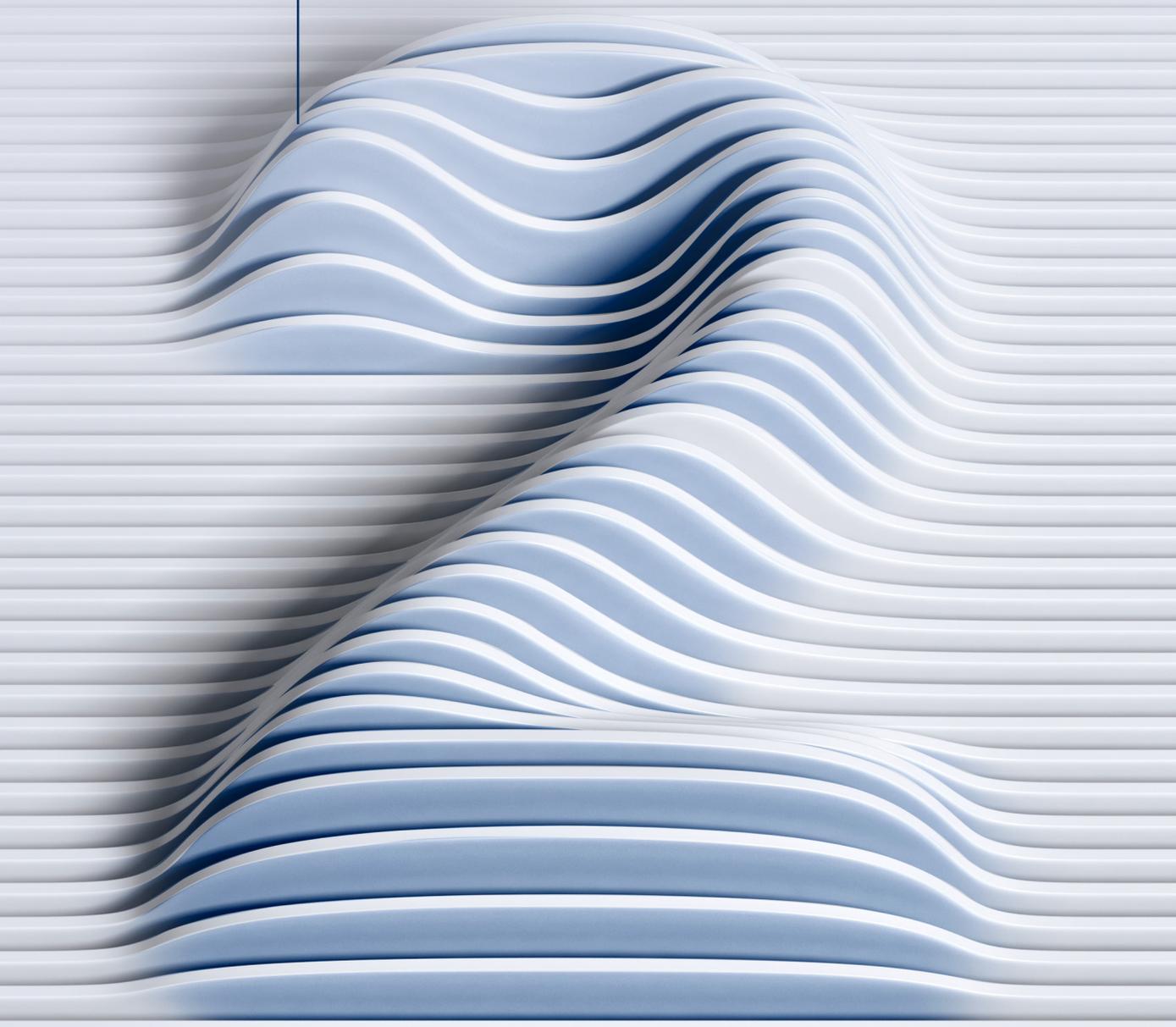


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LETTER FROM  
THE CHAIRMAN





2007  
IBEX 35 goes over  
16,000 p. for the  
first time

2007  
Spanish exchange trading  
achieves historical record  
with €1.7 tn. Traded





Antonio Zoido, BME Chairman &amp; CEO

### Dear Shareholder:

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 the Banking Union in a bid to shore up economies and solve the problems caused by financial crisis.

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

## STOCK EXCHANGE REVIEW

### Small gains on world indices

The Spanish stock Exchange benchmark, the IBEX 35®, finished 2016 with a moderate fall of 2.01% after a 7.6% rise in the last month of the year. Taking into account the dividends, its return practically stands at 2.6%. From the year's lows, marked in the days immediately following the British referendum, until the close the IBEX 35®, has grown 22%.

