

# 4

## BME Business Areas

Equities

Fixed Income

Derivatives

Clearing and Settlement

Information

IT and Consulting





## BME Business Areas

Bolsas y Mercados Españoles (BME) demonstrated its ability to generate sustained earnings in 2009, a difficult year for market management companies overall, with net profit of €150 million. This was 21.3% lower than in 2008. The credit crunch, deleveraging by some market players and a severe correction in the share prices of listed companies in the early part of the year affected trading volumes on the different markets managed by the company.

Overall, despite the gradual rebound in share prices from March, the weak economic climate following a lengthy period of difficulties, coupled with an investor community waiting to see the scale and strength of the economic recovery, continued to affect the number of trades and shares changing hands in the year. This behaviour undermined the performance of the company's business areas whose revenues are closely linked to the level of market activity, namely Equities, Clearing and Settlement, and Derivatives.

BME's management has been geared towards shoring up its main revenue sources by improving operations, streamlining access to the market and broadening the range of products. For the most part, this strategy has managed to extend the growth of the already high level of liquidity shown in recent years by the main assets traded through the different platforms managed by the Group. At the same time, the company's strategy last year was geared towards innovating and leveraging new business opportunities in order to achieve

## BME Business Areas

### Summary of Activity Indicators in BME Markets and Platforms

Business area	Concept	2009	2008	% change
<b>Equities</b>				
<i>Stock market indices</i>				
	IBEX 35	11,940.00	9,195.80	29.84%
	IBEX 35 plus dividends	21,360.10	15,447.70	38.27%
	IBEX MEDIUM CAP	10,719.90	9,417.80	13.83%
	IBEX SMALL CAP	7,327.60	6,231.40	17.59%
	IBEX TOP DIVIDENDO	2,657.50	2,097.40	26.70%
	FTSE4Good IBEX	10,628.90	8,165.60	30.17%
	FTSE Latibex Top	5,012.30	2,795.70	79.29%
	FTSE Latibex Brasil	14,061.00	6,178.20	127.59%
<i>Activity</i>				
	Turnover (million euros)	899,051	1,246,349	-27.90%
	No. of trades	31,966,827	37,527,460	-14.80%
	Shares traded (million)	118,697	127,211	-6.70%
	Average amount per trade (euros)	28,124	33,212	-15.30%
	Market cap (million euros)	1,107,006	784,942	41.00%
<b>Fixed income</b>				
	Turnover (million euros)	3,901,881	2,562,348	52.30%
<b>Listings</b>				
	Investment flows channelled through the Stock Exchange (million euros)	15,666	22,222	-29.50%
	Admitted to trading on AIAF (million euros)	388,576	476,943	-18.50%
<b>Derivatives</b>				
<i>Futures</i>				
	IBEX 35 futures (No. of contracts)	8,585,281	10,575,717	-18.80%
	Equity futures (No. of contracts)	44,586,779	46,237,568	-3.60%
<i>Options</i>				
	IBEX 35 options (No. of contracts)	4,357,260	8,286,224	-47.40%
	Equity options (No. of contracts)	35,527,914	18,317,249	94.00%
	Open interest (No. of contracts)	9,527,971	8,038,684	18.50%
<b>Settlement and Clearing</b>				
	No. of transactions settled	34,822,132	40,295,729	-13.60%
	Cash value settled (daily average, billion euros)	337.8	281.4	20.10%
	Nominal amounts registered at year-end (billion euros)	1,512.80	1,361.70	11.10%

a more diversified revenue base and increase the recurrence of revenue not directly tied to trading cycles. Revenue not linked to volumes in the year covered 105% of the cost base. BME will remain committed to these guidelines going forward given the strong push for regulatory reforms in response to the causes of the crisis and the very dynamics of the changes and adaptations emerging from the transposition of the MiFID directive.

BME posted total revenue in 2009 of €316.7 million, down 10.3% from 2008, of which ordinary revenue from the provision of services represented €297 million, 14.9% lower, with uneven performances across business areas.

The other two relevant aspects that bolstered and defined BME's activity in all of its business areas were once again prudent and tight cost control management, and a generous dividend policy designed to get shareholders more closely and frequently involved in the company's positive results.

### Equities

BME's equities business area is the most important in the company's structure. This area contributed 41.3% of the Group's total revenue and 42.9% of its EBITDA through activities derived almost exclusively from the trading of shares, ETFs, warrants, certificates and preferred shares on its platforms.

The annual trading volume for all equity products fell 27.9% from 2008 to €899.051 billion. Some 118.697 billion shares traded hands, 6.7% fewer than the year before. Also, the total number of trades declined by 14.8%.

The lack of trust among economic agents clearly undermined trading of equity products, especially shares and ETFs, but the rise in share prices helped.

### Trading volumes

Total activity in financial markets decreased in 2009, in line with the constant decline in credit and in the volume of commercial transactions globally. Wariness, mistrust and destruction of value in many assets caused capital movements to wane. This could possibly suggest that financial markets around the world are shrinking after a period of overheating, with above-potential growth by the economy and the financial system.

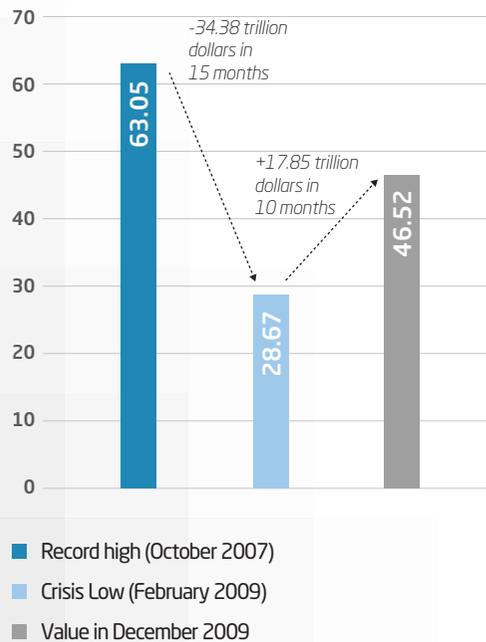
The fall in the value of financial transactions was especially apparent in products traded on less transparent markets and/or highly complex products. In this context, equity markets played their role of "valuation with transparency, efficiency and liquidity" well, but they were not completely impervious to the downward trend of trading volumes. The reduction in available capital of many brokers and the disappearance of hedge funds led trading volumes lower on all stock exchanges worldwide.



## BME Business Areas

### Recovery by equity markets in 2009 versus losses during the crisis

Market cap of the stock exchanges included in the World Federation of Exchanges (WFE), trillion \$



