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BME's Role in the Ongoing Development of Spanish Financial Markets and Systems

2.1. New projects in 2008.

2.2. Development of projects begun in 2008.



Because all Spanish financial markets and systems are integrated within BME, the Company has gained significant organisational strength. This strength springs from the combination of all of its business areas, its employees' accumulated talent and experience, and the use of the most up-to-date technology.

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The integration of all Spanish markets and financial systems into BME has allowed the company to reach a considerable organizational strength.

This strength springs from the combination of all of its business areas, its employees' accumulated talent and experience, and the use of the most up-to-date technology, and allows BME to make available to the Spanish financial system all the means necessary to fuel its competitiveness in relation to the rest of the world's markets.

Over the course of 2008, BME continued to work on the services and products it began developing in 2007 and which are geared towards meeting the needs of existing and potential clients and users of the financial markets. Such is the case with the expanding companies segment in the Alternative Equity Market and the launch of the FTSE4Good IBEX® index, which has raised great hopes in the Spanish financial market since it was first announced in 2007.

BME's activity in 2008 was not limited to the development of previously-announced products and services. Indeed, the Company remained attentive to the new needs of Spanish companies and made the efforts needed to meet the demands of financial market participants.

To meet these new needs, BME's activity focused on the development of a range of issues related to its business. The following is a description of these efforts:

- the Company continued to make significant efforts to develop its technology in order to provide the best possible service to market participants. Examples include the launch of new versions of the S/MART system used by MEFF;



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- it made available to all interested parties a series of new products which allow market players to comply with new legal requirements. These include a service for transaction reporting to the National Securities Commission (CNMV) and the BME Backguard and BME Highway services;
- it rolled out products and services aimed at enhancing efficiency in areas in which BME already offered services, such as MEFF's extension of the maturities for futures contracts on options, connecting the Stellar Trading Systems platform to MEFF, creation of an anonymous block trading platform through SIBE, and the founding of the company Link up Markets;
- it admitted new financial products to trading, such as cuotas participativas ("participating shares");
- it continued to play an active role in the development of the electricity market, offering its know-how, experience and technology.

All of these initiatives, which are discussed in further detail below, are meant to continue fostering the development of Spanish financial markets in an increasingly globalised world, and to assist clients and issuers in developing more modern and efficient markets.

2.1 New projects in 2008

- New versions of the S/MART System.

In accordance with MEFF's efforts in recent years to encourage innovation and augment the range of products and services supported by the S/MART platform, in 2008 the Company upgraded the platform and began producing two new versions, offering futures and options market members a range of new features.

- CNMV transaction reporting services.

Since the updated version of the Securities Market Law came into force, which added the Markets in Financial Instruments Directive (MiFID) to Spanish law, financial institutions face more rigorous requirements for reporting their activities to supervisory authorities.

Article 59 bis of the Securities Market Law establishes a new transaction reporting regime under which financial institutions must report all market trades in extensive detail.

In light of this new financial system requirement, BME has made available to members of its markets and trading systems a new service for reporting transactions in said markets to the CNMV.

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To provide ease of access, BME offers the new service through existing technical means and procedures at companies and governing bodies of trading markets and systems, so that firms contracting this service do not have to change their systems. Instead, they only need to make the adjustments to their in-house systems that enable them to provide details of the required information.

Nevertheless, Spanish financial institutions' obligations are not limited to reporting trades in domestic markets and systems. They must also report trades carried out in other financial markets and systems.

To meet this demand, as of 3 November 2008 BME's services include an option for managing transaction reporting to the CNMV for trades executed on all securities included in Article 2 of the Securities Market Law:

- trades in other markets or systems that fall outside the purview of BME on securities admitted in BME markets.
- trades in instruments admitted into other regulated markets.
- trades in instruments not admitted into any regulated market or multilateral trading system.

• BME BackGuard

New legal requirements for business security and continuity affect the entire financial community, but systems adaptation to these demands is more difficult in the case of small- and medium-sized organisations, which often lack sufficient technical and personnel resources to carry out all of the changes, primarily in IT, which they are required to implement under the new rules.

In an attempt to meet these needs, BME, via its subsidiary BME Innova, has provided the industry with a new product known as BME BackGuard.

Advantages of BME BackGuard for small- and medium-sized businesses in the financial industry include the option of immediate rollout and a complete business continuity solution safeguarding not just critical data (back-up solution) but also critical functions (systems and applications).

