BME X

BOLSAS Y MERCADOS ESPAÑOLES

# Annual Report 2017

Page

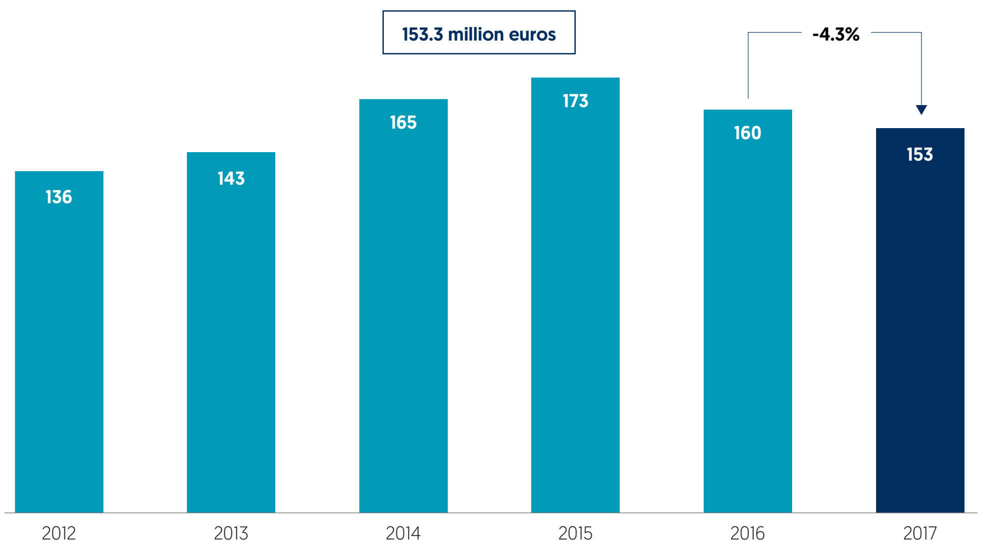


Note: Translation of the report originally issued in Spanish.
In the event of a discrepancy, the Spanish –language version prevails.

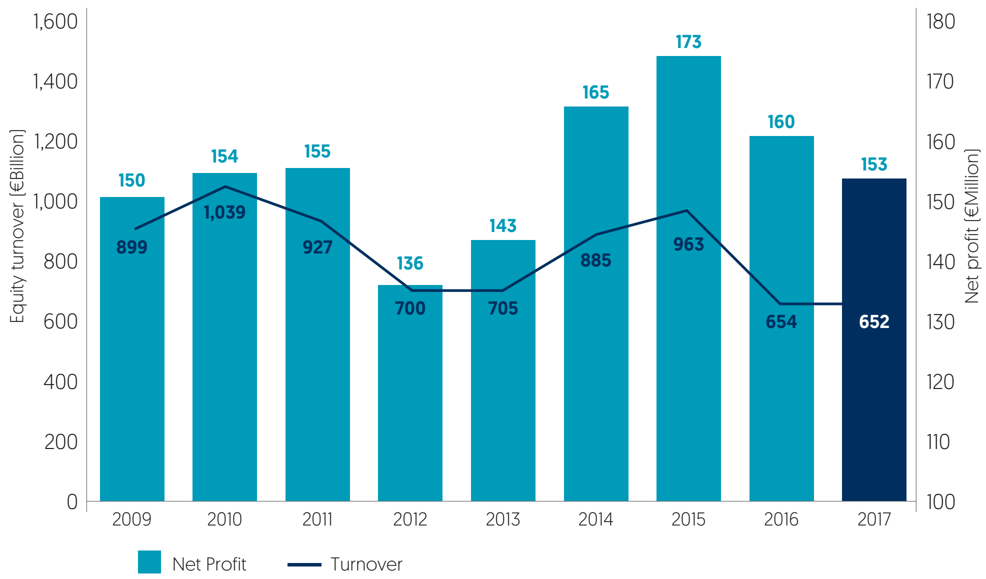
# 1. YEAR HIGHLIGHTS

**BME's net profit in 2017**
## reached 153.3 million euros

### NET PROFIT
(€ Million)

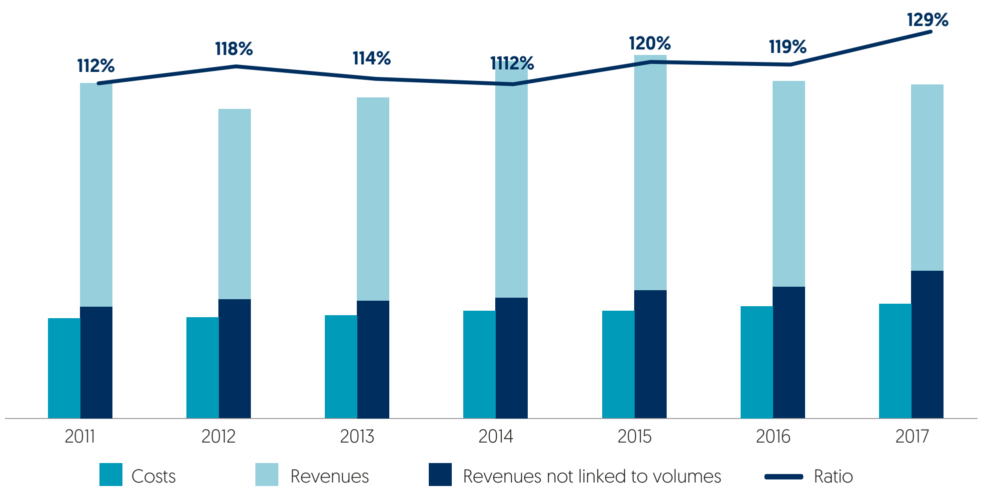



### EVOLUTION OF RESULTS/TURNOVER
DIVERSIFICATION AND EFFICIENCY SUPPORT EARNINGS

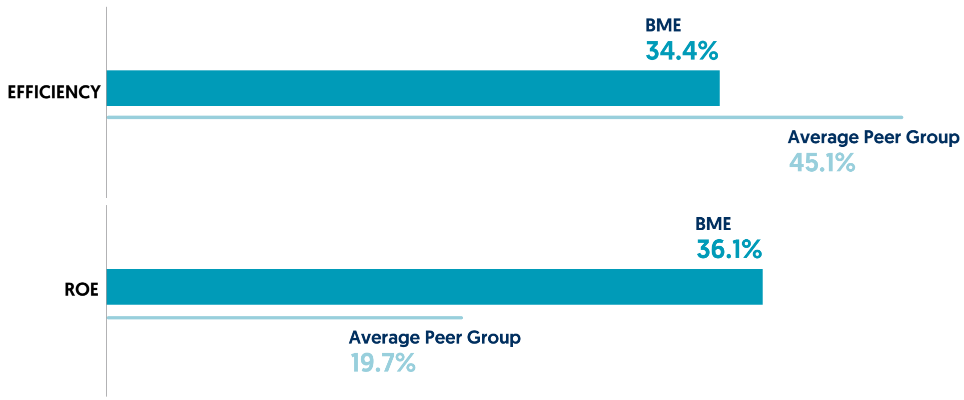


**Operational leverage reaches record high**
**129%**

## SOLID OPERATING LEVERAGE




## KEY RATIOS BENCHMARKING

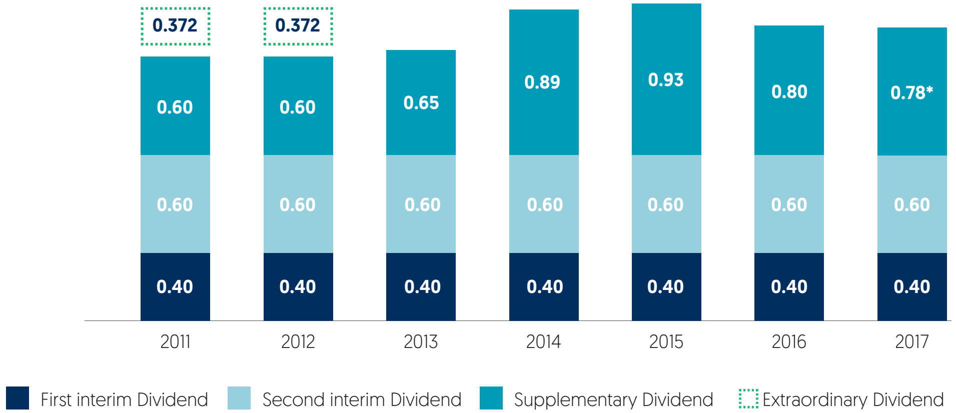



BME´s data as of 31/12/2017
Average peer Group figures are calculated using last results published and not taking account of goodwill impairment charges.

**Shareholder dividend of**
**1.78 euros per share**

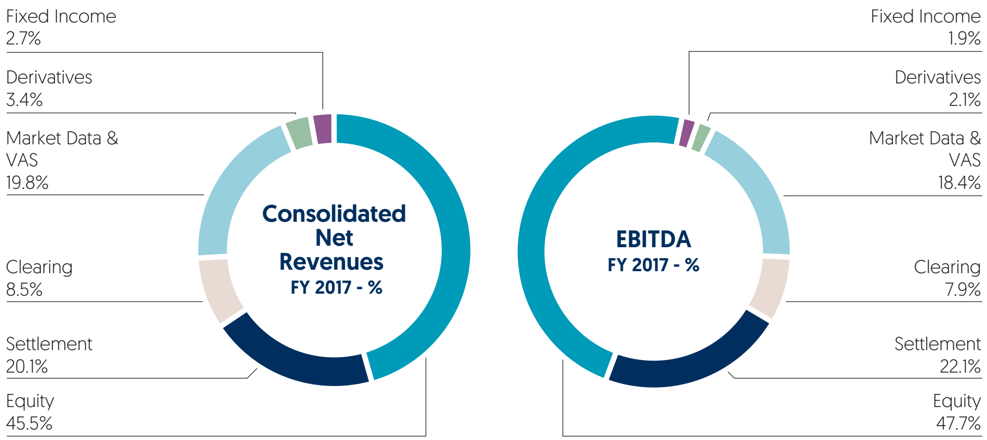
## DIVIDENDS: MAXIMIZING SHAREHOLDERS´ RETURNS

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Pay Out** | **86%** | **98%** | **96%** | **96%** | **93%** | **93%** | **96%** |
| Total Dividends | 1.972 | 1.972 | 1.65 | 1.89 | 1.93 | 1.80 | 1.78 |




Sustainability of Pay-Out
(*) Supplementary dividend proposal: 0.78 €/share (11th May 2018)

## DIVERSIFICATION OF BUSINESS AREAS



## BALANCE SHEET

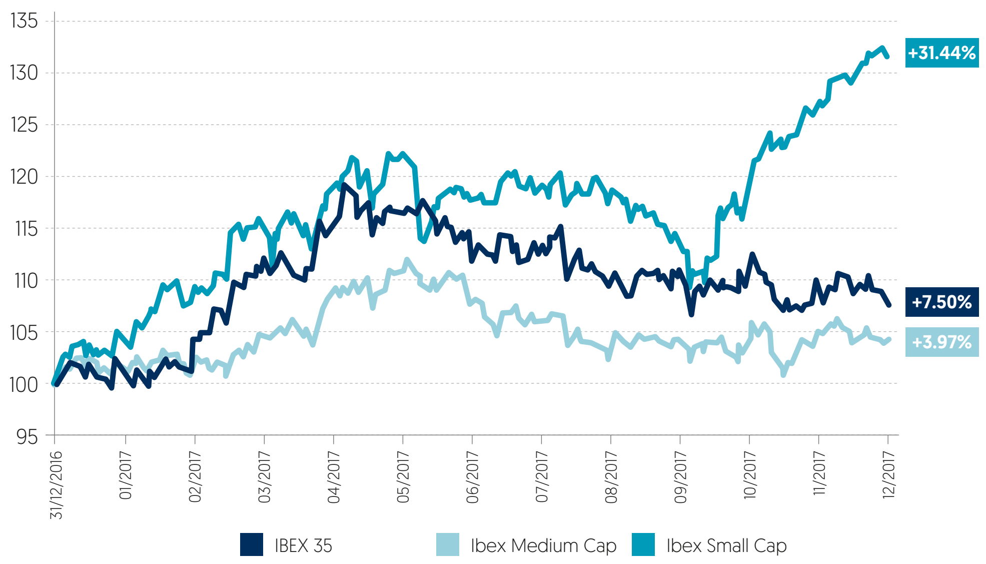
| (Thousands of euros) | 2017 | 2016 |
|---|---|---|
| Goodwill | 88,718 | 88,718 |
| Other non-current assets | 84,979 | 86,845 |
| Cash and cash equivalents | 275,739 | 224,429 |
| Current financial assets | 16,221 | 59,011 |
| Non-Group current financial assets | 22,135,164 | 22,539,024 |
| Other current assets | 82,367 | 83,438 |
| **Total assets** | **22,683,188** | **23,081,465** |
| Owner's Equity | 430,147 | 423,792 |
| External Partners | 279 | 258 |
| Non-current liabilities | 20,138 | 20,351 |
| Current liabilities | 22,232,624 | 22,637,064 |
| **Total equity and liabilities** | **22,683,188** | **23,081,465** |

## INCOME STATEMENT

| (Thousands of euros) | 2017 | 2016 | % |
|---|---|---|---|
| Net Revenue | 319,768 | 323,695 | -1.2% |
| Expenses | (109,980) | (107,611) | 2.2% |
| EBITDA | 209,788 | 216,084 | -2.9% |
| EBIT | 201,709 | 208,433 | -3.2% |
| Financial results | 65 | 2,872 | -97.7% |
| Share of profit (loss) of associates | 1,094 | 63 | 1,636.5% |
| EBT | 202,868 | 211,368 | -4.0% |
| **Net Profit** | **153,319** | **160,260** | **-4.3%** |

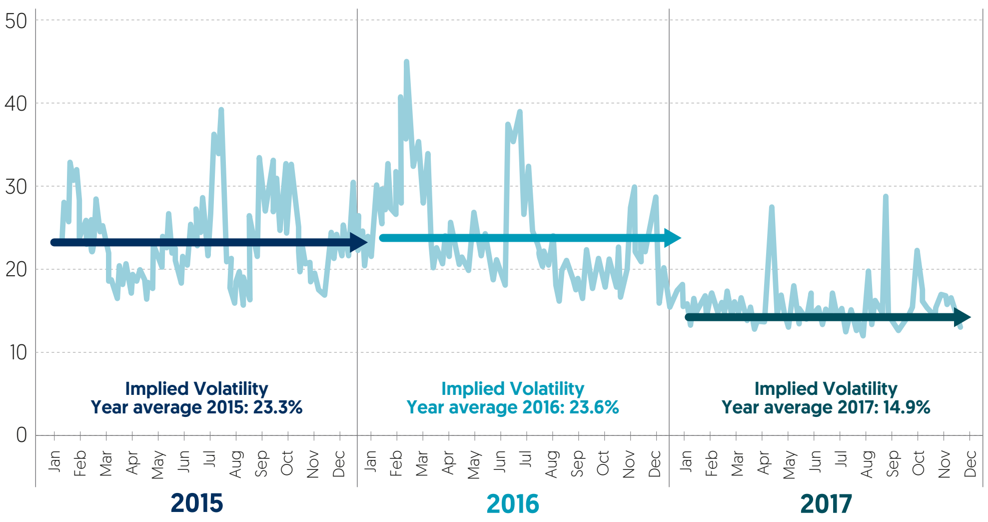
## Record low volatility in 2017

### THE SPANISH STOCK EXCHANGE IN 2017
### IBEX 35 VS. IBEX MEDIUM CAP - IBEX SMALL CAP




Year 2017. Base 100: 31/12/2016

### DAILY IMPLIED VOLATILITY OF IBEX 35 OPTIONS IN 2015-2017



## YEAR HIGHLIGHTS

| INDEX | 31/12/2015 | 30/12/2016 | 29/12/2017 | Change[1] | High* | Date | Low* | Date |
|---|---|---|---|---|---|---|---|---|
| IBEX 35 | 9,544.20 | 9,352.10 | 10,043.90 | 7.40% | 11,135.40 | 5 may, | 9,304.80 | 23 jan |
| IBEX 35 total return | 23,602.00 | 24,215.10 | 26,939.60 | 11.25% | 29,201.60 | 5 may, | 24,176.10 | 23 jan |
| IBEX MEDIUM CAP | 15,511.00 | 14,485.20 | 15,060.00 | 3.97% | 16,201.80 | 2 jun, | 14,554.80 | 15 nov |
| IBEX SMALL CAP | 4,598.30 | 5,006.20 | 6,580.20 | 31.44% | 6,629.30 | 27 dic, | 5,120.90 | 2 jan |
| IBEX TOP DIVIDENDO | 2,640.10 | 2,775.90 | 3,091.40 | 11.37% | 3,354.00 | 5 may, | 2,801.60 | 23 jan |
| FTSE4Good IBEX | 9,607.60 | 9,568.40 | 10,447.30 | 9.19% | 11,323.40 | 5 may, | 9,552.50 | 31 jan |
| FTSE Latibex Top | 2,262.10 | 3,795.20 | 4,072.40 | 7.30% | 4,509.40 | 22 feb, | 3,743.50 | 22 may |
| FTSE Latibex Brasil | 3,682.50 | 8,041.40 | 8,518.70 | 5.94% | 10,293.70 | 21 feb, | 6,848.60 | 22 jun |
| **10-year Interest Rates** | **1.77%** | **1.40%** | **1.54%** | | | | | |
| **Dollar / euro exchange rate** | **1.09** | **1.06** | **1.20** | | | | | |

(*) Calculated with data at market close
(1) compared to end of previous year

| VOLATILITY /RISK INDEX | 31/12/2015 | 30/12/2016 | 15/12/2017 |
|---|---|---|---|
| VIBEX | 22.48% | 18.03% | 13.38% |

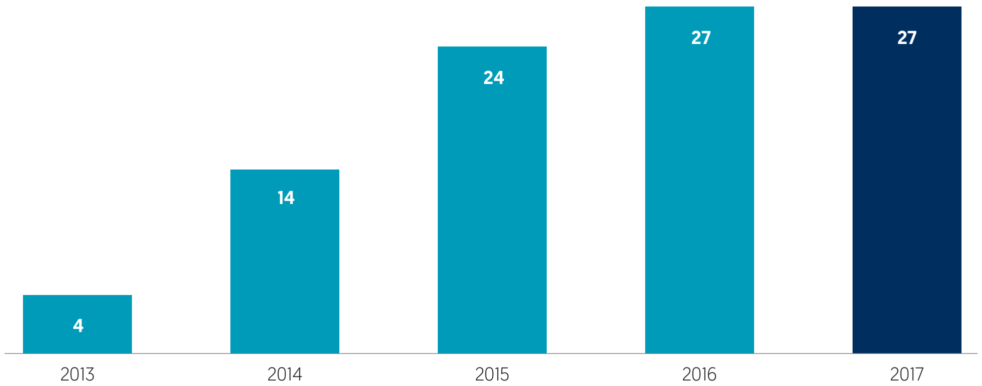
| TRADING VOLUMES | Year 2015 | Year 2016 | Year 2017 | Change [1] |
|---|---|---|---|---|
| Equities | 962,166 | 652,925 | 651,489 | -0.22% |
| Public Debt* | 6,096,752 | 5,875,113 | 6,232,262 | 6.08% |
| IBEX 35 Options and Futures** | 16,042,838 | 12,617,526 | 12,241,973 | -2.98% |
| Options and Futures on single stocks** | 31,768,355 | 32,736,458 | 32,335,004 | -1.23% |

(*) Simple cash trades on book-entry Public Debt,
(**) Volumes in number of contracts
(1) compared to end of previous year

| CAPITALISATION AND OUTSTANDING BALANCES | 31/12/2015 | 30/12/2016 | 29/12/2017 | Change [1] |
|---|---|---|---|---|
| Capitalisation of Equities | 975,383 | 1,035,332 | 1,137,418 | 9.86% |
| Public Debt Outstanding Balance | 900,650 | 933,007 | 980,651 | 5.11% |
| Outstanding Balance of Corporate Debt AIAF | 533,474 | 510,048 | 493,948 | -3.16% |

(1) compared to end of previous year

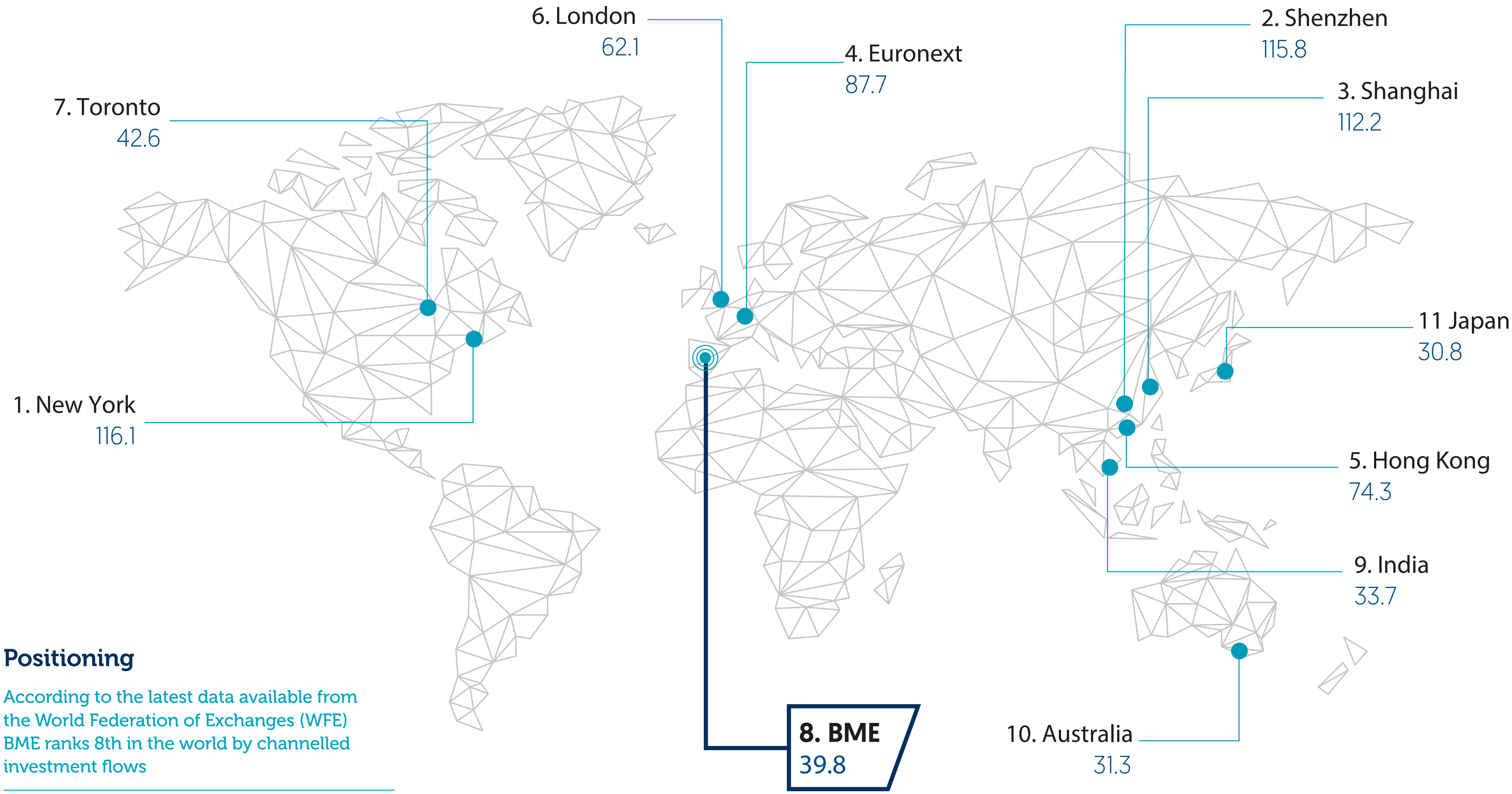
## NEW COMPANIES ADMITTED TO TRADING ON BME'S MARKETS (2013-2017)




## SIZE OF CAPITAL INCREASE OPERATIONS* (Billion euros)


[*] Includes increases associated with IPOs of newly issued shares

KEY ROLE OF STOCK EXCHANGES IN THE FINANCING OF COMPANIES
INVESTMENT FLOWS CHANNELLED THROUGH STOCK MARKETS
(Billion dollars)




**Positioning**

According to the latest data available from the World Federation of Exchanges (WFE) BME ranks 8th in the world by channelled investment flows

Source: WFE (World Federation of Exchanges). Data as at 25 January 2018

## Highly liquid market

### QUALITY OF SPREADS AND BEST MARKET IMPACT FOR SPANISH STOCKS

| **Year/Month** | **IBEX 35** Avg. Spread (%) | **IBEX Medium Cap** Avg. Spread (%) | **IBEX Small Cap** Avg. Spread (%) |
|---|---|---|---|
| 2016/12 | 0.062% | 0.292% | 0.545% |
| 2017/01 | 0.055% | 0.262% | 0.496% |
| 2017/02 | 0.054% | 0.259% | 0.471% |
| 2017/03 | 0.051% | 0.242% | 0.452% |
| 2017/04 | 0.050% | 0.252% | 0.502% |
| 2017/05 | 0.050% | 0.248% | 0.454% |
| 2017/06 | 0.052% | 0.261% | 0.543% |
| 2017/07 | 0.049% | 0.253% | 0.647% |
| 2017/08 | 0.050% | 0.249% | 0.657% |
| 2017/09 | 0.046% | 0.228% | 0.649% |
| 2017/10 | 0.050% | 0.223% | 0.695% |
| 2017/11 | 0.052% | 0.241% | 0.621% |
| 2017/12 | 0.051% | 0.253% | 0.517% |

Source: BME

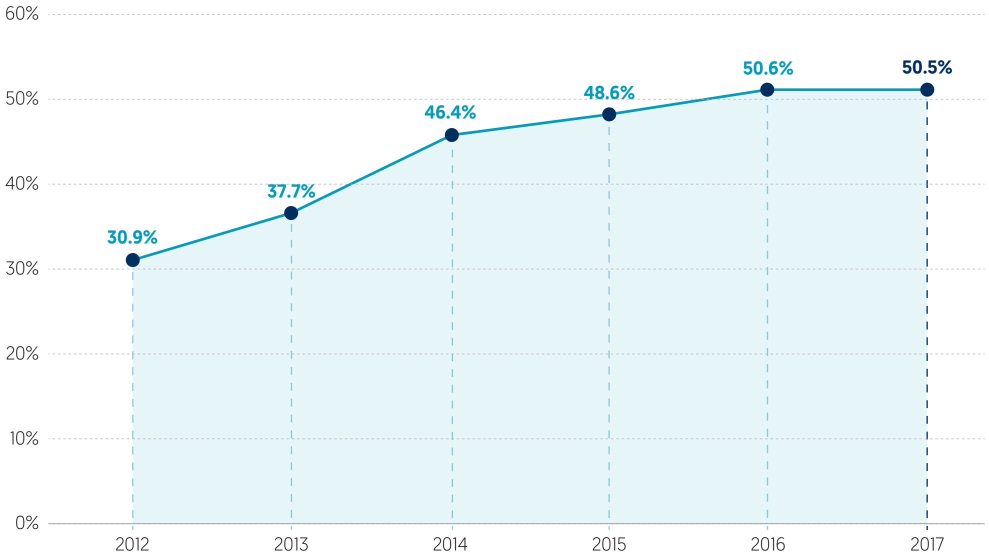
IBEX

The IBEX 35® spread has narrowed by 1.1 basis points in the last year to 5.1 basis points.