### Price gains partially offset the drop in trading volume.

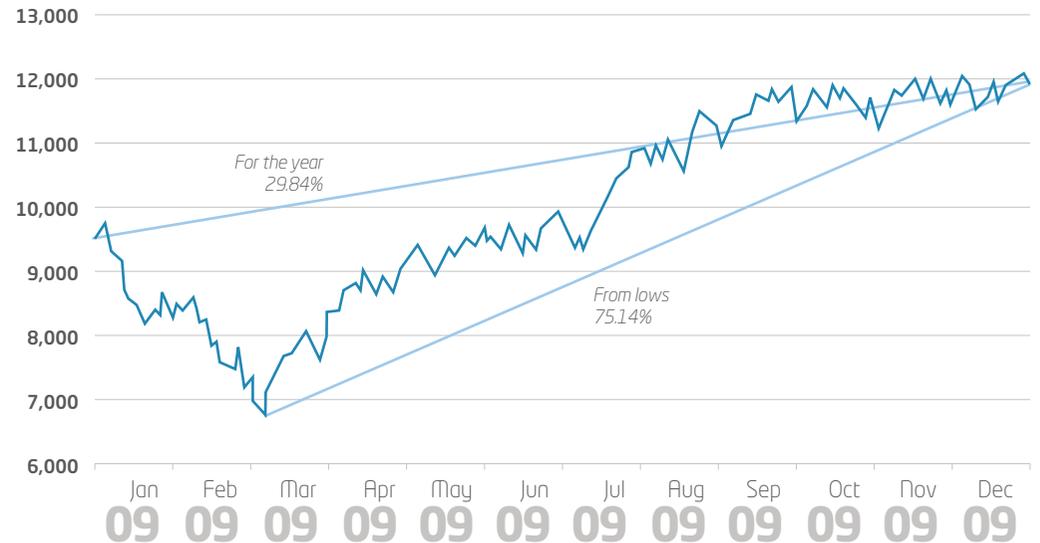
Gains by stock market indices stand out among external factors contributing to sustain trading volumes and boost BME's revenues from activities related to equity products. Equity markets worldwide ended 2009 showing higher returns and lower volatility, underpinned by improved economic expectations, the resilience of earnings of the main listed companies, the stabilisation of banking and financial systems and, in general, the progressive recovery of trust among investors, especially in the second half of the year.

The Spanish Stock Exchange's benchmark indicator, the IBEX 35, surged 29.84% in 2009, marking one of its best recordings of the decade and achieving higher returns than the leading stock exchanges in developed countries. Issuers' commitments to rewarding shareholder loyalty through dividends despite the difficulties and certain fondness for tapping the market with rights issues to raise funds have surely helped perk up the market. The total market cap of issues admitted to listing on markets managed by BME at year-end 2009 stood at €1,107,006 million, 41% higher than the year before.

The Spanish market apparently weathered the impact of the crisis better than other markets judging by the smaller decline in turnover in its electronic order book for listed equities. Shares

### IBEX 35 in 2009

Daily figures



and ETFs traded on BME's electronic market amounted to €897,187 million (nearly \$1.2 trillion) in 2009, a decline of 28% from 2008. This percentage decrease was the lowest among Europe's leading exchanges. According to the World Federation of Exchanges (WFE), at year-end 2009, BME's platform was the fourth most important in Europe and ninth in the world

after the explosion of Asian stock exchanges, particularly those related to Chinese securities. Over \$9.3 trillion of shares changed hands between the Hong Kong, Shanghai and Shenzhen exchanges, nearly 12% of the world's total.



## BME Business Areas

### High liquidity of listed securities of Spanish issuers

We would attribute the outperformance by Spain's Stock Exchange in 2009 vis-à-vis other developed stock exchanges to a variety of exogenous and endogenous factors, which together led to a determining factor: the high liquidity of securities traded on BME platforms.

The first reason for this behaviour lies, in large part, with the characteristics of the group of companies that form the core of the Spanish Stock Exchange. These are companies that aim to be international leaders, that earn a large percentage of revenue from foreign markets, that have a broad, diversified shareholder base and that have found in the Spanish Stock Exchange their natural platform. Over the last 25 years, the Spanish Stock Exchange has been able to channel both domestic and foreign savings of the benchmark companies listed on the Spanish Stock Exchange. Specifically, IBEX companies took advantage of some of the main global trends marking stock markets' performance in 2009: good performances by emerging markets, with Latin American countries leading the way, and the outperformance by Spain's financial sector internationally. After clawing back 50% of its value in 2009, the Spanish banking sector was down only 29% between the start of the crisis and December last year, compared to drops of nearly 70% and 58% by its North American and European peers, respectively.

We believe that the exposure of the top IBEX companies to either of the two factors mentioned above enabled the Spanish Stock Exchange as a whole to post higher returns.

Looking in further detail at the composition of the DJ Stoxx 1800 Global index in the last part of 2009, we see that of the 50 largest companies, three are Spanish: Santander (15th), Telefónica (25th) and BBVA (47th). Even more importantly, of the top 25, there are only eight European companies, and of these, only three are in the Euro zone, two of which are Spanish. These aspects, among others, speak volumes for the important role played by the Spanish Stock Exchange in the world as a complement to development and the provision of liquidity by the listed companies. This is a clear example of positive synergies.

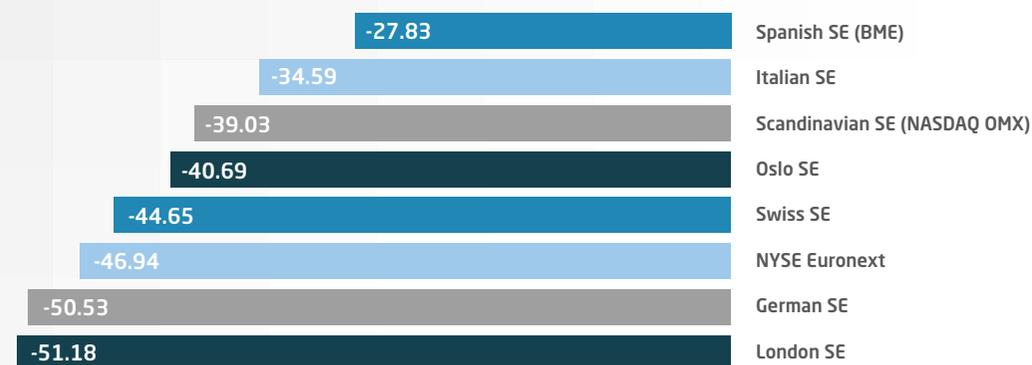
Most liquid stocks in Europe 2009 Effective trading volume (million euros)





## BME Business Areas

European Stock Exchanges: Trading on Electronic Systems 2009/2008  
Share trading on electronic systems, % chg



Market liquidity is visible in the main listed stocks. The three most liquid stocks within the euro zone in 2009 were listed on the Spanish Stock Exchange: Santander, Telefónica and BBVA. Using the pan-European Eurostoxx 50 index (which comprises the 50 main listed stocks in the euro zone) as a benchmark, they hold the top three positions by trading volume. Another Spanish stock, Iberdrola, ranked 8th, while Repsol ranked 16th. These five Spanish stocks accounted for 27.3% of the total trading volume

of the index's 50 constituents, far outstripping their combined index weighting of 16.8%, and even above the weight of the Spanish economy within euro zone GDP.

This high liquidity is mostly concentrated in trading circuits operated by BME. Nearly 93% of the trading volume of the IBEX 35 shares in 2009 was carried out on SIBE, the Spanish Stock Exchange's electronic platform. Excluding Arcelor Mittal, a foreign stock listed on the IBEX 35,

Gains and losses in market cap by sector of the Spanish Stock Exchange during the crisis, from record highs to December 2009  
(Thousand euros)

