

February

Company financing - Capital increases



2013



ADOLFO DOMINGUEZ

0.5 € Million

Colonial

0.01 € Million

 Ercros

0.5 € Million

 PRISA

0.1 € Million

 URBAR
ingenieros s.a.

7 € Million



Letter
from the
Chairman



Dear Shareholder,

As Chairman of the Board of Bolsas y Mercados Españoles (BME), I am pleased to present our 2013 Management Report and Consolidated Financial Statements.

Macroeconomic and stock-market background

Spain is no longer the riskiest country and the international pressure that sent the Spanish stock market and the share prices of many Spanish companies tumbling has subsided. Foreign investors are again looking at and investing in our market, and in a big way. Foreign direct investment has doubled. And October last year was the best month ever for the exchange trading.

But 2013 was not trouble-free. The situation in the first half of 2013 was tense. There was even a possibility that the Spanish economy would need to be bailed out. Lacklustre economic data, rampant unemployment and excessive debt eroded the markets' confidence in Spain. In the second half, however, Spanish, as well as European, economic indicators turned less negative and the situation began reversing. Government reforms and international agreements have helped keep the situation from weakening further. But the main problems still remain.

Spain's debt remains high and there is still little activity in credit markets. Companies should tap capital markets for finance. To continue making inroads and help steer the economy towards recovery, work must continue to create a new model that is less dependent on leverage and offers access to funding through various channels.

Markets play a crucial role in this process and can provide the response to today's needs. Activity in regulated markets has proven to be efficient, transparent and secure, even with the economy struggling.

2013: the best year for the stock market since 2009 with activity increasing

The IBEX 35 rose by 21% in 2013. This is the best result since 2009. And improved prices were buttressed by trading volumes. Trading nudged €704 billion, slightly above the total for 2012. The 15% increase in the number of trades carried out in the period, to 44.3 million, is particularly noteworthy.

Turning to the Derivatives Market, although the volume of contracts traded fell by 18.5% on 2012, volumes in certain products increase. For example, in IBEX 35 Futures and Options volumes were up by 17.6% and 23%, respectively.

Trading in the Corporate Debt market totalled €1.28 trillion, 49% less than in 2012. However, the inclusion of Public Debt in the SEND Fixed-Income platform for retail investors has caused trading on this platform to more than double (121%).

Spanish stocks among the most liquid in Europe

The quality of trading in Spanish securities is gaining wider recognition internationally. Santander, Telefónica and BBVA were the most liquid stocks on the Euro Stoxx 50 in 2013.

MAB stocks posted the highest gains and the new SOCIMI segment is launched

There have been fewer new admissions to trading on the MAB in 2013 than in years past. In 2013 the Market consolidated as a source of funds, with significant growth in volumes. Since MAB was created, the companies listed on this market have raised more than €218 million of funds. A new segment for SOCIMIs was opened on MAB in 2013, with two SOCIMIs now listed.

MARF created to provide a new source of funding

Since October, companies now have additional support through the alternative fixed income market, Mercado Alternativo de Renta Fija (MARF). MARF is a multilateral trading facility for Fixed Income targeting institutional investors. It provides a complementary and alternative financing channel for Spanish companies that is more accessible and affordable, and that also affords them an opportunity to bolster their reputation, visibility and accessibility to investors.

Fourth largest market in the world by investment flows

Investment flows amounting to \$42 billion were channelled through the Spanish stock exchange in 2013. This ranks the Spanish exchange fourth in the world and shows how the market is successfully fulfilling its important role as a source of finance for companies.

Positive results and favourable shareholder remuneration

In 2013, BME focused on reinforcing what we consider our core mission and reason for being: facilitating transparent and efficient price discovery that is fair to all participants in our markets and providing companies with mechanisms that help them to gain access to financing.

This accounts for the diverse nature of our activities and our robust operational gearing. Revenues not linked to trading volume exceed the company's operating expenses. The company's coverage ratio is very positive and is unmatched in the sector.

The company's results are very satisfactory, despite the challenging backdrop. BME made a net profit of €143 million in 2013, 5.7% up on 2012. Full-year revenue amounted to €307.7 million, up 3.9% year-on-year.

BME has maintained a very solid dividend payout and this year will submit a 3% increase in shareholder remuneration, via the ordinary dividend, to the General Shareholders' Meeting; this is the highest in the market operators sector. This is possible as a result of increasing the supplementary dividend by 8%.

The market is ready for the new regulatory framework

Markets will be facing a broader regulatory framework in the coming months. September marked the fifth anniversary of the Lehman Brothers collapse, with the OTC derivatives market becoming the centre of the financial crisis and one of the main targets of the reforms to regulations and financial oversight spearheaded by the G20.

BME Clearing to encompass Central Counterparty activities

In 2013, the trading and clearing activities previously carried out by MEFF were separate. MEFF is now the new governing company for the derivatives market (Sociedad Rectora del Mercado de Productos Derivados), with BME Clearing acting as the central counterparty (CCP).

BME Clearing now channels the transactions in three activity segments, i.e. Financial Derivatives, Public Debt Repos and Electricity Derivatives. In future, it will also encompass the cash products segment (Equities and Fixed Income), which is being developed as part of the Reform of Clearing and Settlement in Spain.

REGIS-TR authorised by the European supervisory authority, ESMA

REGIS-TR, the European derivatives trade repository operated by Iberclear and Clearstream, began operating in February this year, having obtained authorisation from ESMA in November 2013. This is a significant event for the company, as this simple and efficient service will help our clients comply with their European reporting obligations.



Major challenges for the coming months

Regulators and supervisors still focused on price discovery and trading venues

Technology has helped drive the spectacular growth of securities markets in recent years, with regulation and supervision focusing heavily on the trading systems, which provide the basic price discovery function.

Finance to become the focal point in coming years

I doubt it will be long before another key role of markets -the provision of funding for companies- joins technology, and the social communication approaches brought about by this technology, in driving major changes. The crisis has led to the conviction that excessive leveraging must come down, that more capital is required and that, in short, balance sheets in general need to become more "balanced". Accordingly, the banking system, in a variety of ways, offers access to other financing schemes.

The change in the model will come about quickly in securities markets. The creation of the MAB or the MARF, or similar alternative instruments in other countries, is a clear indication of the emergence of new mechanisms, new ways of financing that must be addressed

Change in finance, technology and communication will lead to mechanisms in which capital plays a greater role and debt a less prominent role

The rupture of the excessive weight of bank debt, available technology and the existing culture of communication should give rise to new substitution mechanisms, in which capital plays a greater role and debt a less prominent role, and the use of other assets that can support the various balance sheet line items.

And as part of what is to come, the securities markets should play a role, given their independent position and strong credibility (underscored throughout the crisis). This role, geared toward financing for companies, will no longer respond, in a large part, to a classical order in respect of how it addresses this or of the assets involved

The roles of the various actors in the financial industry may begin to shift and become indistinguishable. And regulators and supervisors will surely have an arduous task delimiting the scope of action and enabling tightly regulated and supervised areas to be compatible with others that appear and grow in practically virtual areas.

The results we are presenting in our 2013 Report are satisfactory and put BME in a favourable competitive position to meet the coming challenges. The company is ready to make the decisions and investment needed to continue our growth and offer increased value to our shareholders.

Antonio J. Zoido