During 2017 the spread of the IBEX® Medium Cap improved by 3.9 basis points, while that of the IBEX® SmallCap, more volatile, ended the year 2.8 basis points below the start of the year.

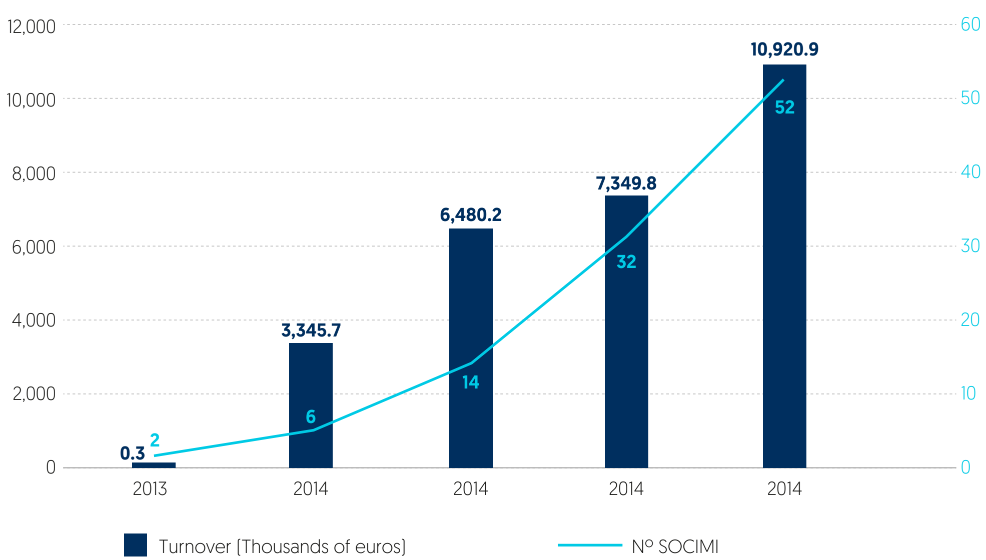
**REITS represent 73% of real estate market capitalization**

## SMALL AND MEDIUM CAPITALISATION STOCKS GAIN WEIGHT IN TRADING ACTIVITY



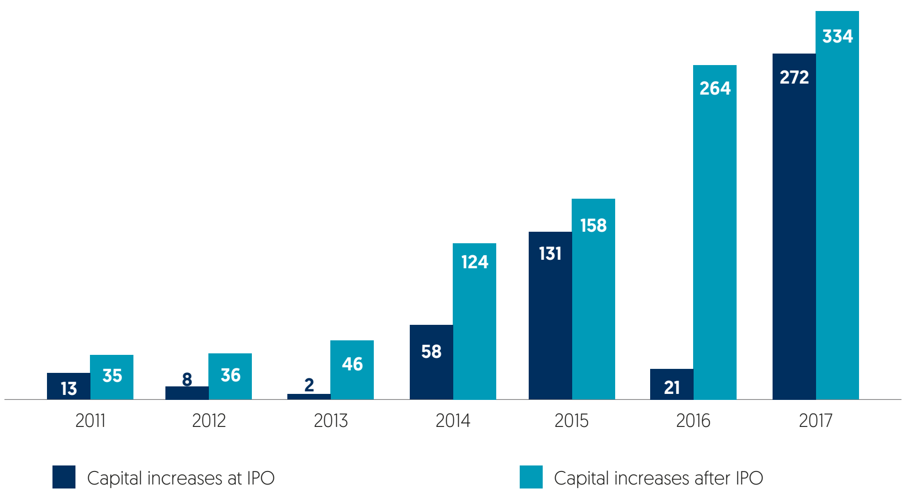

Improved liquidity and spread of medium and small capitalisation stocks has further diversified trading towards these companies.

## TREND IN TURNOVER AND NUMBER OF LISTED REITS 2013 - 2017 (NOV.)

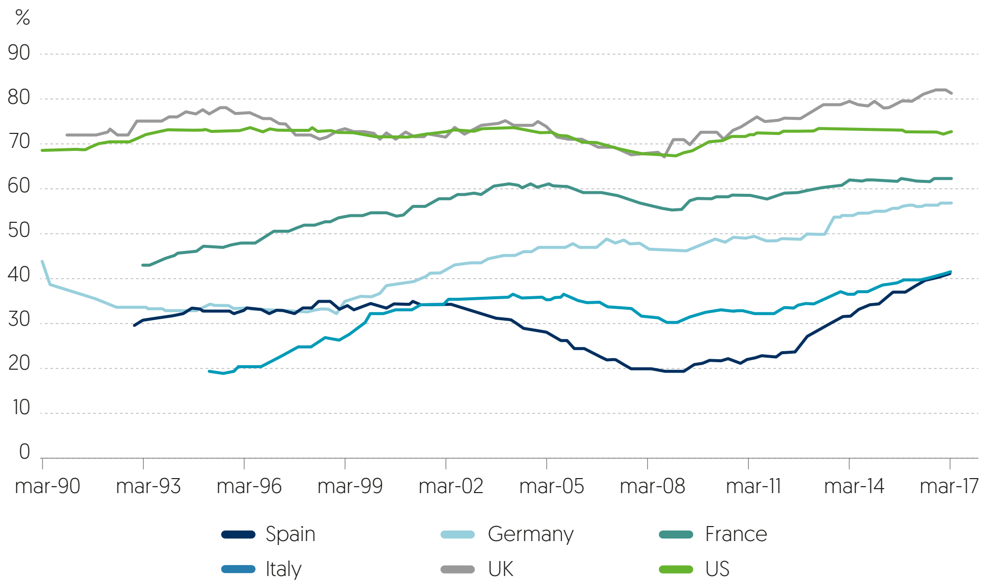


## 2017: MAB's best year

### FUNDING RAISED THROUGH CAPITAL INCREASES IN BME'S SME MARKET (NOT INCLUDING SICAVS)




### MARKET FINANCING (%) VS BANKING OF NON FINANCIAL COMPANIES (1990 – 2017)

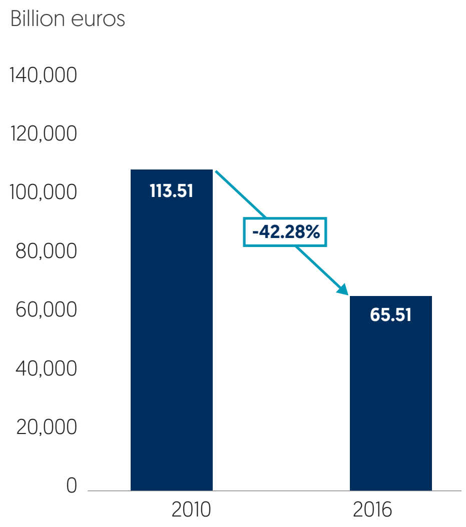



Source: CNMV with data of Dealogic y Central Banks. Data until the first quarter of 2017

## CHANGE IN FINANCING MODEL

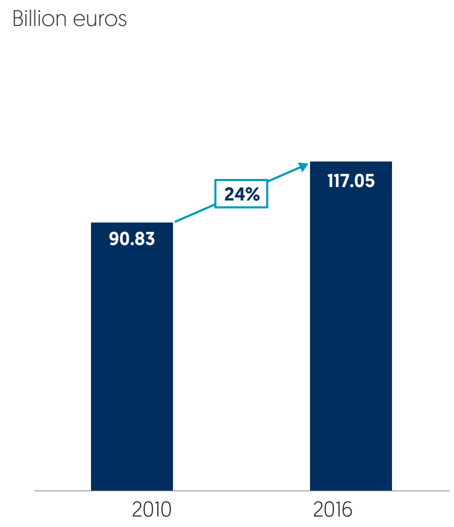
### TOTAL BANK FINANCING

Debt with credit institutions of non-financial Ibex 35 companies.




### TOTAL (FIXED INCOME) MARKET FINANCING

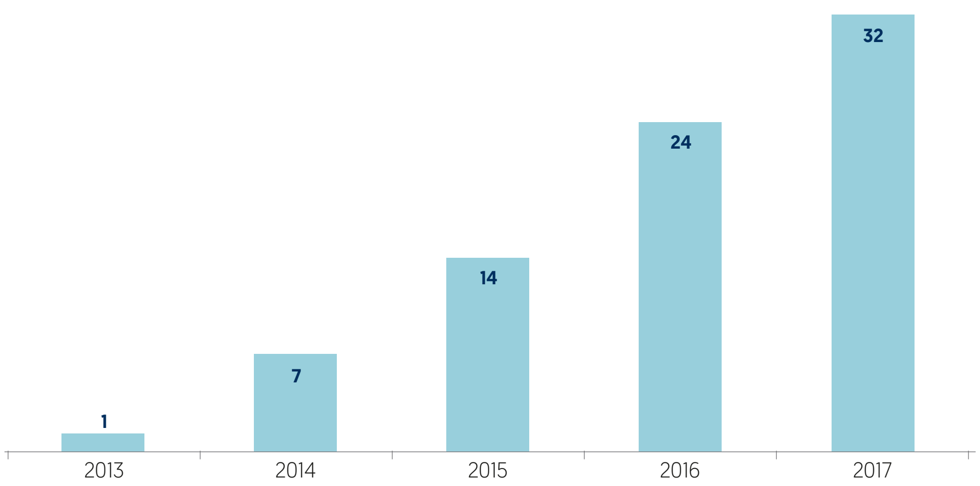
Bonds and other securities non-financial Ibex 35 companies (2010-2016).



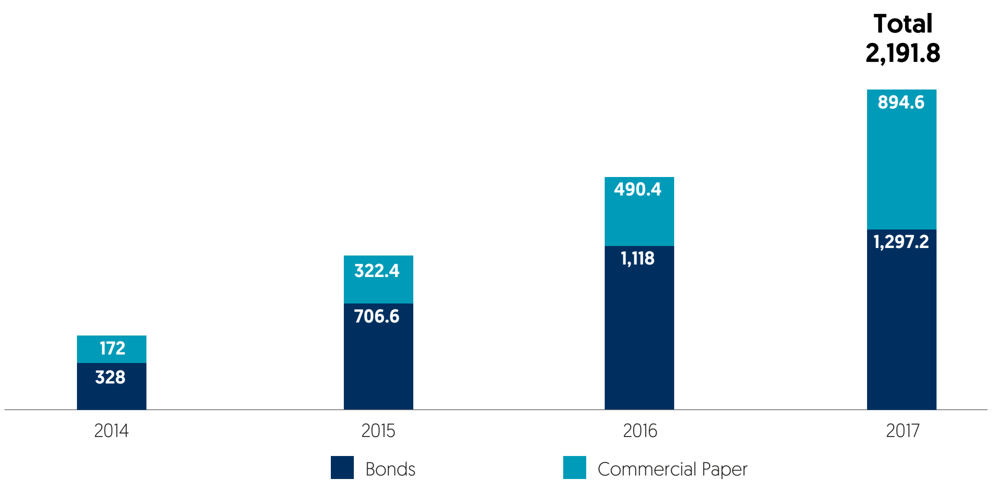

Calculated on a homogeneous set of 20 companies belonging to the IBEX 35 in 2010 and 2016 from which it has been possible to break down data.

## MARF gains weight as complementary financing via Fixed Income

### Nº OF ISSUES THROUGH FIXED INCOME MARKET FOR SME COMPANIES




### OUTSTANDING BALANCE ON FIXED INCOME MARKET FOR SME COMPANIES (Millon euros)



# 2. LETTER FROM THE CHAIRMAN

# Letter from the Chairman


Antonio J. Zoido, Chairman of BME

**Dear shareholder,**

Global stock markets have responded extremely well to the upturn in global economic growth and the positive outlook for the coming years, while the bond markets have remained surprisingly stable despite the main central banks gradually shifting towards more restrictive monetary policies. Stock and bonds markets have been characterised by historically low levels of volatility, which has fuelled confidence.

Bucking the trend seen in recent years, the main international bodies upgraded their global growth forecasts on various occasions during the year. According to the IMF's October projections, global GDP growth will reach 3.6% in 2017 and 3.7% in 2018, following 3.2% growth in 2016.

For the third year running, the Spanish economy outperformed on the international stage, with estimated GDP growth of over 3% in 2017, placing it at the forefront of the world's major developed countries. Despite the political situation that unfolded in Catalonia in the second half of the year, support factors such as a healthier global economy, forceful job creation, low interest rates and the reduction of private sector debt have once again driven consumer spending, exports and also investment.

## Stock market performance in 2017

The IBEX 35, the main index of the Spanish stock exchange, was back in the black in 2017, ending the year up 7.4%. Factoring in dividends, returns stood at 11.25%. The year featured two diametrically opposed episodes for the Spanish stock market: through to May it gained 19%, only to lose nearly 10% of this ground in the latter half of the year largely in response to the political uncertainty in Catalonia.

Trading on the Spanish stock exchange in 2017 followed the trend seen the previous year. Total trading came to 651.48 billion euros, with the main gains materialising from May onwards. A total of 50.9 million share transactions were completed, slightly down on the 54 million reported in 2016.

Against a backdrop of growing competition, the Spanish stock exchange remains an extremely liquid platform for the shares traded on the market and the spreads and depth offered by its trading system have continued to be a reference in the months leading up to the entry into force of MiFID II, which imposes stricter requirements on financial intermediaries on achieving the best execution of orders involving Spanish securities.

## BME, a benchmark in business financing

BME's capacity to attract new investment and financing –one of the strengths of the Spanish stock exchange– reached truly exceptional levels in 2017. New investment flows and financing through shares originating from rights issues, coupled with new admissions to trading, share offers and IPOs, totalled 40 billion euros, up 39% year on year and the second highest total of the past ten years. Figures released by the World Federation of Exchanges (WFE) show that BME ranked third in Europe and eighth worldwide by new investment flows and financing in shares.

For the year as a whole, the 27 companies that joined the various segments and markets of BME secured nearly 4.3 billion euros in funding through share placements, three times the amount achieved in the previous year.

## More funding through the markets and less bank financing

We have been witnessing a growing trend towards a greater diversification of business financing in Spain, particularly in the case of the main listed companies. Recent analyses of the audited accounts of Spanish non-financial listed companies that belonged to the IBEX 35 between 2010 and 2016 show that equity was up 24% while bank financing was down 42%, already well below the volume of financing achieved through Fixed Income instruments, which was up 30% according to these same studies. In a nutshell, more capital, less debt and more debt diversification.

## The MAB continues to grow and consolidate

The MAB market for Growth Companies continued to consolidate its financing potential throughout 2017. Capital increases totalled 112 million euros through 11 different transactions and the number of companies present on the market climbed to 42 following the inclusion of three new members.

Real Estate Investment Trusts (known in Spain as SOCIMIs) continue to grow in both number and market value, providing investors with liquid investment vehicles linked to the real estate rental market. With 19 additions in 2017, a total of 52 SOCIMIs were trading on different segments of the Spanish stock market at year-end 2017: five on the main market and 47 in the specialised segment of the MAB. Together, they present a market value of 20 billion euros.

**Dividend**
**Pay out 96%**

### Fixed Income in 2017 and expansion of the MARF

The Corporate Debt segment also experienced a year characterised by a drop in yields on high-grade bonds in response to the European Central Bank's corporate sector purchase program (CSPP), which reached an average monthly volume of some 7.5 billion euros. As a result, the cost for companies of issuing debt in the Fixed Income markets has fallen by 38% since the programme began.

BME's Fixed Income Market reported a slight drop of 3.2% in the balance of Corporate Debt. Despite reporting an increase of almost 38% in issuances of long- and short-term bonds, it was penalised heavily by the reduction in issues of securitised bonds and promissory notes.

Meanwhile, the Mercado Alternativo de Renta Fija, MARF, at barely four years old, is continuing to achieve what it was designed to achieve: offering Spanish companies a new source of financing to complement bank lending through various types of Fixed Income issues: senior bonds, promissory notes and project bonds. If we include the new additions in 2017, a total of 41 companies are now obtaining financing directly through the MARF operated by BME since its inception in 2013. For the year as a whole, the volume of issuances and admissions to trading on the MARF totalled 3.9 billion euros, far in excess of the 2.2 billion euros reported in 2016.

### Successful migration to T2S

The most significant event for Iberclear in 2017 was its migration to T2S. Both the trial process and the migration itself and subsequent stabilisation phase were a complete success. Several of the main financial institutions that have been settling their transactions on T2S since its start-up have confirmed that BME's incorporation has been the most successful of all companies to have undergone the process so far.

This milestone has effectively brought the post-trade systems of the Spanish market in line with those of the main European markets, making them more efficient and competitive while optimising costs, all key priorities in an increasingly global environment.

REGIS-TR is a European trade repository developed jointly by BME and the German Stock Exchange. It is now the second biggest repository in Europe, having received and processed upwards of 8 million messages a day in 2017, a year in which it was also authorised to provide reporting services under Swiss regulations. REGIS-TR now reports to 35 European regulators –almost all of them– thus consolidating its position as a valuable communication channel between market members and supervisors.

### Stable earnings and dividends

BME's net profit in 2017 came to 153.3 million euros, down 4.3% year on year. The widespread slowdown in trading volumes reported by the Equities and Derivatives units was partially offset by the positive performance of other units and products in response to the Company's efforts to diversify its business model.

On the subject of shareholder remuneration, BME has maintained a solid dividend policy since 2007. This year round, the Company has laid a proposal to shareholders at the Annual General Meeting of 0.78 euros per share, gross, as an extra dividend. BME's shareholder remuneration policy and proposed pay-out of over 96% is unrivalled in its sector and is down to the Company's operational gearing, which allows it to cover operating costs with earnings not linked to trading volumes.

## Outlook for 2018

One of the most immediate and significant milestones for 2018 will be the entry into force of the Markets in Financial Instruments Directive, or MiFID II. This regulation champions financial integration within the European union and improved responsiveness to new market conditions. It also seeks to correct some of the weaknesses relating to market functioning and transparency that came to light during the recent global economic and financial crisis.

MiFID II reforms and expands the scope of the previous directive and provides added protection for investors, while adding further requirements across Europe on new financial products and services and extending the requirements applicable to investment firms, regulated markets, data reporting service providers and companies from third countries that provide services or perform investment activities in the European Union.

BME expands and strengthens its range of services to comply with MiFID II on behalf of the members of the financial markets. It therefore acts as Approved Publication Arrangement (APA) and Approved Reporting Mechanism (ARM) and manages a regulatory compliant service of Systematic Internalisers (SI). These concepts and services form part of the new European regulations.

We began 2017 celebrating the 25th anniversary of the creation of the IBEX. During this period, the index gained more than 250%.

While the outlook for 2018 appears generally favourable, we are likely to encounter certain difficulties. In Spain, we must contend not only with situational economic risks, but also a number of lingering concerns, such as a worrying deficit and still high levels of debt and unemployment. Brussels and the IMF have urged Spain to press forward with its structural reforms in order to reduce existing vulnerabilities.

The financial system must continue with its process of adapting to the new reality of increasing levels of regulation and innovation. On the subject of technology, fintechs have acquired particular significance in recent years because they are changing many of the existing models and approaches to financial services, some of which are provided via the stock exchanges.

The transformation of the financial system as a whole, particularly the capital markets, has been considerable in recent years. BME has been continuously responding to this process of change without losing sight of its own identity, its business model and principles, which are ultimately transparency and security.

Thank you,

***Antonio Zoido.***

# 3. MARKET ENVIRONMENT

## The Spanish economy grows 3%

A quick look at the performance table of the world's stock exchanges in 2017, which reveals upwards trends in all the benchmark economic areas in both advanced and emerging markets, is sufficient to confirm that the financial year was quite positive.

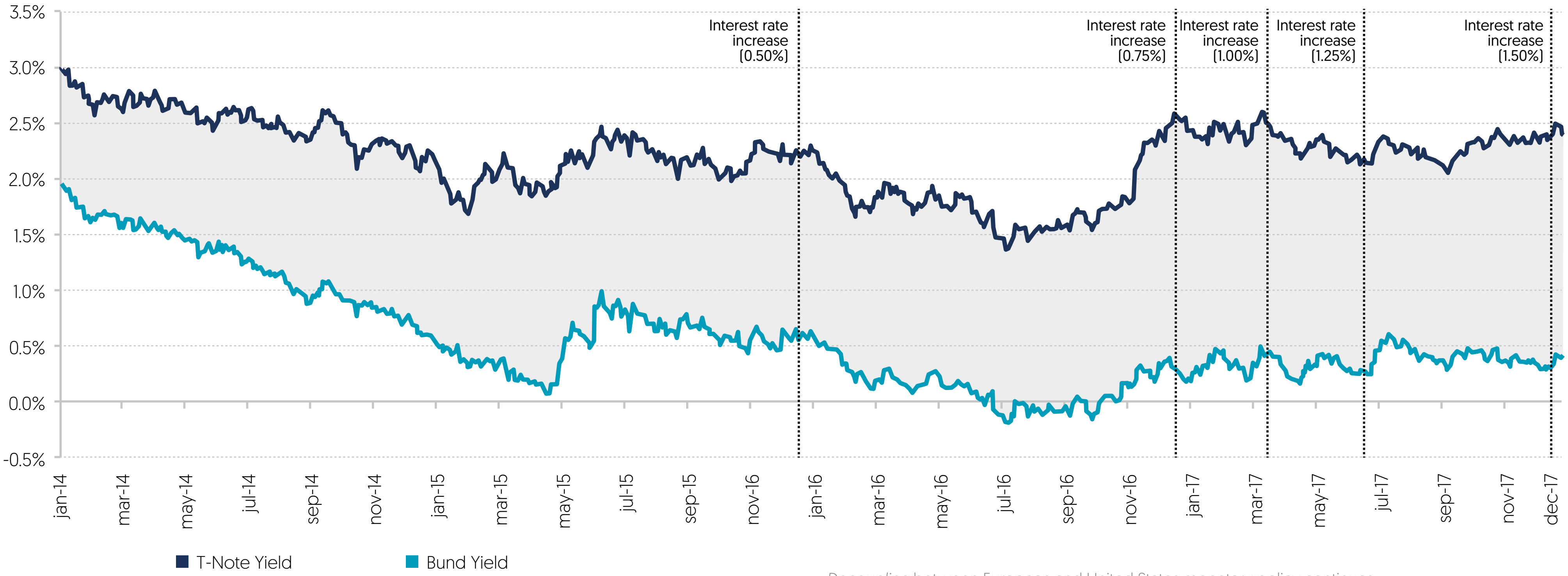
This favourable trend in stock prices is largely due to improved performance of listed company businesses, boosted by a stable global economic environment and general growth since 2016. Moreover, 2017 saw dominant financial stability in gradually expansive conditions which, although slow, tended to normalise the situation in the United States and Europe.

The characteristics of the Spanish economy are also positive; these include very favourable figures for employment, investment and foreign trade, as well as a continued decrease in household and company debt and the re-routing of the public deficit.