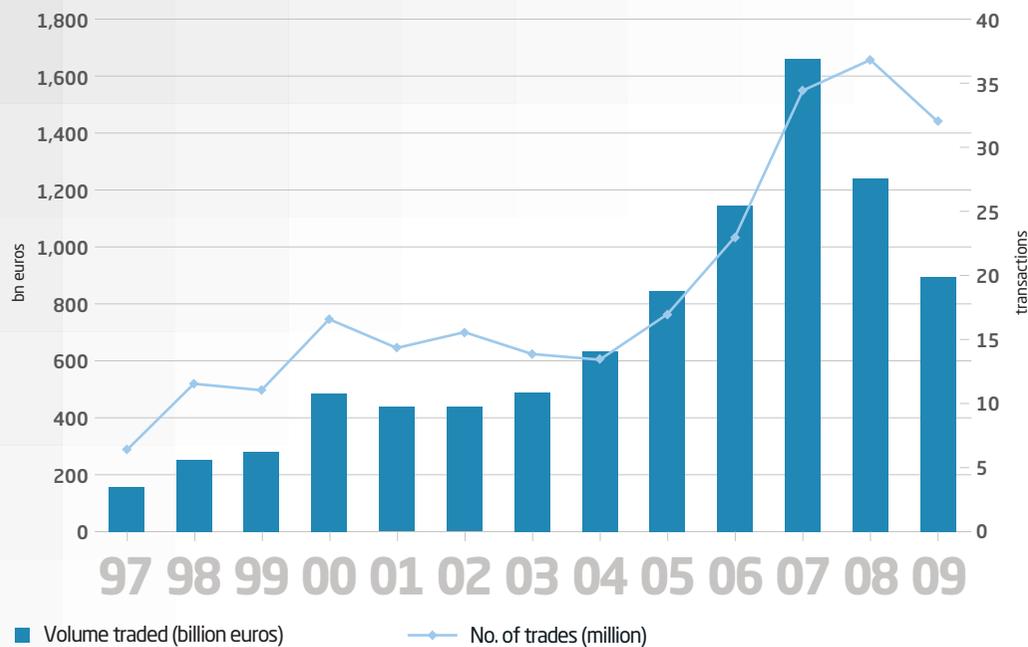


the BME platform represented roughly 98% of the turnover of the Spanish Stock Exchange's main stocks. This is particularly noteworthy given the new open trading environment deriving from the MiFID Directive, which has triggered the appearance of trading platforms competing for the flow of transactions on European securities markets.



## BME Business Areas

Share trading on SIBE (1997-2009)



### Extension of BME's product range, and operational and technological improvements

Also perhaps behind the steady improvement in liquidity and operations through BME's systems and trading platforms are the management decisions made by company amid growing competition. BME has embarked on a set of initiatives aimed at broadening the range of products and services offered, adapting market operations to more modern and versatile standards and, finally, making technological developments that basically enhance market accessibility.

To enable it to adopt new investment strategies based on market preferences and demand, BME launched three new IBEX 35 indices in 2009. The IBEX 35<sup>®</sup> CON DIVIDENDOS index is an indicator that measures variations in stock prices, dividend yields and the return on other shareholder remuneration. This index therefore reflects the impact of shareholder remuneration on a portfolio that replicates the IBEX 35<sup>®</sup> index. The IBEX 35<sup>®</sup> INVERSO index replicates the daily movements of the IBEX 35<sup>®</sup> CON DIVIDENDOS index in the other direction; i.e. if a session of the IBEX 35<sup>®</sup> CON DIVIDENDOS index has a positive return, the IBEX 35<sup>®</sup> INVERSO, in this same session, will have a negative return in a similar amount. Finally, the IBEX 35<sup>®</sup> IMPACTO DIV index, launched on 30 September as an underlying index for derivative products, reflects the cumulative dividend expressed in

index points (which shows the theoretical drop of the IBEX 35<sup>®</sup> due to the payout of ordinary dividends). The arrival of these new indicators made the launch of new products on the market possible (e.g. the ETF issued by Lyxor on the INVERSO in July), while lending a degree of continuity to innovation with related developments.



## BME Business Areas

### Expansion of ETFs

In addition to the 2009 launch of an ETF on the IBEX 35 INVERSO, other references were added to BME's ETF market, which has been in place for three years now. ETFs have provided, at a reduced price, all types of investors with some investment strategies that until now were only available to large institutional investors.

ETFs continued to grow and become more popular as investment instruments worldwide in 2009. The increase in the volume of ETF assets under management and the number of listed references most likely made it one of the financial instruments that withstood the crisis best. There were 1,171 ETFs in the world in 2007, but in just two years the number has swelled 66% to 1,939. The global volume of ETF assets under management at 30 December 2009 stood at \$1.032 trillion, a new all-time high and 29% above the level at year-end 2007.

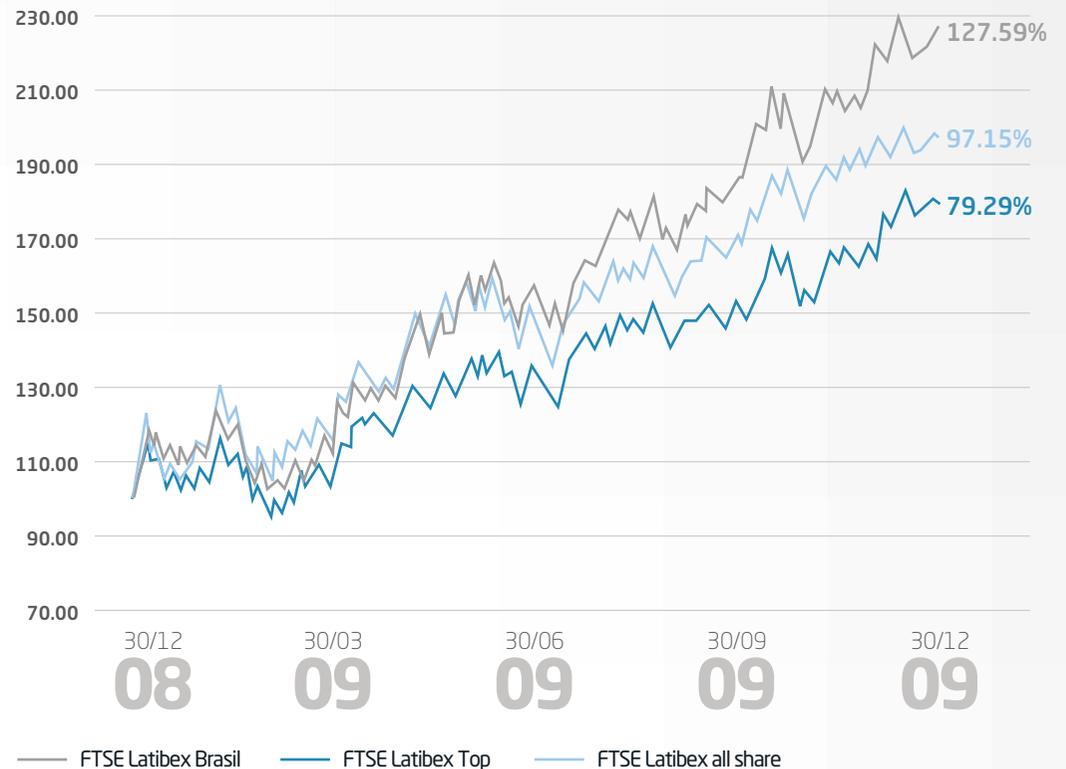
As we have seen in the major international stock markets, ETFs in Spain are also becoming an indispensable investment product in portfolios and portfolio management of both retail and institutional investors. The value of ETF assets under management on the Spanish Stock Exchange rose 30% in 2009 to €13.861 billion at 30 December, corresponding to 32 products offering a variety of investment options ranging from fixed income and equity markets of developed countries and areas, to emerging markets or more sophisticated strategies.

The solid performance in the number of trades on ETFs underscores the increasing liquidity of these products on the Spanish market: there were 50,789 transactions in the year, twice as many as in 2008.

