	16,604	-41.2	-44.5
2	TOKYO STOCK EXCHANGE	3,116	4,331	4,893	-28.1	-36.3
3	NASDAQ	2,396	4,014	4,390	-40.3	-45.4
4	EURONEXT	2,102	4,223	4,418	-50.2	-52.4
5	LONDON STOCK EXCHANGE	1,868	3,852	4,207	-51.5	-55.6
6	SHANGHAI STOCK EXCHANGE	1,425	3,694	3,694	-61.4	-61.4
7	HONG KONG STOCK EXCHANGE	1,329	2,654	2,974	-49.9	-55.3
8	GERMAN STOCK EXCHANGE	1,111	2,105	2,119	-47.2	-47.6
9	TORONTO STOCK EXCHANGE	1,033	2,187	2,294	-52.7	-55.0
<b>10</b>	<b>BME</b>	<b>948</b>	<b>1,781</b>	<b>1,832</b>	<b>-46.8</b>	<b>-48.2</b>
11	SWISS STOCK EXCHANGE	880	1,271	1,342	-30.7	-34.4
12	AUSTRALIAN STOCK EXCHANGE	693	1,298	1,455	-46.6	-52.4
13	INDIA STOCK EXCHANGE	600	1,660	1,660	-63.8	-63.8
14	NORDIC STOCK EXCHANGE	563	1,243	1,378	-54.7	-59.1
15	ITALIAN STOCK EXCHANGE	522	1,073	1,147	-51.3	-54.5
<b>TOTAL TOP 15</b>		<b>27,796</b>	<b>51,036</b>	<b>54,407</b>	<b>-45.5</b>	<b>-48.9</b>

Source: World Federation of Exchanges (WFE). Capitalisation data at the end of the period are given in million dollars as published by the WFE.

## BME Business Areas

### Although corporate transactions were affected, some significant and historical deals were made in 2008 and the figures are reasonably good

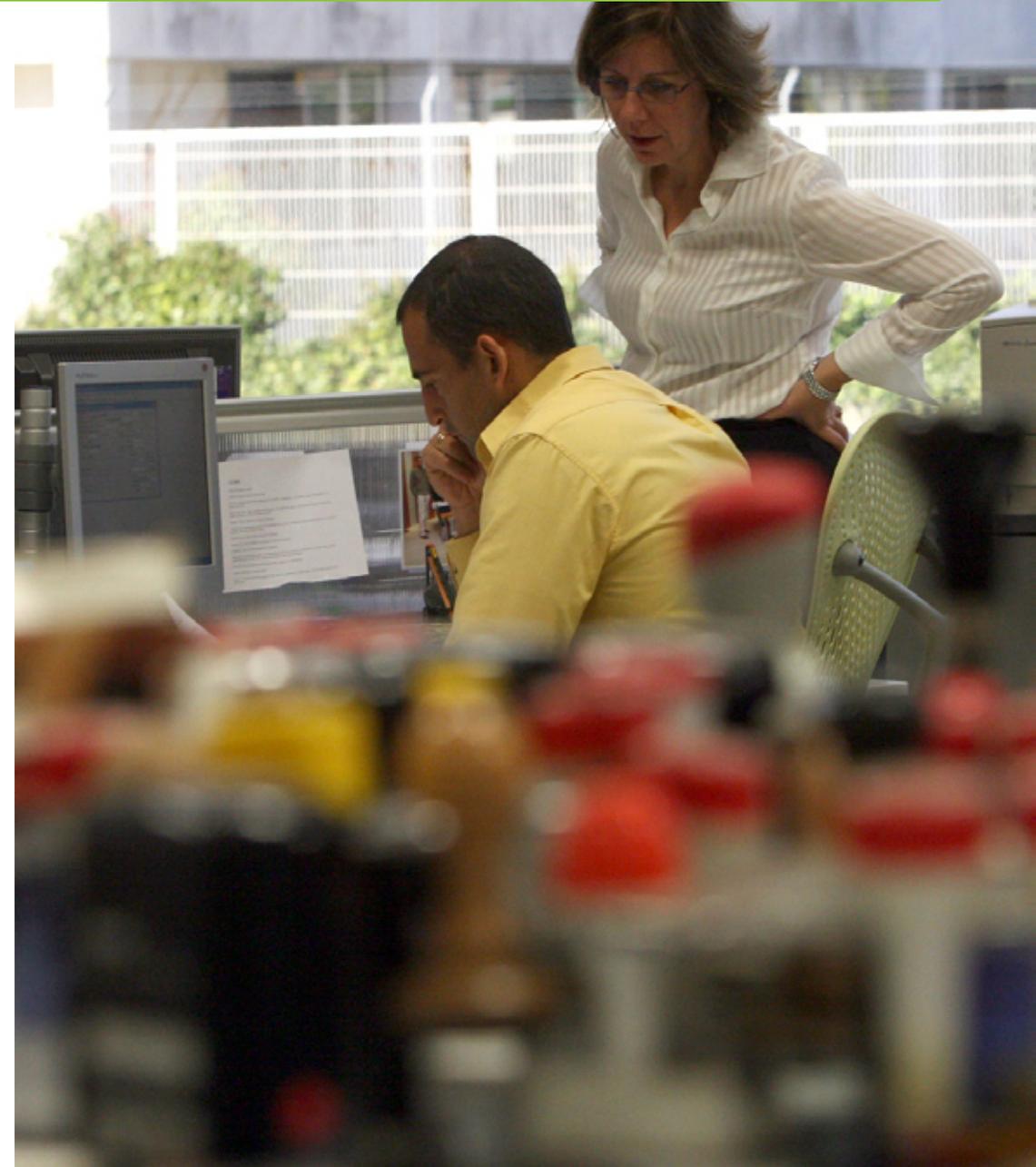
The corporate activity of listed companies worldwide reflected the difficult circumstances experienced by financial markets in 2008. The most noticeable effect was the drastic reduction in flotations and acquisitions worldwide. Spain was no exception and the historic flotation of Caja de Ahorros del Mediterráneo, the first Savings Bank to do so by issuing participating shares, was the only such transaction of the year for the value of €292 million.

Company fundraising via capital increases totalled €16 billion in 2008, a significant year which saw the largest capital increase paid in by cash in the history of the Spanish Stock Exchange, to the value of €7.19 billion. As a result, in November 2008, the pre-emptive subscription rights of 1.60 billion shares were traded for the Banco Santander capital increase, with an issue price of €4.50. These were admitted on 4 December 2008.

Although takeovers, which had completed their first full year under the new regulations, slowed down, almost €17 billion was traded throughout the year. Against a very difficult backdrop, Spanish multinationals were involved in some of the largest acquisitions of the year, particularly in the financial and energy sector. The most significant was the acquisition of the US energy

company Energy East Corporation by Iberdrola, which was completed at the end of September. It is the largest industrial acquisition performed by a Spanish company in the US and the second large-scale international acquisition completed as part of its new strategy, which began with the purchase of Scottish Power the previous year.