Global GDP rebound in recent months is so widespread that it is difficult to find previous evidence of such an extensive consensus of economic growth between regions at very different levels of development. According to the IMF, approximately 75% of the world's economy is enjoying this economic boom and, although not free of risks, it is being considered by stock market investors with optimism and prolonged stock price increases in many countries. This is true to such an extent that recent months have seen multiple surveys and experts, especially in the USA, warning of a scenario of stock market overestimation, whereas a good number of critical indicators appear to contradict such a scenario. The Dow Jones has repeatedly broken historical ceilings for months and has been growing unimpaired since 2009, with nearly 25% growth in 2017. The situation in the United States is the most noteworthy, but not the only one in the world.

The most recent IMF forecasts indicate an increase in global GDP of 3.6% in 2017 and 3.7% in 2018, upwards from 3.2% in 2016. This rise is accompanied by an annual increase in worldwide trade volume in 2017 that practically doubled that of the previous year (4.2% versus 2.4%) and will remain at approximately 4% in 2018.

### DEBT SPREAD - United States and Germany




- *Decoupling* between European and United States monetary policy continues.
- The latest increases in United States interest rates have resulted in an increase in German *bund* profitability.
- The year 2017 saw resistance versus surpassing 2.5% profitability in United States bonds and 0.5% in German bonds.

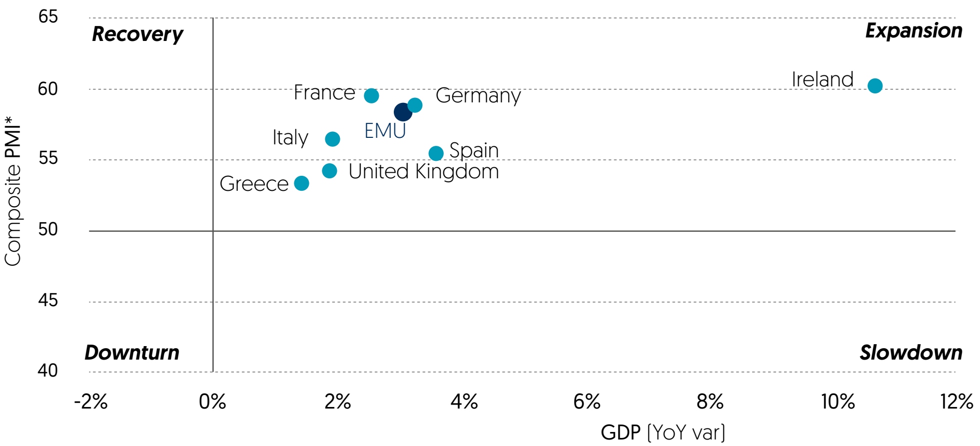
As in previous global economic expansion cycles, this is largely due to the strong performance of the world's largest economy. GDP of the United States is growing at 2.2% (3.3% in Q3 2017, among the highest quarters since 2014), with the lowest unemployment rate in a decade (4.1%), home sales are the highest in the last decade (18%), the consumer confidence index is improving continuously as well as that of businesses, which are expecting the tax reform promised by the President that includes a very considerable reduction of the corporate tax (form 35% to 20%). Prices have reacted with a moderate increase (2.1% YoY), leaving behind the spectre of deflation. Moreover, other than the need to integrate salaries more forcefully into the moment of economic growth, no short-term risks are on the horizon if the process of tightening monetary conditions continues gradually.

## Europe has demonstrated more economic robustness than expected in 2017

The economic boom in the USA has been accompanied by the economic upturn in Europe, which appeared to be weaker than it turned out to be. Japanese GDP expectations in recent months of 1% have risen to the current 1.5% for 2017 and emerging market economies headed by China and India are showing signs of accelerating their upward trend in the global economy.

Undoubtedly, the higher than expected growth of GDP in Europe is one of the pleasant surprises of 2017. After the confirmation of the Brexit in 2016, a certain economic uncertainty was envisioned, which for the moment has not affected the behaviour of the economic players. The latest forecasts indicate an increase in GDP per capita in the Eurozone of 2% in 2017 and 1.8% in 2018, upwards from the average recorded between 1999 and 2008, an event restricted to very few economic zones worldwide.

### GROWTH TIMELINE (3Q 2017) - Europe




*Greece: Manufacturing PMI, United Kingdom: Services PMI.

- The growth clock shows improved convergence between countries.
- The expansive cycle in Europe has gained momentum, as seen by the appreciation of the euro versus the dollar and despite the fact that monetary policies are on different *timings*.
- Ireland and Spain continue leading growth in the EMU. Greece, in turn, is beginning to overcome economic depression.

The German economy is registering better than expected signs of internal activity, with a GDP slightly over 2% and leading significant improvements in the economic outlook of Central and Eastern Europe, where both developed and emerging market economies are recording overall increases in GDP at approximately 3%-4%. These rates of growth can also be found in countries such as Spain or Ireland. In Italy, expected GDP for 2017 is 1.5%, after an initial growth at the beginning of the year of nearly 0.5%.

The measures taken by the ECB to keep interest at historically low rates and reduce stimuli from the purchase of assets slowly and gradually appear to be producing a positive or stabilizing effect on product growth trends in most European countries. The least of these effects is significant short-term progress in private sector debt reduction and the application of programmes intended to consolidate the budget, contain public deficit and the debt in these economies, which continue to be very vulnerable to changes in short and medium-term financing conditions.

Inflation in Europe finally appears to have left negative levels behind; although lower than desirable (approximately 2%, according to stability mandates) the trend is positive as regards normalisation of financial conditions. This economic upturn must now be prolonged by transferring the improvements to real euros in salaries in a very positive environment of job creation and a gradual reduction in unemployment.

Lower worldwide unemployment is very good news. It is currently much lower than the average for 1995-2015 and consistent in the main economic regions: 4.1% in the United States, versus an average of 6%; 7.8% in the EU28, versus 9.3%; 9.1% in the EMU, versus 9.8%; and 2.9% in Japan, versus and average of 4.3%. Unemployment in Spain continues slightly over the average for that period (17.4% versus 16.2%) but has fallen swiftly nearly 10 percentage points in the last three years.

The inflation rebound in Europe is partially due to the rise in oil prices, which have doubled in 2 years from around 35 dollars for a barrel of Brent to nearly 65 dollars currently. In the same vein, strong European economic activity and continued decoupling of the monetary policy versus the USA has also had an impact on the euro/dollar exchange rate. The euro appreciated nearly 20% versus the dollar in 2017.

In the medium term, but starting now, the focus should be on continuing to reduce the volume of debt in the system, while countries with more relaxed fiscal policies should dedicate more resources to driving investment, an essential factor for future regional development and one of the initiatives that has suffered the most under the effects of the crisis. These investment processes will generate future employment which, among other essential effects, will serve to address the relentless ageing process of the European population, providing the opportunity to obtain the necessary economic resources that can sustain the standards of welfare and social equality underlying the foundational principles of the EU.

## The spanish economy is heading in the right direction

In Spain, the levels of growth have remained solid, in line with the good moment that the recovery in the Eurozone is experiencing. The GDP has risen for 16 consecutive quarters and is expected to close a year with an increase of 3.1%. For 2018, there is an anticipated outlook of restraint in the growth rate after three vigorous years, with varying GDP rates above 3%, strong job creation, acceleration in consumer activity and investment, in spite of the wage restraint and fiscal austerity. As regards the latter, the deficit for all state and local government bodies is expected to reach 3.2% of the GDP in 2017 and 2.4% in 2018. If this is achieved, Spain will be able to exit the European "excessive deficit procedure" programme, which requires a significant reduction in the deficit to the threshold of 3% of GDP.

Gross business operating surplus has been growing since 2015 by tenths of a percent over employee remuneration and this situation is expected to repeat itself in 2018. It is important to take advantage of these moments of economic upturn to ensure that job creation (unemployment is expected to drop to 15% at the close of 2018) goes hand-in-hand with a real increase in household income, beyond the increase in net financial wealth of the latter due to the parallel process of debt reduction and revaluation of the financial assets in their portfolios.

### MACROECONOMIC SCENARIO FOR SPAIN 2017-2018.
### Annual variation (%) unless indicated

| | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | **IMF** (October 2017) | **European Commission** (November 2017) | **Government** (October 2017) | **Spanish analyst consensus** (November 2017) [1] | **IMF** (October 2017) | **European Commission** (November 2017) | **Government** (October 2017) | **Spanish analyst consensus** (November 2017) [1] |
| **MACROECONOMIC SCENARIO** | | | | | | | | |
| **GDP** | **3.1** | **3.1** | **3.1** | **3.1** | **2.5** | **2.5** | **2.3** | **2.6** |
| Household consumption | 2.6 | 2.6 | 2.5 | 2.5 | 2.4 | 2.2 | 1.8 | 2.2 |
| Public consumption | 0.9 | 0.9 | 0.9 | 1.1 | 0.4 | 0.8 | 0.7 | 1.1 |
| Fixed gross capital formation | | 4.1 | 4.2 | 4.3 | | 4.0 | 3.4 | 3.7 |
| Capital goods | | 5.1 | 4.8 | 5.2 | | 4.5 | 3.8 | 4.0 |
| Construction | | 3.8 | 3.9 | 4.0 | | 4.0 | 3.5 | 3.7 |
| National supply | 2.6 | 2.5 | 2.4 | 2.6 | 2.2 | 2.3 | 1.8 | 2.3 |
| Exports | 5.9 | 6.0 | 6.2 | 5.7 | 4.8 | 4.8 | 5.1 | 4.6 |
| Imports | 4.7 | 4.4 | 4.4 | 4.4 | 4.2 | 4.3 | 4.1 | 3.9 |
| Contribution to GDP growth (% points) | | | 0.7 | | | | 0.5 | |
| **OTHER INDICATORS** | | | | | | | | |
| **Employment** | 2.8 | 2.7 | 2.9 | 2.8 | 1.7 | 2.1 | 2.4 | 2.2 |
| **Unemployment rate (% of active population)** | 17.1 | 17.4 | 17.2 | 17.1 | 15.6 | 15.6 | 15.5 | 15.3 |
| Unitary Employment Cost | | 0.5 | 1.1 | 0.5 | | 1.2 | 1.1 | 1.1 |
| CPI (annual average) | 2.0 | 2.0 | | 2.0 | 1.4 | 1.6 | | 1.5 |
| Current account balance of payments balance (% GDP) | 1.9 | 1.7 | 1.7 | 1.7 | 1.9 | 1.5 | 1.6 | 1.6 |
| **Public Administrations balance (% GDP)** | **-3.2** | **-3.1** | **-3.1** | **-3.1** | **-2.5** | **-2.4** | **-2.2** | **-2.4** |
| **Gross public debt (% GDP)** | **99.4** | **98.4** | | | **98.7** | | | |

Source: FUNCAS (1) Source: FUNCAS forecasts panel (in percentage points)

## IBEX 35
### 25 years as the Spanish Stock Exchange benchmark

As in Europe, inflation has returned to the Spanish economy over the last 15 months and is expected to be nearly 2% at the end of the year (underlying inflation, which excludes energy prices, is expected at 1.4%) It appears evident that the absence of inflation in recent years has bolstered a growth in household consumption in line with lower unemployment and in spite of the strong containment of salary incomes. Consumer vitality, lower debt load and the reduction in household salaries has led to savings rate that is equivalent to 7% of Available Gross Income (AGI), the lowest level in practically 2 years and nearing historical lows (5.8% in 2008).

Gross Spanish household debt is approximately at one year (100%) of Available Income (AIG). Although high, it continues far below the mean of 127% maintained throughout 2008-2013 or 107% for 2014-2016.

This reduction in household debt is similar to that of Spanish non-financial businesses, whose level of debt versus GDP is nearly 96%, following an average 128% between 2008 and 2013 and 108% over the two years following this period.

However, it is true that throughout 2017 these good indicators have not resulted in an increase in stock prices to the degree that this has occurred in the United States and other European stock markets.

The business environment is expected to stabilise in 2018, while current political uncertainty may give way to a scenario more prone to continue the recovery of investment levels and activity that have already begun in Spain due to the enviable moment of Spanish companies and their domestic and foreign markets.

In fact, indicator forecasts continue to show a positive outlook at the national level. Spanish manufacturing PMI increased to 56.1 points in November, the highest since February 2007. This appears to have been spurred by new orders and particularly by export orders driving production.


Event conmemorating the 25th anniversary of the IBEX 35

## Positive expectations of non-resident investor activity in Spain

It is important to note how foreigners, the indisputable protagonists of a significant part of business generation in Spain and Spanish companies, are mostly optimistic as regards the performance of Spain's economy. In the 10th edition of the "Barometer of the Business Climate in Spain from the Foreign Investor's Perspective", sponsored and published by ICEX, the global assessment by 785 participating companies of the economy in 2017 has improved for the fourth consecutive year.

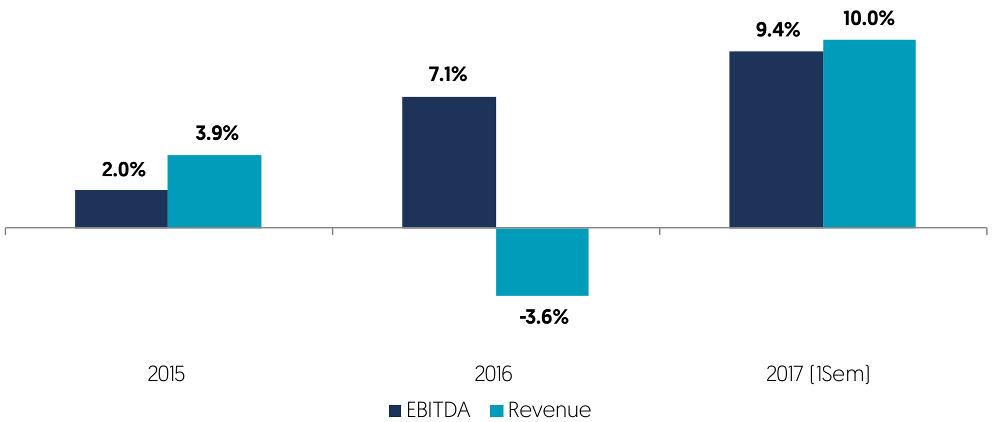
The results of this barometer, published on November 15, indicate that the outlook for investments during the year by foreign companies in Spain were very favourable in May-June 2017. Approximately 95% of the surveyed companies intended to increase or maintain their investments in Spain through the year. Employment outlook was also very positive: 94% of the companies intended to increase or maintain their workforce in Spain in 2017, up from 87% in 2016. The revenue outlook was also excellent, as 91% of the surveyed companies expected to increase or maintain their sales, versus 84% in 2016.

Although the "Catalonian affair" has surely affected these forecasts to some extent throughout the year, it is also true that the business activity of companies listed on the Spanish stock exchange ratify the expectations of the foreign companies quoted in the barometer, point-by-point.

## Companies listed in the spanish stock exchange show their strength in 2017: income and profits improve

Operating revenue registered jointly by the Spanish companies listed on the Spanish stock exchange in the first half of 2017 grew by 8.4% versus the first half of 2016. Net profits also increased by 80.1%, although distorted by the results of Abengoa, which without its insolvency proceedings, would have registered a more favourable and realistic 20.3%. The increase in raw material prices during this period was compensated in many cases by higher revenue overseas, leading to these significant profits. If we include the results for foreign listed companies (with the exception of Latibex), revenue increased by 8.8% in the semester with net profits of 69.4%, which would be 23.5% without comparing Abengoa.

THE BUSINESS OF LISTED COMPANIES IMPROVED IN 2017
Aggregate data of IBEX 35 companies. Variation (%) compared to the same period the previous year.




Source: CNMV and BME

**67%**
of revenue of IBEX 35-listed companies
**is generated abroad**

Only 24 of the 130 companies listed on the primary segment of the Spanish stock exchange registered losses during the first half of 2017, none of which belonged to the IBEX 35 (25 of 35 improved their surplus versus 2016). In other words, the performance of the large Spanish multinational companies that comprise the IBEX 35 was very positive in the first 6 months of the year: an increase of 10.03% in operational revenue, an EBITDA over 9.4% YoY versus 2016 and an increase in net profits of 19.4% in the same period.

Activity improvement for the first half of the year was a generalised phenomenon in IBEX 35 companies, regardless of the sector. Thus, non-financial companies of this index saw joint increases in their semester earnings of 12.1%, resulting in an increase in net profit of 15.9%. In addition, 17 of 26 companies improved their results in comparison with 2016. The non-financial companies in the index also increased their operational revenue by 4.1% in the semester, while their net profit increased by 25%. At the end of the third quarter, the estimate of profit increase for IBEX 35 companies was approaching 16%.

In any event, improvements in the accounts of listed companies has been general and the data of the companies included in the next lowest rung of the Spanish stock exchange, the 20 companies belonging to the Ibex Medium Cap, also showed profits in their business balance sheets for the first half of 2017, given the generally positive economic environment. As a whole, the revenue of this group of companies increased by 5% versus the same first six months of 2016 and only 6 companies registered losses in the year. In turn, EBITDA or operating income (ordinary or primary activities) grew by 9.1% in the period, resulting in a final income statement entry of a net profits increase of 29.1% for the semester.

The results of the financial sector in this group of companies were better than those of all the non-financial companies. The former saw their revenue grow by 5%, with an increase in net profits for the semester of 62.6%, primarily due to the excellent results of Corporación Alba; if the insolvency proceedings of the latter were not taken into consideration, this percentage would have dropped to 5.58% The operational revenue of the non-financial companies rose by 5.38% for the period, leaving an aggregate net profit increase of 7%, which would have risen to 30% were it not for the high losses registered by Almirall.

Finally, average profit for IBEX 35 companies in the first semester of 2017 approached 600 million euros. This result for Spanish companies was obtained from average figures for net sales revenue of 4.3 billion euros overseas and average revenue of 2 billion euros domestically for the same group of Spanish companies that comprise the IBEX 35. Thus, one of the most relevant factors that explains the healthy conditions of the global income statement of Spanish listed companies is their capacity to sell and grow in foreign markets year after year. In the first half of 2017, Spanish companies listed overseas broke a record by achieving net revenues of 67.1% (67.4% for those companies in the IBEX 35).

## Global debt is growing and becoming a concern, but with less weight of developed countries.

### IN SPAIN, PRIVATE DEBT HAS FALLEN SIGNIFICANTLY FOR AT LEAST FIVE YEARS AND, ALTHOUGH IT CONTINUES TO BE HIGH, ITS IMPACT ON INSTABILITY HAS LESSENED

High debt is one of the factors considered unanimously to have triggered the global economic and financial crisis and the sovereign debt crisis in Europe that has demonstrated its effects over the last decade. The scale of worldwide debt continues to be a concern today. Debt volumes have been growing unceasingly for the last three decades, and today stand at a value equivalent to 327% of the global GDP. Although the levels are high in almost all developed countries, over the last five years, the contribution of these economies (in particular, European economies) to the growth of the global level of debt has dropped significantly. Emerging economies, especially China, are leading global debt growth.

The IMF's most recent Global Financial Stability Report echoes this concern in the following words: "Recent studies have demonstrated that benefits for growth begin to fall when aggregate leverage is high. New empirical studies - as well as the recent experience of the international financial crisis - have demonstrated that within periods of economic cycles the increase in private sector credit, including household debt, can increase the probability of a financial crisis and weaken growth".

From this viewpoint, the strong downward trend seen in private resident sectors (households and companies) in the developed world, especially Spain, would be acting in favour of a gradual reduction in recessive risk in the economy.

### INTENSE LEVERAGE IN THE SPANISH PRIVATE SECTOR. GOVERNMENT DEBT REACHED 100% OF GDP BUT HAS STOPPED GROWING

Spanish private debt (families and companies) reached its highest level in 2010, at 218% of GDP. Information at the close of 2016 indicated a drop to 166% of GDP, nearly 52 points. However, it continues to be high when compared to certain benchmark thresholds that signal an alert (133% of GDP established for the Eurozone).

**TOTAL GLOBAL DEBT**
**Trillions of dollars**


Source: IIF and BIS

**TOTAL GLOBAL DEBT**
**% over Global GDP**

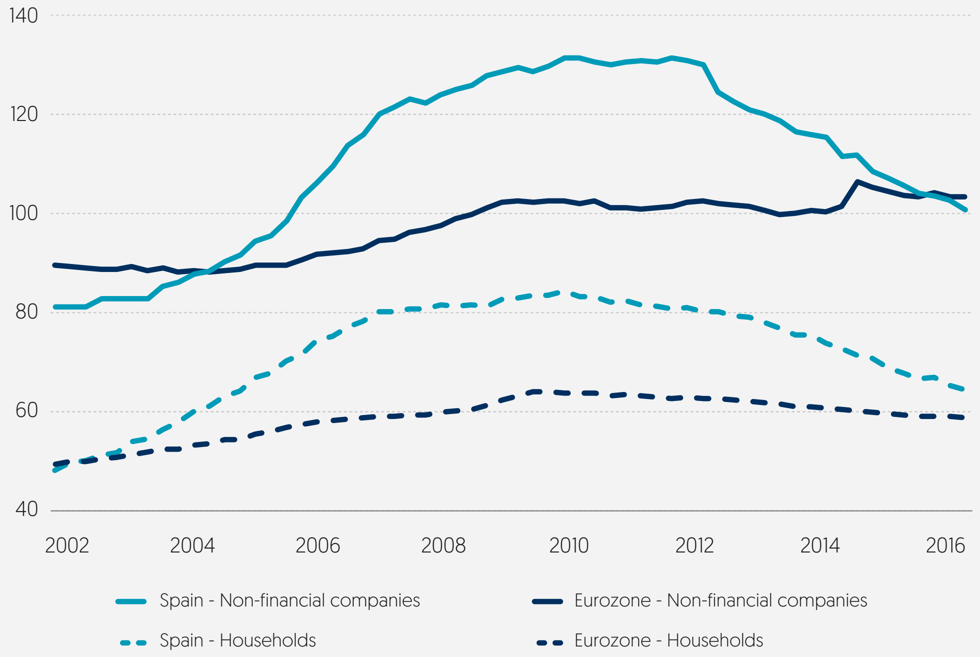

Source: IIF and BIS

Companies have reduced their debt more than 31 GDP points and, according to CaixaBank Research, are 3 percentage points under the average for the Eurozone. Households have decreased their debt a little over 20 points: this is 6 percentage point over the average for the Eurozone, which they are expected to reach in 2018; if interest rate increase gradually, financial expenses will rise very slowly.

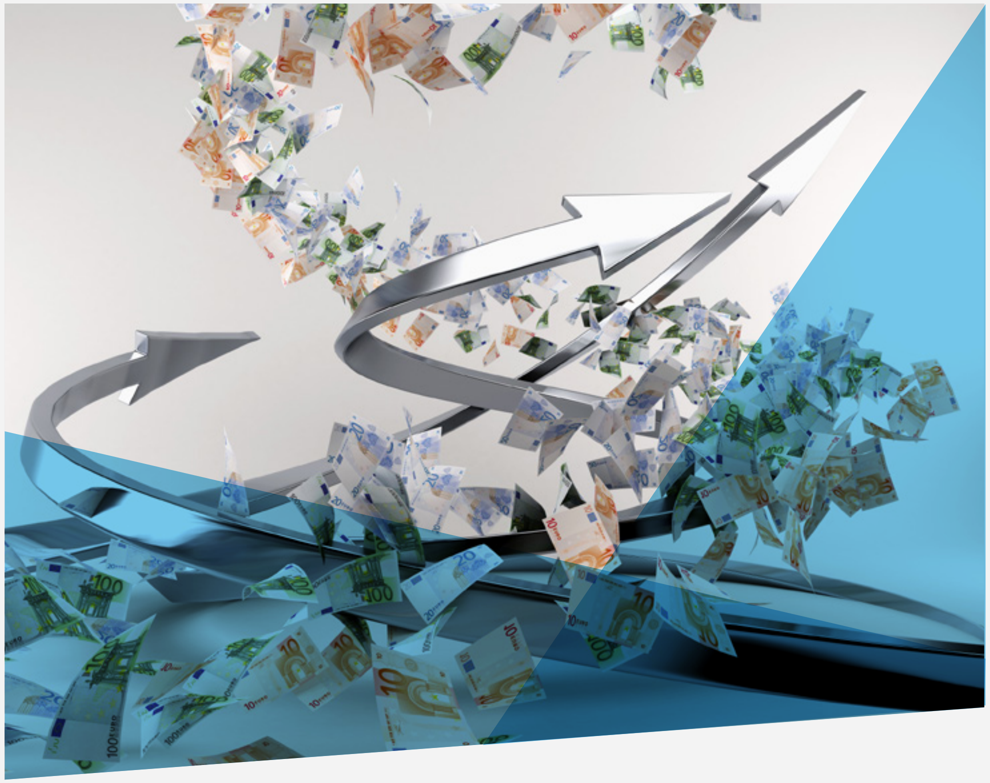
Spanish government debt has remained in the proximity of 100% GDP since 2014, approximately 10 percentage points over the average for countries in the Eurozone. The level of government debt is a clear indication of financial vulnerability in the event of changes in investment trends, since it implies high financing needs for the public sector and limits the scope of tax policies that can be put in place in the event of a downturn scenario. It is very important to correct the primary balance and set the groundwork for sustainable GDP growth to improve the country's capacity to grow. However, a future moderate increase in interest rates will have a very gradual impact on public debt cost due to its long half-life, currently an average of approximately 7 years.