### The resilience of the Latin America economy drives the Latibex

Amid the addition of new products, NAFTRAC common stocks, a financial product equivalent to ETFs, began trading on Latibex on 19 November. Prior to that, in response to the growing interest in these equity index products and to satisfy the existing demand for instruments linked to Latin America, two ETFs tracking the Latibex indices, FTSE Latibex Top and FTSE Latibex Brasil, issued by BBVA Gestión, were listed in July 2007. Currently, with nearly €418 million in assets under management, the Acción FTSE Latibex Top ETF is the second Latin America equity ETF in the world and the first in Europe.

LATIBEX INDICES (2009)  
Base 100 = 30/12/2008



## BME Business Areas

■ The Mexican bank, Banorte, listed on Latibex.



Latibex is another example of the innovation policy followed by BME over the past few years and a pillar of its management strategy. The Latibex celebrated its 10-year anniversary in 2009. Over this period, it has gone from five companies with a market cap of €6 billion to a market with 37 securities from 32 different issuers with a market cap at year-end 2009 of nearly €415 billion, making it Latin America's second largest market by value after Bovespa. In 2009, this segment of BME's business benefited from the increased strength of emerging Latin American economies in the face of the crisis and the strong annual increase of over 100% by the benchmark stock market indices.

**IT Foro  
Latibex**

**BME X**

Organizado por  
**BME X**  
BOLSA Y MERCADOS ESPAÑOLES

**IT Foro  
Latibex**

Organizado por  
**BME X**  
BOLSA Y MERCADOS ESPAÑOLES

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**BME X**  
BOLSA Y MERCADOS ESPAÑOLES

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Latibex**



■ Inauguration of the XI Latibex Forum.

# BME Business Areas

■ Inline warrants, a new product on the stock exchange.

## Healthy trading volumes in the warrants market

There were also developments in BME's warrants and certificates business segment over the past few months. The addition of Inline Warrants, as a new investment product on the Spanish Stock Exchange in the middle of last year, was followed by the recent launch of Warrants Turbo Pro. In the last decade, the warrants market has grown exponentially, with trading volume increasing nine fold, from €196 million in 1999 to €1.676 billion in 2009. On balance, 2009 was good in terms of the addition of new issues (more than 7,200), despite being 26% lower than in 2008. However, volumes traded tumbled 38.9%. The sharp and rapid drop of market volatility throughout the year is one of the main factors explaining this decrease.



## BME Business Areas

■ Imaginarium, listed on MAB.



### MAB captures the attention of new issuers and investors

The last of BME's strategic commitments to cause a media buzz related to equity markets is the MAB (Mercado Alternativo Bursátil), and particularly its section dedicated to growth companies. The additions of Zinkia and Imaginarium in 2009 placed the focus on a market that perfectly expresses the value of the markets as mechanisms for providing funding and liquidity to all types of growth companies against a backdrop characterised by heavy credit restrictions. Spanish public administrations appear to see it this way, with four regional governments having approved aid and tax incentives for issuers and investors opting to participate in the MAB. Two new companies were added in the first quarter of 2010, and the number of Registered Advisors (i.e. those responsible for bringing and guiding companies to the market) increased to 23.

The MAB achieved another major milestone earlier, at the beginning of 2009: the start of the trading of Nordinvest, the first hedge fund company listed in Spain. The possibility of trading hedge funds on an organised market offers the attraction of increased liquidity and transparency, helping to make them a more popular asset class and facilitating their inclusion in investment portfolios.

### Other initiatives and enhancements in 2009

BME carries out operational initiatives in a bid to make its trading platforms more solvent and efficient. The most outstanding actions in 2009 were the transfer of equity securities listed on the open-outcry market to a new electronic trading system to make them more liquid, transparent and accessible; the harmonisation of the tick sizes in share trading in Europe, a joint effort of the European Stock Exchanges integrated in FESE; and the shift from two to four decimals in the quoting of certain securities.

Enhancements made by the Spanish Stock Exchange throughout the year to boost market liquidity include the increase of the number of decimals, from 2 to a maximum of 4, in the prices of bid and offer orders placed in the market. The result was a significant decrease in spreads (i.e. the difference between buy and sell prices) of the securities to which the decimal point increase was applied, leading to lower total transaction costs for investors. This concept is illustrated in Charts 11 and 12. The total costs of a stock exchange transaction include both the explicit (fees) and implicit (buy and sell spreads) costs. Recent studies comparing the trading of Spanish securities on the Spanish Stock Exchange and on competing platforms reveal that the spreads of the main securities on these platforms are five times greater.



## BME Business Areas

A third group of efforts includes technological improvements that afford greater flexibility to trading of securities on the different platforms or considerably improve their accessibility. As an example of the first case, in February 2009 BME set up a new trading platform for warrants, certificates and other SIBE products. The new platform, called SMART-warrants, marks an improvement by increasing the transaction capacity and efficiency, benefiting all players in the warrants market. It also allows us to respond to the transactional increases recorded and to the future needs and capacities of this market.

### Fixed Income

This area of activity moves the largest volumes through the different trading systems operated by BME. Internally, its results fall under the accounts linked to the Fixed Income and Listing business areas. Under Fixed Income, it includes the revenue and expenses from the transactional business, while under Listing, it includes those corresponding basically to the work linked to the admission to trading of public and private fixed income issues in the different markets managed by BME. Together, the two business areas represented 10.9% of consolidated revenue (2.2% FI and 8.7% Listing) and 9.3% of EBITDA (1.8% and 7.5%, respectively).

### Hefty volumes

Some €3.9 trillion of fixed income products were traded on the BME platforms in 2009, 52.3% more than in 2008. However, the performances by asset type were extremely uneven.

The containment of the financial and banking crisis, coupled with the gradual improvement in expectations regarding the global economy eased pressure on both interest rates and bond markets in 2009. Bonds have proven to be an effective alternative to corporate financing and have channelled, at least in Spain, some of the most important support measures from the Spanish government and the European Central Bank (ECB). BME's private fixed income market, AIAF, was a faithful reflection of this, delivering a solid performance on all fronts in 2009. Total trading volume for the year rose 53.7% to €3.7 trillion.

During the course of 2009, activity on the debt markets increased, luring a variety of leading industrial companies back the primary market with clear examples in Spain such as Iberdrola, Gas Natural, Telefónica and FCC. Likewise, banks stepped up their bond issuance. Helping this trend were the need to roll over maturities and the gradual narrowing of spreads. At the same time, investor demand soared thanks to the compelling returns available on the market and a certain decline in risks.

### Sharp rebound by the medium and long-term areas

That said, not all market segments fared as well or behaved similarly. In Spain, trading in medium- and long-dated vanilla bond and debentures, not to mention covered bonds or mortgage certificates, rose sharply.

Trading in securitised bonds also continued to grow, mainly due to their use as a guarantee ECB financing; however, the monetary authority has given clear signs that the requirements and conditions for using this formula will become gradually stricter. This circumstance has prompted banks to take a serious look at the situation and try to find an alternative to this formula, which has helped ease the difficulties raising financing seen during this crisis.

The best solution would unquestionably be the return of end investors to this segment. First, however, as asserted by ECB, the instruments and vehicles for securitisation must be simplified, and requirements as regards the information of the pool of credits they contain -loan-by-loan- must become stricter, as suggested by some ECB managers. Nevertheless, it seems as though this will not be a real option in coming months.