Despite everything, the figures periodically supplied by the World Federation of Exchanges (WFE) on new investment flows channelled through the Stock Exchanges once again rank BME in a strong position among the global markets. BME was 2nd in global rankings in 2007 and in 2008 it occupied 6th place in the world under this item, with more than \$32 billion. This position is even more significant in competition terms given that the first three places are occupied by Stock Exchanges whose blue chips include many financial institutions that have been recapitalised with public money, which has not yet occurred in Spain.



## BME Business Areas

### Sharp decline in capitalisation but strong dividends for listed companies

The capitalisation of shares in companies listed on the markets managed by BME stood at €784.94 billion at 31 December 2008, 43.3% less than the previous year. Spanish listed companies lost 314 billion in market value, 30% of GDP, having a particularly strong effect on the sector including banks and real estate companies. Nevertheless, in terms of the size of its listed companies, BME is ranked 10th in the world.

The number of companies admitted in all segments of the Spanish Stock Exchange totalled 3,606 at year end 2008, representing a slight increase from the previous year.

Another factor that normally determines investors' confidence in shares is the dividend policy followed by the listed companies. In 2008, the distribution of dividends was once again gJanuaryus despite the difficulties. However, it is true that the earnings of listed companies only began to fall gradually during the second half of the year. The latest data available showed a 4.3% decline in earnings for all Spanish companies trading on the SIBE compared to the same period in 2007. High dividends and acceptable results combined with sharp falls in share prices led to record figures in classic valuation ratios such as the P/Es (eight x at year end 2008 compared to more than 12 x the previous year) and dividend yield (in many cases

higher than 6%). Shareholder remuneration in terms of dividends and return on equity once again beat its record in 2008 with more than €28 billion, a 20% increase on the previous year.

### Good general performance of other products and services: warrants, ETFs, Latibex and MAB

The evolution of other products that determine BME earnings, both in the Equities business unit and, to a large extent, in the Listing business unit, was generally good in 2008. In the case of warrants, the number of issues admitted to trading rose to 9,827, 40% more than 2007. This figure is a new annual record for issues admitted. It is worth noting that the admission of 1043 Commerzbank warrants on 4 March was the largest admission recorded in one single day in the history of the Spanish Stock Exchange. However, the volume of premium trading fell by close to 43% during the year. With respect to the number of outstanding issues, at 31 December these amounted to 4,785, representing a 30% increase compared to 3,683 at the end of the previous year.

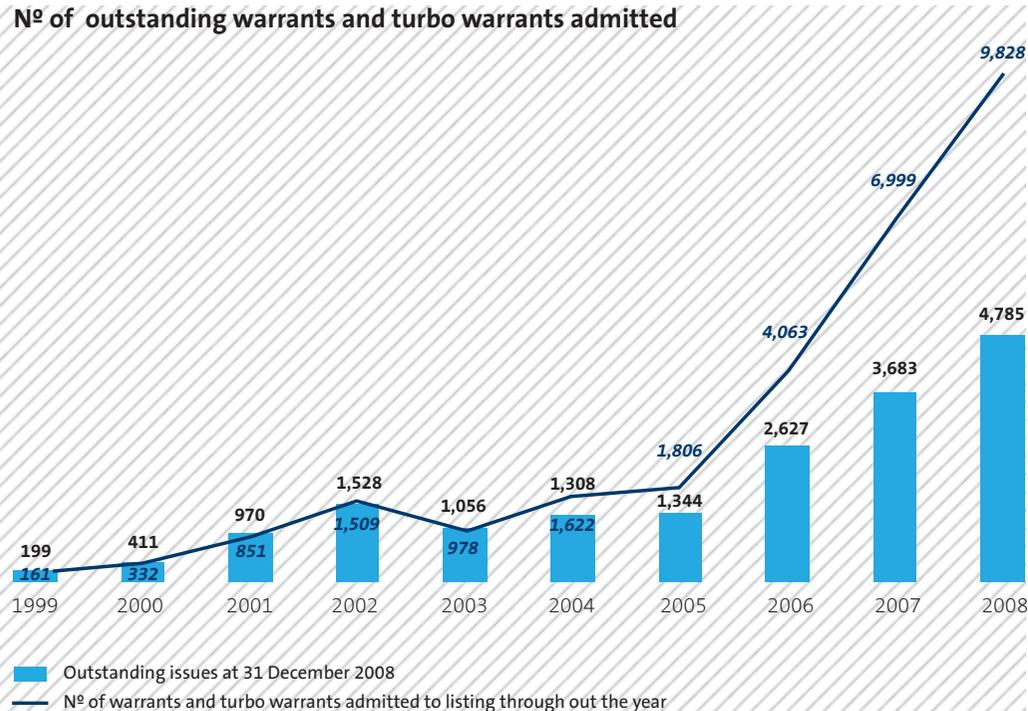
In terms of exchange-traded funds (ETFs), present in the Spanish market for two years in 2008, there are currently 30 listed offering a wide range of investment possibilities: by country, sector, asset, style, theme and strategy. The increase in trading figures and assets managed confirm these products as one of the most attractive to investors.

### Dividends distributed by Spanish listed companies (Million €)



## BME Business Areas

### Nº of outstanding warrants and turbo warrants admitted



The data show the widespread acceptance of these assets on the market: on the one hand, the sustained increase in the amount and variety of funds offered by managers and on the other, the good performance of the assets managed. At the end of December, the assets managed by funds listed on Spanish Stock Exchanges amounted to €10.63 billion, an increase of 65% compared to the same date in 2007. Of this figure, the total corresponding to those ETFs that are mainly traded on the Spanish market rose from €950 million to €1.54 billion in 2008.

The consolidation of ETFs is also borne out by the cumulative trading volume in 2008, which exceeds that of the previous year by 48.7%. The number of trades increased by 4.8%.

ETFs that invest in companies that meet corporate social responsibility and sustainable development criteria were also launched during the year. The first bear or inverse ETF was also introduced on the Spanish market. Finally, it is to be noted that since July 2007 BME has listed two ETFs tracking the Latibex indices, FTSE Latibex Top and FTSE Latibex Brazil. These ETFs are the first two euro ETFs tracking Latin American equity indices. The evolution of the ACCION FTSE Latibex Top ETF has been very positive, exceeding €450 million in 2008, making it the largest fund in its segment in Europe and the second largest worldwide.