Spain's external debt position, which is largely centred on public debt, is high. The international investment position (IIP), which measures the difference between the Spanish economy's external assets and liabilities, was at 85.7% of GDP at the close of 2016 and continues to be one of the highest among advanced market economies. This increases the need to appeal extensively and repeatedly to international capital markets and therefore subject to the sensitivity of these markets. This dependency, in a word, represents a factor of macro financial vulnerability to changes in investor trends.

### SPAIN: GROSS PRIVATE DEBT (2002-2016) (% OF GDP)




Source: CaixaBank Research and BCE



# 4. FINANCING

Once again, in 2017 the Spanish stock exchange returned to a noteworthy position in the international scene due to the new investment flows channelled to its listed companies, increasing the amount of the previous year by nearly 39%, up to €39.7 billion. This is the second highest figure in the last 10 years, making the Spanish stock exchange the third largest in Europe in this domain and the seventh largest in the world. These amounts are significant both as regards listings and capital increases, which have risen nearly €11.2 billion from the same period in 2016.

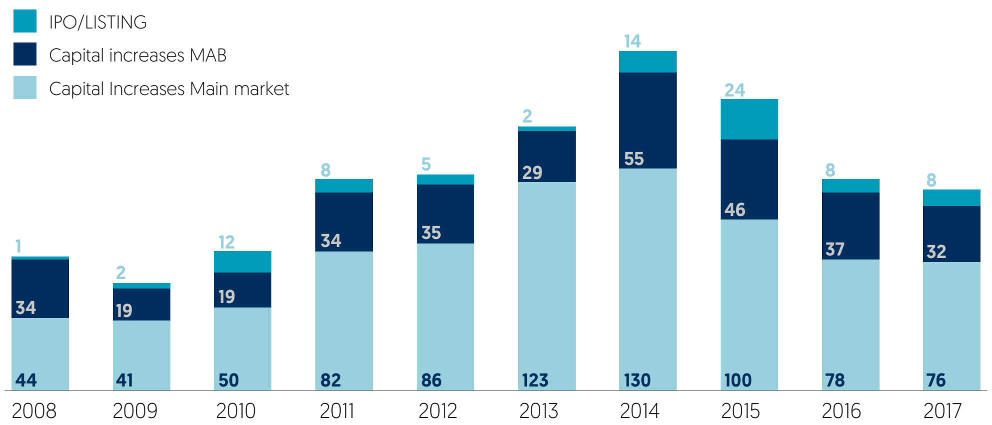
Significant financing transactions managed by companies through the Spanish securities market are not restricted to financial and/or large companies. As the data show, non-financial listed companies are using capital increases to improve restructuring of their balance sheets. In turn, medium and small enterprises are more and more involved each year in this type of corporate transaction in order to access resources that allow them to finance their expansion plans.

**€ 40 billion**
**in new funding**
to listed companies in 2017

In 2017, international financial market activity was favourable, showing gradual improvement throughout the period as a result of a strong economic scenario that was fortified by four quarters of high earnings and a strong outlook. This favourable mood affected stock market investors and leaders, boosting listings and financing transactions to significant levels worldwide in comparison with the previous year.

Once again, in 2017 the Spanish stock exchange and listed companies played a significant quantitative role in the international scene, within the context of the growing prominence of the securities markets in the financing processes of the economy and the sweeping changes to the financial structure of companies, particularly European, which tend towards less debt, as well as higher proportion of debt backed by securities rather than bank loans.

## No. OF COMPANIES FINANCED THROUGH THE MARKET




The data obtained from the regular CNMV market activity reports in the first 9 months of 2017 show that "the worldwide accumulated volume of equity issues reached $632 billion, which is a 16.7% increase from the same period in 2016. By geographical region, the highest increases were in the United States, Europe and Japan, with volumes of $174, $194 y $25 billion, respectively; 20%, 64% and 33% higher than in 2016. The significant rise in the stock exchanges of these regions has stimulated the primary equity markets".

In this setting, investment flows channelled through the securities markets via capital increases and initial public offerings in 2017 were highly significant, as a result of which the Spanish stock market became one of the leading markets in the world to finance companies through equity securities. The nearly €39.72 billion in new financing channelled by the stock market in 2017 is the second highest amount recorded in a decade (the highest was €41.63 billion in 2015).

The data from the World Federation of Exchanges (WFE), at the close of 2017 show that BME ranked 3rd in Europe and 7th in the world by volume of new investment and financing flows in stock, to the amount of €39.72 billion.

Especially noteworthy in this scenario were initial public offerings (IPOs). The Spanish stock exchange led the way in the first half of 2017 and ranked third at the close of the third quarter. The capital increase transactions by listed companies were almost just as significant. The resources obtained by this method in 2017 increased by 30.34%. compared to 2016.

According to the Global IPO Trends Q3 2017 study published by the EY consultancy firm, the Spanish stock exchange led Europe at the close of Q3 2017 in funds obtained through IPOs and was the third largest in this segment in the Old Continent, behind the United Kingdom and Switzerland. This made it the eleventh largest market in the world in this respect, despite not having registered transactions in the third quarter. The IPOs of Gestamp, Prosegur Cash, Unicaja Banco and Neinor Homes during the first semester of 2017, which raised $3.5 billion dollars bolstered the Spanish stock exchange to these positions; in particular, the IPO of Gestamp was the third most significant of the continent in the first half of the year.

According to the EY report on the fourth quarter of 2017, Global IPO Trends Q4 2017, the Spanish stock exchange channelled €4.29 billion in fresh capital and maintained its prominent position in the international scenario, ranked first in the Eurozone and the fourth largest in obtaining resources via public offerings in Europe. The American and Asian markets increased their activity in this segment in the last leg of the year.

One of the most important effects of the leadership seen in the stock exchange in terms of company financing is the strengthening of the market base. The capitalisation of stocks admitted for trading on markets managed by BME at 31 December 2017 stood at €1.13 trillion, up by 9.9% compared to the close of 2016, while the IBEX 35 grew by 7.4% YoY. Of the total market value at the close of the year, €741 billion corresponded to national listed companies, whose market value increased by €72 billion compared to 12 months before. An important part of this increase was not only due to prices, but also to the intensity and size of the new financing transactions executed by companies through the Spanish stock exchange.

## IPOs: three times more than in 2016

IPOs were the most notable company financing resource in 2017. At the close of the year, twenty-seven companies had been admitted to trading in BME markets, with €4.29 billion in funds obtained from these transactions, amounting to 3 times the funds acquired at the same date in 2016 [€1.42 billion in 2016] and the fourth best result in a decade. Of the companies admitted to trading in BME markets, five did so on the stock exchange through four IPOs and three initial public offerings of newly issued shares , bringing in €4.01 billion. The rest did so on the MAB: three in the Companies Growth Segment through three IPOs for €22 million and nineteen in the SOCIMIS segment, through seventeen listings and two IPOs, bringing in a total of €272 billion [See Statistics for Public Sales and Subscription Offerings on our website].

## Capital increases: a resource used profusely by listed companies

Capital increases form one of the main stock exchange activities of listed companies where the main objective is to gain financing through the issue of new shares. Listed companies carried out 116 capital increase transactions in 2017 to bring in resources amounting to €30.17 billion, 30.3% more than was obtained in 2016. This is the fourth highest amount since the beginning of the crisis in 2007 [See the Statistics on Capital Increases on our website].


IPO of Gestamp


IPO of Prosegur

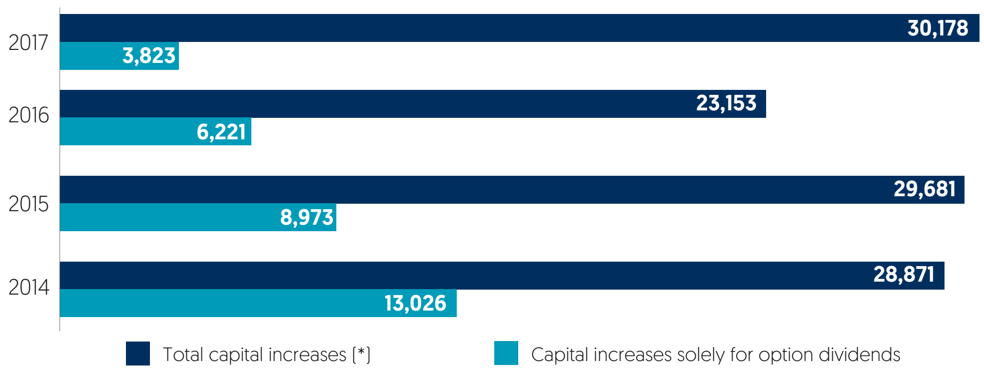
### CAPITAL INCREASES IN THE SPANISH STOCK MARKET
(millions of euros)

| | Concentration transactions | | Tradable subscription rights | | Other capital increases | | Conversion | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nominal | Effective | Nominal | Effective | Nominal | Effective | Nominal | Effective | Nominal | Effective |
| **2008** | 659.56 | 8,278.88 | 1,149.06 | 7,783.44 | 640.88 | 827.17 | 3.53 | 4.27 | 2,453.03 | 16,893.76 |
| **2009** | 207.09 | 3,423.82 | 1,427.46 | 5,656.78 | 1,253.08 | 2,950.25 | 5.78 | 9.79 | 2,893.41 | 12,040.65 |
| **2010** | 91.66 | 1,102.89 | 3,581.89 | 12,026.13 | 2,289.44 | 2,605.79 | 722.08 | 1,625.56 | 6,685.07 | 17,360.37 |
| **2011** | 428.35 | 3,391.18 | 4,396.52 | 10,041.99 | 1,940.76 | 4,264.87 | 178.92 | 2,073.10 | 6,944.54 | 19,771.14 |
| **2012** | 363.30 | 2,840.16 | 2,961.23 | 13,515.75 | 752.95 | 854.60 | 1,389.75 | 14,294.39 | 5,467.23 | 31,504.90 |
| **2013** | 56.31 | 233.98 | 9,396.01 | 21,668.55 | 5,403.04 | 7,360.45 | 4,152.70 | 8,049.36 | 19,008.05 | 37,312.34 |
| **2014** | 269.47 | 2,672.34 | 3,117.75 | 18,763.76 | 1,000.24 | 3,765.21 | 702.98 | 3,669.80 | 5,090.43 | 28,871.10 |
| **2015** | 145.73 | 351.22 | 2,190.27 | 17,139.63 | 1,979.86 | 10,335.42 | 94.50 | 1,868.17 | 4,410.36 | 29,694.44 |
| **2016** | 94.84 | 2,382.49 | 4,980.91 | 13,700.31 | 1,535.66 | 5,804.87 | 647.98 | 1,265.34 | 7,259.40 | 23,153.02 |
| **2017** | **91.91** | **8,157.63** | **2,167.33** | **12,808.38** | **1,123.91** | **9,062.91** | **28.48** | **149.19** | **3,411.63** | **30,178.12** |

During 2017, the primary segment of the Spanish stock exchange saw a total of 79 capital increase transactions through which companies brought in resources amounting to €29.17 billion.  The largest transaction in the period was carried out by Gamesa to cover its merge with Siemens, amounting to €7.96 billion. The merger consisted of a capital increase of 401,874,595 shares by Gamesa, representing approximately 59% of its share capital in circulation, delivered to Siemens after the merger became effective. The second largest capital increase was carried out by Banco Santander to reinforce and optimise its own resources structure and provide adequate cover for the acquisition of 100% of Banco Popular share capital, which amounted to €7.07 billion.

During the year, four companies listed in Spain carried out capital increase transactions with the aim of financing an acquisition. The total amount of these transactions was €8.12 billion, the highest in the last nine years. If we add to this amount the €7.07 billion capital increase of Banco Santander to digest the purchase of Banco Popular, the figure increases to €15.20 billion and represents 52% of the resources obtained via capital increase transactions in the primary segment of the Spanish stock exchange in 2017.

## CAPITAL INCREASE VOLUMES




(*) Includes capital increases associated with IPSs


IPO of elZinc


IPO of Unicaja

**27 companies**
**listed on the BME markets in 2017**

Capital increases with preferential subscription rights and obtained resources of €12.80 billion, represent 44% of all those carried out in the stock exchange (not including MAB). Of this amount, the capital increases intended to cover payments of dividend options came to €3.82 billion, the lowest figure in recent years. The number of capital increases intended to pay dividends has fallen since 2015, whereas those allotted to corporate growth and investment have increased. Throughout the year, three companies carried out capital increases for a total of €956 million prior to their debut in the primary market: Aedas Homes, Unicaja Banco and Neinor Homes.

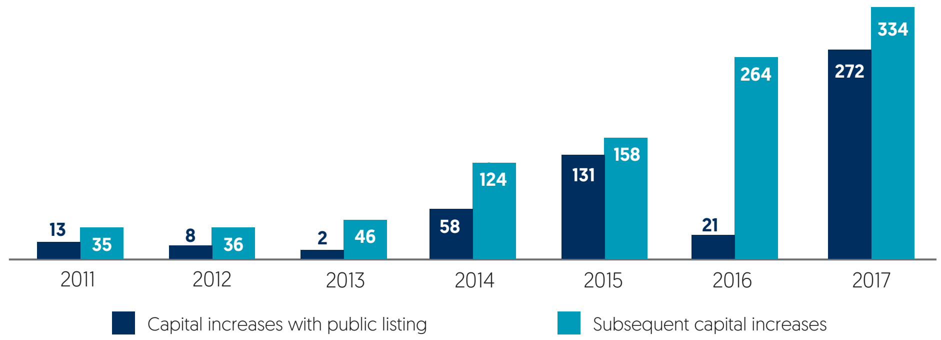
In addition to the above, the significance of capital increases as an instrument that is helping the non-financial sector of the Spanish stock exchange to modulate its strategy to change the structure of balance sheet liabilities is evident (See chart). The chart shows how non-financial companies in the IBEX 35 have resorted to capital profusely and increasingly since 2010. This group of companies have brought in €40.47 billion in this 8-year period, of which 2017 was the best, totalling €12.5 billion obtained through capital increases.

## Growing financing via capital increases of SOCIMIS in the MAB

The number of companies in the MAB that continue looking to finance their growth and expansion continues to increase. In 2017, 37 capital increase transactions took place, with proceeds totalling €1 billion.

The number of capital increase transactions carried out by SICAVs fell significantly in 2017, in line with their lower presence in the market. The uncertainty regarding the possibility of a tax policy change affecting these companies may be the underlying cause of this reduction. At the end of 2017, the total volume of capital increases carried out by SICAVs was €401 million. For expanding companies, the total reached €112 million in 11 transactions. Lastly, eight capital increase transactions took place in the SOCIMIS segment, an increase of six over 2016, with proceeds of €222 million (€159 million more than in 2016).

CASH RAISED THROUGH CAPITAL INCREASES ON MAB (EX-SICAVS)
(Millions of euros)




Also in 2017, five companies carried out capital increases worth €272 million as a preliminary step to listing in one of the MAB segments (Greenalia, S.A., Netex, El Zinc, Optimun III Socimi, and Ores Socimi).

## Company admissions and exclusions in the Spanish exchange

A significant portion of movements by companies listed in the trading segments managed by BME are associated with financing transactions. Others, however, are the result of a variety of corporate decisions to join or leave security markets for other reasons.

At 31 December 2017, 3,136 companies were trading their stock on the Spanish stock exchange. Of these, 16 were trading in the exchanges in Barcelona, Bilbao, Madrid and Valencia, 20 were found in the Latibex, the Spanish market for Latin American securities, 134 were trading their stock in the Continuous Market (SIBE) and 2,966 companies had opened their stock to trading in one of the MAB segments.

Between January and December 2017, 6 companies joined the central segment of the Spanish stock exchange where requirements for company transparency and management are the most demanding at all levels. These were Cash, Neinor Homes, Gestamp, Unicaja, Aedas Homes and Borges. Borges came from the secondary market of the exchange and was registered as a new admission. Another 27 companies were admitted to trading in one or more of the MAB segments.

Within this list of additions and removals, there are two first-time cases in the Spanish stock exchange. One is the telephone company Másmovil, which took its first leap from the MAB to the stock exchange by following up on the new regulation that established the conditions and pathway for this move. The action taken by Másmovil is an example of how companies are using the financing and growth levers offered by market alternatives to scale and increase the size of their projects. The other case is that of Inmobiliaria Colonial, which changed sectors after becoming a SOCIMI (REIT).

As regards delistings, 403 issuers with listed stock left Spanish stock exchanges between January and December 2017 for a variety of reasons. Some were absorbed by other listed companies, such as Banco Popular, Cementos Portland and Tecnocom, 4 left the stock exchange voluntarily and another 396 SICAVs disappeared from their MAB segment in view of the uncertainty posed by the tax policy mentioned earlier.

## The capitalisation of the spanish stock market surpassed the €1 trillion mark with ease in 2017

All these corporate movements involving large companies joining the market, with or without IPOs, as well as the increase in financing obtained by companies through capital increases, are factors that boost market base growth and investment alternatives for more players. As we will see in the following chapter of this report, an overall increase in share prices usually results in a corresponding surge in capitalisation or the market value of the companies admitted to trading. The balance of all these factors on the value of the Spanish stock exchange at the close of 2017 in December showed an annual increase of 10%, totalling €1.1 trillion.

This growth is even higher if we look at Spanish listed companies. The capitalisation of this group grew nearly 11% in the year. This means that since the low mark of the crisis, the Spanish stock exchange has seen an increase in the market value of companies with stock admitted to trading of €404.37 billion. This figure was €337 billion in May 2012; thus, this minimum has doubled in only five years, reaching €741.37 billion at 30 December 2017, approaching the historical maximum of €850 billion registered by Spanish listed companies in June 2007.

### THE 10 LARGEST COMPANIES BY CAPITALISATION AT 29 DECEMBER 2017

| | **CAPITALISATION** (Millions of euros) |
|---|---|
| 1. INDITEX | 90,523.15 |
| 2. BANCO SANTANDER | 88,409.98 |
| 3. BBVA | 47,422.00 |
| 4. TELEFÓNICA | 42,186.06 |
| 5. IBERDROLA | 40,811.14 |
| 6. AMADEUS | 26,377.62 |
| 7. AENA | 25,350.00 |
| 8. CAIXABANK | 23,261.81 |
| 9. REPSOL | 22,521.45 |
| 10. GAS NATURAL | 19,263.26 |

It is interesting to note that in 2017 only one sector, Consumer Goods, saw a drop in capitalisation (nearly 4%), whereas it is the only one to have tripled its value of 7 years earlier, to a total of €123.29 billion. Noteworthy in this sector is Grifols, which has increased its market value by 30%, to €10.48 billion.

Moreover, the Financial and Real Estate sector, driven by the banks, has seen its capitalisation grow by 18%, to €34 billion this year. Banco de Santander, Caixabank and Banco de Sabadell increased their market value by 22%, 24% and 25%, respectively. It is interesting to see how the real estate subsector of this group, which was severely castigated by the crisis with losses of 93% of its market value, dropping from its historical maximum of €51 billion in January 2007 to a minimum of €3.6 billion in May 2012, now presents capitalisation worth €17.61 billion with a significant weight (73%) of the fifty-two REITs admitted to trading. Their aggregate market value is €12.90 billion.

Another sector of activity that has seen increases in the market value of its companies in 2017 is Consumer Services. This sector grew by 26.7%, thanks to Abertis, IAG and Aena, which increased their capitalisation by 41%, 35% and 30%, respectively. The Technology and Telecommunications sector is also notable, growing by 12%, led by Cellnex Telecom, which increased its capitalisation by 56% in 2017.

At the end of December, Inditex headed the list of the 10 largest companies by capitalisation, closely followed by Banco Santander, which increased its market value by over €8 billion due to the capital increase carried out in July to absorb Banco Popular. Amadeus, which started the year in the tenth position, ranked sixth at the year's end, increasing its capitalisation by 40% in the year.

From the standpoint of size, the 20 companies that make up the IBEX Medium Cap were worth €49.84 billion at year-end, at market prices. The capitalisation of this group of companies increased by 11% over the year, and their share of the Spanish stock market overall is 4.4%. The 30 companies that make up the IBEX Small Cap, which account for 2% of total capitalisation, have a market value of €24.26 billion, 81% higher than at the close of 2016.

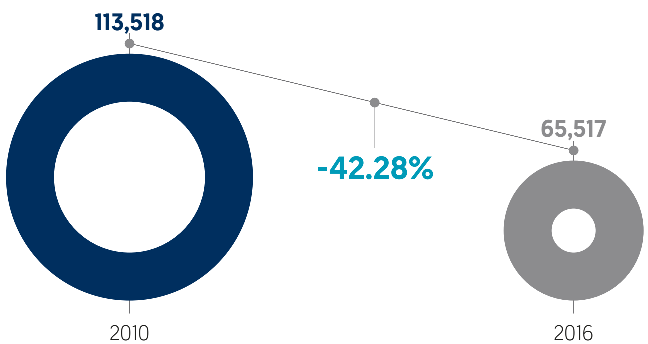
## BANK FINANCING FELL BY 42% AND FIXED INCOME ISSUANCE INCREASED BY 30%

The diversification process of business financing in Spain continues advancing significantly and as such is recognised from the most prestigious levels. In its most recent Annual Report in 2017, the Bank of Spain stated that "there is a process of disintermediation underway in the financing of Spanish companies. Although it is a global phenomenon, its intensity has been somewhat noticeable in Spain, where the extent to which finance is obtained through banks has traditionally been greater than in other economies in our environment".

This is also confirmed by the figures of the most prominent non-financial Spanish companies listed in the IBEX 35, which continue heading towards more balanced and flexible financing structures, with more weight allocated to their own funds and increasing non-bank financing. As a whole, in the Spanish non-financial listed companies that formed part of the IBEX 35 between 2010 and 2016, own resources rose by 24%, while bank financing fell by 42%, well below the volume of financing originating in fixed income instruments, which grew by 30%, according to the analysis prepared from the audited accounts of the companies. Financing obtained through capital markets rose from €90.8 billion in 2010 to €117 billion in 2016 for the uniform group of IBEX 35 companies in 2010 that continued in this exchange in 2016. It can therefore be deducted that financing from debt issuance by this group of companies already exceeded bank financing by more than €50 billion at the close of 2016. €117 billion versus €65.5 billion, when in 2010 the latter exceeded the former by €20 billion (€91 billion versus €113 billion in bank debt).

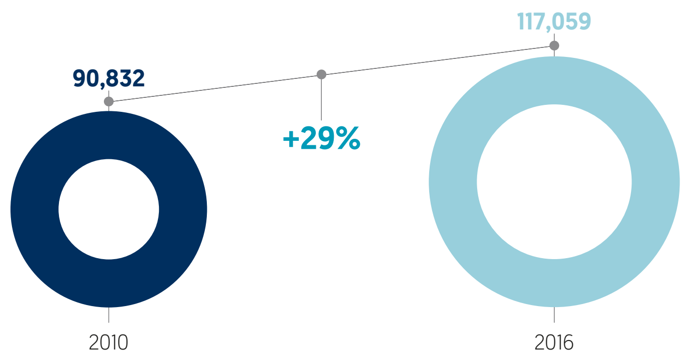
Large companies continue to take advantage of this trend to a larger extent and the challenge consists in more smaller companies also joining the trend through specialised markets, such as the MAB or MARF.

### TOTAL BANK FINANCING
**Payables to Credit Institutions of Non-Financial Companies of IBEX 35 (2010 - 2016)** Millions of euros at end of 2010-2016  Source: BME Research Department*




(*) Calculated for a uniform group of 20 IBEX 35 companies in 2010 and 2016 from which data have been obtained and broken down

### TOTAL MARKET FINANCING (FIXED INCOME)
**Debentures, bonds and other securities Non-Financial Companies of IBEX 35 (2010-2016)** Millions of euros at end of 2010-2016  Source: BME Research Department*




(*) Calculated for a uniform group of 20 IBEX 35 companies in 2010 and 2016 from which data have been obtained and broken down

# 5. BUSINESS AREAS

# EQUITIES

Overall, 2017 was quite positive for stock markets. Despite the uncertainties in the national political scenario, the IBEX 35 grew by 7.5%, in addition to an increase of 4% in the dividend yield. Thus, the Spanish stock exchange is once again in a strong position internationally and far above the 1.5% offered by 10-year Spanish government bonds. This trend in prices boosted stock market capitalisation to €1.1 trillion and a volume of stock trading very near the €652 billion mark of the previous year. The high liquidity of Spanish securities, the increase in small and medium securities and the active participation of foreign investors and households in investment and financing were again the highlights of the activity in the Spanish stock exchange.

## Share prices

The primary international Equity indexes accumulated notable increases in value throughout the year, especially as regards United States stock markets, which reached all time highs. The most important stock market indexes in the United States and Asia grew almost or more than 25% in 2017, depending on the case. Meanwhile, European stock markets were content with increases more in the 6%-10% range with some disparities amongst countries, such as Spain, which was affected by internal factors for a large part of the year. The FTSE World index grew by around 17.5% in the year. It is difficult to find a stock exchange worldwide (whether general, by sector or country) that recorded losses during 2017.

Contrary to the outlook at the beginning of the year, in the Spanish stock exchange listed security prices experienced significant increases until April and stabilised in May, after which most demonstrated a lack of impetus, leading to a decline in the third quarter. Most analysts agree that political uncertainty was the most important factor that led to the change in trend of stock prices between listed Spanish companies and those of the United States or other European countries in the last 6 months.

