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*LETTER
FROM THE
CHAIRMAN*



Antonio Zoido, BME Chairman & CEO

Dear Shareholder:

As Chairman of the Board of Bolsas y Mercados Españoles (BME), I am pleased to present our 2014 Management Report and Consolidated Financial Statements.

For Spain, 2014 saw certain economic progress and achievements in the stock market. The various indicators have confirmed that Spain is no longer in recession and is on our way to recovery while the equity market set records in several areas of activity.

Against this complicated backdrop, and with concerns over the future, Spain has managed to maintain a trend which it had already begun in 2013. The government's willingness, and that of the vast majority of citizens, to implement reforms has helped the country to be on a relatively better position compared to the rest of Europe. However, we cannot be complacent; there are still clouds on the horizon.

A positive year for the Spanish equity markets

It has been a year of two halves, as we saw in 2013. The first half was very strong with the IBEX 35 reaching its best levels in 11 years. The second half though was somewhat weaker with recession threatening those countries which had previously seemed immune; persistent problems in others; and the emergence of geopolitical conflicts on the international stage.

Highest capitalisation for five years

The Spanish exchange closed 2014 once again as one of the strongest in the world, with a capitalisation of €1.1 trillion, 1.34% higher than 2013. And it features some of Europe's most liquid companies: namely Santander, BBVA, Telefónica, Repsol, Iberdrola and Inditex.

Record number of trades

The figures are certainly optimistic: 71 million trades were executed, a 46% increase on 2013. This is a record high and 1.5 times more than in 2008. In October alone, the Spanish exchange recorded 8.6 million trades, an unprecedented figure for just one month. Trading volume to December was €884 billion, a 26% improvement on 2013, while the leading European exchanges only saw a 17% improvement on average.

Stronger Fixed Income markets

This year we have seen investment flows moving from Fixed Income to Equities. We believe this is very positive for Spanish companies as they pursue financial equilibrium with more equity, something which is extremely important for Spanish business.

Trading in the Corporate Debt market stood at €1.1 trillion for 2014. This is down 14.5% on the previous year, although trading-to-maturity volumes have risen 42.3%.

IBEX 35 derivatives growth

The Derivatives market saw the number of contracts increase by 3% year-on-year to 56 million. Activity in the warrants and certificates segment totalled €819 million, up 8%.

2014 was a good year for IBEX-indexed products, with futures contracts increasing 24% and options contracts rising 42%. However, and as we have seen in other European markets, single stock derivatives declined, with Futures down 8% and Options decreasing 6%.



One of the leading markets in capital flows

The financial restructuring process continued in 2014, and corporate deleveraging and equity traded instruments were increasingly popular financing alternatives. New financing flows or capital investment totalled €36.1 billion. This Spanish equity market was positioned second in Europe in this area, and eighth in the world.

Thirteen companies carried out share placement operations to raise funds (public offerings and initial public offerings) compared to two in 2013. Of these, 11 launched initial public offerings (IPOs) prior to joining the market, with all 13 raising financing of just over €7.9 billion, 17 times the 2013 figure.

Largest number of listings in four years

The Spanish exchange saw 13 new companies joining all its segments, with seven listing on the primary market and six on the MAB. The year also saw the addition of new SOCIMIS (REITs) valued at €2 billion. These real estate investment trusts are yet another traded product available to issuers and investors.

Households increase their investment in shares

Once again, households are the second largest owners of shares, accounting for 27% of the total, nearly seven percentage points higher than during the 2007 crisis and the highest for 11 years. Economic stability, the diverse range of investment products and the remuneration policies of many companies have all helped attract retail investors.

Non-resident investors are the main holders of shares

Non-resident investors own over 40% of the shares on the Spanish exchange, a record number and also far higher than at the start of the crisis. We would note that this figure has remained above 30% for the past 20 years, an indication of the consolidation of the Spanish economy and market on the international stage. The strength and loyalty of foreign investors have brought greater stability to the exchange.

BME increases profits and dividends

In 2014, BME focused on reinforcing what we consider our core mission, our reason for being: facilitating transparent and efficient price formation that is fair to all participants in our markets and helping fund companies.

The company's results are very satisfactory, despite the challenging backdrop. BME reported net profit of €164.9 million in 2014, 15.2% up on 2013. Revenue was 11.3% higher year-on-year at €342.5 million. The largest contributors to the increase in revenue and profit for the year were the Equity, Information, IT and Consulting, and Derivatives businesses.

Both the return on equity (ROE) and the operating cost/income ratio (efficiency ratio) improved year-on-year. ROE climbed 5 points during the year from 35.9% to 40.9%, while the efficiency ratio improved by 2 points from 32.2% at the 2013 close to 30.2% in 2014.

BME maintains a sound dividend policy and this year proposes a 15% increase in shareholder remuneration to the General Shareholders' Meeting; this is the highest in the market operators sector. This is possible as a result of increasing the final dividend by 37%.



Technology to satisfy growing demand

The upgrades we have implemented in our various trading platforms have given us an ideal strategic position. We can now handle higher business volume while at the same offering a good service with lower costs, something which is fundamental for the stability of any market. In short, we are more competitive.