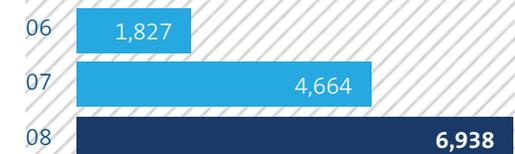
The Latibex market ended 2008 with 38 listed stocks belonging to 33 companies and a market

capitalisation of over €212 billion, contributing more than a quarter of the total capitalisation of the equity markets managed by BME. The annual trading volume was more than €757 million, 10% less than 2007, a record year in terms of trading volume for the Latibex market. However, this decline in volume is less than that recorded on the Latin American stock exchanges and represents a 5.6% increase compared to 2006.

Finally, the MAB (Mercado Alternativo Bursátil) segment for growth companies was opened in 2008. This market is designed to help small and medium enterprises access the securities markets so that they can benefit from the financing and liquidity that these markets provide. There are

### ETF Trading volume on the Spanish stock exchange 2006 - 2008

(Million €)



## BME Business Areas

**BME's business model, based on the diversification of products and services, reinforces the company's potential for growth.**

currently no companies listed. It can take a company up to six months to make this decision, elect the Registered Advisor and other types of advisors and prepare the information, and the difficulties within the securities markets can also condition company flotations.

There were 146 incorporations to the MAB (Mercado Alternativo Bursátil) for SICAVs in 2008 (144 new and 2 companies from the traditional stock market). The number of SICAVs admitted at 31 December 2008 amounted to 3,360, 2.3% more than the previous year.

### Diversification as a strong point within the BME business

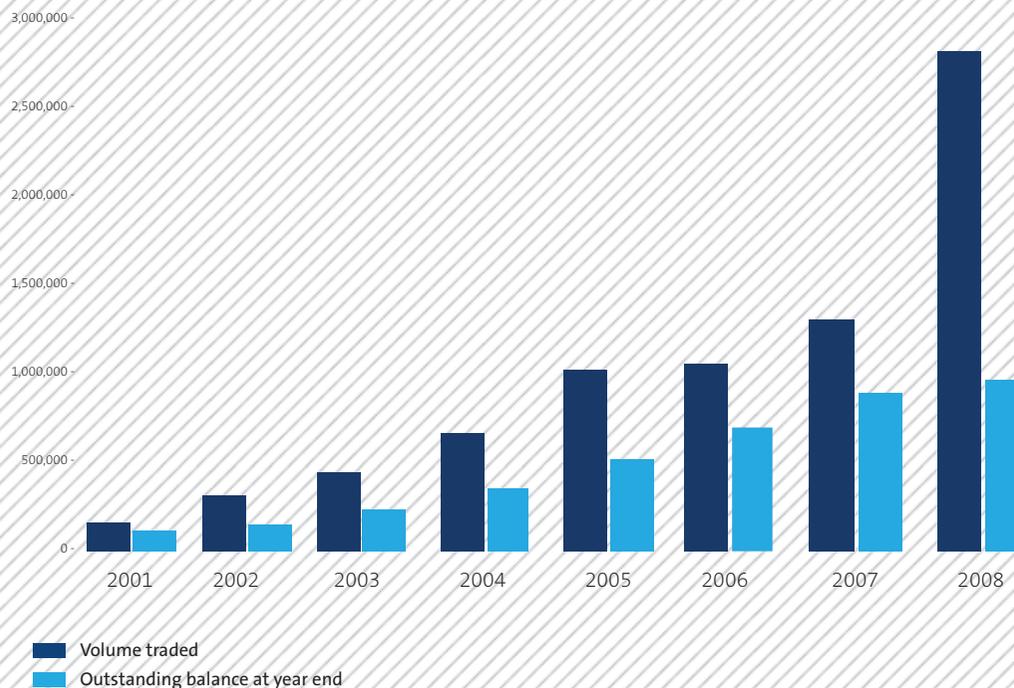
All of these activities and services within the Equities business area clearly highlight the importance of BME's strategy for diversification in its product offering as an essential element in consolidating and strengthening its business model. This variety of products helps boost the critical mass of investors participating each day in some way on its trading platforms and increases BME's capacity to attract resources, thereby bolstering its business base.

As a result of the aforementioned activity data, revenues for BME's Equity unit fell 13.2% to €150.97 billion in 2008, with a 17.6% decline in EBITDA to €114.72 billion. The contribution of this business unit to the Group's total revenue fell three percentage points between 2007 and 2008 from

46% to 43%. The Listing business unit, which is fundamentally based on activities linked to fixed income and equity products, ended 2008 with a 12.8% decline in EBITDA compared to the previous year, amounting to €17.55 billion. Revenue fell 6.9% to €28.44 billion.

## BME Business Areas

**Corporate Debt Trading volume on the AIAF market**  
(Million €)



### Fixed Income

BME is involved in a wide range of activities related to fixed income products and revenue is poured directly into the Fixed Income and Listing business units, as well as Clearing and Settlement, as a result of work that market operations promote linked to settlement, clearing and registration processes, as is the case with equities.

In 2008, the different platforms managed by BME traded €2.56 trillion, 96.6% more than the previous year. Under this item, the Fixed Income business unit recorded revenue of €6.6 million (+4.8%) and an EBITDA of €3.5 million (+17.6%). This unit represents almost 2% of total BME revenues.

Although the overall trading figures are very positive, the performance of the different areas by product was mixed, taking into account that this was a very complicated year for all those agents involved in these markets.

Interest rates and bond markets were subject to huge pressure in 2008 due to a combination of factors relating to the deepening global financial crisis, inflationary pressures during the first half of the year and the widespread decline in economic activity worldwide.

The high levels of pressure throughout the year prompted bond market investors to seek out

the most creditworthy financial assets, and demand for these surged.

Corporate debt markets were greatly affected by the lack of confidence with progressive slowdown in the primary market and a paralysation of activity among issuers forced out of the market by the high issue prices. This situation has made it extremely difficult, if not impossible for different market agents to obtain credit and raise funds.

### Corporate debt

Against this backdrop, BME's Corporate Debt market, AIAF, acquired a particular virtuality in compliance with a specific mission with satisfactory effects to help prevent any possible collapses in the financing of Spanish banking institutions. The AIAF was used to generate collateral that the banking system was using for the discount at the European Central Bank, the only option available during the first half of the year, until the creation by the Government of the Financial Asset Acquisition Fund (FAAF). The AIAF market was therefore a powerful instrument in 2008 allowing banking institutions the opportunity to find in the ECB an alternative to not being able to place issues on the market due to the high spreads and negotiate the lack of liquidity without leading to serious pressures. This resulted in significant and record trading volumes despite the decline in the number of admissions.

