

2016 IN REVIEW

Antonio J. Zoido
BME Chairman

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HIGHLIGHTS

- 1. The IBEX 35 is finishing 2016 at the same mark as the beginning of the year due to uncertainty** on the international front. The IBEX with Dividends, meanwhile, was up at year-end.
- 2. Trading on world securities markets has become generally sluggish** in the wake of episodes of uncertainty in the course of the year. **The Spanish stock market traded 603 billion euros up to November.**
- 3. Dividends paid out to shareholders at listed companies stood at 24.7 billion euros, up by 0.89%** against the same eleven-month period in 2015. **Since the year 2000, businesses have paid out more than 385 billion euros to shareholders, or 35% of Spain's GDP.**
- 4. The Spanish stock market's dividend yield is over 4.6%, making it the leader of the world's major exchanges.** A high dividend yield has been maintained in recent years, and is now one of the hallmarks of the Spanish securities market.
- 5. The costs of operating on the Spanish stock market hit a new low this year.** One particularly noteworthy feature was a 34 bp rise in the IBEX Small Cap spread, producing hefty savings for investors.

6. In the course of the year the **Spanish stock market brought in almost 27 billion euros of new capital funds** for businesses up to November. **22 new companies were listed on the Spanish exchange.**

7. In terms of **share capital increases, 110 operations were carried out between January and November,** channelling 22.35 billion euros from the Spanish securities market to listed companies.

8. **The alternative MAB market features 62 companies, including REITs,** and lists over 3,270 SICAV funds. 38 capital increase operations were carried out to a total amount of 2.70 billion euros, a climb of 82% against 2015.

9. **Between January and November, issues and admissions for trading on MARF totalled almost 2 billion euros,** doubling the figure the previous year and almost tripling 2014, the market's first full year of operations.

10. **Foreign investors are majority on the Spanish stock market, and accounted for 43.2% of market value at the end of June,** setting an all-time record. **Households account for 23.4%, well above the average percentage for Europe.**

Good afternoon.

I wish to thank you for attending this traditional Christmas lunch at the Madrid Stock Exchange which, as every year, gives us a chance to discuss our personal and professional experiences in recent months.

In some ways it has been a difficult and unprecedented year. We have witnessed historic situations in Spain, Europe and the United States. The Spanish economy was compelled to operate for almost a year with a caretaker government, with the logical consequences.

In Europe, the British people made the decision to leave the European Union. A decision at odds with efforts by Brussels to consolidate unification of the region, with initiatives such as the Capital Markets Union or Banking Union in a bid to shore up economies and solve the problems caused by financial crisis.

The victory of the US president-elect has also created certain expectations on markets. A slowdown in the Chinese economy continues to worry investors.

THE SECURITIES MARKETS IN 2016

SMALL GAINS ON WORLD INDEXES. THE TREND IS LED BY THE US AND EMERGING ECONOMIES

Stock market indexes around the world finished November with only small gains ranging between 3.8% and 2.5% on the major trading floors. World indexes had seen out the previous year 2015 with small losses.

European stock markets were down for the most part to November, but movements were significantly disperse despite the continuation of a strong expansive trend in ECB monetary policy. In December, however, we have been seeing some recovery in European indexes.

The IBEX 35® is finishing 2016 at the same mark as the beginning of the year due to uncertainty on the international front. The IBEX with Dividends, meanwhile, was up by more than 5% at year-end.

LOWER TRADING VOLUMES

One market parameter common to most exchanges is lower volumes of trading, especially in Equities, reflecting concerns in the wake of specific events and the effect of regulations introduced following the financial crisis.

Trading on the Spanish stock market totalled 603 billion euros to November, down by 32.5%, in keeping with a downturn in business on other world markets, whilst the number of trades stood at 50.4 million, bringing the fall down to only 12% against 2015.

CAPITALISATION STILL OVER 1 BILLION EUROS

Spanish stock market capitalisation remained at around 1 billion euros for the fourth year running. The overall market value of listed companies in Spain has gained approximately 210 billion euros since the crisis lows of 2011.

OPERATING COSTS AT A RECORD LOW

Falling numbers of transactions did not impair average spreads in the combined price listings of companies on the three main indexes, IBEX 35, Medium and Small, still at record lows. These data speak volumes concerning the operation and attraction capacity of the secure, advanced securities market model operated in Spain.