Greater business on the exchange means more sophisticated demands which is why we have continued to expand our range of products and services, helping us meet our investor's various strategic requirements.

In 2014 we opened a new point of access to the Spanish stock exchange in London. This is now our third, helping entities in London access the Spanish market in a secure, swift and reliable manner thanks to high capacity fibre optic lines.

Alternative markets continue growing

The number of participants and issues on the MAB has continued to grow. There are now 26 companies in this trading segment.

The addition of five new companies in 2014 helped highlight this market's role of helping SMEs raise capital. Since its creation, €300 million have been raised, €153 million in 2014 alone.

After just one year, the MARF has 19 members, including leading financial entities, 18 registered advisors and 12 companies which have launched bond, debenture and promissory note issues. Just two months ago the market was opened to securitised bonds, an important channel for SMEs to capture funds through this market. The first project bond issue was recently launched, yet another fund raising possibility. The MARF has an outstanding balance of over €500 million.

The depth of alternative markets shows how important they are for SMEs to tap financing. We are seeing a more balanced financial system where the excessive weight of bank lending is making way for greater market participation both in the form of capital raising and Fixed Income.

Wider and more complete information dissemination

Work continued in the year to incorporate new information content. We currently disseminate information on over 86,000 Equity, Fixed Income, Derivatives, ETF and Warrants instruments, as well as 164 indices. In 2014, we launched a new information product to satisfy users' requests for real time financial information. This promotes the 10 best buy/sell positions arranged by price.

BME Clearing adheres to new European standards

In September, BME Clearing received authorisation from the Spanish stock market regulator – CNMV - to operate as a Central Counterparty pursuant to European Market Infrastructure Regulation, or EMIR: we comply with new European standards of organisation and corporate model, technology, risk management and capital requirements.

BME Clearing is currently responsible for the clearing of financial and electricity derivatives and trades with Fixed-Income securities.

We have just received the go-ahead to clear interest rate swaps and the equity segment is expected to be included in October 2015 once the clearing and settlement reform is under way in Spain.

REGIS-TR strengthens its position as a European trade repository

REGIS-TR, our European trade repository - initially derivatives - processed more than 2 billion transactions in 2014 since EMIR regulation came into force, establishing the obligation to report all transactions with listed and OTC derivatives to Trade Repositories. The success of this system confirms the sound infrastructure of the Spanish stock market, which is able to continue developing products and services in alignment with clients' needs.

The key challenges facing the economy and the markets

On the whole, 2014 has been a positive year for the stock market and steadier one for the Spanish economy. Many of the stock market activity figures for 2014 are at historic highs and the outlook for 2015 is for moderate economic growth in Spain.

Expectations for the securities markets in 2015 remain upbeat, in terms of both financing and stock market listings and activity volumes. But we should not take things for granted, the authorities still have a great deal of work to do and reforms have to be implemented that citizens must face with determination.



The need for alternative financing has become a priority

The need to change the traditional financing model, with higher emphasis on the capital markets, was something that only a few of us had long demanded. Fortunately today it has become a general preference across the world.

The government is taking steps to support the alternatives already existing and even creating new mechanisms. The agenda to strengthen the industrial sector in Spain before 2020 includes measures to increase the weight of unconventional financing, and considers support mechanisms such as the MARF and the MAB to be essential.

At the same time, the European Commission (through the Juncker Plan) is working to shore up the financial system and increase its real capacity to finance the economy. And to do this, it needs to diversify financing sources and improve access to credit for SMEs, which is defined as the backbone of the European economy. The stock market will play a key role in this process.

One of the most important changes, and a key one in my view, is the change in the business structure. Small companies should increase their size to become more productive and competitive and increase their access to financing.

The substance of the stock market should be maintained in face of technological changes

The last few years have witnessed an unprecedented technological revolution which has shaped the path of stock market trading.

However, concern over the development of improved technological mechanisms for pricing, which enhance liquidity generation, should not be an obstacle for the exercising of another key role played by stock exchanges in the economy, i.e. providing financing for companies in an efficient, secure and transparent manner, as they have always done.

Increased transparency in companies, making for more efficient markets

The European markets are converging towards a single regulation, with full transparency toward the investors from stock exchanges, alternative markets and products alike. All the markets are essential, each one covers specific needs.

The regulatory measures currently being implemented must be stepped up to better protect investors throughout the EU. Today, the European Commission is working with national regulators, supervisory bodies and auditors to ensure that the information provided by companies and auditors is more transparent.

The objective of the EC is to lay the groundwork to drive growth in the region from 2020. Not only to overcome the crisis. But also to address the deficiencies in the growth model and build the necessary conditions for intelligent, sustainable and inclusive development. In short, to raise more capital and reduce debt.

BME is looking ahead to a new year which heralds a favourable outlook and remains an attractive and preferential destination for international investors. This is good news for both companies and investors.

The stock markets can help Europe to achieve greater innovation, boost savings, distribute wealth, manage risks and create jobs. It won't be easy but our experience backs us up. The securities markets must continue to demonstrate their capacity to channel financing processes while at the same time adapting to new technological, regulatory and operating environments.

Antonio J. Zoido