## BME Business Areas

The volume of new issues admitted to listing on the AIAF Fixed Income market in 2008 totalled €476.94 billion, a 25.6% drop compared to 2007. The decline was across the board for all types of assets, most notably short-term assets, where investors had a bias for government paper to the detriment of commercial paper, and bonds and debentures, due to the increase in spreads and the general lack of confidence in the market. The use of balance sheets to generate discountable assets at the European Central Bank has contributed to improved performance in the securitised bond segment.

Despite the decline in the volume admitted to listing, the outstanding balance for Private Fixed Income rose 8% from September 2007 to December 2008, and stood at €819.61 billion. Asset-securitised bonds registered the highest growth, with an outstanding balance of €275.81 billion, up 29.6% from 2007, along with covered bonds, which rose 14.9% to €325.60 billion.

Net financing for the private sector in 2008 was €60.99 billion.

Trades related to this operation have led to record levels of trading volumes in this market at €2.4 trillion, more than double that of 2007. There was also a record number of operations, which totalled 807,800, an increase of 20.6% compared to the previous year. These increases are largely from simultaneous operations.

### Public fixed income

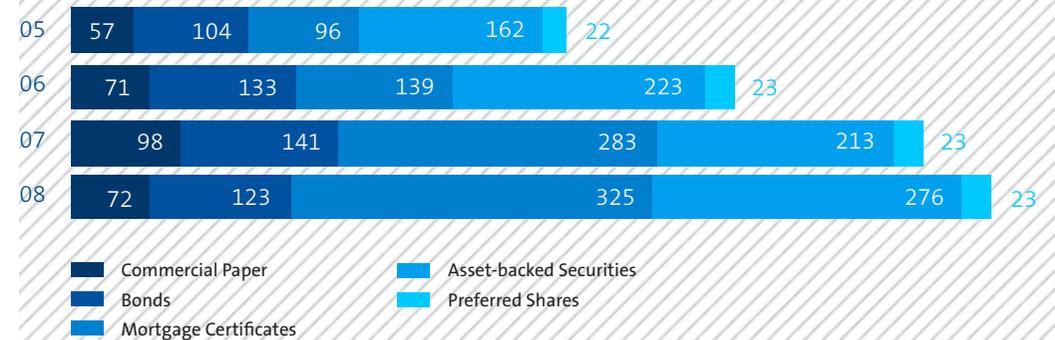
The environment conditions also had a particularly negative effect on activity relating to public fixed income products on other BME platforms. The high volatility in the market in 2008 led to a sharp increase in spreads between supply and demand, resulting in a significant decline in market liquidity and a rise in bilateral operations performed directly between operators, which drained liquidity from all European markets.

Therefore, the trading of Public Debt on BME's electronic platform recorded a volume of €82.08 billion this year, representing 60.42% of the total volume traded on Spanish electronic platforms. The Central Government Bond sector totalled a volume of €38.23 billion in this period, while the trading volume on the Repo market totalled €43.85 billion, 14.24% higher than the volume traded the previous year.

The market reality did not prevent some developments that had a positive impact on the agile functioning of these trading systems. The process for transforming BME's electronic platform from the Organised Trading System to the Multilateral Trading Facilities (MTFs) began in 2008 pursuant to the amendment of the Spanish Securities Market Law to incorporate the MiFID into the Spanish legal framework. This aims to further improve market transparency. Technological adaptation to new

### Outstanding balance on AIAF by instrument

(Billion €)



## BME Business Areas

uses and developments within the market also continued during 2008, both in terms of the implementation of new order automation systems known as APIs, as well as the launch of a new Multi-market Terminal. This new terminal provides better access for traders, improved operation and easy handling, as well as greater user access control for market supervision.

Finally, trading in other Public Debt, mainly for the autonomous regions, totalled €78.1 billion in 2008, a decline of 19.7% compared with the previous year.



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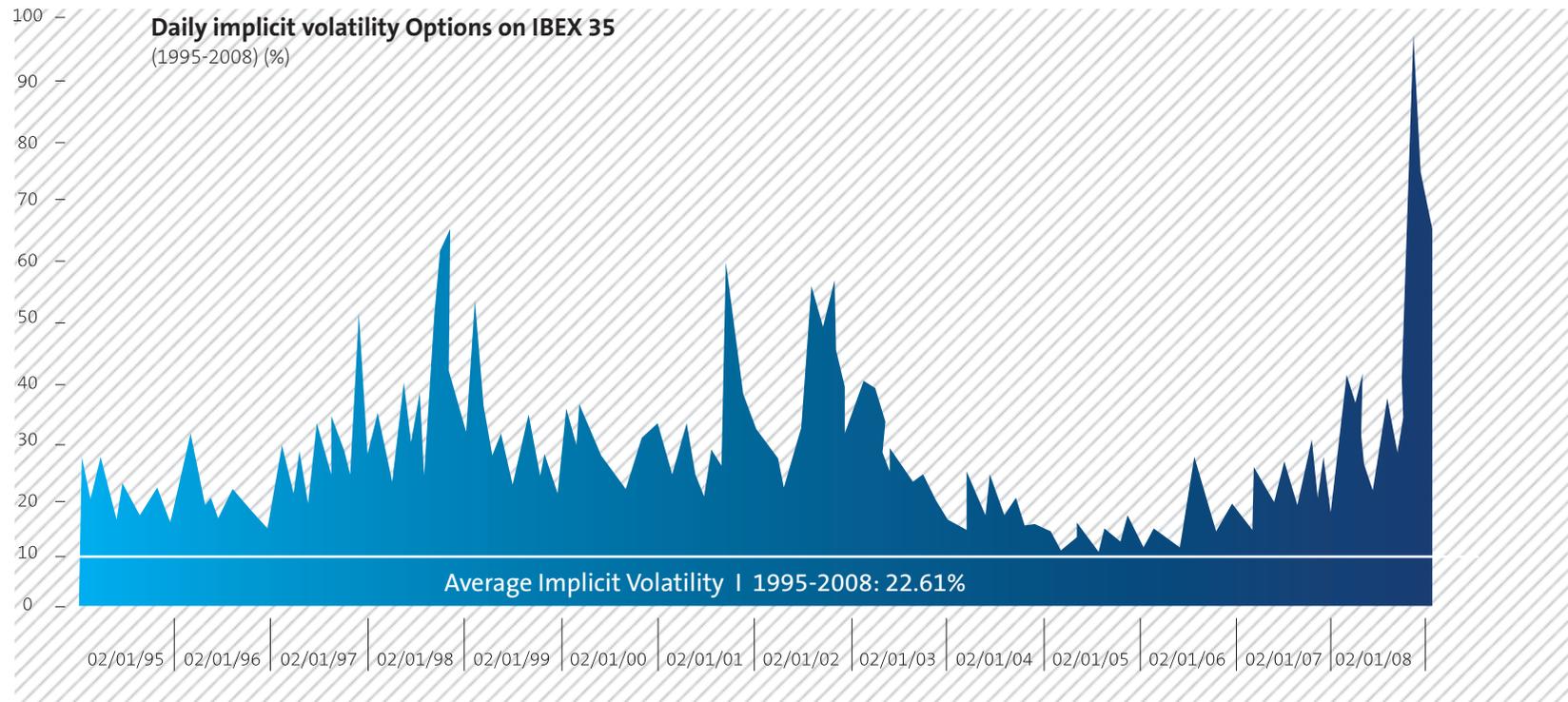
### Derivatives

In an environment marked by levels of volatility very rarely seen on the stock markets, the volumes of options and futures on equities and equity indices traded on the Spanish market hit a record high in 2008, with an increase of 61% compared to 2007. The implementation of new services was also notable this year.