AN UNENCOURAGING FIXED-INCOME SCENARIO

The prolonged scenario of rock-bottom interest rates in Europe continues to affect the trading of Fixed-Income products. The ECB has maintained its expansive policy, and the process of corporate deleveraging has continued

along with ECB bond purchase programmes. All this renders Fixed-Income operations extremely difficult.

Trends in Corporate Debt affected the overall result, and volumes were cut back by 67%. Cumulative trading of Public Debt, however, on the SENAF electronic wholesale trading platform between January and November, stood at 160.54 billion euros, up by 61.8% against the same eleven-month period in 2015.

INTEREST IN DIVIDEND-RELATED DERIVATIVES

Up to November almost 39 million equities contracts were traded on the MEFF Options and Futures market, 5% less than the same period the previous year. Trading on IBEX 35 futures contracts to November was down by 6.7% against the same period in 2015. This is in keeping with trading in most futures on other European stock markets.

In cumulative terms, the best news for the derivatives market was the trend in trading in derivatives linked to share dividends. Trading in IBEX 35 Impacto Dividendo futures rose by 44.5% to November with 40,000 contracts, while share dividend futures also moved up 26% to 280,000 contracts.

I wish to remind you that in September this year futures began trading on sectoral indexes, IBEX 35 Bancos and IBEX 35 Energía. This was an initiative in response to market demand, bolstering our offer to investors.

This year the MEFF Options and Futures market also permitted weekly options for IBEX 35 underlyings and some listed securities. A few days ago it also launched wind power derivatives.

OVER 24 BILLION EUROS IN DIVIDENDS ON THE SPANISH STOCK MARKET

Dividends were another market feature which continued to make positive noises. Up to November, total shareholder remuneration on the Spanish stock market in dividends and return of share premium contributions totalled 25.19 billion euros.

Listed companies paid out 24.74 billion euros in dividends to shareholders, accounting for 98% of total remuneration with an increase of 0.89% compared to the same eleven-month period in 2015.

In the first 16 years of the century, since the introduction of the euro as the official currency in Spain, companies listed on the country's stock market have paid out 385 billion euros to shareholders, of which 363 billion euros in dividends. These figures represent between 35% and 40% of Spanish GDP, and 88% of the amounts that were paid out in the course of the last 10 years, a period beset with crisis and losses of wealth and spending power by many investors worldwide.

ATTRACTIVE DIVIDEND YIELD

This year, the Spanish stock market once more leads the dividend yield rankings among its main counterparts worldwide. At the end of October yields amounted to 4.6%, nearly 0.4 tenths of one percent above the monthly average over the last 28 years. A high dividend yield has been maintained in recent years, and is now one of the hallmarks of the Spanish securities market.

For almost the last 10 years the Spanish stock market's dividend yield has been the highest of the world's developed exchanges, showing an average (based on monthly data) over the last 30 years of 4%. It also ranks as the highest on the international stage in comparison to its counterparts in terms of size and development.

RECORD NUMBERS OF FOREIGN INVESTORS

Investors worldwide have continued to flock to the Spanish stock market, even though the situation has been less than ideal.

Whereas at year-end 2015 foreign investors owned 42.3% of listed Spanish companies, the second largest amount in the historical series, estimates for the first six months of 2016 put this share at 43.2%. If this situation continues to year-end 2016, it would set a new all-time high.

UPTURN IN SHARES OWNED BY HOUSEHOLDS

Following a decrease in the proportion of Spanish households owning shares in listed companies in 2015, provisional data for the first six months of 2016 indicate an upturn of 23.4%.

During the years of crisis, households became one of the mainstays of the Spanish stock market, helping to swell the portfolio of listed equities. The downturn in price listings, lower yields from other traditional household savings schemes, processes to boost capital or shareholders' equity by both financial and non-financial companies and the dwindling attractiveness of real estate investment, the habitual resort of family savings in Spain, help us understand the larger proportion of household shareowners after 2008.

The numbers of shares owned by households in the first half of 2016 outstripped 2007 proportions by 5.3%, an increase comparable only to the proportion of foreign investors.

FINANCIAL ASSETS NOW ACCOUNT FOR MORE THAN 30% OF HOUSEHOLD WEALTH

Spanish households' property assets are giving way to financial assets. Whereas financial assets over the five years between 2007 and 2011 accounted for less than 25%, after 2013 they flourished to consistently exceed 30%.