BME BackGuard is an intelligent system which, once installed on a company's in-house network, automatically makes a daily backup copy of all data, operating systems and applications, and sends the information on a totally secure and confidential network to BME Innova facilities for safekeeping.

In the event of an incident that impedes the company's normal operations, the company will

be able to continue working with its complete range of systems as they existed before the incident, whether from BME Innova facilities or from any other location where the client has Internet connectivity.

BME BackGuard marks further progress in BME's commitment to offering services of a high technological standard and making the best use of BME's available resources to bolster the Spanish business community's competitiveness.

At the same time, this service helps clients to improve their efficiency because they no longer have to set aside specific resources to perform system maintenance or wait for deliveries or updates, since the entire intelligent process is carried out remotely by BME Innova technical staff.

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• BME Highway

BME has years of experience in financial courier services, which, as the manager of Spanish securities markets, it uses as a nexus for the capital flows it channels.

To make these services available to all interested parties, BME launched BME Highway via BME Innova and in conjunction with SWIFT. BME Highway is a unified platform of financial courier services which is easily integrated into clients' management software.

BME Highway is a further step in BME's commitment to offering services of a high technological standard and making the best use of BME's available resources to bolster the Spanish business community's competitiveness.

The BME Highway technological platform satisfies the key needs of users' treasury departments: a single access to banking services based on the "single window" concept, which integrates all of a company's financial courier activities into its management programmes.

• Admission to trading of participating shares

For the first time in Spanish financial market history, a savings bank tapped the equity market in 2008 to finance its projects through the issuance of mortgage covered bonds (cédulas hipotecarias). This financial instrument, also

known as "savings bank shares," was created in the late 1980s to allow savings banks to seek funding on the market under the same conditions as other financial institutions while at the same time safeguarding their special legal status.

The first 50 million participating shares, issued in this case by Caja de Ahorros del Mediterráneo, landed on BME-managed securities markets on 23 July 2008, marking a milestone in the process of modernising the Spanish financial system.

• Introduction of new monthly expiries on futures on stocks

In order to offer the highest degree of flexibility to MEFF members, as of July 2008 all equity futures contracts have new monthly expiry dates in addition to the traditional quarterly expiry dates.

Equity futures contracts traded on MEFF have two expiry dates open for trading or registry per month, not coinciding with the quarterly cycle, and four quarterly expiry dates on the March-June-September-December calendar.

• High-speed trading platform STELLAR TRADING SYSTEMS connects to MEFF

Demand from members of BME-managed options and futures markets and from large international

investment groups eager to trade in the Spanish derivatives market using technology and efficiencies harmonised with the global market prompted BME and Stellar Trading Systems ('Stellar') in 2008 to introduce a mechanism for connecting the Stellar spreadMachine platform to MEFF.

This feature supports the trading of MEFF's core products, such as IBEX35® futures and options and equity futures and options, and offers companies that trade on futures markets enhanced connectivity among futures markets worldwide.

• Adaptation of the block trading platform

BME in July adapted the platform of block trades through the Spanish electronic trading platform (SIBE), providing a new option for the investment community to trade on Spain's equity market.

The new platform fully complies with the Market in Financial Instruments Directive (MiFID).

• Creation of Link-up Markets

On 2 April 2008, seven large European Central Securities Depositories, Iberclear among them, signed an agreement for the creation of Link Up Markets, a joint venture intended to improve efficiency and reduce settlement costs of cross-border securities trades in Europe. Another European Central Securities Depository, the Cyprus stock exchange, has since joined the project, bringing the number of partners to eight.

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The goal of Link Up Markets is to foster a simplified process for European securities settlement which is at the same time more efficient for clients, since it entails lower transaction costs. The system is a response to the need European Central Securities Depository users have expressed for easier access to markets other than their own via a technological solution.

Link Up Markets, scheduled to launch in the first half of 2009, will also facilitate existing European initiatives such as MiFID, the Code of Conduct and TARGET2-Securities. It will contribute to generating a more efficient European securities market by providing border-free access to other markets at an efficient price thanks to its interoperability, integrated processes and uniform procedures among market participants, as described in greater detail in Chapter 7.

- Management of the sixth and seventh virtual power plant auctions

The National Energy Commission in July 2008 chose MEFF as the manager of Spain's sixth and seventh virtual power plant auctions, in conjunction with IBM. The sixth auction was held on 23 September 2008, and the seventh is set for sometime in 2009.