The year was marked by volatility, emphasising the growth trend started in 2006 and clearly reflecting the evolution of investor confidence throughout the year. During the year average volatility was almost 30%, well above the 18% recorded in 2007. At the start of the third quarter, during October and November and coinciding with the sharp falls in the stock market, volatility remained constantly above 50%, reflecting the extremely high level of uncertainty concerning the markets.

Given the extremely difficult circumstances, the need and use of hedging instruments and risk management became clear in 2008 resulting in the huge increase in activity on the organised derivative markets, due to their liquidity, greater guarantees in risk management offered by its central counterparty and the standardisation of its products and procedures.

In terms of the final balance sheet for trading volume, almost all products reported increased volumes, with a total of 83.4 million contracts



(+60.9%) traded. The growth in equity futures is to be noted, with a 117.1% increase on the previous year. These were followed by options on the IBEX 35®, with an increase of 46.1%. In all products, the volume of growth in percentage terms has been in double digits, with the exception of IBEX 35® futures, which declined by 13.8%. The number of trades also increased by 4.8%.

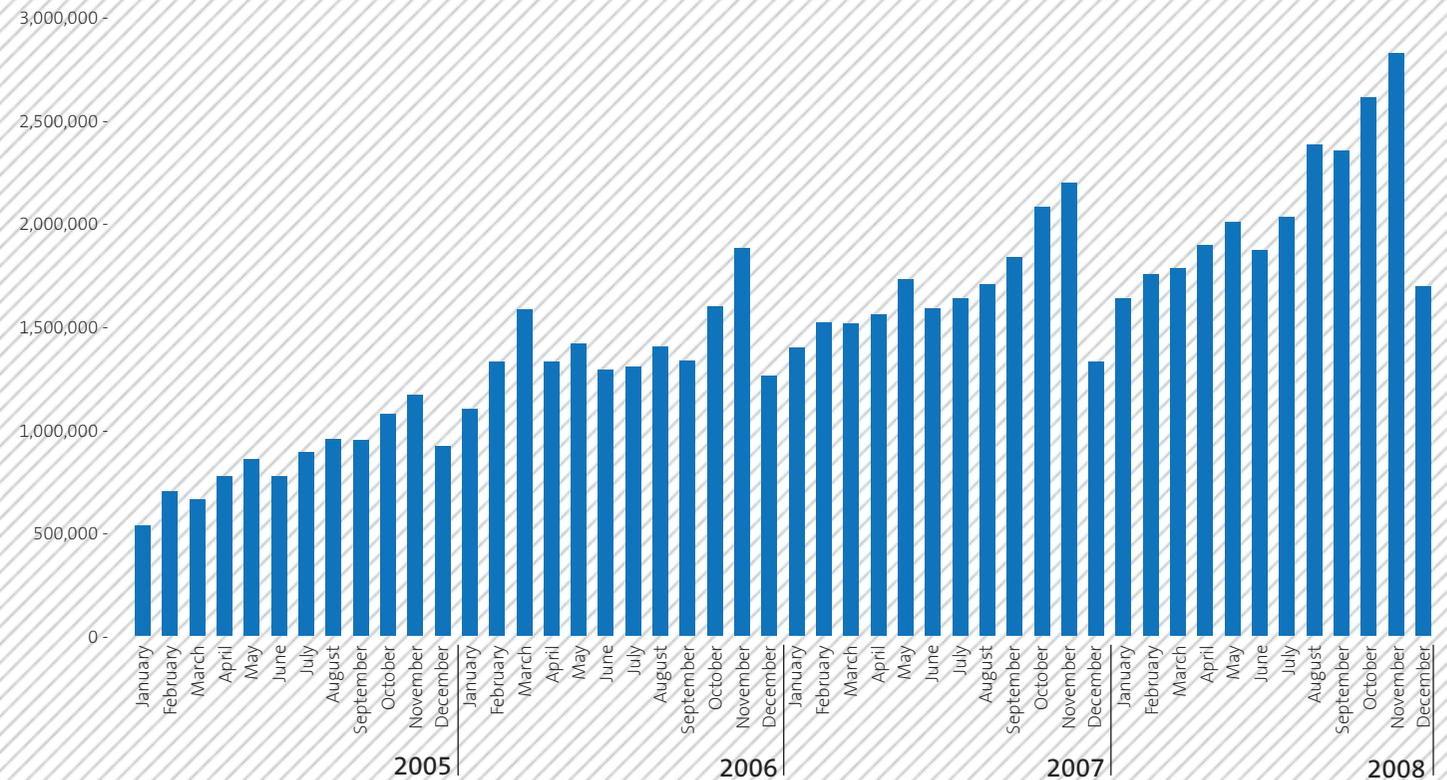
## BME Business Areas

The nominal value of contracts traded exceeded €1 trillion in 2008 for the second time in its history.

The open position stood at 8 million derivatives contracts at 31 December 2008, 7.1% more than at year end 2007.

However, due to the different margins for the various products traded, changes in activity levels were not reflected equally throughout the corresponding unit's income statement. Operating revenues for 2008 rose to €28.8 million, a 0.7% increase on the previous year. EBITDA for the year stood at €17.87 million (+0.4%). Revenue from activity relating to derivatives represented 8.2% of BME's total revenue, a 1.2 point increase compared to 2007.

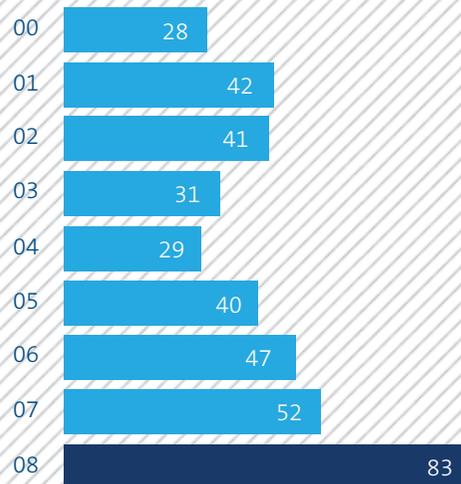
**Trend in open position in options contracts on IBEX (2005 - 2008)**



## BME Business Areas

### Contracts traded on the Spanish options and futures market (Meff) (2000 - 2008)

(Data in millions)



### New members and more improvements

Without doubt, BME's positive results in 2008 for activities within the derivatives markets were based on the consolidation of the strategic lines maintained in recent years: growth in the number of members, in particular non-residents; new technological improvements and facilities; and increased standardisation of procedures.

