



**BOLSAS Y MERCADOS ESPAÑOLES, SOCIEDAD  
HOLDING DE MERCADOS Y SISTEMAS FINANCIEROS,  
S.A.**

**ORDINARY GENERAL SHAREHOLDERS' MEETING**

Madrid, 28 April 2016

**Report by the Chairman of the Board of Directors**

**Antonio J. ZOIDO MARTÍNEZ**

Good morning ladies and gentlemen,

First of all, as the chairman, and on behalf of the BME Board of Directors, I would like to welcome you and thank you for attending the General Shareholders' Meeting.

Please allow me to also greet the people who work in Group companies. On my own behalf, and on behalf of the Board, I wish to express our recognition for your dedication. Thanks also go to my fellow Board members, whose work, efforts and sense of duty from their positions on the company's various governing bodies, such as the Executive Committee, the Audit Committee, the Nomination and Remuneration Committee and the Market and Systems Operations Committee, have made the company's healthy performance possible.

Together, all of us - shareholders, investors, customers, employees and Group executives - have successfully built a company with an international identity, owing to the transparency, reliability, responsibility of our everyday work.

Allow me to give you a brief overview of the market in 2015. Then, I will present BME's results, our advances in corporate governance and the Group's latest actions. At the end of my talk, I will set forth the outlines of our business in the nearest future.

## **OVERVIEW OF THE SPANISH STOCK EXCHANGE IN 2015**

The IBEX 35 ended 2015 down 7.2%, after two consecutive years of gains. Once again, the best performers were the small and medium caps: The Ibex Medium Cap was up 14%, and the Ibex Small Cap was up 6.4%.

It was a tough year in the international markets. This became clear in the rising volatility and the pressure on share prices in the second half of the year. The main destabilising factor was the economic slowdown, mainly in Europe and the emerging countries.

In this environment of uncertainty, the Spanish economy stood out, with growth of 3.2%. But debt, deficit and unemployment remain causes of concern, in spite of the reforms and the advances achieved.

### **Listed companies pay out 27 billion in dividends**

The decline in share prices in 2015 was offset, in part, by payouts of dividends. Listed companies in Spain distributed to their shareholders more than 27 billion euros. The Spanish stock exchange is a leader in dividend yields, surpassing 5% in the first quarter of 2016.

### **Lower operating costs for investors**

Another of the positive aspects of the market that has benefited investors in the Spanish stock exchange is the reduction of operating costs. Rising liquidity has narrowed the spread measuring the difference between the best bid and ask prices by 0.3 basis points in the past year, and by 5.3 basis points since 2012.

### **Spanish stocks: leaders in liquidity**

Spanish companies continue to be top ranked in Europe in terms of liquidity. Santander is the most liquid stock of the Euro Stoxx, and Telefónica and BBVA are also in the top 10. Inditex and Iberdrola are also top ranked for investors.

## **Investor confidence remains high**

Confidence, which is basic for the functioning of markets, is still high in the Spanish stock exchange. Foreign investors also hold more shares than ever in the Spanish stock exchange: more than 44% of the total, and households continue to own more than 25% of listed stocks.

## **Four years of trading growth**

Trading in the Bolsa amounted to 963.2 billion euros, an increase of 8.9% year on year, marking the four consecutive year of growth. Volume stood at its highest level of recent years.

## **The largest new investment flows since 2007**

The stock market's ability to respond to companies and investors and its effectiveness in putting those demands into practice could be seen in the new investment and financing flows in the form of capital increases and IPOs. The market received a total of 41.6 billion euros, 15.3% more than in the previous year, the highest figure since 2007, and one of the largest in Europe and the world.

The Spanish stock exchange has contributed more than 242 billion euros to its companies since 2008, at a time when obtaining bank financing became complicated due to the implications of the crisis in the sector.

## **Growth of IPOs**

As regards public offerings, the total amount of such operations in 2015 increased by 49.1%, to 8 billion euros. The year ended with

seven public offerings in the stock market and 16 new companies in the MAB.

