

2018 IN REVIEW

Antonio J. Zoido
BME Chairman

20 December 2018



#BalanceBolsa

HIGHLIGHTS

- 1. The IBEX 35 has accumulated a 13% drop to December, in line with European markets.** Capitalisation is still above one trillion euros, and volatility is still at a record low.
- 2. Exchange trading volumes are down by 9% at €550 billion.** Despite this, **costs to investors were reduced with an improvement in spreads** which, in the case of the Ibex Small Cap, is 20 basis points.
- 3. Investment flows channelled through the stock exchange stood at €14 billion up to December.** In 2018 5 new companies joined the Market and 21 joined BME's Growth Market, MAB.
- 4. International investors owned 46% of equities listed on the Spanish stock market, setting a new record.** The weight of families decreased to 20%.
- 5. Shareholders were paid over €25.6 billion in dividends this year,** an increase of 3.9% on the 2017 payout.
- 6. Electronic Debt trading** on BME's Fixed Income platforms surged to **€190.5 billion, up 45%**

- 7. The number of companies trading on BME's Growth Market, MAB, is now over 100,** and in 2018 21 new companies joined MAB.

- 8. REITs were the leading lights again in 2018.** Up to this week 19 new firms joined the Spanish securities market, one on the main Market and 18 on MAB, **bringing the total number of REITs on BME markets to 67.**

- 9. MARF continued to expand, and** between January and November **the volume of admissions was €5.6 billion, up by 56%** against the same period in 2017.

- 10.** The Financial Transaction Tax runs counter to the promotion of an European economic development based on the diversification and lower cost of corporate funding sources, the growth in the size of companies, the essential role of the free allocation of capital in investment processes and an environment based on a level-playing field, competition, transparency and investor protection.

Good afternoon.

Many thanks to everyone for joining us for this traditional Christmas lunch, which allows us to share a pleasant moment and exchange our impressions concerning the year.

In my opinion, the adjective that best describes the year 2018 is complicated. A number of events converged this year to destabilise securities markets - political instability; the difficulties experienced by a number of emerging markets and the devaluation of their currencies; Brexit; tensions with regard to oil prices; the trade war between the United States and China, international geopolitical risks and the Italian budget challenge, among other uncertainties.

THE MARKETS IN 2018

The first few trading sessions in 2018 were encouraging for most exchanges, thereby prolonging the optimism of late 2017. However, as year-end approached the IBEX 35 had notched up a fall of 13%, in line with the results of its European peers.

In general, European exchanges showed negative returns, with the sole exception of Norway (+2.8%), hampered by a slowdown in the world economy and in the Eurozone in particular, and also by the geopolitical and economic tensions observed in the course of the year in Europe and elsewhere around the globe.

Volatility is still showing a record low of around 15%, as against 31% at year-end 2016 or more than 20% on the Spanish Stock Market between 2012 and 2015.

The capitalisation of listed companies is still over one trillion euros, its mark over the last three years.

Fall in brokering activity

Uncertainties and negative trends in stock prices are affecting the volumes of shares traded, which up to November had fallen by a total of 9% on the year to €550 billion.

Quality and lower trading costs

Investors placing their trust in the Spanish market continued to benefit from BME's price formation. The spread of securities on the IBEX 35 and the Ixex Medium Cap was at a minimum, while the spread on the Ixex Small Cap moved up by 20 basis points during the year, thereby significantly bringing down the trading cost.

€14 billion in capital flows

Funding channelled through the Spanish Stock Market in the course of the year totalled €14.1 billion to December, and the Spanish stock market is still a major world player in this regard - specifically ranked number 11 in the 80 Markets that make up the World Federation of Exchanges (WFE).

The Spanish Exchange has traditionally been well positioned on the international stage in terms of corporate funding, and investment flows of almost €780 billion have been channelled since the year 2000.

It must be pointed out that the unfavourable setup in 2018 in this regard cannot conceal the huge role which has been played by

securities markets in exiting the crisis and which they must continue to play to shore up new forms of economic growth.

Fall in the IPO market

The public offerings market did not have its best year in 2018. PwC's IPO Watch Europe reported that the value of IPOs in Europe fell by 11% in the first nine months of the year. European exchanges handled 64 IPOs between July and September, to a value of barely €3.9 billion, compared to €8.3 billion last year.

Up to this week, 26 new companies had joined one of the markets managed by BME - 5 on the main board and 21 on BME's Growth Market, MAB.

We believe the market will take a turn for the better in 2019 because companies are keen to trade on the Stock Market. As you are aware, Ibercaja, Europastry and WiZink, among others, have already announced their intention to list.

International record on Spanish Exchanges investment

2018 set a new record of international investors, now the owners of 46% of the Spanish market's total capitalisation. Over the last decade, foreign ownership of the shares of listed Spanish companies has risen from 36.8% in 2008 to almost 50% at present.