In 2008, the number of non-resident members increased by 11 to 69, out of a total 122 MEFF members. Entities that are not normally market members, known in the industry as arranging brokers, were also incorporated and significantly contributed to volumes, since these register applications for listed futures and options contracts that have been agreed between two companies with an account on MEFF.

At the same time, MEFF maintained the same efforts as in recent years to foster innovation and extend the range of products and services supported by the new versions of its electronic system, S/MART. In order to consolidate market strength and liquidity, as well as encourage greater competitiveness and flexibility for members, BME extended the range for some of its products, improved the codification of contracts and introduced new monthly expiry dates.

Certain technological innovations were aimed specifically at improving the trading and clearing and settlement systems, which has tripled the

central system's processing capacity, meeting the highest criteria for availability ratios.

New members were also incorporated into the new proximity service in 2008. This service allows the installation of equipment close to the MEFF's DPC so that members can execute their applications for market-making, or algorithmic trading in general, for which response time is critical.

### Services on electricity market and Latin American presence

MEFF has improved its position for its services on the electricity market after the derivatives market managed to strengthen its collaboration with new provisions and offers. In 2008, the CNE (Spanish National Energy Commission) appointed MEFF as the manager of the Virtual Power Plant Auctions in collaboration with IBM, responsible for registering and classifying agents interested in participating and for implementing the auctions themselves, as well as managing settlements and guarantees.

Finally, BME further consolidated its presence in Latin America. In 2008, collaboration with the Colombian market was established with the creation of a Central Counterparty in Colombia for derivatives traded in this country. The MEFF technology applied is already in operation in the large Mexican derivatives market, MEXDER, as well as in other countries.

## BME Business Areas

### Trades settled

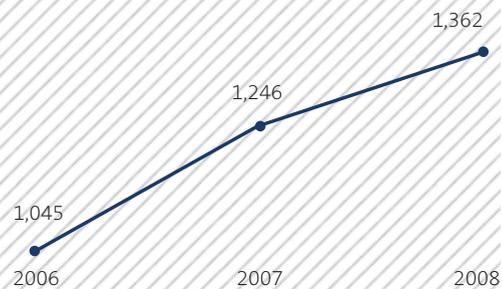
(Millions)



### Assets under custody

(Nominal amounts)

(Million €)



### Clearing and Settlement

We have already mentioned the capacity of the Spanish Stock Exchange, and BME as the manager of its main trading platforms, in ensuring that the market functioned efficiently and fairly under the difficult circumstances experienced in 2008. The importance given to post-trading processes and the existence of clearing houses and central counterparties in the traditional stock market has had a decisive impact on the functioning of the Stock Exchange compared to other non-regulated securities markets, since these provide security for transactions.

Data relating to the activity of BME's clearing and settlement business in 2008 reflected the conditions within the different Spanish securities markets and, overall, were close to the excellent levels achieved in 2007. The nominal balances registered on IBERCLEAR at the end of December differed from those recorded in the same period in 2007, with a 8% increase on the AIAF Fixed Income Market compared to the previous year and a 14.4% increase on the Public Debt Market.

The nominal amounts at year end 2008, including Equity, Private Fixed Income and Public Debt, increased by 9.3% compared to the previous year, to a volume of €1.36 trillion.

In terms of trades settled, in 2008 the daily average cash value settled was €281.4 billion

(-21.8%). The total number of trades settled in the year was 40.3 million (-7.5%). This decline is expressed in the equity and Public Debt settlements and reflects the circumstances in the market. The daily average value of trades settled on the stock market fell from €6.52 billion in 2007 to €4.95 billion in 2008, a fall of 24.12% year on year. The number of trades settled (including purchases, sales, transfers and loans) has not been significantly affected, falling by 8.03% from 31.88 million trades in 2007 to 29.32 million.

As a result of the levels of activity recorded on markets managed by BME, revenue corresponding to Clearing and Settlement stood at €83.04 million in 2008 (-10%). For the year overall, revenue from settlement fell 10.4% and revenue from registration rose 8.4%. EBITDA fell 12.6% for the sum of €67.96 million. This Business Unit accounted for 23.6% of the Group's revenue in 2008.

However, BME activities within the field of clearing and settlement also include work aimed at improving the operational environment of stock, increasing security for transactions, extending the plane of action for market participants or participating in projects in which experience in registration and clearing is a very useful and extrapolative asset.

### Target2

A new centralised payment system called Target2 was introduced in Spain on 18 February 2008. The implementation of this system was spearheaded by the European Central Bank. The development, adaptation and testing work was exhaustive, both for Iberclear and its participating entities, which were offered a new application for accessing the said Platform. Both the application and connection system are working normally.

### RENADE

In 2008, with the entry into force of the Kyoto Protocol, the Spanish National Registry for Greenhouse Gas Emission Allowances (RENADE), operated by BME, was connected to the United Nations International Transaction Log (ITL), involving the connection of the Spanish Registry with other registries worldwide rather than European ones only, as was the case until then. This also allowed the trading of other units created under the Kyoto Protocol (in principle, Certified Emission Reductions or CERs), and not just emission allowances. Spain was the fifth European country to assign allowances for 2008, once the necessary authorisations from the European Commission had been obtained. It is to be noted that the volume of trades recorded in RENADE in 2008 exceeded the cumulative volume during the Pre-Kyoto period of 2005, 2006 and 2007.

## BME Business Areas

**On 2 April 2008, the creation of Link Up Markets, a joint venture of 8 Central Securities Depositories, was announced in Madrid. The company was created to collaborate on a project to facilitate cross-border trade settlement and substantially reduce the associated cost.**

### Link Up Markets

On 2 April 2008, the association of seven Central Securities Depositories (eight with the recent inclusion of Cyprus) was announced in Madrid. The association was created to collaborate on a project to facilitate cross-border trade settlement and substantially reduce the associated costs. Link Up Markets began operation on 30 March of this year, following an internal trial period among participating CSDs.

CSDs may connect to Link Up Markets through their own communication networks or, in the future, through the SWIFT network. The connection will be made in three phases:

- Connectivity of Clearstream Banking Frankfurt (Germany), OeKB (Austria), SIX SIS (Switzerland) and VP (Denmark), on 30 March.
- Connectivity of Hellenic Exchanges (Greece) and Iberclear (Spain), in June.
- Connectivity of Cyprus Stock Exchange (Cyprus) and VPS (Norway), in the fourth quarter of 2009.