### **Mixed result in Derivatives**

In index-linked products, the Ibex Future, Mini Ibex Future and Future on the Impact Dividend Ibex, trading increased by 6.6%, 4.8% and 35.8%, respectively. However, Options declined by 25.6%

### **Trading in Fixed Income decreases**

Trading in Fixed Income amounted to 647.4 billion euros, which is 48.2% less than in the previous year. In the Public Debt segment, the decline was of 3.4%, having totalled 108.9 billion euros.

### **Settlement remain at satisfactory levels**

Settlement in Iberclear in 2015 amounted to 51.9 million transactions, which is in line with previous years.

### **Record high number of connections in Market Data unit**

Direct and indirect customer connections in the Market Data unit and the numbers of subscribers also reached record marks. In total, the number of customers increased by 7.2%, and users by 9%. Revenue from this unit was up by 18%.

## **BME'S BEST PROFIT SINCE 2008**

Ladies and gentlemen, BME obtained a net profit of 173.5 million euros in 2015, reflecting growth of 5.2%. The company had its best

profit since 2008, showing that our business model is a success, in spite of all the difficulties that have emerged along the way.

### **Containment of operating costs**

We have achieved this profit, also, by observing the cost control that defines BME, and in spite of the effort required by some projects such as the reform of the securities clearing and settlement system. In fact, operating costs were down by 0.4% in 2015.

### **Efficient and solvent management**

Our management performance indicators continue to be an international benchmark. In cumulative terms, the efficiency ratio measuring the relationship between operating costs and revenues, increased to 29.6%, while return on equity (ROE) remained at 40.9%, as part of the Group's outstanding financial solvency.

### **Dividend proposal**

Ladies and gentlemen, one of the proposals the Board of Directors plans to submit to today's Meeting relates to the distribution of a gross final dividend of 0.93 euros per share, which amounts to a 4.5% increase on the previous year. This dividend will be paid, if you approve it, on 6 May of this year.

### **Progress in funding through capital markets**

In recent years, it has become a commonly accepted view that the markets represent an alternative source of funding in addition to traditional bank funding, and this view has found support in Spain with the new Business Finance Promotion Act. It constitutes a

recognition of the need to build a new funding system, with more alternatives, based on more capital, less debt, and wider diversification.

The stock market has helped many companies who needed funding, even in the thick of the crisis, thereby also assisting in the economic recovery.

### **More companies than ever in the MAB**

BME has alternative markets that match the profile of specific companies and that are performing in a satisfactory manner.

At year-end 2015, some 46 companies were admitted in the MAB alternative market, including growth companies and REITs. It was an historic year for this segment. New débuts have occurred in these months, and we have approved new regulations in order to equip MAB with the best parameters for action.

### **Broader range of issuers in MARF**

For its part, the MARF market closed its second year with an issue volume of 831 million euros, which is 70% more. The outstanding balance exceeded 1 billion euros, which is 106% above the balance at year-end 2014.

You can see in this graph how the number of Fixed Income issuers has increased in recent years. This market is also performing very well, with high levels of efficiency and speed, which is the very definition of what issuers seek. Interest is growing, and many business sectors are now turning to the MARF. Just yesterday, a new company issued bonds in the MARF for the first time.

## **CORPORATE GOVERNANCE**

Also in 2015, the Company undertook the changes necessary to adapt its corporate governance to the Spanish supervisor (CNMV)'s Good Governance Code of listed companies approved in February 2015.

Allow me to share with you some details of the numerous measures taken. We believe we have increased even further the level of transparency and the quality of the information provided to shareholders. I will only mention the approval of the "policy on communication and contact with shareholders, analysts and institutional investors and proxy advisors", and its addition to the website alongside the rest of the Company's policies; the assessment by an independent expert, of the structure, composition and functioning of the Board of Directors and its Committees and the amendment of the Regulations of the Board of Directors in order to incorporate in internal rules and regulations the recommendations deemed appropriate for the Company, its shareholder and organisational structure, and that could further company interest and maximise its economic value.