Conversely, the percentage of families is at a record low, accounting for 19.7% of the total, in the wake of 24.4% in 2015.

Surge in Fixed Income business

Implementation of the MiFID II Directive has boosted trading on BME's electronic Fixed Income platforms.

2018 saw completion of the addition to BME of sovereign debt issues by Germany, France, the Netherlands, Belgium, Italy, Austria, Portugal and Ireland and the European Financial Stability Facility (EFSF). After these adhesions, the outstanding volume admitted to the Fixed Income market exceeded €6.2 trillion.

Public Debt trading on BME's platforms surged to €190.5 billion, up 45%.

As you know, for several years we have been attempting to bring back some issues operating outside Spain, and in recent weeks we have seen several of these cases. We hope to continue working in 2019 to persuade all Spanish entities issuing outside Spain.

Surge by the MARF market

MARF deserves a special mention in 2018 for steady growth and its domination of alternatives that are helping to spearhead the diversification of corporate financing in Spain.

MARF finished the first eleven months of the year with an outstanding balance of issues totalling €3.4 billion - €1.6 billion in commercial paper and €1.7 billion in bond issues. The outstanding balance was up by 36.3% against November 2017.

Up to November 2018, 35 companies had used the MARF to meet their funding requirements. Of these, 12 were first-timers, while the other 23 were repeating the experience. Up to November the volume of issues stood at €5.6 billion, an increase of 56% compared to the same period in 2017.

Mixed bag of results for Derivatives

Up to November 37 million contracts had been traded in futures and options on underlyings related to equity, a fall of 4.5% with respect to the previous year. Trading in MEFF's main product, IBEX 35 Futures contracts, was up by 2% compared to the same period the previous year. The younger products traded on the market, related to dividend hedging, were up by 59% in the year overall in the case of the IBEX 35™ Impacto Dividendo futures, whereas dividend futures rose by 78%.

The low volatility observed in the market in 2017 continued in 2018, and again had an adverse effect on trading in options and futures. As of this year the Spanish market has an index known as VIBEX, which monitors market volatility in real time using the most liquid options on the IBEX. According to the VIBEX, daily average implied volatility over the first eleven months of 2018 was 14.7%, a 0.5 point fall with respect to the previous year and almost 9 points less than in 2016.

More than 100 companies on the MAB

The MAB still plays a major role for smaller companies. This year it topped 100 companies and 21 companies joined the market in 2018.

MAB companies making their financial disclosures in October for the first half of 2018 increased their turnover by 14.2% and EBITDA by 5.8%, with a job creation rate of 9%. These figures confirm the trend of expansion observed over the last 5 years, during which the average increase in turnover was 29.9%, the average increase in EBITDA was 21.2%, and the average job creation rate was 8%.

Also, in the first half of 2018, companies already on the MAB and new companies used the market to finance themselves through share capital increases. This type of funding came to €802 million.

Membership of the Pre-Market Environment on the increase

The Pre-Market Environment continues to bring in companies for training in financial culture, help them access the capital market and assist them in the search for investors. This ecosystem has been growing rapidly, and now has thirteen companies in the start-ups segment operating in 11 different sectors of activity.

Helping smaller listed companies to gain visibility

At BME we have been working on new projects to boost our support of companies in the direction of growth. Barely one month ago "Lighthouse", an initiative established by the Spanish Institute of Financial Analysts (IEAF) and supported by BME, produced its first independent fundamental analysis report of a company without continuous coverage by an analysis service. Lack of monitoring by financial experts is detrimental to both businesses and investors, since

the lack of visibility often narrows the range of options available on the market.

Greater REIT presence

REITs were a major feature of activity in 2018. Once again they proved their worth as an essential instrument to revamp one of the sectors hardest hit by the crisis, expanding from a market cap of €3.6 billion in 2012 to €23.6 million at the end of November 2018.

Up to this week 19 new firms had joined the Spanish securities market, one on the main market and 18 on the MAB, bringing the total number of REITs on BME markets to 67.

Almost €26 billion in dividends

Spanish Exchanges have led their counterparts around the world in terms of shareholder remuneration for years. Based on a set of homogeneous data for MSCI comparison purposes, as of 30 October 2018 the Spanish stock exchange's dividend yield was 4.5%.

Between January and November 2018 listed companies paid out €25.6 billion in dividends, up by 3.9% against the January-November payout the previous year.

Listed companies have paid dividends in the amount of just over €378 billion so far this century, or 56% of the current market value of all listed Spanish companies trading on the Spanish Exchange at the present time.

Clearing extends its range of services

This year BME Clearing added natural gas contracts to the energy segment, and also struck an agreement with Nex Markets, operator of the main Spanish debt repos trading platform, to clear trades carried out on the platform through BME Clearing.

