



## 2. Letter from the Chairman



**July 1878**  
The King Alfonso XII gives his authorisation for the construction of a building for the stock exchange.

**January 1886**  
On achieving the minimum capital required, 200,000 pesetas, the construction begins. Following the presentation of seven projects, the one by architect Enrique María Repullés y Vargas - with the motto "Commercium pacem firmat" - wins the contract.

→  
1800

1850

1900

1950

2012

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## Letter from the Chairman

**Dear Shareholder,**

As Chairman of the Board of Bolsas y Mercados Españoles (BME), I am pleased to present our Management Report and Consolidated Financial Statements.

*2011 was marked by volatility, uncertainty and the Euro crisis*

In 2011, the stock markets were in a state of continuous uncertainty over the ability of developed countries to consolidate the improvement in economic conditions that started in 2010 and return to a sustainable growth path. The underlying risk of a slowdown in global economic activity as monetary and fiscal incentives in developed countries ran their course became apparent in the second half of the year. All this has accentuated uncertainty over the possibility of accommodating the large amount of accumulated Public and Private sector Debt and the situation of the banking sector in developed countries.

Within this framework, the main focus of world financial tension in 2011 was the Euro area. The financial and political architecture of the single currency proved to be insufficient to credibly and rapidly cope

with the many different aspects of the crisis.

*In spite of the difficult environment, BME has delivered satisfactory results*

Against this backdrop, BME reported consolidated net profit of €155.1 million in 2011. Stripping out extraordinary items recorded in both years, this figure was 3.3% higher than in 2010.

Operating costs fell 4.7% to €98.3 million, while EBITDA was unchanged at €223.1 million.

These results, along with a sound financial structure and extremely efficient cost management, enabled the company to implement its strategy, initiatives, and projects effectively and with flexibility. Proof of the well-focused management can be seen in both its efficiency ratio (30.6%) and return on equity (35.1%) in 2011, both of which have become important references in the sector.

*Dividend maintained*

With regard to shareholder remuneration, BME has maintained a very solid line of dividends and for this year the company will propose an extraordinary dividend payout totalling €31 million and an interim dividend payout of €50 million for ap-

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## Letter from the Chairman

proval at the General Shareholders' Meeting. This means we are maintaining last year's dividend, the highest in the market operators sector.

This shareholder remuneration policy is possible thanks to a number of factors, including operating gearing. In other words, revenues not linked to trading volumes amply cover the company's costs, and this is an extremely favourable situation. Revenues not linked to trading volumes covered 112% of the cost base at year-end.

*The Spanish Stock Exchange, on its 180th anniversary, has fulfilled its role as a financing mechanism*

The Spanish Stock Exchange celebrated its 180th anniversary in 2011. Spain is a good example of the importance of capital in driving the development of countries with market economies and how savings, properly channelled, can become a decisive factor in boosting the expansion and consolidation plans of leading companies. This has helped Spanish multinational companies move onto the world stage, benefitting both investors and the economy at the same time.

On a global level, a great number of scheduled stock market IPOs were cancelled in 2011. In Spain, the suspension of the largest IPO in its history, the flotation of Loterías in September, reflects how the economic and financial situation is seriously affecting companies' strategies and search for financing.

Despite the difficult environment, investment flows channelled through the exchange in 2011, including shares already admitted to trading and new shares admitted, amounted to €37.73 billion, 35.1% more than in 2010. This figure reflects the growth in both newly-listed companies and companies already admitted to trading.

These figures make BME (US\$53.28 billion) the leading European market in capturing new investment flows towards companies, and the fourth ranked in the world, after the New York Stock exchange (US\$111.33 billion), the Shenzhen stock market (US\$73.77 billion) and Hong Kong (US\$63.04 billion) according to data published by the World Federation of Exchanges (WFE) at the close of 2011.

#### *Trading volumes down*

Volume traded on the Spanish stock market in 2011 was €927 billion, a year-on-year decline of around 10%. This was mainly the result of the temporary ban on short selling taken by different European supervisory bodies, including the CNMV. The total number of trades was 46 million, up 13% from a year ago.

Total volume of Derivative products traded in 2011 was 67.6 million contracts, 3.8% fewer than in the previous year. Corporate Debt showed a consistent performance, with trading volume of over €5.6 billion, growth of 41.4% vs 2010.

#### *A sound and diversified business model*

Despite the fall in activity in the Securities and Derivatives markets, BME's revenues fell a mere 1.5%, totalling €321.4 million. Excluding extraordinary income, revenues were 0.4% higher than in 2010.

BME has a diversified business model which is proving to be very effective, with diverse revenue units contributing enormous stability to total revenues. Diversification into different business areas, with different revenue streams, is an extremely successful model.

#### *Opportunities for BME in the face of new international regulations*

A substantial part of global Derivatives and Fixed Income operations occur outside of supervised or regulated markets. OTC derivatives account for the largest part of this. These operations are difficult to supervise and were one of the major causes of the crisis. Efforts and measures aimed at bringing these operations under the control of supervised markets, as far as technically possible, have been extremely positive.

No effort should be spared to increase transparency in the bond markets and to bring them into line with stock market operations, and this issue will be addressed when considering future regulations. Therefore, volumes at SEND, the Fixed Income platform launched by BME in

2011 in response to this endeavour, are increasing and continue to grow at a significant pace. It is well known how fragmented the organised stock markets have become on the trading side of the business. This is not so much due to the lack of transparency and regulation, but rather, precisely because of the regulatory framework that has been imposed. All provisions aimed at mitigating these two effects - the lack of transparency in the Fixed Income and Derivative markets and the fragmentation of Equity markets - have our support. At the same time, the new standards may present business opportunities which we will try to exploit.

There is a lot of work to be done to recover the loss of confidence that the crisis has caused in the minds of investors. Now is the time to be responsible and committed. We need to establish clear goals, implement prudent management policies, make good use of our resources and propagate a work ethic that is based on effort, determination and honesty. This is the path chosen by BME.



Antonio J. Zoido