Stock prices were generally positive between sectors and securities and the largest drops took place in Consumer Good sector companies. On the positive side, we should note the increase of Consumer Services companies (with Highways leading growth, Financial and Real Estate Services and the Technology and Telecommunications sector.

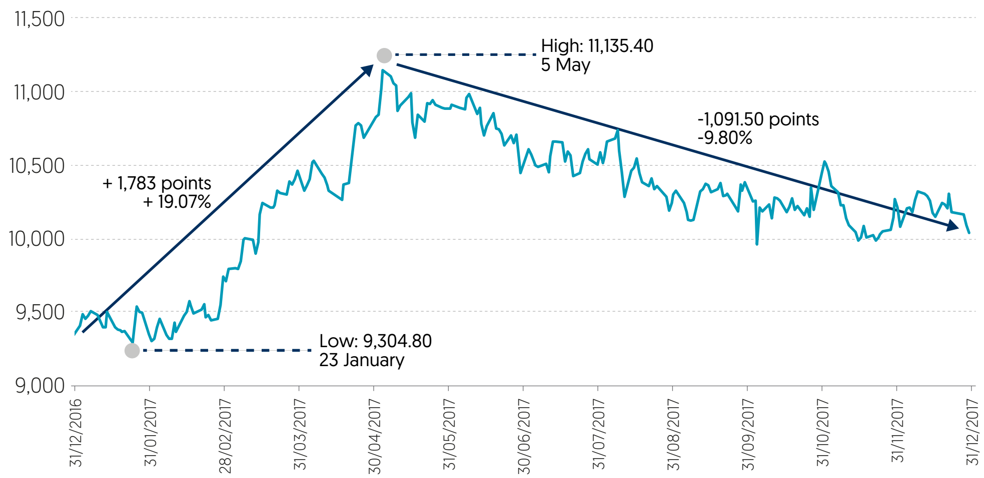
**The IBEX 35 gained**
**7.5%**
**in 2017**

## Despite uncertainties, the IBEX 35® accumulated gains of nearly 7.5% In 2017

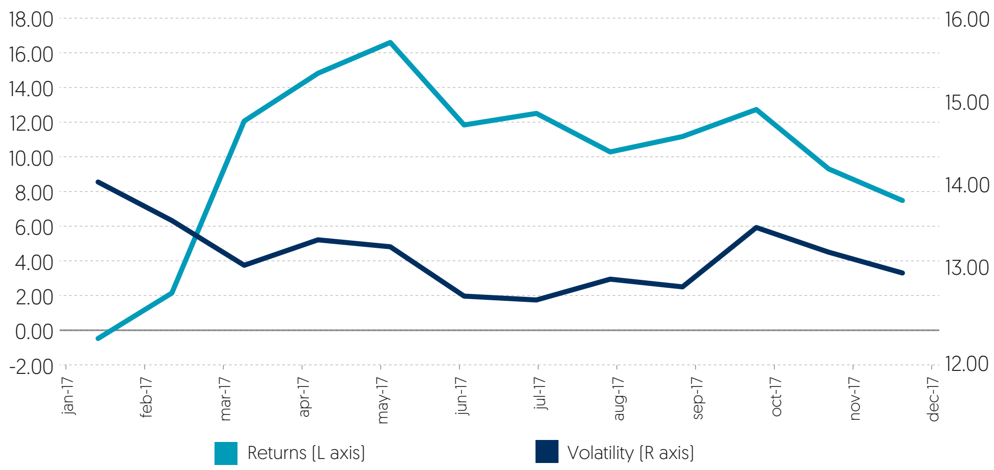
In the Spanish Equity markets the IBEX 35 started off the year with very high increases, which stabilised in the second quarter and ended the third quarter with slight drops that continued through the fourth quarter, for an accumulated growth of 7.4% for the IBEX 35.

As will be shown throughout this report, performance of share prices was accompanied by restrained activity in stock trading volumes or admission to trading (IPOs). As with prices, these were sluggish in the second half of the year. These market variables were compensated by the good performance of capital increases and high shareholder remuneration, which boosted IBEX 35 with dividends growth to 11.3% one more year. For the eleventh consecutive year, the dividend yield of the Spanish stock market surpassed 4%. This meant that this year gains stemming from price changes became very positive yields if we include dividend reinvestment during the year.

### DAILY PERFORMANCE OF THE IBEX 35 IN 2017



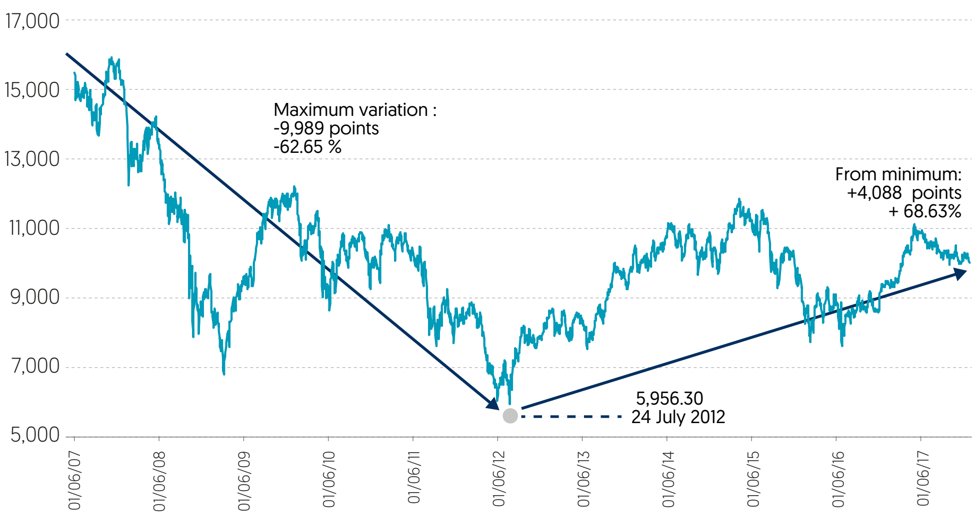

### IBEX 35 VS VOLATILITY AND 2017
Accumulated returns at end of each month (%) and annualised volatility in the last six months, also calculated at the end of each month (%)



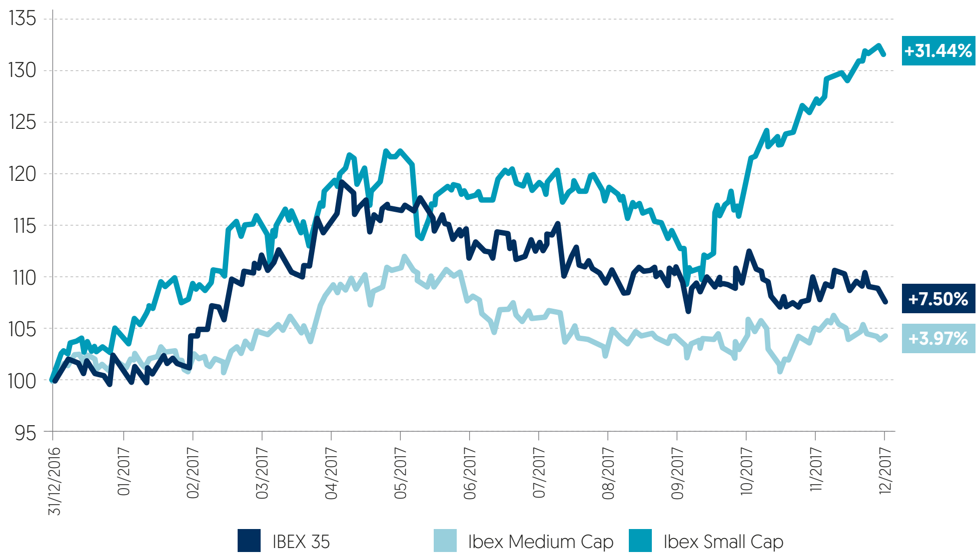

Although the lateral trend was mostly positive as regards annual variation, two very different moments in IBEX 35 trends can be distinguished. The first lasted until the beginning of May, with almost constant index growth, reaching an annual growth of around 17%. This was assisted by the continuation of ECB expansive monetary policy, the data reflecting strong growth of the Spanish economy, the consolidation of the new government elected in December 2016 and a general domestic and international setting that lowered volatility in security markets. As a result of all this, the IBEX 35 recorded its best moment and reached its highest value of the year: 11,135.40 points on 5 May.

The positive factors that appear to have affected good price performance in the first quarter of the year were also present during the rest of the year, in addition to the positive growth of company earnings in the first semester. Moreover, IBEX 35 volatility continued to be restrained and at levels far below those of 2016. However, all the indications point to the aforementioned circumstances impacting the market negatively after the high point in May.

IMPACT OF THE FINANCIAL CRISIS ON THE IBEX 35
June 2007- December 2017




IBEX 35 VS IBEX MEDIUM - IBEX SMALL
2017. Base 100: 31/12/2016

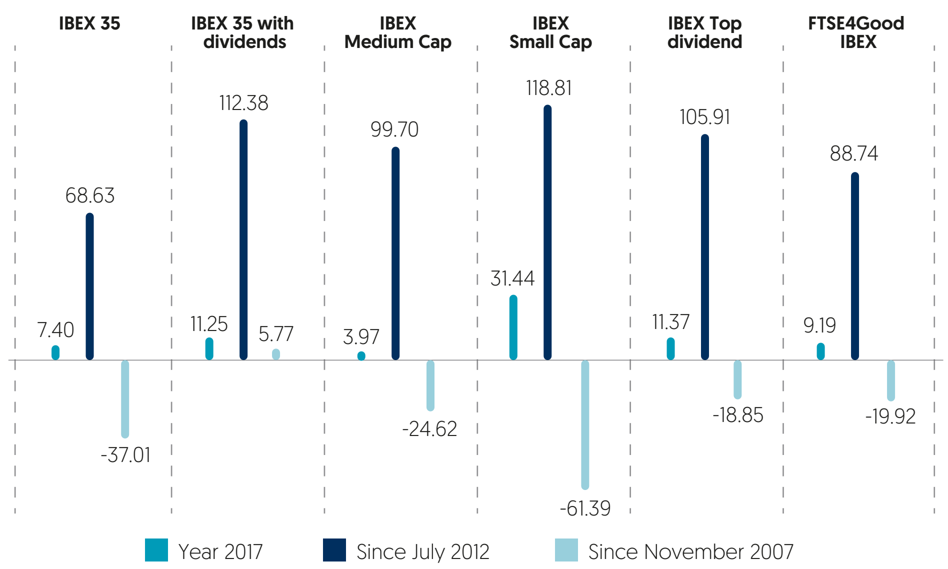



## The IBEX Small Cap stands out in positive

The best news regarding the performance of the prices of listed shares in 2017 also came from the segment that reflects the behaviour of smaller companies. The IBEX Small Cap, composed of 30 securities, gained 15.1% in the first quarter and 2.1% in the second, before losing 2.8% in the third quarter and rebounding by 15.1% in the fourth quarter. Annual growth at the end of December was nearly 32%, placing it amongst the leading stock markets in the world for annual yield in 2017. The IBEX Small with dividends showed an increase of 2 and 3 points in supplementary annual return for the year This progress took place within a scenario of an annual increase of almost 75% in aggregate capitalisation of the participating companies.

Taking into account the same size scale of listed companies, the worst part of the year for price growth affected the group of companies that made up the IBEX Medium Cap. This segment suffered the worst stock market losses of the entire year, affected by the uncertain environment. It gained 4.3% and 3.3% in the first and second quarters of the year. However, losses in the third and fourth quarters were 3.3% and 0.3%, respectively, ending the year with increases of approximately 4%, which rose to nearly 6.5% when dividend effects were included.

IBEX INDEX VARIATIONS FROM LOWS (JULY 2012), FROM HIGHS (NOV. 2007) AND IN 2017




## Sectoral analysis

As regards price performance per sector, the analyses of the various sectors of activity found in the General Index of the Madrid Stock Exchange (IGBM) reveal positive performance of most in 2017. The cumulative analysis of the year shows growth in the Consumer Services (23.2%) sector, boosted by price recovery in Highways (40%) and Financial Services and Real Estate (10.5%), with continued recovery of Savings Banks (10.5%), after completing most of their rehabilitation. Also noteworthy is the Real Estate subsector which, along with SOCIMIs (REITs), gained over 18%. The growth of the Telecommunications sector (7.5%) is also notable, due to the good performance of Amadeus, which gained nearly 40% and the Oil sector (4%), due to the recovery of oil and raw material prices. The only sectors that saw accumulated losses for the year of 2% were Consumer Goods, penalised by the Textile subsector (-10.4%) and its most important company, Inditex, which lost 4% over the year.

## The difficulty for prices to surpass precrisis levels

Despite the positive annual performance of the sectoral indexes, stock market prices of many important companies continue below the levels posted at the beginning of the crisis in 2007. Only two sectors, Consumer Goods and Consumer Services, have rebounded since then, rising 168% and 36%, respectively. Prices in the Financial and Real Estate Services sector and the Basic Materials, Industry and Construction sector, which declined the most during the crisis, remain about 60% and 45% below their 2007 highs. Oil and Technology are also 30% and 40% below their levels of ten years ago.

This is characteristic of price performance in the Spanish stock exchange, which highlights the severity of the economic crisis unleashed from the basic core of the Spanish economy during those years: the Real Estate and Financial sector. This is true to the extent that now, while many warn of a correction in stock market prices, such as in the United States, which is now registering all time highs in the Nasdaq 100, Standard & Poor 500 and Dow Jones, having gained more than 250% since their minimums in 2009, the situation of the Spanish stock exchange is seen slightly differently, taking into account IBEX 35 growth of 35% over the same period. The PER has been falling for 5 years and is now 15-fold, versus a historical average of 16. Lastly, the price/accounting value ration is 1.4-fold (half a point under its all time average).

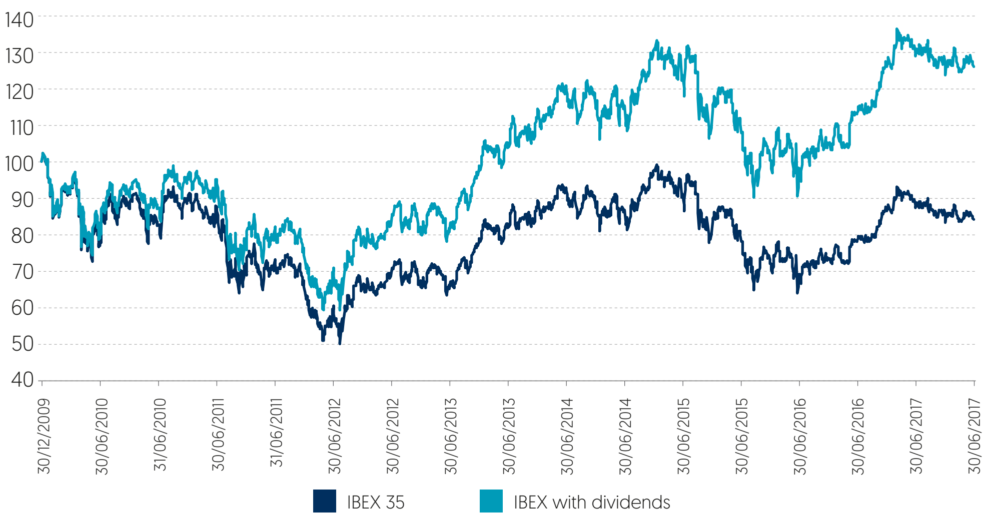
However, the risk of a price correction in United States securities markets is gaining ground, given the results of certain relevant surveys amongst fund managers and other quantitative data that point to an imminent cutback in stock prices. Should this occur, we should focus on the impact it may have on stock exchanges, such as the Spain exchange, that are not as clearly overvalued as some.

## Important contribution of dividends to share returns

Once again we highlight the importance of dividends and their impact on the indices. The results are greatly boosted if we include the high dividends paid over in recent years by most Spanish listed companies. As an example, in the last 8 years, the Dow Jones has not stopped growing (since the close of 2009), whereas the IBEX 35 has lost 15% and the IBEX 35 with Dividends has gained 25% (a 40-point gap). If we consider only the last annual period, 2017, as mentioned, the difference marked by reinvestment of dividends is close to 3.9 percentage points of extra yield. From the July 2012 lows seen in the indices of the Spanish stock exchange in these years crisis, the IBEX 35 with Dividends has risen by around 115% and the IBEX 35 by 71%.

This again shows that shareholder remuneration is highly attractive. This has resulted in the Spanish stock exchange positioning itself amongst international leaders in dividend yields (+4.1%).

### IBEX 35 VS IBEX WITH DIVIDENDS 2010 - 2017. BASE 100 31/12/2009




## Volatility at 3-decade lows

One of the most surprising factors of the securities markets in 2017 has been the near absence of volatility during the whole year. The fact that the central banks of the most largest economic areas in the developed world (USA and Europe) have cooperated for years with regard to regulation to ensure a more secure and harmonised financial system, or that they have shown decisiveness and strength to reduce the unforeseen negative financial or economic events seems to have been essential in breathing life into the current moment of the economic cycle of a large part of the world. Consequently, the levels of confidence of economic players in developed countries have greatly improved in 2017 and played a positive role in contributing to a surprising and general environment of economic stability that, in turn, has aided in reducing stock price volatility.

The annual values are so anomalous that, for example, in the case of the Dow Jones, price volatility is 8%, the lowest annual value of the last 30 years and 11 points below the average for this extended period, which nears 19%. In these circumstances, the annual return / risk dichotomy of the United States stock exchange in 2017 is by far the highest in the world for the year and its modern day history: 3.12 points of yield for each point of risk taken on in the year.

This high yield and low volatility situation is repeated with a Sharpe Ratio of 1.39 in the results for the Japanese Nikkei index, which is nearly 7 times that of its historical average. Sharpe values are high in the rest of the stock exchanges but not at all time highs. Nonetheless, in all cases except Spain, these are much higher than the historical annual average, while annual volatility in all cases is the lowest in the last three decades.

The Spanish stock exchange also shows low very levels of volatility for the year; 15.94% for the IGBM with daily prices at the close of 2017. This figure is half that of 2016 and 9 points lower than the recorded historical annual average of 24.5% for calendar years. However, in view of the pause in price increases between mid-May and now, its Sharpe ratio is 0.48 points, lower than its modern day historical average for this comparison.

**652 billion**
traded on the Stock Market in 2017

## Investors

As mentioned before in various parts of this report, there has been a gradual improvement in investor confidence worldwide, bolstered by a mostly positive global economic cycle and a scenario of lax and predictable interest rates, resulting from Federal Reserve and ECB decisions. For Equity markets, this has translated into general price increases and very low volatility levels. These events affect transaction activity in stock exchanges in two ways: first, the number of orders and purchases by managers who follow purely speculative strategies (sustained primarily by HFTs) drops, with the resulting negative impact on transaction volumes. Secondly, however, the rise in prices and overall stability operate in favour of the increase in effective stock trading amongst professional investors or other kinds of investors and also between small investors.

Given this situation, traded stock volumes in the Spanish stock exchange in 2017 continued along the same lines as in 2016. For another year, the Spanish securities market has demonstrated its extraordinary capacity to promote investment liquidity in a setting where foreigners continue to be the main players, households have seen their financial wealth grow, new legal forms of companies have appeared and are widely accepted by the market, which favours investment in specific sectors (such as REITs) and lastly, collective investment has been much more active in general and in Spanish Equity transactions in particular.

Stock trading volumes in the Spanish stock market reached €651.48 billion in 2017. Although this nearly equals last year's volume, monthly performance throughout 2017 was the opposite of what occurred in 2016. From the month of May, monthly trading volumes surpassed those of the same months of 2016 until November, despite the normal summer pause and the uncertain Spanish political scenario, more intensely during the months following summer.

### TRADING OF SHARES IN THE SPANISH STOCK MARKET

| | Number of sessions | Cash (mlns. of euros) | Number of Securities | Number of Trades | Number of Orders | Average value per session (mlns. of euros) | Average value per transaction (euros) |
|---|---|---|---|---|---|---|---|
| **2003** | 250 | 494,346 | 56,944,007,159 | 14,028,546 | 28,545,921 | 1,977.38 | 35,238.56 |
| **2004** | 251 | 636,895 | 58,840,731,099 | 13,601,664 | 25,637,545 | 2,537.43 | 46,824.79 |
| **2005** | 255 | 848,209 | 77,129,637,091 | 17,092,433 | 31,901,237 | 3,326.31 | 49,624.82 |
| **2006** | 254 | 1,150,566 | 87,183,222,987 | 23,143,452 | 40,385,557 | 4,529.79 | 49,714.52 |
| **2007** | 253 | 1,665,873 | 110,723,382,322 | 34,541,667 | 69,995,919 | 6,584.48 | 48,227.91 |
| **2008** | 254 | 1,243,168 | 119,701,200,701 | 36,937,580 | 88,957,918 | 4,894.36 | 33,655.91 |
| **2009** | 254 | 897,187 | 114,201,475,356 | 31,606,663 | 94,219,392 | 3,532.23 | 28,386.00 |
| **2010** | 256 | 1,037,277 | 133,586,756,603 | 40,456,534 | 175,640,317 | 4,051.86 | 25,639.30 |
| **2011** | 257 | 925,321 | 161,072,208,294 | 45,801,150 | 284,876,154 | 3,600.47 | 20,203.01 |
| **2012** | 256 | 698,950 | 195,990,292,207 | 40,594,732 | 251,940,470 | 2,730.27 | 17,217.75 |
| **2013** | 255 | 703,669 | 198,058,280,964 | 48,607,561 | 288,458,392 | 2,759.49 | 14,476.53 |
| **2014** | 255 | 883,869 | 202,396,476,962 | 70,921,145 | 471,886,313 | 3,466.15 | 12,462.70 |
| **2015** | 256 | 962,166 | 205,835,184,671 | 61,964,033 | 645,222,729 | 3,758.46 | 15,527.81 |
| **2016** | 257 | 652,925 | 177,768,106,300 | 54,443,888 | 611,272,764 | 2,540.57 | 11,992.63 |
| **2017** | 255 | 651,489 | 203,054,548,041 | 50,947,187 | 422,642,108 | 2,554.86 | 12,787.55 |

The number of stock transactions in 2017 was 51 million, slightly less than the 54 million recorded in 2016. Nonetheless, this figure is quite high, especially if we consider previous historical records (2014 and 2015). We should also consider that the number of cross transaction in 2017 was much higher than those executed in 2007, when an annual record of €1.66 trillion was set in effective trading, one billion more than in 2017.

The number of orders for Equity securities channelled by Spanish stock exchange systems in 2017 totalled 423 million, 31% less than those accounted for in 2016. As mentioned above, one of the reasons for this drop could be that low volatility has slowed operations of the high-frequency transactions algorithm. Logically, this reduction in activity also affected the number of stock purchase and sale transactions that were executed, similar, as we have seen, to those of 2016.

## THE 2017 RANKING OF TRADING IN THE EUROSTOXX 50 INDEX

| Ranking | Listed Company | Total origin (€) | Total MTFs (€) | % of weighting in the Index (Dec. 2017) |
|---|---|---|---|---|
| 1 | Banco Santander | 113,663,406,170 | 40,600,348,381 | 3.55% |
| 2 | Intesa Sanpaolo | 71,397,060,800 | 35,394,313,011 | 1.53% |
| 3 | Telefónica | 64,449,132,620 | 18,099,446,671 | 1.79% |
| 4 | BBVA | 64,256,718,340 | 24,235,202,459 | 2.00% |
| 5 | Total | 63,452,609,250 | 38,738,410,410 | 4.57% |
| 6 | Siemens | 60,516,808,020 | 36,577,696,256 | 4.40% |
| 7 | BNP Paribas | 59,459,829,170 | 39,735,374,918 | 2.89% |
| 8 | Daimler | 59,179,675,000 | 31,623,920,759 | 2.70% |
| 9 | Deutsche Bank | 56,321,526,720 | 23,744,387,140 | 1.29% |
| 10 | ING | 56,028,769,100 | 30,877,530,373 | 2.44% |
| 20 | Inditex | 44,207,924,200 | 16,332,400,968 | 1.63% |
| 24 | Iberdrola | 36,174,378,630 | 15,983,276,873 | 1.74% |

The most important event to note in this area is that the Spanish stock exchange was the centre of high liquidity, demonstrated by the stock traded on the market. In 2017, and despite the strong competition from the trading volumes throughout Europe, BME demonstrated its resilience by maintaining 75% of traded stock volume amongst the foremost multinational companies. This was the closing volume in 2016 and in 2017, only a few days before MiFID requirements for better execution, the spreads and depth offered by Spanish stock exchange trading systems for most of the securities included in the IBEX index family are undoubtedly amongst the best.

## The Spanish stock exchanges's spreads continue narrowing: Best Execution delivered by BME

### High spanish securities liquidity stands out once again in 2017

For another year, The Spanish stock exchange continued to drive the liquidity of its traded securities, just as it had done in recent years. One of the reasons for the great activity of investors vis-à-vis the securities traded on the Spanish trading floor is the low cost of the supported illiquidity. The changes made in the last twenty-five years in the BME have transformed the technical, operating and organisational systems, making it possible to channel important investment flows and provide the market with greater liquidity in addition to transparency and efficiency.

Despite the fact that anomalous and low price volatility seen in listed stock markets throughout the world in 2017 has come at the expense of higher trading in securities markets, the Spanish stock exchange has again demonstrated that it is highly competitive and solvent when managing channelled and executed trading.

