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Letter from the Chairman

Dear Shareholder:

Global stock markets had a complicated 2018 during which factors of a different nature coincided, such as the downturn in global economic growth, Brexit, oil price tensions, the trade tariffs tug-of-war between the United States and China, as well as the budget impasse in Italy. European stock markets accumulated generalised negative returns, with one exception, and moved within a setting of very reduced volatility, resulting in low levels of trading.

More than a decade after the start of the global financial crisis, the actions of the Monetary Authorities of the main world economic areas continue to play a leading role and their decisions continue setting decisive guidelines for market trends.

Stock market performance

The year commenced with the prolongation of the optimism seen at the conclusion of 2017. However, the final result of the IBEX 35 shows a fall of 15%. In spite of this, the total capitalisation of listed companies on the Spanish stock market is still over one trillion euros, the same as for the previous three years.

The decline in volatility to historically low levels was brought to bear in all markets, resulting in lower trading volumes.

The Spanish stock exchange maintains a leading position among the developed markets in terms of shareholder return in the form of dividends and other payments, this being one of the factors that most attracts national and international investors, both private and institutional. In 2018 listed companies distributed to their shareholders 30.10 billion euros in dividends, return of contributions via share premiums, reserves and reduction of the nominal amount, 6.6% more than in the previous year. According to comparable international data published by MSCI, at the end of 2018 the dividend yield of the Spanish stock market stood at 4.6%, placing it in the top five among the developed World Stock Exchanges.



Antonio J. Zoido

The investment base of the Spanish stock exchange has remained broad and diversified, with foreign investors as the predominant group, with a 46% share in the capital of all listed companies, according to record-high end-2017 data. Thanks to the confidence of investors, the Spanish stock market has traditionally taken a relevant position in the international arena in terms of business equity financing and, since 2000, new financing and investment flows in shares have been channelled with a value close to 780 billion euros.

Increased financing via the markets

2018 was not the best year for public offerings, at least in Europe. Despite this, 28 new companies were admitted to trading over the period: 5 debuted on the Exchange and the other 23 on MAB, BME's Growth Market. Taking into consideration the capital increases, the volume of funds channelled to the stock market stood at over 15 billion euros for the year.

Over recent years the securities markets have gained weight among the alternatives used by companies to raise funding. The financing structure of the listed companies is thus showing a significant structural transformation. Bank lending today represents a third of the financing liabilities of the large listed companies, when only seven years ago it was half.

The MAB and MARF alternative markets have played an important role in the search for new sources of financing via debt and capital. In both cases, they have aided smaller companies in obtaining resources to carry out their projects and strengthen their balance sheets. The two markets closed a very positive year by being selected by numerous companies to capture new resources and to improve their financial health.

MARF has once again stood out for its growth and its dynamic role in the new business funding alternatives in Spain. Since its creation, 57 companies have relied on it for financing and 12 of them

have done so for the first time in 2018 with bond and commercial paper issues. MARF ended 2018 with a total issued volume of 6.3 billion euros, 60.1% more than the total issued in 2017, and closed the year with an outstanding balance of 3.3 billion euros, 50.1% more than the previous year.

Over 100 companies are listed on MAB, which have received funding exceeding 1 billion euros.

Profit and dividends

BME closed 2018 with a net profit of 136.3 million euros, down 11% compared to the previous year.

The payment of a gross €0.57 final dividend is put before shareholders at the General Shareholders' Meeting. The company maintained and maintains its commitment to offering the best remuneration possible to its shareholders and distributes 96% of its net profit.

Financial ratios

Its solid business model and the success of the policies implemented to reduce the dependence on volumes in the generation of revenue allowed the company to soften the impact on profits resulting from the decrease in share prices, reduced volatility and lower trading volume.

The ratio of revenue not linked to volumes stood at 122% at year-end with the management indicators again higher than its peers'. The return on equity reached 33.1%, 13.5 points over the average of other operators on the market, whereas the efficiency indicator ended the year at 38.8%.

Strategic plan 2019-2021

The uncertainties affecting the markets in 2018 are still present, and the doubts concerning any changes over the next few months have not dissipated. BME is faced with a complex reality and a regulatory environment which is becoming more demanding every day, in which there are new challenges in order to be one step ahead of its clients' needs.

BME presented its new roadmap for the next three years to its investors on 4 October 2018 to address this situation. The Strategic plan is based on the company's solid management model and the strength of its balance sheet. The objective is to strengthen the traditional businesses and tackle new projects linked to the traditional activity with the aim of obtaining an annual growth of 4% in revenue and 6% in profit. In order to execute this plan successfully it will be necessary to address prudently the corporate operations that strategically match the other activities of the company. All with the commitment to maintaining its shareholder remuneration policy.

BME is looking towards this new stage with a view to technological transformation, but without renouncing the values of solidity, transparency and security that have always been its hallmark.

Thank you very much,

Antonio J. Zoido