27 BILLION EUROS IN FINANCING

There can be little doubt that corporate financing conditions continued to improve in 2016, chiefly thanks to the role played by Spanish stock exchanges. Chalking up almost 27 billion euros in new investment flows channelled to companies up to November, mainly through share capital increases, the Spanish stock market has regained pride of place among stock exchanges worldwide.

The worldwide IPO freeze, particularly in Europe in the wake of Brexit, has delayed many plans for market listings, which we believe will be resumed in 2017. Within the last decade, since BME joined the stock market in 2006, the Spanish exchange has channelled more than 460 billion dollars in new investment and funding to listed companies.

THE SPANISH STOCK MARKET, ONE OF THE BUSIEST

IPO activity between January and September slackened all over the world by 23% in terms of numbers of operations and by 39% in volumes of business against the same period in 2015.

22 new companies had joined the Spanish exchange up to November. 4 joined the main market, and 18 went on the alternative MAB market. The Spanish stock market has been one of Europe's busiest. We trust that next year companies will resume their IPO plans.

EXPANSION OF ALTERNATIVE MARKETS

On the MAB market, 15 companies joined a listing on the REIT segment, and 3 joined the expanding companies segment through IPOs. Another new company will join the MAB market on Thursday. We are working to enable new companies and REITs to join the market in the last two weeks of the year.

38 share capital increase operations were carried out to the tune of 2.70 billion euros, up by 82% compared to the same date in 2015. Up to November, businesses in the growth segment had tripled the funds secured via capital increases in the market, from 70 million euros in 2015 (up to November) to 209 million euros by November 2016.

GROWING INTEREST IN THE MARF MARKET

The Mercado Alternativo de Renta Fija (MARF) finished November 2016 with an outstanding balance of corporate debt issues in the region of 2 billion euros, composed of just over 1.10 billion euros in bonds and the rest in commercial paper programmes. The balance was up by 48% against the previous year. To November, 17 businesses had availed themselves of the MARF market to cover their financing requirements. Of these, 10 were newcomers to the MARF and the other 7 had already conducted these operations in the past.

Between January and November, the overall volume of issues and admissions for trading on MARF was almost 2 billion euros, doubling the figure the previous year and almost tripling 2014, the market's first full year of operations.

TRANSFORMATION OF THE FINANCIAL SYSTEM

MORE RESOURCES AND CAPITAL FOR BUSINESSES

The profile of Spanish businesses has undergone many changes in recent years. Companies have increased profits, shed debt and boosted their competitiveness by refocusing on foreign business, chalking up a new record high of more than 64%.

In a word, they have progressed to a more balanced and flexible financing system, with an increased proportion of resources and funds obtained from sources other than banks. In the course of the year we produced analyses to bear out this trend: in a homogeneous group of non-financial IBEX 35

corporations, between 2010 and 2015 own resources rose by 15.4%, while bank debt fell by 39.8% and fixed-income debt issues increased by 22.9%.

CAPITAL INCREASE ACTIVITY REMAINS STEADY

110 share capital increases channelled 22.35 million euros to listed companies between January and November, 17% less than the same period in 2015. In this regard, however, it should be remembered that 2015 was the second best year of the century in terms of funding through capital increases.

MORE BOND FINANCING SCHEMES

Up to mid-November more than 40 non-financial companies in Spain had secured funds on the fixed-income market in 2016, notching up a record high at year-end. Volumes stood at 21.44 billion euros.

In 2007 and 2008 only 12 non-financial Spanish corporations were able to issue on bond markets. Barely 5 years later, their numbers had risen to 30 by 2013, 39 in 2014, 31 in 2015, and 40 in 2016 up to mid-November. With only a few weeks left, 2016 looks set to be a record year for bond issues by non-financial corporations.

OPTIMISING AND BOOSTING FUNDS

It is obvious that changes are being made to the financial system, albeit not at the right pace. What is most important is that they are being made on a solid basis, pursuant to Spanish and European regulations acknowledging the capacity of stock markets as an alternative complementary source. This is one way of confirming our past trajectory and acknowledging the ability to address both present and future challenges by adapting business models as required at any given time.

FEWER IMPEDIMENTS TO PREVENT THE EXPANSION OF SMEs

SMEs must expand. We have been insisting on this issue for some time now. It is essential to help improve Spanish corporate structures and gain access to finance. Action must be taken by both public and private enterprises to this end.

A YEAR OF MARKET SUCCESSSES AND PROGRESS

REFORM OF THE CLEARING AND SETTLEMENT SYSTEM

We have now successfully completed the first phase of Reform of the Securities Clearing and Settlement System. It was a long period of hard work to bring about a historical transformation.