Two of the main measures in Corporate Governance relating to the structure and functioning of the Board of Directors are among the proposals being submitted to this Meeting: the appointment of an independent external independent director, namely Maria Helena dos Santos Fernandes and the amendment of the Remuneration Policy of Directors.

If this appointment is approved, the degree of independence of Board members will be 50%.

The amendments to be introduced in the Remuneration Policy do not relate to the remuneration components paid to Directors. They revise the attendance fees of Board meetings and the design of the system for determining the variable remuneration of the Chairman of the Board of Directors.

Ladies and gentlemen, the Company is compliant with 75% of the recommendations applicable to it, even taking account of the fact that the new Good Governance Code is more exhaustive and stringent.

As regards the recommendations in the Good Governance Code not observed by the Company, the Corporate and Social Responsibility Report provides the reasons thereto as well as the measures and alternative mechanisms which, according to the Company, guarantee good governance practices.

## **THE COMPANY'S LATEST ACTIONS**

Last year, and in these early months of 2016, BME rolled out new products, advanced in strengthening market infrastructures, boosted different business areas and diversified its activity in order to broaden its revenue sources and services.

### **Reform of post-trade in Spain**

Yesterday, the new securities clearing and settlement system went into service following an in-depth reform carried out over several years. The work will be complete in September 2017, when Iberclear migrates to the Target2-Securities system of the European Central Bank.

## **More competencies for BME Clearing**

BME Clearing, BME's Central Counterparty, began to operate in November within the OTC interest rate derivatives clearing system. As of yesterday, it is also operating in equities.

## **REGIS-TR as energy reporting mechanism**

For the past two years European entities have been reporting derivatives transactions to authorised trade repositories pursuant to EMIR. REGIS-TR, our derivatives repository with its legal domicile in Luxembourg, reached 1,000 customers and records more than six million transactions a day.

In 2015, REGIS-TR received authorisation from the European supervisor to operate as a Registered Reporting Mechanism for the wholesale energy market.

## **BME Market Data disseminates corporate data in real time**

Among other improvements in services and products, and with the aim of enhancing the transparency and visibility of companies listed in the markets, Market Data has created a new service of real-time corporate data dissemination.

## **Acquisition of 100% of Infobolsa**

The Board of Directors of BME resolved in February of this year to acquire full ownership of Infobolsa via the purchase from Deutsche Boerse of its stake in the Company, thus becoming the majority shareholder of the financial services company Open Finance.

## **DIFFICULTIES OF CURRENT ENVIRONMENT**

### **More Debt than ever in the world**

Following years of reforms, of stimulus from the European Central Bank and business adjustments, economies have managed to improve in certain respects whereas, in others – areas that are crucial for driving growth – they have worsened. One of these is Debt, which is increased excessively among the most developed countries since 2007.

### **Worse growth forecasts**

The big problem of Debt is being compounded by others, such as geopolitical tensions, terrorism, instability of commodities and the possibility that the United Kingdom will leave the European Union. For Spain, also relevant is the political uncertainty that remains after the general elections of four months ago.

The first consequences are already becoming apparent: growth forecasts for 2016 are declining, and risks increasing, in the view of the International Monetary Fund.

The Spanish economy has grown in the last two years. Imbalances have been corrected and certain reactions have shown the country's potential. However, the latest deficit figures are worrying because they affect the credibility of the Spanish economy which, as you all know, is highly dependent on external funding in the form of capital and debt.

## **Potential for IPOs in Spain**

Even so, a large number of companies have announced their intention to turn to the Bolsa in the coming months, thus making clear the business confidence in the Spanish securities market.

Just yesterday, two new companies were listed, Telepizza and Dominion, and in the coming days the companies Parques Reunidos and Coca Cola are expected to join the stock exchange community. Very good news for the Spanish stock exchange and for BME.