Throughout the year, it demonstrated the best price-volume spread associated with its most outstanding listed securities (those included in the IBEX 35 and IBEX Medium Cap). Thus, despite the fact that prices, one of the multiplying factors of volume, lagged versus other markets in the second half of the year, the traded amount of stock remained at previous year levels (very positive for the recovery of traded volume figures). In addition, though, the Spanish securities market practically maintained 75% of contracted volume on its most significant listed stock.

This is the same 75% obtained in 2016 for Spanish securities included in the Eurostoxx 50 index. In other words, the competition's trading floors were unable to subtract liquidity or market share systematically from the Spanish exchange in 2017.

The quality of and demand for listed Spanish multinational company stock included in the Eurostoxx 50 stood out once again this year. In 2017, there were 3 Spanish securities positioned amongst the 10 most traded in the Eurozone and two others were positioned 20th and 24th. In other words, 10% of the Eurostoxx 50 securities are Spanish and all of them are in the first half of the table in terms of effective trading with a total weight of 14% of the total traded during 12 months in 2017 for the 50 securities of the index.

### Stock price spreads at all time lows

One of the most important factors used to assess sale transaction execution in the stock exchange are price spreads. The lower the gap between the prices of stock placed for purchase and stock placed for sale in the corresponding trading system, the higher the probability of a transaction taking place. The other defining factor used to calibrate lesser or greater probability of a transaction is known as market depth. This is the number of securities associated with supply and/or demand prices that are high enough for buyers and sellers to satisfy their expectations.

In both cases of prices and volumes associated with orders available on its systems, the position of the Spanish stock exchange is prominent, as regards listed company securities on its platforms. In 2017, the average spreads of all the securities included in the IBEX 35 and the IBEX Medium Cap, but to a somewhat lesser degree in the IBEX Small Cap, continued to narrow. The latter, however, saw an increase of 83% in effective volume traded over all 30 companies that comprise it. The average spread in IBEX 35 securities is at an all time low of 5.1 basis points (0.051%), i.e., 1bp lower than last year. With regard to the IBEX Medium, in December this had a spread of 25 basis points, also close to the lowest in a decade and 5 bp lower than that of a year ago. Lastly, in November 2017 the IBEX Small spread averaged 52 basis points, a low and very competitive figure.

### Foreigners and households; essential pillars of stock market activity

If the participation of foreign investors in the property of Spanish companies listed on the Exchange already set a record high at the close of 2016 of 43.1% of the total value, the provisional data corresponding to the close of the first quarter in 2017 indicates a new record over 45%. The current share is almost 13 points higher than that recorded in 1992, and reflects the intense process of opening up to the exterior of both the Spanish stock market and, in particular, listed Spanish companies, which have succeeded in leveraging the visibility provided by the capital market and foreign financing in order to grow. The confidence of foreign investors in the companies listed in the Spanish stock exchange has not faltered in the nearly 10 years of intense global financial and economic crisis, which was exacerbated in Europe by the sovereign debt crisis of 2011 and the first half of 2012, the time of maximum unease in Spain.

Households have also continued to confide in the market. This is the second largest group in the stock exchange, holding a share quota of around 23%-24%.

According to data from the Bank of Spain, the value of the portfolio of listed shares held by households in June 2017 stood at €136.39 billion, which is 6% more than at year end 2016 and 47% higher than at year end 2011, at the worst time for Spain in the sovereign debt crisis. This increase is a result of both the stock exchange gains and new share purchases by Spanish households, driven in many cases by scrip dividend policies applied by many listed companies.

The Household Finance Survey coordinated by the Bank of Spain reveals information regarding the participation of Spanish households in listed shares, although the information is not recent. Thus, according to information from 2014, 11.4% of Spanish households held listed shares at that time. This represents 2.09 million households or 5.25 million individuals, if we apply the average number of individuals per household.

The number of households holding shares has grown constantly since the first Finance Survey in 2002, when it stood at 1.51 million. The increase between 2002 and 2014 was 38%. The number of individuals with financial exposure to listed shares due to family bonds increased over the same period from 4.43 million to 5.25 million, nearly 19%.

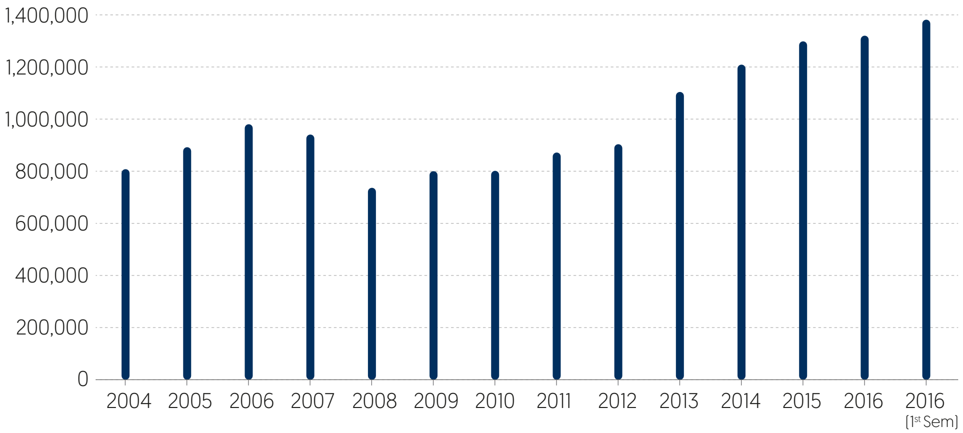
## The trend in prices contributed to the recovery of financial wealth by spanish households

A significant part of market results in 2017 is due to the recovery of financial wealth of households in Spain. Net financial wealth of Spanish households set a new record at the close of the first semester in 2017: it almost touched €1.37 trillion, 4.5% more than at the close of 2016. Since 2008 net wealth has increased by almost 89% in Spain, more than €640 billion, this becoming in recent years a critical pillar of the recovery for the Spanish economy.

The net financial position is the result of subtracting debt (financial liabilities) from total financial assets. The improvement is due to both the increase in the value of their financial assets and lower debt.

The financial assets of Spanish households at the end of last June stood at €2.14 trillion, which is 3.1% higher than at the close of 2016, according the data of the Financial Accounts of the Spanish economy published by the Bank of Spain. The recovery from amounts recorded in 2008 has been 27%, or more than €459 billion.

**NET FINANCIAL WEALTH OF SPANISH HOUSEHOLDS**
**Financial assets - Financial liabilities. 2004 - 2017 (Sem 1)**
**(Millions of euros)**




Source: Financial accounts. Bank of Spain

Total household debt was €777 billion, with a slight increase of 0.7% over the close of 2016. Household debt has fallen over €183 billion since 2008, or 20%. In terms of GDP, household debt currently stands slightly higher than the European average of 60% of GDP.

Amongst the factors that have led to this excellent performance of aggregate household financial wealth are the increase in financial savings resulting from the reduction of real estate investment and the greater diversification of household financial asset portfolios in shares, investment funds, life insurance or pension plans. This diversification has made the most of the growth of recent years and boosted the value of household financial assets. In addition, as the data show, Spanish households have been immersed for nearly 8 years in an intense process of debt reduction.

**52 REITs with a value of**
**20 billion**
at end - 2017

## The REITS move significant resources and investment in the real estate sector

Four years after having been introduced, and with strong support from foreign capital, SOCIMIs are now consolidated as a useful instrument for triggering the economic and market reactivation of a sector (real estate) that was hit hard by the crisis and which, despite everything, includes activities that represent somewhat more than 10% of Spanish GDP in terms of supply. With these activities, the stock market capitalisation of the real estate sector has grown from a low of €3.62 billion (May 2012) to more than €17.61 billion currently, of which nearly 73% belongs to the 52 REITs that are now listed, following the 19 new additions to the market that took place in 2017 (at 31 December, 5 of the 52 were listed in the stock market and 47 admitted to the MAB). This increase is a significant indication of activity recovery in a key sector of the country's economic structure.

REITs made a strong debut in the Spanish market in 2014 and continued to thrive in 2017. Inmobiliaria Colonial became a REIT, effective on 1 January and, along with Axiare, Hispania, Merlin Properties and Lar España is a member of a group listed in the stock exchange with a capitalisation bordering on €13 billion. The remaining REITs are traded in the MAB, with a total market value of €7.92 billion.

The REIT sector has risen on the stock exchange in the last three years: its trading volume jumped from €3.345 billion in 2014 to more than €10 billion for this year. Up until December of this year, REITs carried out 14 capital increases in the year, totalling €832 million. Shareholder dividend payments were €423 million, which is 1.61% of total distributions for companies listed in the stock exchange in 2017

## The arrival of REITS on the spanish stock market

In late 2013, the Mercado Alternativo Bursátil inaugurated the new trading segment of REITs with two new additions: Entrecampos Cuatro and Promorent. On 2 July 2014 the third of the SOCIMIs, Mercal Inmuebles, was included on the MAB. Eight new REITs made their debut in 2015, while 17 did the same in 2016. Along with the 19 additions this year, there are a total of 47 companies admitted to the MAB.

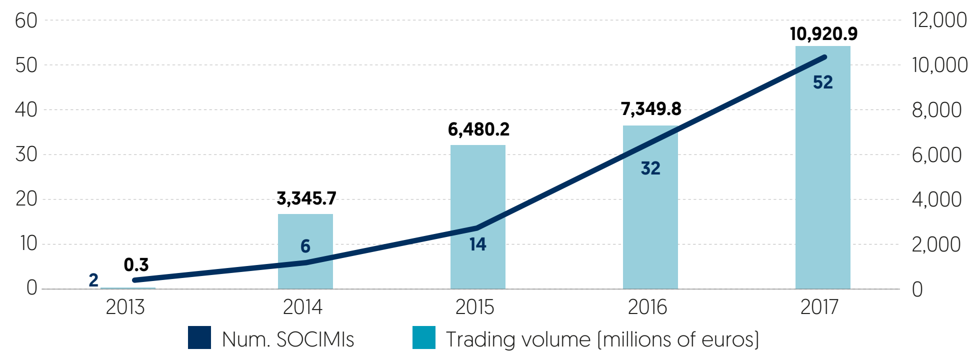
### TRENDS IN LISTED REAL ESTATE SECTOR RIGHT BEFORE THE CRISIS (December 2005 to December 2017)

| | Date | Capitalisation (mln. Euros) | Weight of sector in the capitalisation of the Spanish stock market (%) | No. companies in sector |
|---|---|---|---|---|
| **Starting value** | dec-05 | 19,341.90 | 3.3 | 32 |
| **Maximum value** | jan-07 | 51,139.40 | 6.6 | 30 |
| **Minimum Value** | may-12 | 3,619.40 | 1.1 | 23 |
| **Present value** | dec-17 | 17,613.27 | 2.4 | 63 |
| **SOCIMI component** | **dic-17** | **12.907,86** | **1,7** | **52** |

The five large listed REITs that have chosen to trade on the stock exchange, that is, Merlin Properties, Hispania, Axiare Patrimonio, Lar España and Inmobiliaria Colonial, have set their sights on obtaining assets that allow them to realise the extraordinary commitments to their projects made by large international investors. In early December 2017, the significant declared stakes of foreign investors in the equity of these companies stood at 7%, 75%, 14%, 59% and 23%, respectively.

Merlin Properties is the largest REIT in the Spanish stock exchange at this time, with a capitalisation of €5.308 billion, followed by Inmobiliaria Colonial with €3.605 billion, Hispania Activos Inmobiliarios with €1.714 billion, Axiare with €1.456 billion and in fifth place, Lar España Real Estate with a market value of €823 million.

### PERFORMANCE OF TRADING VOLUME AND NUMBER OF REITS 2013 - 2017



## The Spanish stock exchange: a recurring and significant source of dividends

Dividend yields on the Spanish stock exchange in 2017 once again surpassed the 4% mark, for the 10th consecutive year of such a noteworthy result. These results have systematically place companies listed in Spain in prominent international positions in the last decade. According to the monthly data gathered by the international agency Morgan Stanley Cap Int., the historical 30-year average for dividend yield in the Spanish exchange is 4.1%. This exceeds the current yield offered by the benchmark non-risk interest rate in Spain, the 10-year bond, which closed at 1.57% in 2017, by slightly more than 2.5 points.

The amount of dividends distributed by companies is significant in that it represents a safeguard for investors if they are ever faced with a drop in prices. In 2017, the accumulated yield of the IBEX 35 with Dividends was 3.9 percentage points higher than that of the IBEX 35. This is a sustained and significant appeal for important portfolio and fund investors worldwide, especially foreigners, who are the primary investors and holders of listed shares in the Spanish stock exchange.

The ranking of yield per dividend prepared by the BME at the close of December listed fifty companies the exceeded the 10-year bond yield: 29 of the 35 in the IBEX 35; 10 of the 20 in the IBEX Medium Cap; and 11 of the 30 comprising the IBEX Small. Moreover, twenty-two of these companies had listed shares that yielded over 4.1%, which is the average yield per dividend for the last 30 years in the entire Spanish stock exchange.

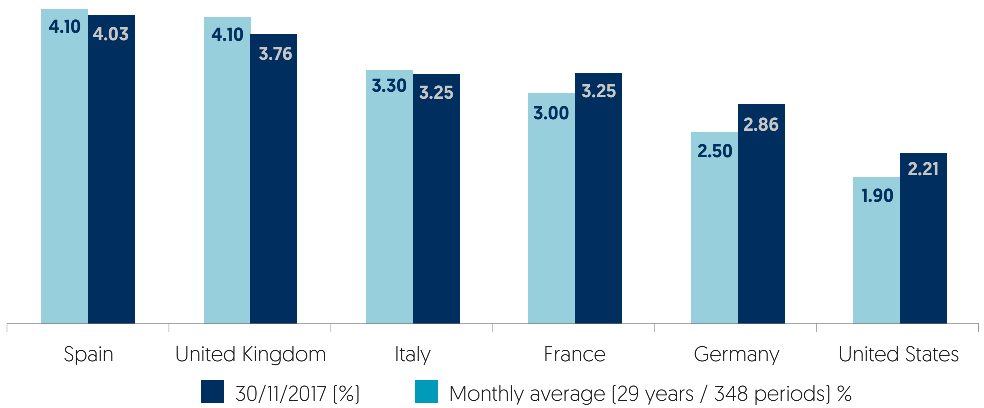
Amongst the listed companies with the highest dividend yield this year are Prosegur at 8%, Saeta and Endesa at slightly over 7% and BME at over 6%.

### Listed companies repaid their shareholders once again, with more than €28 Billion

Between January and December 2017, the listed companies distributed €28.22 billion to their shareholders in dividends, return of monetary contributions through share premiums and nominal reductions. Only in dividends, listed companies paid out €27.84 billion, amounting to 98% of total repayments this year.

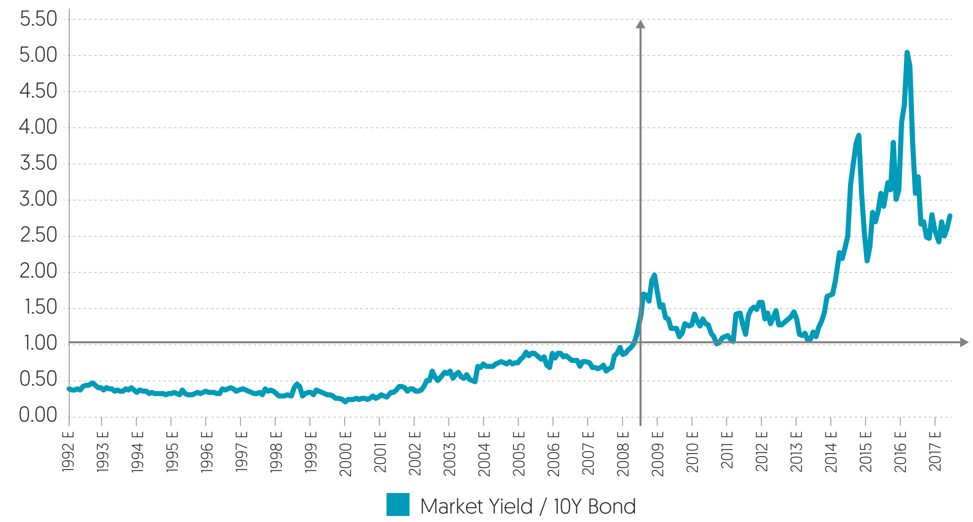
Of total dividends paid out by listed Spanish companies, 86% were in cash, which exceeded last year's cash distribution by 2.6%. This was mainly due to Telefónica dividends, paid out completely in cash on December 12 (€0.20 per share) instead of scrip dividends as occurred the previous November (€0.34 per share).

SPAIN, LEADER IN DIVIDEND YIELDS ONE MORE YEAR




Source: Morgan Stanley Cap. Int (November 2017)

CONSISTENCY IN SPANISH MARKET DIVIDEND YIELD.
Systematically higher than the 10Y bond yield for a decade, especially over the last 3 years.

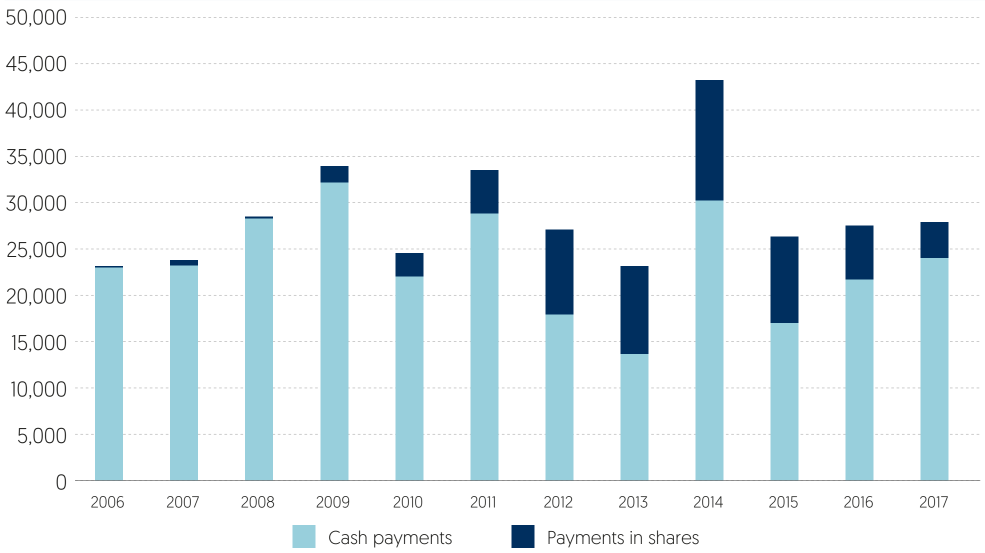


**Listed companies pay dividends in excess of**
**28 billion euros**

Since 2006, the amount of dividends distributed amongst shareholders in the Spanish stock exchange has never fallen under €23 billion. Thus, in the 12 years that have elapsed since then, investors have received nearly €350 billion in remuneration, primarily as dividends. To grasp the importance and size of this figure, we might note that it is equivalent to 33% of Spanish GDP in one year or almost have the total market value of currently listed Spanish companies.

In all, 122 companies listed in the Spanish stock exchange paid out dividends in 2017. The large majority did so with increases, with the exception of 11 companies that reduced dividends compared to 2016. Likewise, 27 companies paid out dividends to their shareholders for the first time as listed companies: this group consists of 5 issuers listed in the stock exchange and 22 SOCIMIs that trade their securities on the MAB.

SHAREHOLDER REMUNERATION IN THE SPANISH STOCK EXCHANGE (2006-2017)
Payments in cash and payments in shares. (Millions of euros)




Payments in shares include *scrip dividend* and return of premium in form of shares

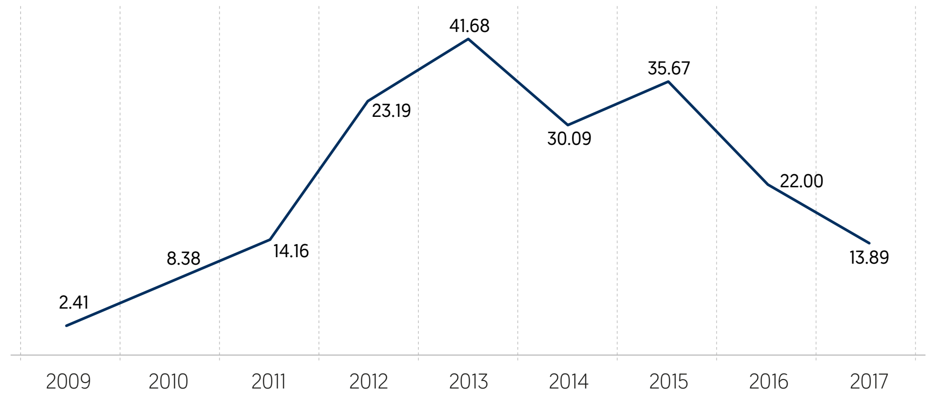
## Share payout loses versus total payout for the third straight year

Payment of dividends by Spanish issuers using the *scrip dividend* formula was relatively significant until nearly a decade ago. These accounted for 41% of the total in 2013, 30% in 2014 and 35% in 2015. However, they decreased to 22% of the total in 2016 and again to 14% at the close of this year, the same percentage as in 2011.

During 2017, there were 9 companies that used the share payout formula to pay their shareholders. This was carried out through thirteen capital increases totalling €3.869 billion (16% lower than the same period in the previous year).

Five companies (Banco Popular, Caixabank, Banco de Sabadell, Acerinox and Telefónica) made payments using this formula the previous year but ceased doing so in 2017. On the contrary, three companies (Laboratorios Reig Jofre, Talgo and Faes) distributed part of their dividends this year using the *scrip dividend* formula.

THE SCRIP DIVIDEND CONTINUES LOSING WEIGHT IN THE SPANISH MARKET.
% paid in shares compared to total paid out in dividends




*In 2014, this would be 45% if Endesa extraordinary dividends are not counted

Dividend taxing policy continued unchanged in 2017 (between 19% and 22%, with overall withholding at 19%). However, since January a change was made to the tax policy affecting subscription rights, which, in the end, are what shareholders receive when they choose to receive their dividends in issuing company shares. Prior to this year, the amounts transmitted as subscription rights were considered as capital gains for tax purposes and did not undergo withholding. From 1 January 2017, the amount of the transmission is considered as a capital gain of the period in which the transmission occurs, subject to a 19% withholding. Withholding takes place on the gain obtained from the first transmission of rights, i.e., on individuals who received their rights as shareholders directly from the company. Therefore, gains from transmission of rights acquired from a third party on the market (second and subsequent transmission) are not subject to any withholding at all.

### SHAREHOLDER REMUNERATION
Dividends and other payments by listed companies. Gross amounts (millions of euros)

| | Dividends | Return of share premiums | Nominal reduction with return of monetary contributions | Total |
|---|---|---|---|---|
| **2009** | 33,115.21 | 763.09 | 3.83 | 33,892.23 |
| **2010** | 24,288.33 | 295.26 | 9.32 | 24,592.91 |
| **2011** | 28,212.84 | 5,432.79 | 13.51 | 33,659.14 |
| **2012** | 26,768.81 | 384.46 | | 27,153.27 |
| **2013** | 23,262.57 | 132.62 | 19.23 | 23,414.42 |
| **2014** | 43,260.55 | 145.83 | 2.51 | 43,408.89 |
| **2015** | 26,287.46 | 890.76 | 669.76 | 27,847.98 |
| **2016** | 27,136.55 | 448.28 | 0.00 | 27,584.83 |
| **2017** | **27,844.29** | **343.63** | **37.62** | **28,225.54** |

Note: From 2009 to date, the dividends figure includes the total payment through the scrip dividend formula; the amount received by shareholders that sell their subscription rights to the company and the monetary equivalent of the rights exercised.

Shareholders Meeting 2017

# FIXED INCOME

ECB monetary policy continues to mark the path of fixed-income markets. The outstanding balance of medium and short-term private issues has remained stable while the balance of public debt increased by 6% at the close of 2017, versus the same date in 2016. Throughout the year, the Mercado Alternativo de Renta Fija (MARF) continued as an increasingly relevant channel of company financing.

The balance of issues in circulation in the AIAF Fixed-Income Market fell by 3.2% overall at the close of 2017. The drop occurred in the circulation volume of short-term fixed-income assets (commercial paper), due to two factors: on the one hand, the low or null profitability offered makes them unattractive for institutional investors; on the other hand, from the standpoint of issuers, the plentiful liquidity in the system makes them less necessary than in other scenarios given the renewed and aggressive competition in short-term bank financing. The balance of medium and long-term assets remained stable over the year, despite lower activity registered in the securitised segment, compared to 2016.

On the contrary, the balance of Treasury securities continued to grow at +6% YoY. Total public debt (including regional debt and that of other government bodies) fell by €1.98 trillion up to the last quarter of 2017 to €1.14 trillion, near but less than 100% of GDP.

