



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

ORDINARY GENERAL SHAREHOLDERS' MEETING

Madrid, 27 April 2017

Report by the Chairman of the Board of Directors

Mr. Antonio J. ZOIDO MARTÍNEZ

Good morning ladies and gentlemen.

First of all, as Chairman, and on behalf of the BME Board of Directors, I would like to welcome you and thank you for attending the 2017 General Shareholders' Meeting.

Please allow me to extend the greeting to all 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 all of my fellow Board members, whose hard work and sense of duty from their positions on the various governing bodies have made the company's good performance possible.

This annual meeting, as you know, allows us to focus on the immediate future of the company and the environment in which it operates. However, it is also an opportunity to find out the work the Group has undertaken over the last year and that which it aims to carry out over the coming year.

I will now give a brief summary of the market and BME in 2016, where, despite the difficulties which arose, there are positive factors to report. I will conclude by considering the most pressing future factors that exist for the markets and the sector, and the position and strategy that the company plans to maintain.

SECURITIES MARKETS ACTIVITY IN 2016

Last year was a complicated one for equity markets and the IBEX 35 closed it 2% down. However, the index has opened 2017 with good momentum and up to last Monday had gained 14%.

This positive performance of the Spanish benchmark index is not limited to the past few months. Since last June, after the general uncertainty felt in the European markets post-Brexit, it has experienced a sustained recovery.

The IBEX 35 celebrated its 25th anniversary in January. Since the close of its first day of trading up to now, it has risen by over 250%; more than 800%, if we add in dividends, which is a more complete way of calculating shareholder return.

One of the world's major securities markets

The Spanish stock market remains of international importance, both for its diversity and effectiveness of services and size. Capitalisation once again stands above €1 trillion, and since the end of 2008, the first year of the financial crisis, it has recovered almost €400 billion.

Record global presence

A large part of the market's success is down to the interest shown in it by foreign investors. In 2016, they owned 43.2% of the total value of the shares in the market: a record high.

Highest dividend distribution

The dividends received are another attraction that makes the Spanish exchange one of the world's most important. The companies listed on the market paid out €27.1 billion in 2016, an increase of 3%.

Equity trading

On a less positive note, equity trading was down 32% to 653,642 million euros against a general worldwide backdrop of falling trading volumes.

Operating costs at a record low

Liquidity is another benefit the Spanish market offers. The implicit cost of the trades investors make has been reduced right down to an all-time low.

This has been especially notable in the small and medium-sized enterprises (SMEs) transactions, which now account for 50% of the trading volume. Without doubt, an important driver for the liquidity and solvency of the entire Spanish stock exchange.

New derivatives prove a success

Derivatives trading has seen mixed results, with equity derivative products outperforming those of indexes.

This improved performance was shown by the latest products made available to investors, to broaden and complete their range of options. Stock dividend futures trading grew by 26%, while IBEX Impacto Dividendo futures did so by 78.6%.

Fixed Income shows sign of stabilising

An environment of record low interest rates along with the continuation of the ECB policy of buying back bonds is still impacting on Fixed Income. This business unit also had an uneven performance.

Trade in Public Debt increased 60% on the SENAF platform, with that of Private Debt down 66%.

Fixed Income is beginning to bottom out; it is much more stable after the major deleveraging cycle experienced by the Spanish economy, both at a business and individual level.

BME Clearing consolidates its business

BME Clearing, the exchange's Central Counterparty, consolidated its business in all trading segments last year and increased it in two new ones: clearing of transactions related to the Spanish stock market and those for OTC interest rate derivatives.

Changes in Settlement

The inclusion of BME Clearing in the Equities business in April, after the launch of the Securities Clearing and Settlement System Reform, has changed the composition of revenues; these are lower in Settlement and higher in Clearing.

More clients and services in the Information unit

The information unit has continued its positive trend of the last few years and experienced growth in the number of clients.

BME Market Data currently provides real-time information to over 95,000 worldwide delivery locations, on almost 50,000 Equity, Fixed-Income and Derivative instruments, and also 245 indexes calculated by the BME Group.