### Target2 Securities

This item is also included under the scope of international activities performed by BME. Following a consultation period with the European Central Securities Depositories (CSDs), during

which they were invited to participate in the project, the BCE Board of Directors decided on 17 July to develop a Target2-Securities platform (T2S), which is due to be rolled out in 2103.

The invitation to continue with the project was widely accepted, with its future use conditioned to certain requirements being met and some aspects relating to governance, cost and possible conflicts of interest as a result of the Eurosystem's role as supervisor and technical service provider to the CSDs were specified, as well as questions relating to the contractual relationship between the CSDs under the T2S system.

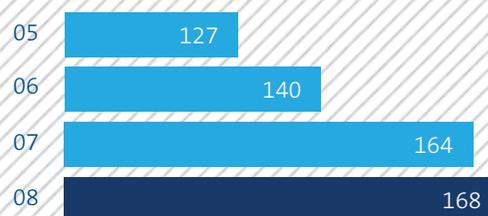
Some CSDs will only participate under the condition that the possibility that users can choose the platform in which their trades are settled is looked into both in technical and legal terms. This would mean that T2S would not necessarily be the only alternative and would be in competition with other settlement systems.

## BME Business Areas

**Bolsas y Mercados Españoles has created BME Market Data, a new company that will provide services to all entities interested in subscribing to information generated by BME's Regulated Markets and MTFs. BME Market Data is the BME Group's response to the challenges of the new competitive stage opened by the MiFID in terms of the dissemination of information.**

### Subscribers to BME primary information sources

(Monthly average for each year)



### Dissemination of Information

In 2008, this area saw continued growth in its trading volume, following on from recent years, allowing it to increase its contribution to the BME Group's earnings and activity. Average monthly subscriptions throughout 2008 increased 4.8% to 168,300 subscribers. The total number of clients connected to BME information sources grew 7.9% throughout 2008, although the number with direct connections to primary sources decreased by 7.4%.

The Dissemination of Information Area underwent a reorganisation process in 2008 to adapt its structure to the demands of the project for the integration and consolidation of information offered by the Regulated Markets and Multilateral Trading Facilities (MTFs) managed by the companies of the Bolsas y Mercados Españoles Group. This will be launched in 2009.

The area also expanded its range of content throughout the year with the Group's own Regulated Markets and Multilateral Trading Facilities adding new financial products to their platforms. For example, new financial assets such as participating shares in Savings Banks, new issues of Warrants and Certificates, new indices such as the "FTSE4Good Ibex" or new ETFs. 2008 also saw the inclusion of information on the content of the MAB (Mercado Alternativo Bursátil) for Growth Companies, which also began its activity this year.

All BME information is managed in the Dissemination of Information Area and is offered via BME's primary data flow services. The clients of these services are national and international data vendors that make BME contents accessible from anywhere in the world via their own information platforms and services.

Revenue from the Dissemination of Information Unit stood at €38.1 million (+13.4%) in 2008, while EBITDA grew 20.3% from 2007 to €31.4 million. This Unit's contribution to the Group's earnings rose two percentage points in 2008 to 10.8%.

The BME Dissemination of Information Area groups its activities around two companies with two different objectives and functions: BME Market Data and Infobolsa.

#### BME Market Data (Primary data flow services)

Bolsas y Mercados Españoles created BME Market Data in 2008. This is a new company that from 2009 will provide services to all Entities interested in subscribing to information generated by BME's Regulated Markets and MTFs, acting as an access point for receiving this information directly from BME. BME Market Data is the BME Group's response to the challenges of the new competitive stage opened by the MiFID in terms of the dissemination of information.

In November 2008, BME Market Data implemented an Information System to provide transaction reporting services. This service allows investment service companies or credit institutions registered for the service to report to the CNMV transactions performed in other markets or systems other than those operated by BME on instruments admitted to BME Markets, instruments admitted to other Regulated Markets or on instruments not admitted to any Regulated Market or Multilateral Trading Facility.

BME Market Data has worked throughout the last year to launch, in the second quarter of 2009, a new real-time data flow called BME Data Feed, which will gradually incorporate all content generated by the Group's companies. This new consolidated data flow will be supported by a new technological platform and a new information dissemination contract aimed at facilitating legal and operational relationships between information disseminators and users with BME.

#### Infobolsa

In 2008, Infobolsa took the necessary steps to strengthen its leadership in Spain, consolidate its presence in Mexico and advance the restructuring of its business in Germany, which had started the previous year.

## BME Business Areas

To consolidate the company's leadership throughout the year, Infobolsa launched new services specifically aimed at the final investor to facilitate monitoring of the markets in real-time using low cost professional tools. This is the case with the Web Terminal service, entirely supported by the latest FLEX technologies, and the new website [www.infobolsa.es](http://www.infobolsa.es), with greater information content, new services for personalising queries and more intuitive access to the different possibilities available. The new website was rolled-out in May and has increased the number of unique visitors by more than 500% and the number of pages visited by almost 400%. In addition to the previously mentioned services, Infobolsa has launched a portal developed specifically for iPhone users and is in the process of completing such services for the Blackberry also.

For the professional segment, Infobolsa is adding to the already existing services with a new Conditions Management product and is finalising the roll-out of a Risk Control Tool that will be available during the first few months of next year.

It is worth highlighting the application developed to present information on national and international equities, derivative and commodity markets on the new platform for the Madrid Stock Exchange, which was fully designed by Infobolsa and integrated into the company's infrastructures.

Infobolsa once again maintained its position as the leading provider of data flow services to the main financial institutions and specialist disseminators, increasing both the number of subscribers and the information contents supplied. The terminals business remained stable and the ASP business line continued to grow throughout 2008.

Infobolsa increased its presence in Mexico to 1,000 information terminals and expanded its product range with the launch of Web Terminal services and mobile portals for iPhone and Blackberry, which have been specifically designed and adapted to the Mexican market.

In Germany, as announced the previous year, Infobolsa terminals were definitively migrated to services from the VWD company, with more than 80% of the migration complete, which is in line with company objectives established at the beginning of the year.

## BME Business Areas

### IT & Consulting

In 2008, BME's activities within the Consulting and Technology area were aimed at leveraging its knowledge of the milieu and technology available to maintain, develop and implement different market-related activities. The array of activities included consulting projects, maintenance and development agreements signed with Stock Exchanges that have trading platforms and systems that rely on BME technology, the consolidation and expansion of the range of Business Continuity and Contingency Services and the operation of the Visual Trader order routing system.