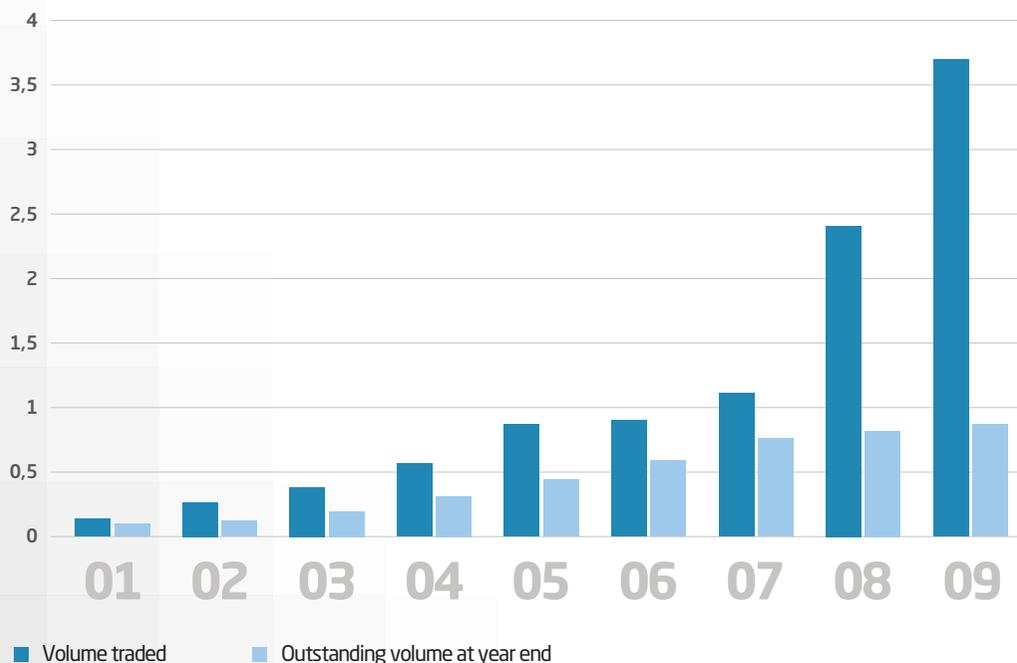
Affecting the short end throughout the year were the fall in interest rates and yields, and the decrease in liquidity by those who had traditionally been the greatest investors, mutual

funds and companies, who placed part of their temporary cash positions in promissory notes. The crisis considerably depleted surpluses in most companies, if not led to shortfalls.



## BME Business Areas

Private fixed income trading volume on the AIAF market  
(Million euros)



As indicated above, the Spanish covered bonds segment, primarily represented by mortgage-backed bonds, benefited from the ECB's decision in May to purchase €60 billion of euro-denominated covered bonds. This allowed Spanish banks to maintain their pace of covered bond issues under better terms and with tighter spreads as the year progressed than in early 2009, especially compared to 2008.

### Implementation of anti-crisis measures through AIAF

The Corporate Debt market not only held up well amid the crisis in 2009, but it also effectively helped channel some of the government's anti-crisis measures, such as the Financial Assets Acquisitions Fund (FAAF), which was set up as an AIAF member and was able to acquire the assets through this market. The vast majority of assets of this fund's portfolio (to maturity and repos) earned AAA credit ratings. By asset type, mortgage-backed bonds represented 50%, multiseller covered bonds 25% and asset-securitization funds the remaining 27%.

Moreover, the guarantees issued by the Treasury for certain bank issues were channelled through the AIAF market. By the end of November, government guaranteed bank issues reached a total volume of €47.514 billion.

In both cases, channelling these measures through BME's private fixed income market

helped provide the necessary transparency and appropriate valuations, within the limits and current difficulties prevailing in this area. This drove spreads lower compared to 2008, in part, thanks to the rating of guaranteed issues, which is the same as that for issues by the Spanish Treasury.

Finally, the volume of new issues admitted to listing on the AIAF Market declined 18.5% in 2009 to €388 billion, half of which corresponded to promissory notes, but there is a silver lining: Despite this fall in issuance, the outstanding balance at year-end was 6.3% higher, at €870.98 billion. This meant net financing for the private sector of the economy of more than €51 billion.



## BME Business Areas

### BME's electronic platform for public debt

Trading volume on BME's electronic platform for public debt surged 67.8% in 2009 to €137.827 billion. This figure was in line with the increased activity recorded during the year in the public bonds market due to the large issuance volume of new debt required for the various government's aid packages and liquidity injections. BME's market share compared to competing platforms of this type operating in Spain was 68.46% in 2009.

Key for the future of this platform is that in 2009 the process begun the year before to convert the electronic public debt trading system, SENAF, into a multilateral trading facility (MTS) was completed following approval of this process by the Spanish securities market regulator, the CNMV, and the implementing regulations.

Lastly, private and public fixed income assets traded on the Spanish Stock Exchange's electronic fixed-income market and regional government bonds traded on the electronic trading platforms of the Barcelona, Bilbao and Valencia stock exchanges topped €74.511 billion in 2009, down 6.50% from the year before.

### Derivatives

Equity futures and options were the stars of the Spanish Stock Exchange in 2009. The great versatility of derivatives as hedging, gearing and risk

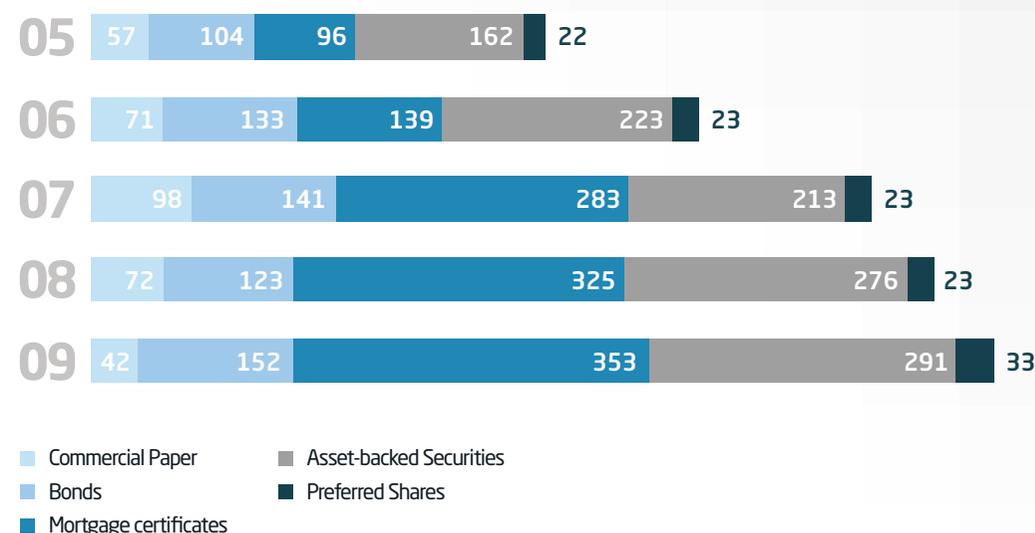
management instruments was made apparent in a very positive year for spot equity markets. A total of 93.06 million contracts were traded on the Spanish derivatives market, 11.6% more than in 2008 and a new all-time high. These figures were achieved thanks to the sharp 94% increase in share options, and a moderate 3.6% decrease in equity futures and the 4.6% reduction in Mini IBEX 35® futures. IBEX 35® futures and IBEX 35® options fared worse, with declines of 25.3% and 47.4%, respectively. Despite the strong decrease in implied volatility, the ease of use and guarantees offered by the derivatives traded on organised markets also explain the growth registered in the year. The open interest position amounted to 9.5 million derivatives contracts at 31 December 2009, 18.5% higher than at year-end 2008.

### Record highs in some traded products

MEFF trading set several all-time highs in 2009. June set a monthly record for trading of all products, with 13.5 million contracts; the monthly record for equity futures, with 8.3 million contracts; and the highest trading in one day, with 3 million contracts. Share options set a monthly record in September, with 4.4 million contracts.