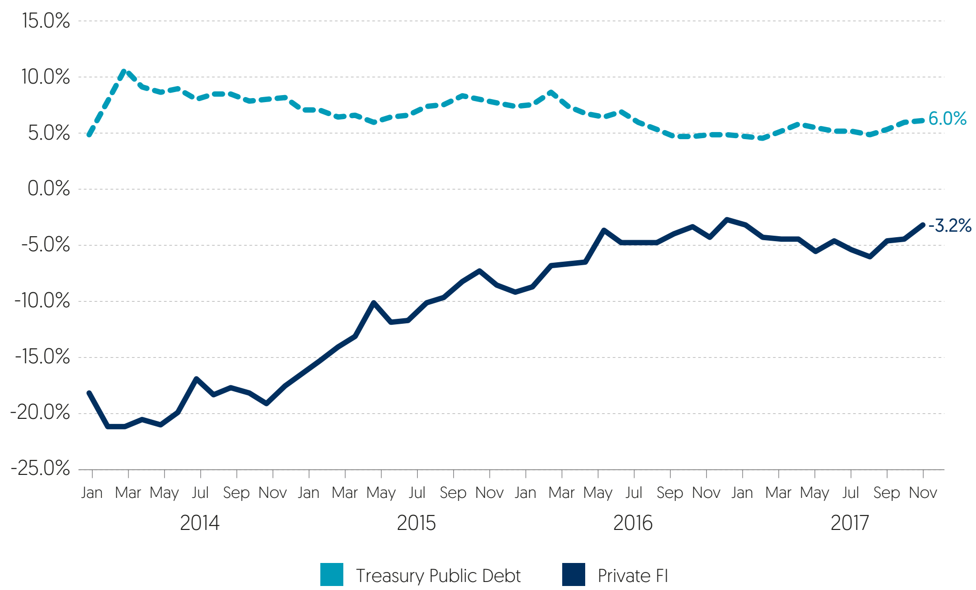
## Public sector financing in favourable conditions

Our country's risk premium was relatively stable throughout the year, except for occasional increases caused by the crisis in Catalonia. It was at around 111 basis points at the end of December, a level practically the same as at the start of the year, although slightly over the minimum reached in summer, between 95 and 100 basic points.

Debt purchasing by the ECB continued throughout the year and the Treasury benefitted from very favourable issuance rates, placing issues with a short-term maturity date in negative territory. In December, three-month and one-year treasury bills were at average interest rates of -0.610% and -0.375%, respectively.

The last auction for three-year and five-year State Bonds ended in an average interest of -0.022% and +0.290% respectively. 10 and 30 year commitments gained an average interest of 1.410% and 2.427% respectively. All these percentages are lower than a year ago, which has placed the average cost of government debt in circulation at 2.6%, including loans. The half life of debt in circulation reached 7.19 years, an increase compared to 6.8 years in 2016.

YEAR-ON-YEAR VARIATION (%) OF OUTSTANDING BALANCE IN THE AIAF MARKET (2014 - 2017)



## Corporate Debt, strongly affected by ECB policy

The ECB programme of acquiring corporate debt (CSPP) exceeded €100 billion since its launch in June 2016, with a monthly average of €7.5 billion. Thus, company costs for debt issuance in Fixed-Income markets has fallen by 38% since the programme began.

In the Spanish Private Debt primary market, there is a decline in the volume admitted to trading in the AIAF Fixed Income Market, due to lower requirements by the financial institutions.

### AIAF. MEDIUM- AND LONG-TERM CORPORATE DEBT ADMISSION TO TRADING 2017 and 2016. Millions of euros

| | Bonds and debentures | Bonds | Securitised bonds | Preference shares | Total |
|---|---|---|---|---|---|
| **2016** | 31,720 | 40,143 | 35,505 | - - - | **107,368** |
| **2017** | 43,161 | 30,350 | 28,635 | 1,000 | **103,146** |
| **Var %** | 36.1% | -24.4% | -19.3% | - - - | **-3.9%** |

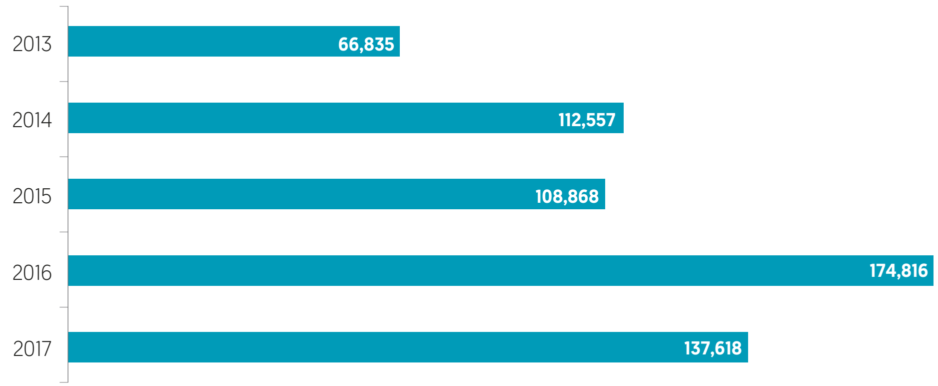
One segment, Bonds and Debentures, grew in 2017, with overall annual issues up by 36.1%, to €43.16 billion. Medium-term and long-term assets issued dropped overall by 3.9%, for an accumulated volume of €103.14 billion. The issued volume of promissory notes decreased to €18.38 billion at the close of the year, 19.2% less than the results for the previous year.

Secondary market activity diminished significantly. Initial expectations for 2017 and during most of the year indicated the possibility of an abrupt correction in debt markets; however, the year was characterised by a low level of volatility in medium and long-term bonds, mostly due to low inflation. In addition, traded volume on the SEND platform for retailers fell by 7.3%, to €724 million.

## Public Debt in BME markets

Annual Public Debt traded on the SENAF platform grew to €137.61 billion at the end of December, equivalent of a 21.3% decrease against the previous year. SENAF is the BME's Public Debt Market which brings together large market makers and operators. Public Debt trading on the SEND platform remained stable.

### AMOUNT OF PUBLIC DEBT TRADED ON SENAF 2013 - 2017 Millions of euros



# MARF: more than €6.5 billion issued between 2013 and 2017 by 40 companies

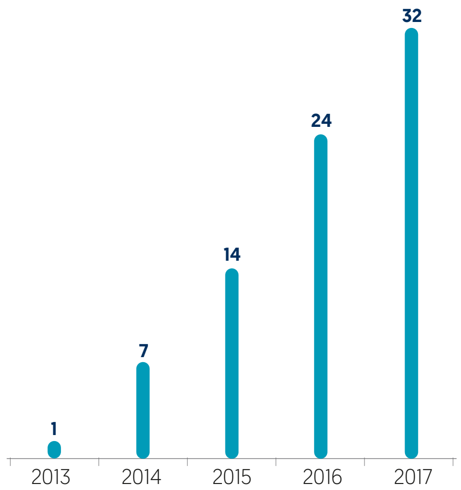
BME is contributing significantly to broadening financing options for companies by setting up the MARF in 2013, an electronic platform which provides transparency and liquidity in Fixed Income markets and guarantees the best execution of orders. It was created to respond to the requirements of medium-sized businesses and reduce issuance time for Fixed Income instruments. Throughout its less than 4-year existence, issues have come to market of companies of various sizes, most of which had not previously had a capital market presence.

MARF closed the 2017 financial year with an outstanding balance of €2.19 billion in corporate debt issues, distributed amongst just over €1.29 billion in bonds and the rest in commercial paper issues. Compared to the close of the previous year, the outstanding balance was 36%, distributed between 16% in the bonds market and 82% in company promissory notes.

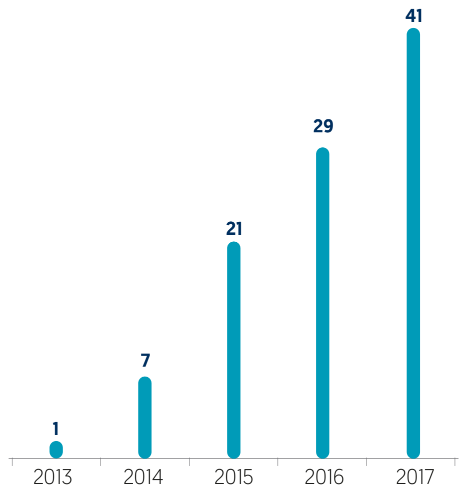
In 2017, 29 companies used the MARF to cover their financing needs. Of these, 10 were newcomers and the other 19 had already conducted such operations in the past. Amongst the new companies included in the MARF this year are representatives of the civil engineering industry such as Sacyr, the catering industry such as the Batle Group and the heavy metal industry, such as the Ulma cooperative.

If we include the new additions in 2017, there are now 41 companies that have found financing in the Mercado Alternativo de Renta Fija operated by BME since its founding in 2013. In all the volume of admissions to trading in the MARF totals €3.93 billion, a far greater amount than the €2.28 billion registered in 2016.

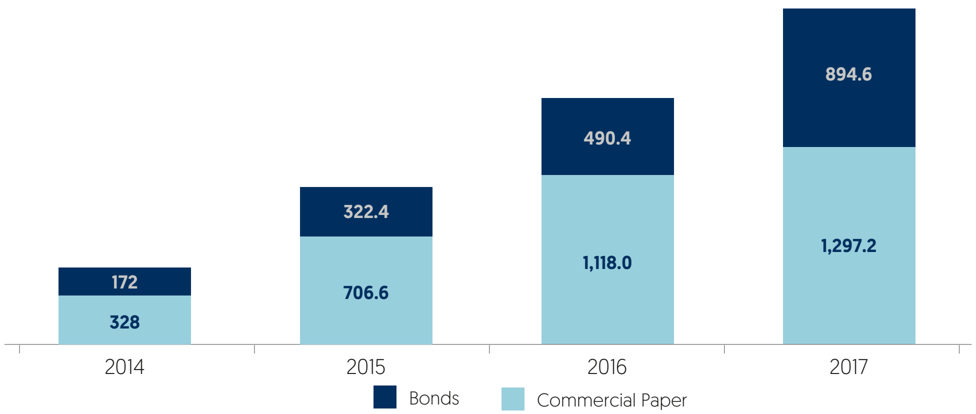
## Nº OF ISSUES PROCESSED THROUGH MARF (2013 - 2017)




## COMPANIES THAT HAVE BEEN FINANCED ON THE MARF (2013 - 2017)




## OUTSTANDING BALANCE ON THE MARF
Figures in millions of euros



## Change of model

Market-based financing grows

### Spanish non-financial companies in fixed income markets: the growth trend continues

There are 38 Spanish non-financial companies that obtained financing through bonds in the fixed income market in 2017. These 38 companies issued a total volume of €27.83 billion in the fixed income markets.

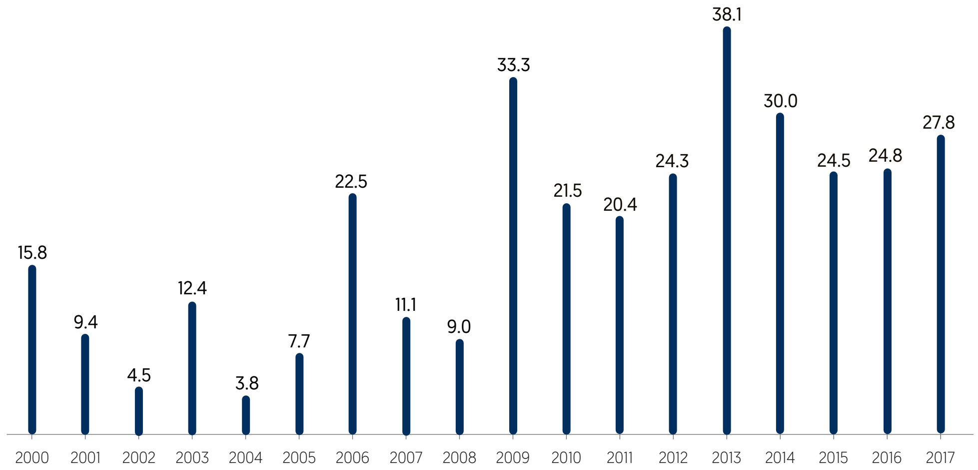
The increasing access to Corporate Debt markets for non-financial Spanish companies is documented in the article "Financing non-financial Spanish companies in bond markets" by Fuertes and Serena (2016). As can be confirmed by the available figures, the total volume of issuance increased considerably from 2009, in line with global trends towards increased capital market financing following the financial crisis. As such, the annual volume of issuance nearly tripled from $10.68 billion in the period 2000-08 to $27 billion during the period 2009-15.

This increasing trend in financing through capital markets took place within a scenario of low interest rates and a search for profitability following the global financial crisis, in conjunction with a drop in bank credit due to the need to deleverage the global bank industry and the Spanish bank industry in particular. Given the current recovery of bank financing, bond market financing continues to show great strength.

In 2007 and 2008, only 8 and 4 non-financial Spanish companies were able to issue on bond markets. Less than 5 years later, in 2013, this number rose to 30 issuing companies, increasing to 39 in 2014 and 38 financed companies in 2017.

The volumes issued have also multiplied their, volume increasing from 8.98 billion in 2008 to 38.09 billion in 2013. In 2017 this amount totalled €27.83 billion, surpassing the €24.77 billion for the entire year of 2016.

VOLUME OF ISSUES OF SPANISH NON-FINANCIAL COMPANIES (2000 - 2017). Figures in billions of euros.




* Source: Fuertes, A; Serena, JM. (2016). "Financing of Spanish non-financial companies in bond markets"

# OPTIONS AND FUTURES

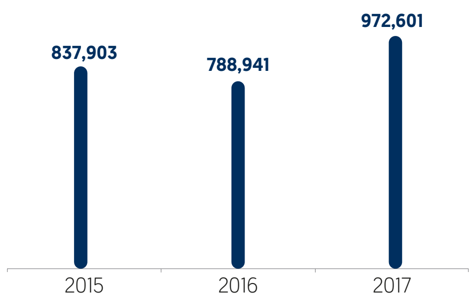
In a setting of a greatly reduced volatility, global trading activity has remained stable in 2017 in the global derivatives markets: falling in Futures and rising in Options. MEFF, the Spanish Options and Futures market, practically equals the total volume of the previous year with a decrease in IBEX 35 futures and an increase in options on the same index. Of all the products, the most noteworthy is the 23% growth in stock futures trading and IBEX 35 options trading, which rose nearly 34%.

During 2017, the trading hours were extended for derivative products in MEFF and new volatility indices and a strategy based on products already traded on the Spanish Options and Futures market have been put into action. It is expected that with the incorporation of these new indices as an expansion to the range of alternatives for monitoring and investment in the Spanish Stock Exchange, market activity will increase somewhat and that the volatility conditions will normalise compared to their historic values.

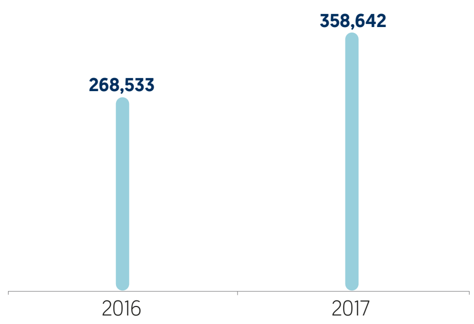
As FIA (Futures Industry Association) statistics show for the 2017 period, in regulated world markets of derivatives, the number of contracts in global trading went down insignificantly by 0.1%, compared to the previous year. However, the results have not been uniform in both basic types of traded derivatives: while futures trading was 6.6% lower, options increased by 11%. Within these two large groups, single stock futures grew by 4.7%, index futures fell by 6.3%, index options increased by 12.7% and stocks options also increased, by 4.2%.

These trends were largely similar in the MEFF, the Spanish Options and Futures Market, managed by BME. In 2017, there were 44.6 million trades in underlying futures and options related to equity, indices and shares, practically the same (-1.7%) as for the previous year.

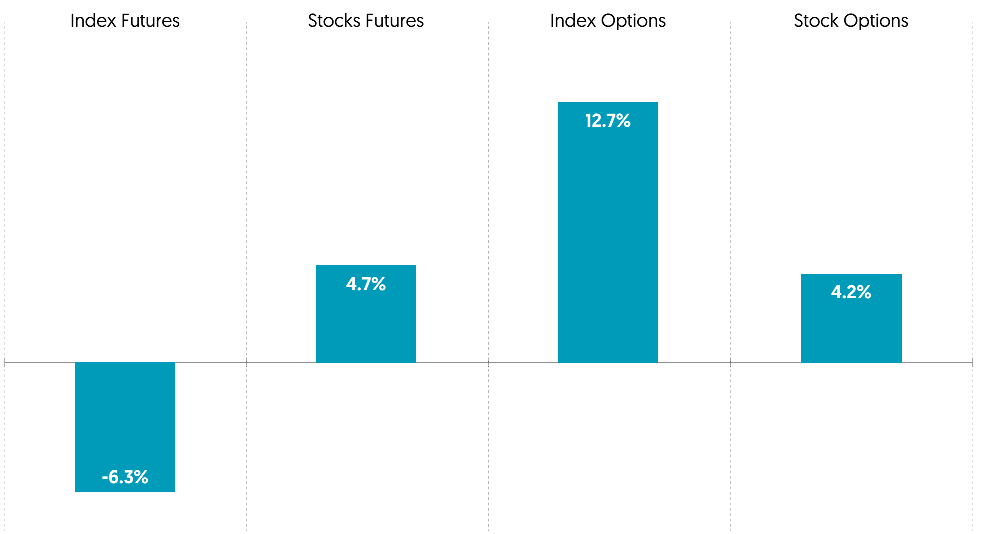
**AVERAGE MONTHLY VOLUME OF STOCK FUTURES**
**No. of contracts traded on MEFF 2015 - 2017**




**AVERAGE MONTHLY VOLUME OF IBEX 35 OPTIONS**
**No. of contracts traded on MEFF 2016 - 2017**

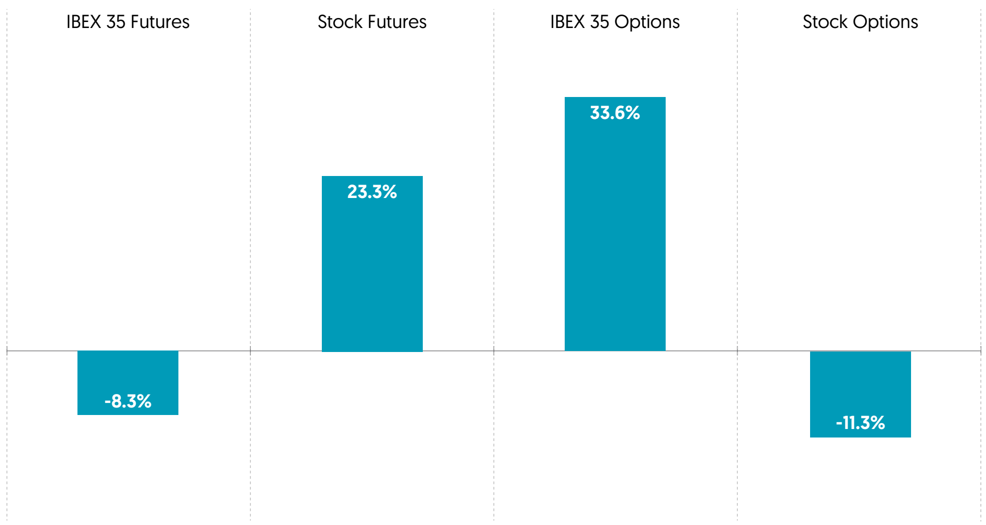



**GLOBAL MARKET TRENDS FOR OPTIONS AND FUTURES IN 2017**
**Variation in volume of contracts traded compared to 2016**




Source: FIA

**SPANISH MARKET TRENDS FOR OPTIONS AND FUTURES IN 2017**
**Variation in volume of contracts traded compared to 2016**



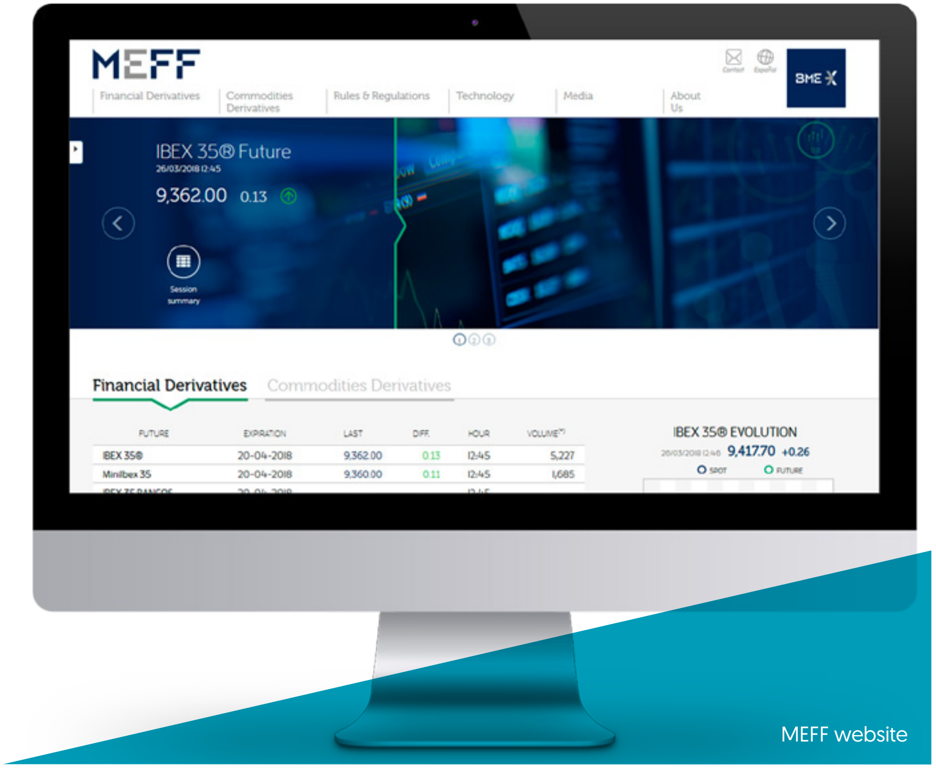

Source: FIA

Trading in MEFF's flagship product, IBEX 35 Futures contracts, was down by 8% compared to the previous year, in keeping with the generalised fall in trading in most futures on other European stock markets: futures fell slightly on the French CAC Index and the Dutch AEX Index, while the decline was sharper on the German DAX and Italian MIB Indices.

However, the contrasts in European index options trading trends are greater: these increased by almost 34% on the IBEX 35, in line with the sharp upturns on the CAC and AEX, while decreasing by different percentages on the Pan-European EuroStoxx Index, the German DAX Index and the Italian MIB Index.

Single stock futures trading in 2017 in MEFF was excellent, with an increase of 23%. However, trading in these products fell in European markets, such as the German EUREX and the Italian IDEM.

MEFF is also a benchmark market in Options with underlying single Spanish stocks. Despite the slight drop of 11% in traded volume, the market share of MEFF is 75% compared to competitors such as EUREX, which are under 25%




MEFF website

New Indices

## VIBEX, an index to gauge volatility

### Extremely low volatility

The lower volatility in stock markets worldwide compared to previous years and historical averages has been one of the most outstanding features of the year in global markets. It has also been a specially relevant factor for Options and Futures markets whose underlyings are stock and indexes. The average implied volatility in MEFF for IBEX 35 options in 2017 was 14.9%, nearly 9 points lower than the average for both 2016 and 2015, as shown in the attached chart. Volatility swings were also much less intense than the previous year; maximum implied volatility peaks in option prices reached 28% in September, far lower than the maximums seen in 2016. This exceptional behaviour of volatility with regard to historical averages in MEFF is evidenced by noting that the average implied volatility in MEFF since 1995 was 23.4%, more than 8 points higher than the average for 2017.

### Market trading hours extended since January

Throughout 2017, MEFF has continued working to offer all market participants better services and new opportunities. Thus, work has increased to adapt to the new European market and financial instrument regulation, known as MiFID II. In addition, upgrades have been implemented to extend trading hours of IBEX 35 and MiniIBEX futures. Specifically, the market now opens at 8:00 a.m. (previously at 9;00 a.m.), thereby adapting to the Pan-European benchmark contract, Eurostoxx 50 futures. MEFF now offers its market members an ample schedule from 8:00 a.m. to 8:00 p.m. The effect of this extended schedule has been positive for benchmark contracts, such as IBEX 35 Futures and MiniIBEX Futures, where 1.23% of trading and 5.7%of the total volume takes place during this extended period; this is especially true on dates that coincide with significant political or economic events.

### New IBEX family indices based on MEFF derivatives

Another of the new developments implemented throughout 2017 was the launch of new indices closely related to the MEFF Options and Futures market, which have become part of the large IBEX family. These new additions are the VIBEX Volatility Index, the IBEX 35 Skew volatility trend index and the strategic indices with IBEX 35 options. These have been launched with the close collaboration between the Instituto BME (BME's training division), the IBEX Indices Management Department and the MEFF Options and Futures Market.