In April equities were migrated to the new settlement platform ARCO, completing the first phase of reforms to the system. The migration process was a success, as operation of the new system stabilised during the first few weeks thanks to the assistance of not only Iberclear, but also central counterparties and the participants themselves.

One of the main features of the process was the creation of a Central Counterparty, BME Clearing, to segregate settlement and clearing operations. In 2016 the clearing facility registered a daily average of 401,264 operations up to November.

In October the settlement cycle was moved from T+3 to T+2. The transition from one cycle to another was carried out successfully, allowing Spanish equities to settle smoothly at T+2.

A second major step remains to be taken in terms of post-trade, to migrate the entire system to Target2 Securities, the centralised pan-European platform for securities settlement, created and run by the European Central Bank. This second phase is due to start in September 2017.

DEVELOPMENT OF THE REGIS-TR SYSTEM DURING THE YEAR

In 2016 the REGIS-TR scheme was consolidated as Europe's second largest trade repository, processing almost 20 million messages a day. REGIS-TR has maintained its strategy to act as a single regulatory reporting platform for European businesses.

Since October 2015 REGIS-TR has provided a reporting service for energy product trades according to European REMIT legislation, and in 2016 it also reported on these products to Swiss energy regulator ElCom.

ASSISTANCE FOR ENTREPRENEURS

Another initiative rolled out during the year was a joint project by Spain's Business Angels Association and BME to create the first pre-market environment for start-ups. The idea is to assist and support entrepreneurs in accessing markets and to facilitate new sources of funding to help them grow, and make them more visible, transparent and competitive. There will be a specific focus on financial and business training.

PROGRESS ON THE FUNDS PLATFORM

Our funds platform project is nearing completion as we approach the end of the year. Market members were given test access to it in November, and it is taking up its technical format via a new MAB segment where over 3,000 SICAV funds are already listed.

We expect the first investment funds will join the platform in the coming months.

SOLID MANAGEMENT OF INFORMATION GENERATED BY BME

In 2016 BME continued to add new contents to its offer of information. BME Market Data currently provides 95,000 delivery locations worldwide with

real-time information on 49,684 Equity, Fixed-Income and Derivative instruments, and also 245 indices calculated by the BME Group.

NEW TECHNOLOGICAL FEATURES

Another new stock market feature in 2016 was the monitoring tool **Visual Flow**, which provides an overview of all the connections operated by a member.

Moreover, following the recent reform of the clearing and settlement system, we brought out **Visual CCP Risk**, an application that monitors and controls risk arising from operations with companies' customers.

Ahead of the introduction of MiFID II, Visual Trader deployed the **Transaction Cost Analysis Visual TCA** service. To make this calculation, all daily trades by customers are processed and compared to the entire market (including different trading venues) using statistical performance analyses, with detailed analysis of the various implicit transaction costs paid on the trades.

In its traditional role of innovator, in 2016 the Spanish stock market also launched **BME ConfidenceNet**. These are services to provide a simple, digital authenticated format for trading documents, agreements, consent and similar items between companies or between companies and their customers.

CONCLUSION

I would like to conclude with a few appraisals. National and international forecasts put GDP growth at over 3% this year, with slightly more moderate growth the following year.

Efforts by the government to improve the economy will coincide with inevitable changes in US monetary policy, and perhaps also European monetary policy. It is time to apprise and observe the extent of recovery in each country, affected by external events.

2017 looks set to be a year in which international policy will also prove a major factor. There will be elections in major countries such as France and Germany.

Markets will have to face these challenges, in addition to other political and economic challenges in the offing. They also have to face their own challenges, such as adaptation of EU regulations, and growth and development in response to the changes demanded by the sector and also by investors. Against this backdrop, the Spanish stock market will continue its strategy of rolling out projects to generate market value, as it has always done.

Businesses are securing more funds because we have succeeded in replacing traditional channels of finance. We have helped them become more competitive, and assisted them with continued growth and diversification of their sources of finance.

During this period the Spanish stock market has demonstrated its sturdiness and the effectiveness of the model it operates. More than ever, many listed companies are now of great interest to international investors. We can be satisfied with our role as stimulator in such difficult times. And we still have much more to offer.

I wish you a Merry Christmas in the company of your family and friends.
Also, the very best of luck for 2017. Thank you very much.