Stock market indexes around the world finished the year with only small gains ranging between 6.7% and 4.8% on the major trading floors. European stock markets closed the year with significantly disperse results despite the strong expansive trend in ECB monetary policy.

### Lower trading volume activity

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. The Spanish stock Exchange traded €652.9 billion in 2016.

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

### A discouraging 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.

### Interest in derivatives on dividends

On MEFF, BME's Options and Futures market, more than 45 million contracts were traded in 2016, 5% less than in the previous year, in line with the reduction in the transactional activity registered in the main world markets in derivatives on equities. Implied average volatility has remained practically at the same levels as in the previous year.

Although more limited in scope, it is worth highlighting the heavy trading on MEFF of the contracts related to dividend payments made by the main companies listed on the Spanish Stock Exchange. Thus, trading in Futures on the IBEX 35®, Impacto Dividendo increased 79%, to 58,000 contracts and Futures on Share Dividends increased 26% to close to 370,000 contracts.

### Attractive dividend yield

This year the Spanish stock market once more leads the dividend yield rankings among its main counterparts worldwide, with yields amounting 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.

### Record numbers of foreign investor

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.

### Funding reaches over €28 billion

There is little doubt that, during 2016, financing conditions have continued to improve for companies, largely thanks to the role played by the stock exchanges. In the financial year, the Spanish market, with around €28.5 billion of new capital financing flows channeled to companies, mainly through capital increases, once again ranks high among the world's leading stock exchanges.

The slowdown experienced worldwide by Stock Exchanges, especially in Europe after the Brexit, is delaying many plans to go public, which we believe will be resumed in 2017.

### The Spanish stock market, one of the busiest

IPO activity in 2016 slackened all over the world by 16.1% in terms of the number of operations and by 32.8% in trading volumes against the same period in 2015.

In 2016 27 new companies had joined the Spanish exchange. Of these 4 joined the main market and 23 on the MAB market. The Spanish stock market has been one of Europe's busiest.

## THE TRANSFORMATION OF THE FINANCIAL SYSTEM

### Expansion of alternative markets

On the MAB market, 17 companies joined a listing on the REIT segment, and 6 joined the growth companies segment through 6 IPOs. Total funding raised through these transactions was €1.4 billion.

### Growing interest in the MARF market

The Mercado Alternativo de Renta Fija (MARF) finished 2016 with an outstanding balance of Corporate Debt issues in the region of €1.6 billion. The balance was up by 56% against the previous year. Adding the new companies that came to the market in 2016, 29 businesses had availed themselves of the MARF market to cover their financing requirements since the start of the market in 2013, besides the 126 companies that have raised financing via securitisation of their credit rights and securitised bills.

### 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 equity 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

In 2016 there were 123 share capital increases, which channelled €23.1 billion to listed companies, 22% 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

In 2016 more than 45 non-financial companies in Spain had secured funds on the Fixed-Income market, notching up a record high at year-end. Volumes stood at €23 billion.

## A YEAR OF MARKET SUCCESSES AND PROGRESS

### BME, ten years as a listed Company

It is ten years since BME became a listed company and the outcome is positive, both in terms of financing and shareholder remuneration.

The Spanish stock market has provided more funding to companies than any other exchange in the world, with over 460 billion dollars, according to data from the World Federation of Exchanges (WFE). In terms of shareholder remuneration, BME has paid out more than €1.5 billion in dividends during its last ten years as a listed company. The TSR (Total Shareholder Return) of BME received by a shareholder who invested in our public offering attained 120% over these 10 years.

### The 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 participating entities 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 399,058 operations.

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.

### Robustness of the 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.

### STABLE RESULTS

In 2016, BME's net profit amounted to €160.3million, 7.6% down on the previous year. The general slowdown in market volumes in the Equities and Derivatives units was partially offset by the positive performance by other units and products thanks to the diversification of the Company's business model. Besides, the results reflect the overall trend of lower trading volumes across international markets in 2016 due, among other factors, to the economic uncertainty.

### Committed to shareholders

With regards to shareholder remuneration, BME has upheld its attractive shareholder remuneration policy since 2007 and this year the Board will propose to shareholders at the general meeting the distribution of a gross €0.80 per share as the final dividend. This is the highest in the market operator sector and one of the highest of all Spanish listed companies.

BME's shareholder remuneration policy and the distribution of a pay-out above 93% is unique in our sector, given the company's operational gearing, which allows us to cover operating costs with revenue not linked to volumes.

Dear shareholder, the markets will have to face 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 have yet a lot more to contribute.

Thank you very much

Antonio J. Zoido