Settlement and registration, a year of reform

A year ago BME completed the process of migration of settlement to Target2 Securities, the last stage in the Spanish Reform of the Securities Clearing, Settlement and Registration System.

In terms of volumes of security settlements, at the end of November average daily settlements stood at €7.5 billion, down by 7.5% compared to the same period the previous year.

Market Data

BME Market Data continued to add new items to its offer in 2018. This year the monthly average of delivery points where information is disseminated in real time on over 98,000 Equity, Fixed Income and Derivatives Instruments and Indexes managed by the BME Group topped 90,000.

BME continues to explore avenues of opportunity to launch new value-added products and services for market operators. Outside Spain we set up a new project to drive Market Data business in Latin America alongside the Mexican Stock Market.

Added-Value Services

The process to reorganise BME's activities in relation to technology, regulation and innovation consolidated in the course of the year, and this now enables BME to offer Fintech services which can be added seamlessly to the value chain of processes in relation to investment and financial advisory.

Among these services offered by the Spanish Exchanges are regulatory compliance solutions such as the Regulatory CNMV Reporting Services and Market Abuse Services, which expanded considerably during the year. Some mention should also be made of the Better Execution Reports and the Transaction Cost Analysis, to gauge the quality of execution obtained by different brokers in different markets.

THE ERRONEOUS TAX ON FINANCIAL TRANSACTIONS

The current government has drafted a bill that establishes a tax on Spanish shares with a market capitalisation of more than 1 billion euros.

This proposal is, in our opinion, contrary to postulates that, at this moment, are considered essential to cement an integrated European economic development based on greater diversification and lower cost of corporate funding sources, the growth in the size of businesses, the essential role of the free allocation of capital in investment processes and an environment based on a level-playing field, competition, transparency and investor protection, which are the basic principles of the operation of regulated markets.

Moreover, this tax, if implemented, is clearly an action that contradicts the political support for the project and the idea of the fundamental Capital Market Union or CMU, at this time in the development of the European Union.

The projected tax:

- Incentivises the opacity of the markets, by financially favouring transactions outside the regulated markets.
- Increases transaction costs excessively. A tax of 0.2% means multiplying by 66 the transaction cost that is applied in the Spanish market.
- Destroys the quality and liquidity reached in the market after years of efforts, due to the effect of the added cost on the narrow bid and ask spreads.
- Encourages the relocation of intermediaries and operations. In a context of full mobility of capital and companies, a tax associated with the territoriality of a nation creates incentives for that relocation. We must consider that about 50% of the shares of Spanish listed companies are owned by non-residents and 84% of the transactions are carried out by them.
- It affects stock market financing due to increases in the cost of capital caused by decreases in liquidity, as a result of the increase in trading costs.
- Its collection is enormously complex given the intricate infrastructure network at market level globally. Thus, the risk of unfair treatment of potential taxpayers is accentuated.

- Introduces a new market fragmentation. Only a global tax or, at least European, could save these negative distortions.

OUTLOOK

Forecasts for all economies gradually looked gloomier as the year wore on. The IMF warned against the escalation of global debt, which notched up another record of around €150 trillion, 60% more than in 2007, in a decade which the organisation considers has been easy in terms of financial conditions.

Spanish Public Debt is riding at an all-time high. The Bank of Spain's latest forecasts admit that the economy is slowing down slightly more rapidly than expected, and has cut back growth prospects for 2019 and 2020.

In 2018 we have completed the first decade following the worst financial crisis since the crash of 1929. If 2008 was a historic year, as was defined in the annual report, 2018 may be perceived as the end of an upward trajectory that has led economies out of the recession.

Ahead lies a new era strewn with challenges, with the remains of some vulnerabilities of the past, such as high debt, and the risks of the present: the prospect of a European Union without the United Kingdom; normalisation of interest rates in Europe; instability of governments to carry through their projects or legislatures; or the frequent surprises of conflicts between the main blocs.

As for the situation of the Spanish Exchange, we have confidence in a recovery in trading and stock prices. The results of businesses are broadly positive. PER is low by international comparison.

Our market also provides the services and products this era requires, with comprehensive guarantees of EU regulatory compliance, and stringent, competitive price formation and liquidity.

Over the last decade the Spanish Stock Market has now found a way out of the worst rut in its history, multiplying the number of investment products, investing in technology and adapting its business to all EU legislation, occasionally ahead of time, despite its stringency in certain aspects.

All this progress has made the Spanish market a focus of opportunity for international investors, which have boosted their presence in our Stock Market more than ever before.

Thank you very much for your attention.

May I wish you a Merry Christmas and a Prosperous New Year in the company of your family and friends.