Meanwhile, of the instruments traded on the markets, share options and futures stood out for their increased liquidity throughout the year. Share options delivered their best performance of the decade in 2009, with 35.5 million

Outstanding balance on AIAF by instrument  
(Billion euros)

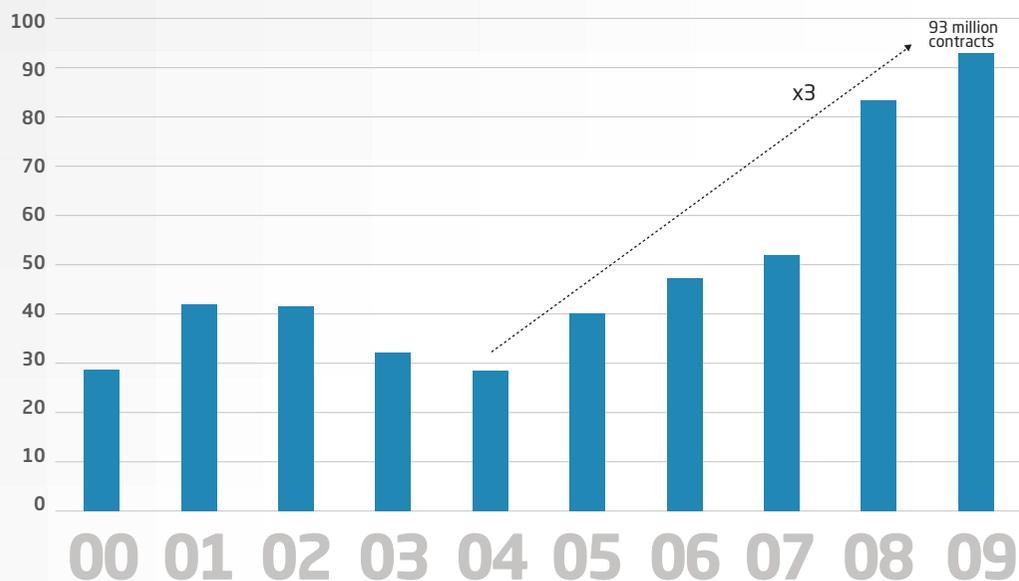




## BME Business Areas

BME futures and options (1)

Number of contracts traded on equities products (in millions)



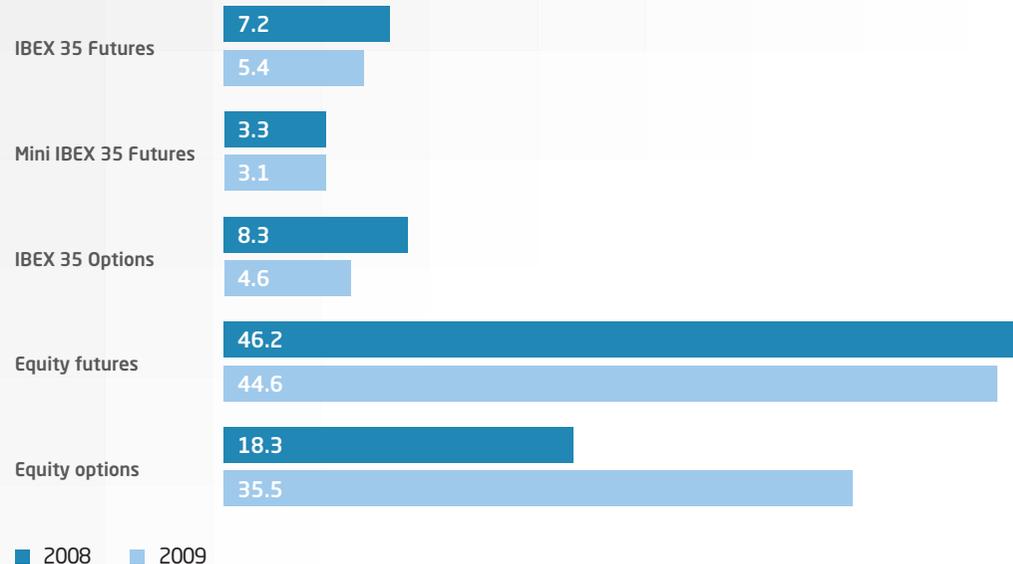
contracts, almost doubling the level of 2008. This is a reflection of the growing shift of OTC operations to regulated markets and the greater use as a hedge and an instrument to leverage the market's good momentum. The decrease of premiums as a result of the fall of volatility has also boosted their use. Share futures practically

matched the 2008 record, with 45.5 million contracts traded in 2009.

IBEX 35 futures, an essential product for investors on the Spanish derivatives market, closed the year with 5.4 million contracts traded, while Mini IBEX 35 futures, designed for

BME futures and options (2)

Million contracts traded



individual investors, remained above 3 million contracts for the second time in their history. MEFF ended 2009 with 95 members, of which 49 were non-resident entities and 46 were Spanish entities.



## BME Business Areas

### Innovation, changes and other activities at MEFF

Much like BME's Equities business area, within the scope of its responsibilities related to the operation of derivatives markets, the company made various improvements with respect to adding new products, operational modifications and the implementation and development of new activities to leverage its practical experience in certain areas.

The range of futures products was extended to include a new contract on the IBEX 35 index, IM-PACTO DIV index, primarily used to isolate the dividend component of an IBEX 35 future by providing or eliminating exposure to this variable.

### New version of the electronic MEFF system and high-speed access

Some of the operational enhancements made in 2009 include the set up of the new version of the MEFF S/MART 9.10 electronic platform, which provides the top features required by BME's derivatives market, efficiently satisfying the needs of the MEFF's central counterparty where products on different types of assets can coexist. The new platform allow for significant innovations, such as multiplicity of underlying assets in new asset classes and products; new maturity dates and flexible strike prices; the possibility of Client Account classes; and a new coding system for contracts of up to 22 characters, among others.

### Services for the Electricity Market

In 2009, the BME derivatives market held its position in offering services to the energy sector by strengthening its collaboration in this extremely strategic market.

Thanks to the experience and solvency reaped by MEFF in risk control and management over the past 20 years, since 2006 the derivatives market has served as central counterparty for the guarantees, collection and payments deriving from the new settlement functions assigned to Red Eléctrica de España (REE) as the Spanish electricity system operator. This extends to more than 220 agents in the electricity market.

In addition, in 2008, the Spanish energy regulator, the CNE, appointed MEFF as the manager of the sixth and seventh Virtual Power Plant (VPP) auctions, in collaboration with IBM. The seventh auction, the latest held so far, was carried out successfully in March.

### Clearing and Settlement

This BME business area contributed 22.6% of the Holding's revenue and 25.6% of EBITDA. This makes subsidiary IBERCLEAR the second largest contributor in the company's overall business structure. The bulk the work relates to post-trading processes, so the performance of this business area in the year was in line with the levels of activity in the areas related

to fixed income and equity trading processes and products.

Accordingly, with activity picking up as the year progressed, the nominal balances registered at IBERCLEAR at the end of December showed a 4.6% increase in securities listed on the AIAF Fixed Income Market compared to 2008 and 27.6% increase those listed on the Public Debt Market. The balances of equities also rose gradually during the course of the year, ending December nearly 11.2% higher than the year before at market prices. Lastly, the total nominal amount registered at the end of 2009 for the area was €1.51 trillion, an 11.1% increase from 2008.