The rollout of activities by the Business Unit produced €16.4 million (+11%) in revenue in 2008 and €5.2 million (+12%) in the fourth quarter of 2008. The unit's EBITDA in the fourth quarter of 2008 grew 19.3% to €2.9 million and its cumulative EBITDA for the year increased 12.7% to €7.7 million. In terms of revenue, the unit's weighting within the Group increased 0.6 percentage points to 4.6% in 2008.

#### Consulting work

BME Consulting exports technological systems and platforms, provides strategic consulting services for financial markets and offers specialised training worldwide.

In 2008, the Technology Area focused on trading platforms, primarily the SIBE. The SIBE began operations on the Montevideo Stock Exchange in October, following a complex project to adjust the electronic platform to the Uruguay market model. BME Consulting also works closely with those responsible for the Uruguay Stock Exchange to ensure that the application is properly managed. This includes on-line support services, system maintenance and updates. The version in operation on this market has been certified by the Central Bank. As a result, BME Consulting now provides support to five Latin American markets which have the BME SIBE electronic trading platform (Venezuela, El Salvador, Uruguay, Ecuador and the Dominican Republic).

BME Consulting is currently in talks with various markets to deploy SIS as their market supervision system.

In 2008, the strategic consulting unit focused on implementing a project in Russia involving a comparative study of the current legislation for the promotion and regulation of financial services offered to retail clients in jurisdictions as diverse as the European Union, the US, China and Brazil. It is also participating in a project studying the infrastructure of a Latin American securities market.

Finally, the Company won a new project in the Ukraine in conjunction with several European consulting agencies, to strengthen the financial

### Position in Latin America



#### Stakes in other companies

- Mexico: Bolsa Mexicana de Valores.
- Colombia: Cámara de Riesgo Central de Contraparte de Colombia, S.A.

#### Consulting

- Guatemala: Assistance to securities market regulator.
- Colombia: Assessment of operational infrastructure of Colombian stock market.
- Colombia: Advice on Corporate Governance matters.
- Chile: Creation and Development of a Central Counterparty for the Chilean Market in Products.

#### Cooperation in IT

- INFOBOLSA: • Mexico
- SIBE: • Dominican Republic
- El Salvador
- Venezuela
- Ecuador
- Uruguay.
- VISUAL TRADER: • Chile
- DERIVATIVES: • MexDer (Mexico)

## BME Business Areas

services sector in this country. The project will last for approximately three years.

In 2008, the area also presented technical proposals for several tenders in Latin America, Europe, Africa and Asia, which are currently in the process of being assessed.

In 2008, BME Consulting's training division worked on designing tailored courses and training programmes for several clients in Latin America who have shown an interest in this type of initiative. It hopes to implement these courses in the first quarter of 2009. It has also collaborated with the Instituto BME to design courses for financial institutions and these will start running immediately.

### Visual Trader activities

In 2008, Visual Trader Systems completed development work on a new trading terminal called "VT maX", which will be launched at the start of 2009. VT maX is just the tip of the iceberg in terms of the major overhaul of Visual Trader technology over the last three years. In addition to this terminal, new faster systems for accessing European and American markets have been developed, low bandwidth consumption protocols (Fast-Fix) have been adopted and all central real-time data processing and order routing systems have been migrated to the Linux operating system.

As a result, Visual Trader's new VT maX technology can process orders with latency of under 1 millisecond, save bandwidths thanks to intelligent dissemination and process peak loads in the market 100 times greater than current levels. New functionalities demanded by the market have been integrated into this technology: implementation of Best Execution policies, access to new Execution Venues, consolidated orderbooks, Record Keeping, Algorithmic Trading (Supertrack) and other tools to respond to the needs of market operators.

Visual Trader is increasingly becoming the benchmark platform. The number of orders handled through Visual Trader in 2008 rose 52% overall from the previous year. The presence of Visual Trader in the international financial world has increased through agreements with new trade brokers and with Ullink.Net, which brings together more than 60 international intermediaries. This, along with the connection of new clients and the sale of new products has resulted in a 25% increase in invoicing in 2008.

In 2009, the entire network of terminals will be updated with VT maX and the Proximity service will be consolidated with the incorporation of new clients, mainly international brokers who require ultra-fast access to the Spanish market. A new Supertrack product will also be launched, the Trading Simulator, a terminal which can be used to evaluate different ope-

ration models in a simulation environment that replicates the real market.

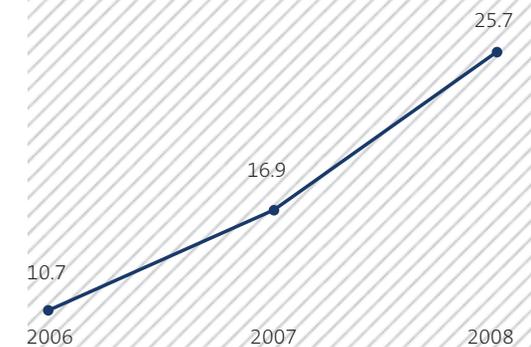
### BME INNOVA

BME's subsidiary for innovation and the development of new products consolidated its position as a driver of innovation in 2008, with efforts for knowledge transfer and the generation of value for Spanish companies.

In its first phase, BME INNOVA launched services in the Business Continuity and Contingency area. This work was required by new regulations such as Basel II and MiFID. Moreover, proper continuity management and therefore the capacity to continue working despite problems in infrastructure or supply can make the Spanish business community significantly more robust.

Within this framework, in June 2008 BME INNOVA launched BME BackGuard, a Business Continuity product which due to its versatility covers the operations of any company. This intelligent system, whose technological base was fully developed by BME, facilitates the immediate roll-out, without the need for maintenance, of a complete business continuity solution in the face of any incident, covering not only critical data (back-up solution) but critical functions also (systems and applications) for companies from any sector. This initiative for the provision of these services emerged

### Domestic and international SIBE orders processing via Visual Trader (Million Operations)



## BME Business Areas

**BME INNOVA, BME's subsidiary for innovation and the development of new products, has consolidated its position in the Spanish financial sector as a driver of innovation in 2008.**

from an exhaustive study and continuous interrelation with market demands and needs, in which the main objective is to offer quality Continuity services.

BME Innova, in compliance with the objective of diversifying the BME Group's business lines, was established as a Swift Service Bureau in 2008 and in November, it presented the BME HighWay Services as a platform adapted to the needs of all types of companies. This new platform responds to companies' needs for unified access to banking services to ensure global visibility, as well as the complete integration of financial messaging services with the company's management programs.

The Stock Exchange has always been, as a source of financing, an infrastructure for companies and the role of BME, as manager of the Stock Exchange, has been to provide the technology, security and confidence necessary for optimal compliance with this function, while BME INNOVA is the driver allowing BME to provide this knowledge of technology, security and confidence to any company that requires it. For 2009 the objective is to consolidate the new services launched in 2009 and launch a services platform for Investment Services Companies and Fund Managers.