



Letter from the Chairman

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Dear Shareholder,

As Chairman of the Board of Directors of Bolsas y Mercados Españoles (BME), I am pleased to present the Group's Management Report and Consolidated Financial Statements for 2010, an extremely difficult year.

The crisis focused on the financial system and on countries whose fiscal positions were most critical, while the matters of confidence in Spain and the risk premium dominated the debate. Stock market indices responded to world economic uncertainty with volatility, but the market fulfilled its role as a barometer and benchmark of the situation.

In 2010, the stock market contributed to evaluating business projects and channelling resources to fund them. In total, new funds channelled by Spanish organised markets through the stock market and corporate debt in 2010 amounted to over €251 billion, against a very complex credit backdrop.

The new environment and borrowing conditions that will shape business going forward will require companies to find alternative funding sources. The stock market is a critical element of solid economic development within this mechanism. Being listed on the stock market has enabled a considerable number of Spanish companies to obtain quality financing, which has helped them to boost their competitiveness and position themselves strongly not only nationally but also on the world stage.

In the specific case of Spanish companies, obtaining liquidity has become a real challenge. Both companies and public institutions are increasingly looking to small investors for funding. Against this backdrop, the stock market is best placed to conduct the fundamental task of channelling private savings into funding businesses. The IPOs conducted reflect confidence in the stock market and its outlook. During 2010, public offerings totalling €13.36 billion were carried out on the stock market. Listed Spanish companies increased capital in the amount of €14.29 billion, 27% more than in 2009. In total, investment flows channelled by the Spanish stock market exceeded €27.9 billion; 65% more than in 2009.

However, issuers of equities were not the only ones to show interest in the market as a means of attracting investment. New corporate debt issues totalled approximately €223.4 billion.

As well as being a source of financing for large companies, the stock market has proven its usefulness for small market capitalisation companies in the process of growing. The Alternative Equity Market (MAB) is proving to be a good tool for this kind of company to trade in a market tailored to its needs and its specific characteristics.

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Foreign investors are increasingly active in the Spanish stock market, and now hold 40% of the capital of Spanish listed companies. This is a record high and stands 7.5 points higher than the 2006 year-end figure. Furthermore, non-residents account for two-thirds of daily trading volume in the Spanish stock market.

In 2010, BME reported a net profit of €154.1 million, i.e. 2.7% more than in 2009. Excluding extraordinary effects from both years, net profit was 8.9% higher than in 2009; we welcome this figure as it is a better gauge of the company's efforts and a more homogeneous comparison.

Revenues reported in 2010, totalling €326.2 million, imply a 3% increase on the 2009 figure. Excluding extraordinary effects, revenues in 2010 were 5.7% higher than in the previous year. Operating costs fell by 3.4% year-on-year to €103.2 million. EBITDA rose by 6.3% year-on-year to €223.1 million. All of these figures are good news.

As regards the performance of the main financial management monitoring indicators, the efficiency ratio improved to 31.6% for the year as a whole, vs. 33.7% in 2009. Similarly, return on equity was 34.3% in 2010 and 32.5% in 2009.

During a very challenging 2010, BME managed to maintain a considerable degree of stability in results, despite obviously being highly dependent on the economic cycle due to the nature of our business. While we were obtaining these stable results, for various reasons our competitors in the sector saw considerable fluctuations, and even substantial losses.

With regard to shareholder remuneration, BME has maintained a very solid line of dividends since 2007 and for this year the company will propose an extraordinary dividend payout totalling €31 million for approval at the General Shareholders' Meeting. This means we are maintaining last year's dividend, the highest in the market operators sector.

The shareholder remuneration policy and distribution of a payout of more than 86% is based on a series of factors, including operating leveraging. In other words, revenue not linked to volumes exceed the company's costs. This is a very favourable position to be in, and one that is unique in our sector; BME is the only company in this position and I think this is a worthy achievement, and one that is ultimately reflected in returns. It also gives a very clear idea of our strategy. Revenue not linked to volumes covered 102% of the cost base at year-end.

As well as solid and streamlined management of the company and hefty shareholder remuneration, the third main pillar of BME's strategy is its diversification and ongoing quest for new revenue sources: to name a few examples, we recently announced the launch of BME Clima and MEF Power, and the acquisition of a stake in Openfinance, underpinning financial and services activities. As regards technology, in 2010 we also announced the revamping of the SIBE trading platform and the installation of hubs in London to improve services to users. Furthermore, initiatives like SEND, BME Innova, Link Up Markets and Regis-TR, the trade repository for instruments traded over-the-counter, will provide new growth channels for BME in the next few years.

And finally, I would like to mention the consolidation of stock markets. BME constantly monitors all the factors affecting market performance. Market fragmentation, our customers' needs, competition and current and future regulatory developments are all fundamental aspects of our analysis. And so, needless to say, are mergers and acquisitions in the sector, to the extent that they might affect us or the shape of the sector itself.

This constant monitoring is conducted with two main considerations in mind: the effects in terms of unlocking shareholder value and

how it might help us to manage Spanish securities markets with the maximum guarantees of security, efficiency and transparency. We also conduct our analysis based on the pervading confidence in BME, a leader in profitability and efficiency, with a solid business model and a promising future.

Now as ever, we analyse all factors that we think might be interesting opportunities to boost future growth at BME and improve the company's strategic position, and we will continue to do so. Naturally, this means keeping very close track of everything that is happening around us, with the perspective that our solid 2010 results afford us.



Antonio J. Zoido