THE MARKETS AS A FUNDING MECHANISM

Backed by a favourable environment, and with the development of new funding alternatives like the MAB and the MARF, in 2016 a growing number of Spanish companies have strengthened their equity or diversified their sources of external financing through capital increases, debt issues or IPOs.

The main non-financial listed companies continue to put financial restructuring strategies into practice: more capital and less reliance on the bank financing channel, leading to an increased weight of tradeable debt instruments within the overall external funding structure.

Growth in business financing

The Spanish market remains one of the best channels for obtaining financing. In 2016, total investment flows of €28.5 billion were recorded. This figure is slightly below that of 2015, but remains high and confirms the growing interest for this funding alternative.

The capital increases made by non-financial companies in the year is also worthy of mention. These totalled €14.6 billion in 2016, some 24% higher, year-on-year.

The changing business model can also be seen, with a move towards raising more finance through the markets and less from the banks. The weighting of capital in the funding of non-financial companies in 2016 was 54.04%, compared to just 41.7% in 2008.

Main IPOs

27 companies were listed for the first time on the Spanish exchange in 2016, involving placements totalling over €1.4 billion.

In the first few months of 2017, the Spanish stock market's IPOs have been among the most significant in Europe. The three new listings that have already taken place have been the biggest in Europe and among the most important worldwide.

Record transactions in MAB

There has been strong growth in alternative markets, such as the MAB and the MARF, which are focused on the financing of SMEs.

There are now 71 companies listed on the MAB, including REITs. In 2016, there was a record volume of capital increases of €223 million - triple the figure for 2015- which is contributing to the consolidation of this financing channel for SMEs.

The new REITs sector

An important factor in business financing in Spain in the last three years has been the emergence of SOCIMI, a Spanish version of Real Estate Investment Trust (REITs). These are listed companies with a special tax regime, whose activity centres on channelling financial resources into the development, refurbishment and management of rental property and other related real estate activities.

With their addition, the total market cap of listed real estate companies has risen from €3.3 billion in 2014 to around €11 billion at the end of December 2016.

Big increase in issues in the MARF

Turning to the MARF, companies used this method of financing in 2016, with the outstanding balance of corporate issuances exceeding €1.6 billion, a year-on-year increase of 57%.

Ten of the companies that used the MARF in 2016, did so for the first time, and there are now 29 that have benefited directly from this financing instrument.

A pre-market environment for entrepreneurs

It is important to give as much support as possible to entrepreneurs: the group of people that generate wealth and create employment in the economy. BME has developed a joint project with Spain's *National Business Angels Association* to create the first pre-market environment for *start-ups*. The plan is to provide these entrepreneurs with a basic background in two areas that will be key in developing their businesses: finance and training.

BME RESULTS 2016

Leaders in management

Allow me to give you the management ratios, which in short are those which compare our performance with that of the sector as a whole.

ROE (return on equity) returned a figure of 37.5%, whilst the efficiency ratio (that shows the relationship between operating costs and income) stood at 33.2%. The difference with regard to the sector

average is over 23 points in the first case and 9 points in the second. Yet again last year, our management proved itself to be more efficient than the sector average.

Stable profit

2016 was a difficult year, full of historic events both in Spain and the rest of the world, but BME has worked hard to reach the highest levels of performance in its business activities.

The company obtained a profit of €160.3 million, down 7.6% on 2015. However, I would like to highlight a couple of aspects here. Firstly, that this is one of the best results BME has had since the start of the crisis in 2008: profits have only been higher in two of the eight years since then.

Secondly, the efforts made to diversify revenue sources can be seen in a remarkable operational gearing ratio -unique in the sector- with income not linked to volumes covering 119% of expenses.

Furthermore, this diversification of revenue sources is ensuring that, even in those years with lower trading volumes on our platforms, the company's profits are higher than those in which a similar level of transactions was recorded previously.

Proposed dividend

Ladies and gentlemen, the Board of Directors' plans to put to the vote at today's General Shareholders' Meeting the resolution to distribute a gross final dividend of €0.80 per share. If approved, it will be paid on 5 May of this year.