The number of trades settled rose steadily throughout the year, totalling 34.8 million by year-end 2009. However, this represented a 13.6% decline from the year before. However, the average daily value settled increased by 20.1% in the year to €337.8 billion. The increase was primarily driven by public and private fixed-income trading, which featured a smaller number of transactions, but with a higher cash value.

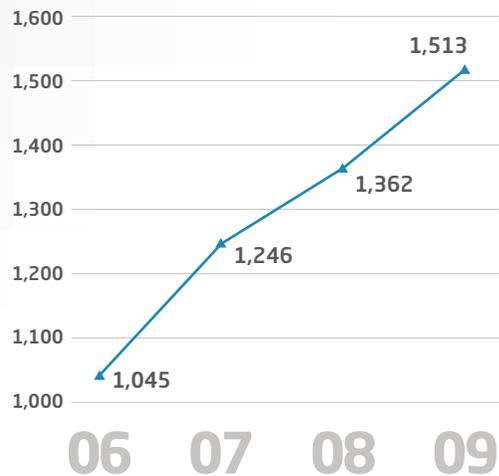
Within these markets, the daily average value of trades settled on the stock market fell 29%, to €3.474 billion from €4.948 billion in 2008. The number of equity trades was affected to a lesser extent, with 14.9% decline in the monthly average to 2.07 million trades.

### Change for progress

Like every year, BME made some changes in the business area in 2009 in order to improve the execution of its tasks and processes. In this respect, it analysed proposals designed to adjust the calculation and management of guarantees contributed by IBERCLEAR members in the Settlement System in order to adapt the requirements of the guarantees to the responsibilities arising from the obligation to settle transactions. We would also highlight the implementation of a process for generating balances for subscription rights immediately before the beginning of each multilateral cycle of equity transactions settlement, the creation of a new multilateral securities settlement cycle, as well as several modifications to the current messaging system between IBERCLEAR and its participating entities. Lastly, between September and December, the company submitted to the CNMV a series of proposed amendments to IBERCLEAR's Regulations which would allow it to settle and register transactions in securities listed on the Stock Exchanges, but carried out OTC, and to sign agreements with entities carrying out similar functions, central counterparties, governing bodies of regulated markets, multilateral trading systems, etc.

## BME Business Areas

Assets under custody  
(Nominal amounts) (Million euros)



### Other activities

Within the Clearing and Settlement area, a number of activities directly related to the systems and functions operated and developed historically by IBERCLEAR are carried out. Some are performed locally, while others have an international scope. Meanwhile certain projects will materialise during the course 2010, including:

- **RENADE**

For the Spanish National Registry for Greenhouse Gas Emission Allowances (RENADE), 2009 marked the first full year it was linked to the UN's International Transaction Log.

RENADE was busy in 2009, undertaking various projects to adapt to the new regulations that came into effect, specifically those stipulated in Commission Regulation (EC) No 916/2007, amending Regulation (EC) No 2216/2004, for a standardised and secured system of registries, as well as to improve the functionalities and information provided by the Registry.

- **Link Up Markets**

The Cyprus Stock Exchange (CSE) and VP LUX, the subsidiary of the Danish central securities depository, VP, headquartered in Luxembourg, connected to Link Up Markets on 21 November. This initiative comprises ten Central Securities Depositories (CSDs) and was created to improve efficiency and reduce

post-trading costs of cross-border securities transactions. The CSE and VP LUX connection culminates the three-phase launch of the service announced by Link Up Markets for 2009 and that began on 30 March with the link of Clearstream Banking Frankfurt (Germany), OeKB (Austria), SIX SIS (Switzerland) and VP (Denmark). In the second phase, Iberclear and Hellenic Exchanges (Greece) were connected to the Link Up Markets infrastructure on 29 June. The objective of Link Up Markets is to continue extending its geographic coverage as well as its range of services.

- **Registry for OTC Financial Instruments Traded**

BME has announced the creation of a Registry (Trade Repository) for a wide range of Over the Counter (OTC) financial instruments, in line with the EC Communication issued on 20 October 2009 (<http://ec.europa.eu/news/economy/091022>). This registry will offer greater control, security and transparency in trading in these products and is scheduled to start operating in the second quarter of 2010.

The European Commission indicates that adequate risk management requires that supervisory authorities have a full vision of OTC derivatives markets and that this can only be achieved if all transactions are communicated to a Trade Repository, which, in turn, makes this information available to the supervisory authorities. In this scenario, it is very impor-

tant for the Trade Repositories to be managed independently, professionally and efficiently so that they meet their central function without limitations arising from conflicts of interests of those who do not wish to make the markets more transparent. BME wants to launch the Trade Repository in this scenario, convinced of its ability to provide a response to the demands that have emerged from the current situation.

The new service will be operative in Spain and will be designed and developed with an international focus and with the capacity to be shared with other markets or introduced in other countries. The Trade Repository will include a wide variety of OTC derivative financial instruments, with underlying fixed-income, equities, currency, raw material or other assets.



## BME Business Areas

### Market Data and Information

In 2009, this area reinforced its position as the third largest contributor to consolidated revenue and EBITDA, representing 11% and 12.5% of the total, respectively.

The number of subscribers connected to the group's primary information sources, which averaged 122,800 a month, declined by 27% in 2009. The decline in the number of professional-content subscribers was the result of the somewhat overdue changes and improvements made to content offered clients by information providers, in the context of the challenging situation faced by the financial intermediation sector.

This change is associated with a growth trend in on-demand information content, as the number of logins increased by 86.5% in the year. In addition, direct connections, by clients who are not professional information providers, to the primary source rose by 7.5% in 2009 and by 3.6% in the year's fourth quarter.

The mixed performance of the different client segments and information levels helped cushion the impact of the drop in subscribers on revenue; the area sustained a 13.2% fall in revenue in 2009 to €33.073 million. EBITDA after operating expenses (€6.82 million) was 16.4% lower than in 2008, at €26.253 million.

This area's activities comprise two companies providing information dissemination services and information processing, with differentiated objectives and content.

#### BME Market Data

BME Market data was set up in 2008 to serve entities interesting in subscribing to information generated by BME's Regulated Markets and MTFs and to offer value added services aimed at the securities industry.

In 2009, the company continued to offer the Information System that provides transaction reporting services launched in the fourth quarter of 2008. This service allows investment service companies and credit institutions to report to the CNMV transactions performed in other markets or systems other than those offered 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. In 2009, the number of clients registered for the service increased with the addition of several savings banks.

#### Infobolsa

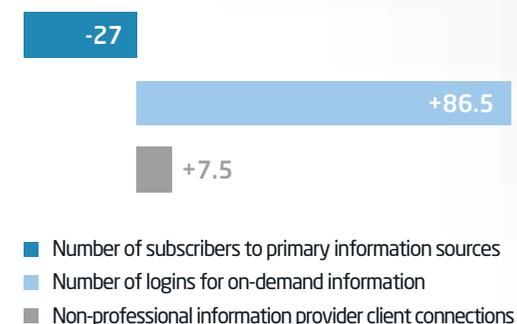
After restructuring its business in Germany at the end of 2008, Infobolsa focused its efforts in 2009 on maintaining its leadership position in Spain and strengthening its increasingly important presence in Mexico.

In Spain, Infobolsa's services were reinforced with the addition of new content that rounds out that which is normally available, related to national and international Market News from the joint venture set up by Agencia EFE and the international news agency Dow Jones; Macroeconomic Indicators of the world's principal countries, a specific section on Technical Analysis for national content in partnership with Noesis, and specific developments of tools for information on national and international Funds through an alliance with VDOS Stochastics.