## **Towards greater integration of markets in Europe**

In the prospectus to facilitate the Capital Markets Union, the European Commission itself acknowledges that these markets are fragmented and have not developed to the extent desired. Thus, the Commission proposes a series of measures aimed at fostering a higher degree of integration, broaden the range of options available to investors, making them accessible and thereby contribute to an improvement and the stability of the financial system. We believe that new opportunities for BME will arise in this environment.

## **The decisive weight of regulation**

There are many regulatory initiatives that are still to be undertaken. The entry into force of the MiFID II Directive has been postponed to January 2018, but we continue to work on this matter, helping our customers adapt to it. MiFID II, MiFIR, EMIR, CSDR, T2S are some of the regulations that will have an impact in the markets and systems where BME operates.

## **FIRST QUARTER OF 2016**

This morning, as is customary on the day the General Meeting is held, BME presented the results of the first quarter of 2016.

As you all know, the Spanish stock exchange traded equities worth 197.4 billion euros to March, 24% less than in the same period of the previous year, in a global environment of low trading volumes. Some 15.6 million trades were carried out in the quarter, which is 12% lower than in the first quarter of 2015.

In derivatives, trading was significant of the most significant contracts, namely index-linked futures. Nearly two million IBEX 35 futures contracts were traded, and 900,000 Mini IBEX Future contracts, which represents an increase of 3% and 5%, respectively, on the volumes seen in the first quarter of 2015. In spite of these positive figures, total trading volume was down by 8.9%, at 12.1 million contracts.

The difficult start of the year is not specific to the Spanish stock exchange. It is happening in nearly all the markets of the world. We are seeing a return of securities market activity to trading volumes that are more similar to those of 2006, prior to the boom of succeeding years, as you can see in this graph on some stock exchanges.

In terms of results, net profit in the quarter amounted to 42.9 million euros, 8% lower than in the same quarter of the previous year. We must note that, in spite of the significant fall in stock trading activity, BME has shown resilience in this environment by means of other revenues and cost control.

## **LINES OF ACTION IN A DIFFERENT FUTURE**

Growth in the channelling of funds for companies through markets in recent years is a sign of what trends will be in business funding.

### **Larger companies and public and private support**

But I think some matters must be addressed to ensure the success of market capacities, and both public and private actors should participate. In my view, it is indispensable to strengthen the size of SMEs and boost markets such as MARF and MAB, without overlooking the necessary optimisation of more consolidated markets.

### **Challenges as opportunities**

BME is successfully adapting to the financial revolution we are witnessing. We will continue on the same track, and we will devote attention, the way we always have, to situations that allow us to enrich all areas of our business, thus strengthening our value chain: funding, trading, post-trading, information and services. And while we uphold the management criteria we have put into practice, as they are right for our Company and for the market.

The challenges we face are actually opportunities for BME. And they are also opportunities for the economy itself, the financial system and companies.

### **Consolidation of the sector**

Once again, the worldwide stock exchange sector is seeing significant corporate movements. These movements by market operators

highlight the complexity of these processes and the appropriateness of acting with prudence.

BME positively views any movement between stock exchanges that brings benefits to investors and market participants, and it closely watches all such activity. You may rest assured that the Spanish stock exchange is perfectly ready to compete in any conditions or environment.

To conclude, I would like to say something about our first decade as a listed Company.

BME was first listed on 14 July 2006. The year of our début in the stock exchange was among those with the most growth in the expansive cycle Spain was undergoing. But there were severe imbalances in the external deficit, low business competitiveness and precariousness in job creation.

In my address opening the session, I said that, without leaving aside the traditional mission of the stock exchange of providing funding, giving investors security, overseeing correct price discovery and transparency, we should take on a profile such as that of any other company, seeking to improve our business ratios and generating return for our shareholders.

Revenues are reaffirming compliance with this commitment and, with respect to shareholders, I would remind you all that we have paid out more than 1.5 billion euros in dividends during this time. The TSR (Total Shareholder Return) of BME received by a shareholder who invested in our public offering attained 115% over these 10 years.

Thank you very much for your attention.