The company's 2016 total gross dividend will therefore be €1.80 per share and the pay-out will be 93%, one of the highest among listed companies.

BME share gains in value

Ladies and gentlemen, the BME share price has performed well since the last Shareholders' Meeting, gaining 41%. 2017 is also proving to be a good year so far, with the stock rising by 17% up to April.

Total shareholder return

Talking of the dividend, and having already expressed in my speech its importance in our market and how the presence or otherwise of a dividend changes the analysis, it is now time to remind you, with a great deal of pleasure, that anyone who invested in BME shares from the time of their flotation just over ten years ago, would have been able to obtain a yield of over 120%.

Re-election of Directors and proposal of a new Director

I would also like to highlight that among the resolutions in the agenda of this Meeting are the reappointment as directors of Mr. Hortalá and Mr. Mato as well as myself. And in addition, the appointment of Mr. Javier Hernani Burzako, the Company's present General Manager, as member of the Board of Directors for the statutory term of four years, pursuant to the provisions of Article 38.1 of the Articles of Association.

Subsequently, the Board intends to appoint him as CEO. This appointment, in line with best practices in corporate governance, will have a positive effect on the company's management.

CORPORATE GOVERNANCE

In terms of corporate governance in 2016, there have been changes regarding compliance with some of the recommendations contained in the Spanish Code of Good Governance (Código de Buen Gobierno). These changes did not result in a reduction in the overall compliance level r to the previous year, which remains above 75% of the recommendations that are applicable to it.

In 2016, in line with the conclusions reached after an independent expert carried out an evaluation of the structure, composition and functioning of the Board of Directors and its Committees, a non-independent external Director has joined the Executive and Appointments and Remuneration Committees.

Thus, while the recommendation that the composition of the Executive Committee be similar to that of the Board of Directors has been fully observed, the recommendation on the composition of the Appointments and Remuneration Committee, which had been totally followed as the majority of the Directors qualified as independent, has been partially followed as these now account for 50% of its members.

Another measure that has had an effect on the degree of compliance with the recommendations was the approval by the Board of the Directors of last year of the Director's Remuneration Policy, which included a system for setting the Chairman's variable compensation based on the criteria contained in the prevailing recommendations.

Although anticipating what this General Meeting still has to approve, I would like to mention that the modification of the Remuneration Policy that is to be voted on under item four of the Agenda, goes far and beyond the recommendations on variable compensation for Executive Directors. This is because the relationship between short term variable compensation and value creation and long-term sustainability and also in the case of the remuneration applicable to the new Director qualifying as executive, due to the inclusion of a claw-back clause.

FIRST QUARTER RESULTS

This morning, as is customary on the day the General Shareholders' Meeting is held, BME presented the results for the first quarter of 2017.

Net profit in the quarter amounted to €39.3 million, down 8.3% on the same quarter of last year. In more homogeneous terms – stripping out non-recurring operations – this percentage change decreases to 4%. The result is almost identical to that obtained in the previous quarter (€39.2 million). Therefore, the result is stable against a clear backdrop of turbulent times.

The General Manager will explain the first-quarter figures in more detail, after my speech.

ACHIEVEMENTS BY THE COMPANY AND THE MARKET

Reform of the Securities Clearing and Settlement service

Exactly one year ago, we successfully completed the first phase of the reform of the Spanish Securities Clearing and Settlement System,

which produced the migration of Equities trading to the new ARCO platform and saw the rapid stabilisation of the new system, thanks to the involvement and efforts of Iberclear, the central counterparty entities and the Participants themselves.

With the execution of this step, the settlement period for equity trades moved from T+3 to T+2 in September.

BME has continued to carry out the tasks relating to phase II of the reform, which is due to be completed by September, once the migration from ARCO to Target2 Securities, the pan-European settlement platform managed by the European Central Bank, has taken place.

REGIS-TR, Europe's second largest trade repository

REGIS-TR, the European trade repository of BME and Deutsche Börse, ended the year with an 11% growth in clients and 9% in accounts. This confirms its place as Europe's second largest trade repository, processing around 20 million messages a day.