Infobolsa once again maintained its position as the leading provider of data flow services to the main financial institutions and specialist disseminators in 2009, increasing both the number of subscribers and the scope of the information contents supplied. Likewise, throughout this year, the ASP business (supply of financial websites) remained stable, with the terminals business showing a slight decrease in the individual users segment.

The Infobolsa website also performed well in terms of content, visits and registered users. Indeed, the number of visits grew by 100% to over 14 million in 2009, the number of pages viewed increased by 120% to over 80 million, and the number of monthly users to over 300,000 a month. Interactive chart analysis tools were implemented for all securities provided and stock market information blogs were included as a first step towards interaction with registered

Information products offered by BME  
(% change 2009/2008)



- Number of subscribers to primary information sources
- Number of logins for on-demand information
- Non-professional information provider client connections



## BME Business Areas

users. These initiatives pave the way for the creation of a financial community which will be enriched with presence on social networks and IP television.

In terms of new services, Infobolsa CarrQuote will soon be available, which will enable users to subscribe for alerts on national and international markets through any mobile device, with real-time charts and a section for favourites.

### IT & Consulting

The activities encompassed in this BME business area are the newest. The returns obtained from the area's various products and managed services are reinvested. Accordingly, it is the company's youngest. Nevertheless, it is performing well, contributing 3.2% to Group profits in 2009 and 5.6% of its revenue.

Its work revolves around three differentiated fields of activity managed by three companies: BME Consulting, Visual Trader and BME Innova.

#### BME Consulting

BME Consulting is a BME Group company that carries out its activity internationally through three business lines: IT Systems, providing consulting and implementing IT market support systems and platforms (trading, settlement, routing, dissemination of information, monitoring, etc), Strategic Consultancy, in the field of financial markets, and Training and Education in the fields of economics and finance.

In short, it provides IT and Consulting services. In this area, BME continued to develop the projects started at the beginning of the year, and the work will extend throughout 2010 and 2011.

The IT Systems area, which has a strong presence in Latin America, oversees support of all Latin American markets that have the BME SIBE electronic trading platform (Venezuela, El Salvador, Uruguay, Ecuador and the Dominican Republic), providing them with technical consulting services, online support and maintenance and upgrading.

In 2009, the Strategic Consultancy area won and carried out several different projects, some of which will remain in effect throughout 2010, that were spearheaded by multilateral development financing bodies, such as:

- In Croatia, in collaboration with Instituto BME, a project aimed at training trainers of the Zagreb Stock Exchange in areas related to financial market management and operation (equities, debt, derivatives, regulatory compliance, etc.), as well as advising this Stock Exchange on how to set up a training institution.
- In Mexico, also in a consortium with internationally acclaimed Spanish companies, it is conducting a study on international best practices and developing the implementation plan for the creation of a self-regulated market for SMEs.

- In the Ukraine, as a member of a multi-disciplinary team of European companies, BME offers specialised consulting on financial markets to the country's government in a project aimed at strengthening the Ukrainian financial system. This consulting was offered throughout 2009 and will be offered in 2010.

In the area of Consulting, BME presented technical proposals for several similar tenders in Latin America, Europe, Africa and Asia, which are currently in the evaluation stage.

Finally, in Training, BME Consulting took part in courses for savings bank regarding regulations applicable to capital markets, held a course on regulatory compliance with FINRA and the University of Reading, and carried out periodic collaborations with training centres in Latin America.



## BME Business Areas

### Visual Trader

Visual Trader Systems continued renewing its technology in response to the growing demands in securities markets regarding connectivity, reducing delays and security. In this regard, throughout 2009, Visual Trader worked on various fronts. It consolidated its Linux operating system-based platform, thereby reducing delays in access to the market to the millisecond.

It also strengthened its new rapid-access platform by replacing all of its terminals installed at its clients' sites with new "VT maX" terminals. As a result, the number of trades handled by VT rose by 81.1% compared to the fourth quarter of 2008. Visual Trader's new trading terminal is equipped with new features, such as message compression protocols (Fast-Fix) and smart diffusion systems, which allow for savings in broadband consumption, as well as in processing market load spikes 100 times better than current levels. Functionally, it includes automated features for managing client orders, risk management, the option of trading by interacting directly with market data, and the option of consolidating positions of a single security listed in different areas, among others.

Visual Trader also worked on consolidating the new Proximity service in 2009, signing up its first clients. This service entails locating brokers' trading equipment at a BME-connected Data Processing Centre via extremely low-latency fibre optic lines, and guaranteeing the

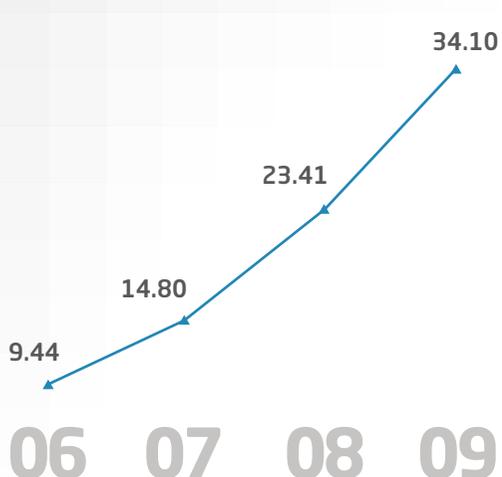
fastest access to the market currently available (79 microseconds), which undoubtedly helps boost the liquidity of the Spanish market.

The number of trades processed by Visual Trader rose by nearly 35% in 2009, while revenue increased by around 12%. Meanwhile, the number of trades on the SIBE handled through Visual Trader soared by 45.6% from 2008.

In 2009, deals were reached with five new brokers for the execution of orders in international markets, and contracts were signed with three new financial entities for transmitting orders to the Spanish market.

### Domestic and international SIBE orders processing via Visual Trader

(Million trades)



### BME INNOVA

BME INNOVA was created in 2007 as BME's innovation subsidiary, concentrating on the innovation and development of new products and services that generate value for clients; i.e. BME's innovation driver.

Its mission was to turn the assets and expertise of BME into products and services within the reach of any company. This know-how has enabled BME to become the Stock Exchange Manager with the highest rates of security (availability) of the European markets, based on its ability to process enormous volumes of information in real time and with complete security.

Taking into consideration that today's business world is increasingly information-based, proper processing, fast, secure and watertight analysis is essential for any company in any sector. This concept guides BME INNOVA's business.

BME INNOVA contributes the following specific assets to the Spanish business fabric:

- Constantly updated technology.
- Strict data processing protocols.
- Expertise in IT security.
- Maximum level of confidentiality.

It rounds this off with a deep understanding of the tasks and workflows involved in the financial business.

In 2009, BME's youngest company continued to offer the business continuity solutions BME Alternativ and BME Backguard. It made improvements in the fourth quarter of 2009 to the contingency services in order to allow clients to take advantage of the latest changes, as well as access to the latest Visual Trader (VT-Max) products. In the fourth quarter of 2009, the enlargement of the BME HIGHWAY solution was rolled out with the BME HIGHWAY RIDER component, a service allowing for the interconnection and integration of the company's cash-management software with the SWIFT Network. This solution was chosen as a technological partner for the development in the first quarter of 2010 of an application for supervising investment entities and asset-management companies.

Within the range of BME CONFIDENCENET services, the SIR service has 133 clients, more than 70% of which have chosen the centralised mode, and have thus placed their confidence in BME Innova for the outsourcing of their service. In addition, the SICAM service continues to be implemented and has been well received by banks, savings banks and investment-services companies. In 2010, a service to facilitate compliance with rules based on financial entities' internal codes of conduct will be launched.