The interest expressed in virtual power plant auctions both by agents buying in the electricity market and brokers working in energy derivatives, along with the desire to optimise

MEFF's know-how, experience and human resources, prompted MEFF to participate, in conjunction with IBM, in the open tender for managing virtual power plant auctions.

The auctions are intended to allow Endesa and Iberdrola to sell energy products wholesale, and build on the other five auctions successfully carried out between 2007 and 2008.

During the sixth and seventh auctions, participating companies may buy purchase options based on the hourly energy price set in the intraday electricity market for periods between six months and 12 months. Settlement will be financial, with Endesa and Iberdrola making payments as compensation to contract holders so long as the hourly market price is higher than the exercise option price.

- Iberclear joins CAF's CyRE electronic platform

Iberclear has joined the CyRE (Comunicación y Registro de Emisiones) electronic platform, created by AIAF to modernise the handling, transfer and monitoring of data relating to the issuing of corporate bonds. At the moment there are over 80 issuers of these bonds.

The initiative will bring about a dynamisation and improvement in the admission to trading of corporate bonds thanks to synergies

generated between the two entities as well as significantly lower use of resources and the virtual elimination of possible data processing errors.

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2.2. Development of projects begun in 2008

- Small and medium-sized enterprises: Alternative Equity Market (MAB) for Growth Companies

The CNMV, the Spanish securities markets regulator, in March 2008 approved the operating rules for the Alternative Equity Market (MAB) for growth companies, which had been submitted in the first half of 2007.

With this MAB segment, BME aims to meet small and medium-sized businesses' need to access financing for expansion and development projects when bank financing is difficult to obtain.

This BME initiative fits within the framework of further deepening the presence of the real economy in equity markets and of BME's commitment to these types of companies, which, in the past decade, have played an important role in the growth of the Spanish economy.

After receiving approval from the CNMV, the MAB has continued to work on launching this segment, always with the ultimate goal of making this market more efficient for all of its participants.

As of 31 December 2008, 16 institutions had been licensed as MAB Registered Advisors, all of them with proven experience in advising companies.

The Registered Advisors are to guide any company wishing to list on this market, advising the firm

and ensuring that it complies with transparency requirements both before and after it joins the market.

The Registered Advisor will also back the company with its reputation and prestige in this market for little-known companies, so that the more the market trusts the Registered Advisor, the more confidence it will have about the new companies.

At the same time, the Registered Advisor role will prevent the stock market listing from impeding managers and/or owners' ability to focus on running their businesses.

For the purpose of encouraging investment in the small and medium-cap companies which eventually list on the MAB, BME has drawn up and distributed to the appropriate authorities a report containing a series of proposed tax measures aimed at the companies themselves and investors who become shareholders in them via MAB.

Implementation of these tax incentives is considered one of the most effective tools for developing the alternative equity markets already in existence in Europe.

BME is convinced that the rollout of the MAB will generate a number of benefits for small and mid-sized businesses and Spain's business community in general. BME ordered

and distributed this report as an addition to its proposal for supporting these companies. In BME's view, small and mid-cap businesses can use MAB to access funds for development, fuel the growth of family businesses, support the launch of new products and open their shareholder structures.

- FTSE4Good IBEX® index

The FTSE4Good IBEX® debuted on 9 April 2008. This indicator of socially responsible investments is composed of Spanish companies listed on BME-managed markets. By creating this index in conjunction with FTSE, BME wishes to meet asset managers' demand for a socially responsible investment indicator and to reiterate BME's commitment to corporate social responsibility (CSR).

The index was designed to identify and measure the degree of responsibility shown by companies trading on Spanish markets. In order to be considered for inclusion in the index, companies must meet three main conditions: they must work toward environmental sustainability, develop positive relationships with stakeholders, and protect and support human rights.

Criteria for inclusion in the FTSE4Good index reflect generally-accepted best practices in CSR as these standards evolve. They are developed through an extensive market

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consultation process and reflect feedback from a wide range of stakeholders including NGOs, government bodies, consultants, academics, and the investment and business communities.

FTSE4Good IBEX® allows responsible investors to find and invest in companies that meet global CSR standards and to capitalise on the benefits of good corporate governance (such as eco-efficiencies, improved brand image, etc.). Above all, the index encourages companies to become socially responsible.

The warm welcome fund managers have given the FTSE4Good IBEX® is reflected in the fact that just a month after it launched it was quickly approved as an underlying index for a new fund to be listed on the equity market.