REGIS-TR now provides information for over 30 European regulators, consolidating its position as a communication channel for market participants and supervisors.

Launch of BME Fondos

The addition to our services of a trading segment dedicated to the subscription, redemption and transfer of investment funds is part of BME's organic growth. It is a market segment that aims to provide the best offer and service to clients and investors. It is slated to begin operations on 27 June.

A new initiative for companies: BME 4Companies

Yesterday, we announced the start of BME 4Companies, an initiative whose objective is to provide Spanish companies with the services and support necessary for a successful relationship with the Securities Market and its players.

It groups together all the products and services that BME offers Spanish businesses by means of a comprehensive and orderly solution that contributes to promoting their business and projection, by making most of the benefits that the securities market can offer, such as: financing, internationalisation, visibility, prestige, transparency and liquidity, etc.

Award of the Algerian market modernisation project

Due to its significance, I would also like to mention that BME's international consultancy unit has been awarded the contract for the Modernisation Project for the Algerian Financial System, which includes IT systems and market, institutions and intermediaries infrastructures, some of which are already live.

PREPARING FOR THE IMMEDIATE FUTURE

Entry into force of MiFID II in January 2018

The process of adapting to European regulations is proving to be very demanding in terms of both effort and cost. However, what really matters is what it aims at: greater transparency and risk control. MiFID II is due to enter into force in January 2018. The regulation will bring significant changes in various areas.

Restructuring of Group activities

The Group is undertaking a restructuring process in relation to its activities connected with certain aspects of technology, regulation and innovation.

The aim is to organise the services provided in order to improve efficiency, continue to diversify the business and obtain synergies. They are changes, in addition, which are made with the new technological challenges for the financial sector and the markets in mind.

The Information and IT & Consulting businesses will be provided by three companies: BME Market Data, which in addition to its current functions will render colocation, proximity and London Hub services; BME Regulatory Services, which will be the channel that unifies the regulatory compliance services which BME currently offers and those deriving from new legislation, and BME InnTech, which will result from the merger of Infobolsa, Visual Trader and BME Innova.

Current situation of the sector

Ladies and gentlemen, at the time of last year's General Shareholders' Meeting, the merger between two of Europe's main stock exchanges, London and Frankfurt, was on the table. Our position then was one of caution, because we know the difficulties in the sector.

The European Commission has blocked the transaction, believing that it could lead to a monopoly in the areas of clearing, fixed income and certain derivatives. Political and regulatory questions have always played a considerable role in stock exchange merger operations, not only in Europe, but in all jurisdictions.

In this chart you can see that, since the year 2000, the failed mergers between stock exchange operators have been far more numerous than the successful ones.

In my opinion, these difficulties and the degree of concentration already achieved, strongly invite collaboration strategies. Carrying out joint projects that satisfy the common demands of clients, investors and society in general. The nature of our infrastructures opens up new horizons of potential synergies.

CONCLUSION

Ladies and gentlemen. We are living through years of extraordinary events. These are turbulent times for the economy, politics and society.

In such a difficult environment, Spain appears to be one of the countries with better growth prospects according to European Commission and IMF forecasts.

The Spanish stock market is ready to overcome hard times. The best example is our own history. BME's business activity has remained solid despite the crisis and the Spanish bourse has taken an increasingly important role in meeting companies' funding requirements.

There are other bases of support, such as the positive results companies are reporting; investor liquidity; increasing M&A activity; the likely increase in IPOs; the continued strong interest shown by major international investors; the highest dividend yield in the world (over 4%) and improvements in ratings.

The effects of Brexit and other socio-political factors, as yet unknown, will be inevitable in many aspects. But we are obliged to find the positive side for our market and our country.

There is no doubt that the best answer BME can give its clients, investors and shareholders is to continue the process of adapting to this new era that has already begun with the transformation of the traditional financial system.

This means we must continue to grow both as a company and market, and we are ready to do so.

Thank you very much for your attention.