By launching this new range of indices, the Spanish Stock Exchange has expanded its offer of investment options intended for speculative or coverage purposes. This is one more step towards investment product diversification on BME platforms, with potential beneficial effects on derivative trading and associated accounting on the country's stock exchange. If volatility returns to more normal historical levels, as many experts expect, it seems probable that trading in products associated with these new indices will have a positive and invigorating effect on the Options and Futures market in Spain

### Two indices to reveal volatility and four strategic indices

- The VIBEX® Index shows the trend in implied price volatility for IBEX 35® options in the MEFF market, with a constant 30-day timeline. Thus, it provides very valuable information for both market brokers and asset managers with a position in Spanish securities.
- The IBEX 35® SKEW Index shows the trend (*skew*) in volatility of IBEX 35® options, thereby serving as a market risk indicator

On the other hand, there are four new strategic indices that intend to present the trend of traditional strategies with derivatives in a straightforward manner, thereby becoming simple benchmarks that can be used as measuring stick by managers of these types of portfolios. These are as follows:

- The IBEX 35® BUYWRITE Index, which replicates a hypothetical strategy consisting in a systematic purchase in an IBEX 35® Future and sale in a call option on IBEX 35®.
- The IBEX 35® PUTWRITE Index, which is designed to replicate a hypothetical strategy consisting in a systematic sale in a *put* option with underlying IBEX 35®.
- The IBEX 35® PROTECTIVE PUT Index, generated to replicate a hypothetical strategy consisting in a systematic purchase in an IBEX 35® Future and purchase in a *put* option on IBEX 35®.
- The IBEX 35® VENTA DE STRANGLE Index, which intends to replicate a hypothetical strategy consisting in a systematic sale in a *call* option on IBEX 35® and a simultaneous sale in a put option with underlying IBEX 35®.

For more detailed information on these new indices, their composition and how they work, please refer to the corresponding special section on the BME Equity website.

# CLEARING

The trend in clearing activity in the Equity and Financial Derivatives segments during 2017 was notable.

BME Clearing, in its role as the Spanish Stock Exchange's Central Counterparty, offers clearing services in five segments: the financial derivatives instruments traded on MEFF, the electricity derivatives instruments registered through MEFF, simultaneous purchase-sale transactions (repos) for Spanish Public Debt, purchase-sale transactions for securities traded on the Spanish Stock Exchange, and OTC interest-rate derivatives transactions.

We should highlight that during 2017 the BME Clearing Equity segment continued its normal activity while simultaneously taking the necessary steps to connect with *Target2 Securities*, completed in September.

## Clearing grows intensely as a branch of BME activity

### Financial derivatives

In 2017, the activity in the primary clearing instrument, IBEX 35 Futures, was 8% lower than the previous year, although there was a notable increase of 26.5% in the open position compared to the end of last year.

All in all, the financial derivatives segment has been slightly less active in 2017 (-1.71%) than in 2016, when measuring contracts. In 2017, 12.2 million Index futures and options contracts were cleared, practically the same as in the same period of the previous year, due to the increase in volume of IBEX 35 options (-33.5%), which has compensated for the fall in futures.

Total stock futures and options contract clearances were 32.3 million, 1% less than in 2016.

The open interest in IBEX 35 futures at the end of 2017 reached all time highs of over 113,000 contracts. The open interest in IBEX 35 options increased by 78.6% compared to the end of 2016. Stock futures also increased very significantly (+77.5%), while stock options fell by 7.8%.

### Equity

The Equities segment provides the central counterparty service for securities repos traded on the Spanish Stock Exchange. It began operating on 27 April 2016 and its implementation was an important and significant part of the system's clearing, settlement and registration reform in Spain.

It achieved another milestone in September 2017 by successfully connecting BME Clearing to the Pan-European securities settlement platform Target2 Securities, thereby concluding the second and last phase of the reform.

The year 2017 saw a daily average of 399,845 transactions with a daily average of net cash volume (single side) traded totalling €2.53 billion, 16% higher than in 2016, and an average volume of securities of nearly 755 million per day. Currently, the segment boasts 28 clearing members.

### REPO Fixed Income

The REPO Fixed Income segment provides the central counterparty service for Spanish public debt repos transactions, thus eliminating the counterparty risk for participant entities.

In 2017, the total volume registered reached €295.25 billion, with a monthly average of 410 transactions.

It currently has 28 members: 26 are Spanish and 2 are from outside Spain. Furthermore, the number of participants has increased due to the new access to institutional clients. A total of 16 clients were included in September.

The financed open position, i.e., the average outstanding balance of non-expired transactions, equivalent to the facilitated financing, was €15.65 billion at 31 December, with an average financed term of 38 days.

## SWAPS IRS

The Swaps segment is the central counterparty service for all interest rate derivative OTC transactions.

The volume registered during 2017 was €2.21 billion. Currently, the segment boasts 8 participating bodies.

The open interest has increased since operations began at the beginning of the year and it closed at €470 million at the end of 2017.

## ENERGY

The energy derivatives segment has continued to attract the interest of multiple active entities in the sector, increasing the number of participants by 17% from 125 participant entities at the end of 2016 to 146 at the end of 2017.

The volume registered in 2017 rose to 17.9 TWh, with an open position of 8.0 TWh, in line with the volume registered in the previous year.

The launch of a new counterparty clearinghouse service for natural gas within the Energy segment is planned for the first quarter of 2018. The growing interest by the current participants, as well as new operators in the gas market, are causing favourable expectations in a market with volume growth prospects over the coming years. The deadlines for traded products will be very similar to those in electrical energy trading, while the main difference consists in that natural gas products will be physically delivered at the virtual Spanish balance point handled by Enagas

# SETTLEMENT AND REGISTRATION

The most significant event for Iberclear in the settlement scenario was its migration to Target 2 Securities (T2S) on 18 September. Both the testing process, as well as the migration itself and the subsequent stabilisation phase were a total success.

# Successful migration of Iberclear to T2S in 2017

## Iberclear activity in 2017

The cash volume settled in 2017 increased by 40.9% since €7.53 billion were settled on an average daily basis, compared with €5.34 billion the previous year.

The nominal balances recorded at the end of 2017 in Iberclear decreased by 5.79% in the securities listed on the AIAF Private Fixed Income Market and increased by 5.1% in the Public Debt Market. Equities increased by 16% at market prices.

The number of exchange transactions settled at Iberclear this year shows an average fall of 61% against the same period the previous year, attaining a monthly average of 0.63 million transactions. This decrease reaffirms expectations concerning the implementation of the first phase of System Reform in May 2016, with the entry of the central counterparty, or clearing house between the market and depositing entities. The resulting transactions netting prior to settlement entailed less transactions in Iberclear.

## TARGET2 Securities (T2S)

Since the launch of the single European settlement platform, known as *Target2 Securities (T2S)* in 2015, the platform has performed transactions for Central Securities Depositories (CSD) as well as for National Central Banks, which have gradually been included in the platform in several migration waves. The first wave of migration to T2S for these infrastructures took place in June/August 2015 and the second wave took place in February 2016.

Operation of the technical platform underwent delays during the third wave in September 2016 due to the large increase in processed volumes, inviting speculation about the feasibility of the fourth migration wave. Several exceptional capacity tests were required, which affected the functional tests plan for the fourth wave of migration involving Iberclear.

On 6 February 2017, the fourth migration wave was implemented by the CSDs of Germany (Clearstream Banking Frankfurt), Luxembourg (Lux CSD), Austria (OeKB), Hungary (KELER), Slovakia (CDCP) and Slovenia (KDD), as expected and with no changes. Most of the problems that appeared during this implementation were solved in the following weeks.

Iberclear migration to T2S took place in the final wave, in which it was the most important CSD. This final migration wave, affecting Iberclear and a platform of Baltic country CSDs, was implemented on 18 September, as expected. Several months before this final migration the Finnish CSD informed that it was unable to meet the date of final migration, where it had been included due to delays in implementation planning.

Both the testing process as well as the migration itself and subsequent stabilisation phase of the Iberclear wave were a total success, with no relevant negative effects on the platform. Several of the main financial entities that have been carrying out their settlements on T2S since its start-up have confirmed that the implementation of the last migration wave was the most successful, in terms of lower impact on proper system operation. This last migration wave marked the conclusion of the plan to migrate to T2S.

The incorporation of Iberclear to *T2S* is one of the main components of the reform. This step has allowed the post-trade systems of the Spanish market to be standardised with those of the main European markets, increasing their efficiency, optimising costs and improving their competitiveness, a key aspect of an increasingly more global environment.

Currently, the main challenges that *T2S* faces are adapting the platform to the requirements of the new regulation applicable to CSDs (CSD Regulation) and optimising its performance and operations.

In this regard, Iberclear published Information Memo 96/2017 last 6 October on its authorisation process as a Central Securities Depository, where it explained the presentation before the Spanish stock market regulator (CNMV) of a request for authorisation to continue providing Central Securities Depository services, along with the required information in compliance with Article 17 of EU Regulation 909/2014 on the improvement of securities settlement in the European Union and central securities depositories (CDS). The CNMV is the competent authority to analyse the request and authorise Iberclear, after which it has six months in which to grant the authorisation envisaged in CSD Regulation.

Lastly, we should mention the signature of the agreement with the Clearing and Direct Custody Division of Citi to provide global custody services for Iberclear clients. The agreement was signed in October, within the context of the SIBOS conference, held in Toronto this year. Spanish financial entities will be able to settle international securities through Iberclear, which shall act as the sole point of access for all markets, in both the T2S zone and outside it, providing asset settlement, custody and management solutions.

## REGIS-TR activity in 2017

REGIS-TR currently maintains more than 1,400 accounts open and processes almost 8 million messages a day. REGIS-TR has maintained its strategy to act as a single regulatory reporting platform for European businesses.

As of October 2017, REGIS-TR offers regulatory reporting services under the Swiss FinfraG standard, the equivalent in that country to EMIR. It is precisely in this market that the company has carried out attractive strategies to acquire a considerable number of clients in the pre-regulatory period.

The intentions of regulatory bodies are clear to the well-known EMIR regulation environment. There is a determined desire to optimise reported information after a long period of learning and adaptation. After two implementations of this line, the third arrived in November with new technical standards for reporting in an attempt to obtain more detailed information on transactions with derivatives executed in the European Economic Area.

In the same line of action, the regulating bodies have established the XML ISO 20022 format to harmonise and standardise the information provided to authorities by repositories. This format has also be chosen for reporting under the Securities Financing Transactions Regulation (SFTR), the second-level regulation of which was published in March and to which REGIS-TR will apply as a repository. This new service is expected to be launched in the second quarter of 2019.

Within this context, it has finally become mandatory to use the *Legal Entity Identifier (LEI)* in the mandatory report, along with the publication by CPMI and IOSCO of identifying standards for products or *Unique Product Identifier (UPI)* and transactions or *Unique Trade Identifier ((UTI)*.

Greater clarity has also been achieved by the extension of EMIR to countries that are still members of the European Association of Free Trade; Iceland, Norway and Liechtenstein. Specifically, in the two former REGIS-TR expects to obtain a significant market share due to its large presence in Nordic countries.

With regards to its position as repository to the community of supervisors and regulators, REGIS-TR already provides information to all the bodies with access to the common information portal of ESMA (TRACE) and bilaterally to over 35 European regulators, consolidating its position as a consultation tool for supervisors.

BME took part in SIBOS

# MARKET-DATA AND VALUE-ADDED SERVICES

In 2017, BME Market Data continued to add new content to its information supply. During this year, the monthly average of delivery points where information has been disseminated in real-time of the more than 79,000 Equity, Fixed Income and Derivatives Instruments and Indices managed by BME group exceeds 100,000.

**BME disseminates information about more than**
**79,000 instruments**

## Solid management and programming of information generated by BME

As regards the new content available in real time, BME Market Data has implemented the necessary measures to integrate the new indices calculated by BME (IBEX MAB®, IBEX MAB® ALL SHARE e IBEX MAB® 15) into the BME Data Feed. BME Data Feed integrates a complete flow of data for markets operated by BME.

It is an extremely intense year in terms of developing legislation arising from the MiFID II Directive, expected to come into full effect by January. BME has been following the regulatory process very closely so it can adapt its data feeds, information products and application policies for the use of these data to the new regulations.

Likewise, we have been working on the integration in the Data Feed of the information that the new APA BME service, managed by BME Regulatory Services, which will begin publication on 3 January 2018, in real-time, of details of OTC trades on financial instruments of the investment services companies, as well as the firm trading prices of the Systematic Internalisers that contract BME Regulatory Services.

In addition, 2017 has seen the same trend as in recent years of increasing the number of BME Market Data clients, specifically those who have chosen direct connection to the information servers. These clients want to minimise reception times and the treatment of the information signed up for as well as receiving, without intermediaries, information on the biggest markets in terms of the liquidity of instruments listed on the Spanish market.

BME Market Data has expanded its analytical and end-of-day products and services with the addition of new content which various BME markets have incorporated into their platforms and with the progress of information service provision which has been developed in line with client requirements. We should highlight the expansion of security master products to include registrations, cancellations and changes to financial instruments as well as the generation of FIRDS securities master files to be marketed in 2018. In this business area, BME Market Data has upgraded its computer systems for generic distribution of files to clients and their delivery via private and secure environments and restructured product offer and their corresponding rates to adapt them to client needs. BME currently delivers more than 2,600 end-of-day files at the end of each session.

This year, BME Market Data began direct management of the hosting and connectivity services known as “BME Co-Location”, “BME Proximity” and “BME London HUB”. These services have become a key pillar in daily operations of BME contracting and information dissemination platforms. Clients are guaranteed the least possible delay in accessing these systems and a robust connection with the various BME Group operating environments, in equal conditions for all institutions.

BME Market Data continues exploring opportunities to launch new products and added value services aimed at market participants. The challenges which have come from the regulatory environment, together with constant technological innovation have required BME Market Data to constantly improve its services and create new information products which fulfil the clients’ new and sophisticated requirements in a speedy and efficient way. BME Market Data retains permanent contact with its clients in order to know first hand their requirements and gain key knowledge to be able to move forward in challenges related to information sharing.

## Other Value-Added Services: BME Inntech

As part of a reorganisation process affecting technological, regulation and innovation activities in the BME Group, the BME Innova, Visual Trader and Infobolsa companies merged in 2017 to become BME Inntech.

With this new organisation, the BME organisation aims to meet the needs of market participants in a more comprehensive and efficient way in terms of financial information services, managing and sending orders and tools for financial advice and regulatory compliance services, all through employing flexible and easily integrated technological solutions.

By combining the talent of our professional BME Inntech team with a dedicated commitment to continual innovation and the solvency and robustness of a Group like BME, we intend to consolidate our position as the leading supplier for these types of services in the Spanish and international securities market and provide our customers with the highest standards of quality each day.

BME Inntech aspires to meet the needs that arise in the financial sector as a result of ever more demanding legislation. This is being achieved by grouping marketing of regulatory compliance products in a new company named BME Regulatory Services, which offers a singe window to financial system institutions so they can manage compliance with legal obligations arising from their activity in financial markets.

Specifically as regards MiFID/MiFIR regulations, BME Regulatory Services has requested authorisation from the CNMV to become a data supply services provider. Starting on 3 January 2018, this will allow it to offer services as an Authorised Publishing Agent (APA) and Authorised Information System (AIS).

The APA manages mandatory publication of OTC transaction details (trade reporting), while the SIA offers communication services with competent authorities concerning transactions carried out in organised or bilateral centres (transaction reporting).

These services will complement the regulatory compliance solutions already provided by BME Inntech, the most important of which are Regulatory Reporting Services (RRS) to the CNMV, which have increased with the inclusion of the AIFMD (Alternative Investment Fund Managers Directive) circular and the circular regarding Agents; the Services Against Market Abuse (SICAM) resulting from the incorporation of the necessary developments to process transactions reported by entities through the new Transaction Reporting to their Competent National Authority.

In addition, given the entry into force of MiFID II, BME will offer Better Execution Reports, consisting in the publication of an analysis summary and conclusions for each type of financial instrument, extracted from detailed monitoring of execution quality obtained in the markets where all its clients have executed orders during the previous year. It will also provide the Smart Order Routing Service or SOR to provide automatic access to the liquidity of securities listed in more than one market, or MTF, thereby guaranteeing the application of best execution policies defined by the contracting institution.

The year 2017 saw the completion of development of the new Provider of Confidential Services, for digital certification of electronic stock (contracts, tickets, etc.) via biometric voice recognition signature, thereby addingOn Boarding Digital solutions to the services provided by Inntech. Certification as a Provider of Confidential Services will allow BME Inntech to approach market segments other than those financial, increase its client base and explore new ways to collaborate with companies.

The Openfinance affiliate, 15 years old in 2017, continues to be a benchmark in Spain in the provision of Discretionary and Guided Portfolio Management and general provision of Financial Assessment process automating tools, with solutions that range from private banking to FAFs and Consultants. Noteworthy amongst the new developments in 2017 is the Roboadvisor tool, which will be implemented in the first clients.


Openfinance celebrates its 15th Anniversary

# 6. ANNUAL ACCOUNTS

# Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and Subsidiaries composing the Bolsas y Mercados Españoles Group ("BME")

## Consolidated Financial Statements and Director's Report for the year ended 31 December 2017, together with the Audit Report

Note: Translation of the report originally issued in Spanish.
In the event of a discrepancy, the Spanish –language version prevails.

pwc

*This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

## *Independent auditor's report on the consolidated annual accounts*

To the Shareholders of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A.:

### *Audit report on the consolidated annual accounts*

#### *Opinion*

We have audited the consolidated annual accounts of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. (the Parent Company) and its Subsidiaries (the Group), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of recognised income and expense, statement of changes in total equity, statement of cash flow and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at December 31, 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

#### *Basis for opinion*

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*PricewaterhouseCoopers Auditores, S.L., Torre PwC, Pº de la Castellana 259 B, 28046 Madrid, España*
*Tel.: +34 915 684 400 / +34 902 021 111, Fax: +34 915 685 400, www.pwc.es*



R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

pwc



| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Recognition of revenue in complex computer processes* | |
| Service rights (trading, clearing, settling, listing of securities, permanence, exclusion and reporting of information, among others - see Notes 2.n and 17 to the accompanying consolidated financial statements) are recognized in accordance with the royalties and rates published in the respective listing bulletins and their amount depends on the Group's own operating factors such as the number of operations or transactions, the amount of infrastructure access and usage fees, or the management of position maintenance, among others.<br><br>Numerous sources of information in several IT environments and automated processes are used to calculate that revenue and they are susceptible to failures or errors during the operation of each of the systems and/or the exchange of information between them.<br><br>On 18 September 2017, the securities clearing, settlement and registration system reform project was completed and the ARCO settlement system (which already settles equities) now includes fixed-income securities and the connection to Target2 Securities (T2S) gave rise to relevant changes in the Group's operations, as is indicated in Note 1.a to the accompanying consolidated financial statements. They particularly affected the group company Iberclear in areas such as its business structure, the services rendered and the fees associated with those services, and required certain developments to adapt the computer systems to the new environment in order to operate in accordance with the new regulations when they came into force. | We have obtained an understanding of the services and royalties associated with those services, as well as the procedures and criteria used by the Group to determine, calculate, recognize and invoice the services rendered to the Group's customers, as well as the internal control environment and its key controls.<br><br>Together with our information technology systems specialists, we have analysed the general IT control over the main systems and applications that support the automated recognition of revenue from services and royalties and we assessed, among other things, the organization of the Technology Area, the established controls over the life-cycle of application maintenance, information system access controls and those relating to the automated management of revenue calculation processes.<br><br>We have performed a detailed review of the developments and changes in that computer environment and the applications that support the recognition of revenue that were made to adapt to the modifications introduced into the securities clearing, settlement and registration system that have been applicable since 18 September 2017.<br><br>We also performed the following tests:<br><br>• We performed a recalculation of the revenue using mass data processing tests applied to the data contained within the various information systems together with our IT specialists in order to compare the results obtained against those recognized by the Group. |



pwc



| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| We identified this area as a relevant matter to be taken into consideration during the audit of the Group due to the complexity of the computer processes and the systems involved in the revenue calculation process, and due to the fact that they were changed during the year to adapt to applicable legislation. We therefore identified the proper recognition of revenue in accordance with applicable legislation as a material misstatement risk during the course of our audit. | The tests performed were designed to take into consideration both the changes made as a result of the aforementioned modifications to the securities clearing, settlement and registry system, as well as the date that they entered into force.<br><br>• We have performed tests on the operating effectiveness of key controls within the processes relating to the determination, calculation, recognition and invoicing of services to the Group's customers.<br><br>• Furthermore, we have obtained external confirmation of a sample of balances receivable and invoices issued during 2017.<br><br>As a result of those procedures, we consider that the Group's systems adequately calculate that revenue. |
| *Goodwill impairment testing* | |
| The Group performs an annual assessment of whether its goodwill has become impaired as required by IFRS-EU.<br><br>Management's estimates are based on the operating plans in place for each Cash Generating Unit (CGU), and they are the basis for calculating the value in use of each CGU. Goodwill is assigned to a CGU or a group of CGUs as described in Notes 2.b and 5.a to the accompanying consolidated financial statements.<br><br>The Group recorded €88,718 thousand as the carrying amount of goodwill at 31 December 2017. This represents 51.1% of the non-current assets in the consolidated balance sheet at that date.<br><br>Due to its importance, Management applies special monitoring efforts to the goodwill deriving from the acquisition of Iberclear, as is indicated in Note 5.a to the accompanying consolidated financial statements. | Together with our valuation experts, we have obtained an understanding of the estimation process applied by Management, as well as the internal control environment in which that process is carried out, focusing our procedures on matters such as:<br><br>• An analysis of the criteria applied to define the CGUs by the Group.<br><br>• An assessment of Management's method for estimating the impairment of goodwill, including an evaluation of the process oversight controls and the approvals established within that process.<br><br>• An examination of the annual assessment reports from the Group and outside experts regarding the evaluation of the impairment of goodwill. |

pwc

Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and subsidiaries

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| Management discounted the future free cash flows associated with Iberclear projected out until 2020 to obtain the value in use figure.<br><br>We identified this area as relevant since the estimated value in use of each CGU, as described in Notes 2.a and 5.b in the accompanying notes to the consolidated financial statements, includes a high level of judgment that is based on measurement assumptions such as estimated cash flows, long-term growth rates and the discount rate applied. The valuation models applied by Management are sensitive to the assumptions used and, due to their nature, there is a risk of inaccurate estimates that are subject to uncertainty when determining the value in use of the CGUs, which is why we consider that assessing these items is a key audit matter. | We have performed tests to compare the cash flow projection models used by the Group against its estimates, taking into consideration the provisions of applicable legislation, market practices and the specific expectations of the industry.<br><br>We also performed the following procedures:<br><br>• We verified the mathematical accuracy of the models.<br><br>• We compared the key inputs used by Management against data obtained from external sources. Based on this information, we consider that the assumptions used by management are adequate for the estimates made.<br><br>• We assessed Management's capacity to make reasonable estimates by comparing prior-year projections against the Group's business reality over the past few years.<br><br>• We examined the reasonableness of the sensitivity analysis performed by Management.<br><br>The procedures indicated above have resulted in our consideration that the conclusions reached by Management regarding the absence of impairment affecting goodwill are reasonable. |

*Other information: Consolidated management report*

Other information comprises only the consolidated management report for the 2017 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.



pwc

Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and subsidiaries

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the information included in the consolidated management report is defined in the company audit governing regulations, which establishes two differentiated responsibility levels:

a) A specific level that is applicable to the statement of non-financial information, as well as to certain information included in the Annual Corporate Governance Report, defined in article 35.2. b) of Law 22/2015 on Accounts Auditing, which solely consists of verifying that the aforementioned information was included in the consolidated management report or, where applicable, that the corresponding reference to the separate report on non-financial information has been included in the form provided for in the regulations, and otherwise, to report on it.

b) A general level applicable to the rest of the information included in the consolidated management report, which consists of evaluating and informing about the concordance of the mentioned information with the consolidated annual accounts, based on the knowledge of the Entity acquired from the audit of the accounts and without including information other than that obtained as evidence during such audit, as well as evaluating and informing about whether the content and presentation of this part of the consolidated management report comply with the applicable regulations. If we conclude, based on the work performed, that there are material misstatements, we would be compelled to report on this.

Based on the work performed, in accordance with the information previously described, we verified that the specific information mentioned in section a) above was included in the consolidated management report and that the rest of the information included in the consolidated management report agrees with that included in the consolidated annual accounts for the year 2017 and its content and disclosure comply with the applicable regulations.

*Responsibility of the directors and the audit committee for the consolidated annual accounts*

The Parent company's directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company's audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.



pwc

Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and subsidiaries

*Auditor's responsibilities for the audit of the consolidated annual accounts*

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.

- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

pwc



We communicate with the Parent company's audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company's audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company's audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

## *Report on other legal and regulatory requirements*

### *Report to the Parent company's audit committee*

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated February 28, 2018.

### *Appointment period*

The General Ordinary Shareholders' Meeting held on April 28, 2016 appointed us as auditors for a period of three years, as from the year ended December 31, 2016.

Previously, we were appointed by resolution of the General Shareholders' Meeting for a period of three years and we have audited the accounts continuously since the year ended December 31, 2013.

### *Services provided*

Services, different to the audit, provided to the Group are described in note 20 of the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José María Sanz (05434)

February 28, 2018

## CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2017 AND 2016 (Thousands of euros)

| ASSETS | NOTE | 31/12/2017 | 31/12/2016 (*) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | | **104,337** | **107,603** |
| Goodwill | 5 | 88,718 | 88,718 |
| Other intangible assets | 5 | 15,619 | 18,885 |
| **Property, plant and equipment** | **6** | **42,985** | **42,357** |
| **Investment properties** | | **-** | **-** |
| **Investments in associates** | **2** | **4,287** | **3,198** |
| **Non-current financial assets** | **7** | **13,023** | **12,121** |
| **Deferred tax assets** | **16** | **9,065** | **10,284** |
| **Other non-current assets** | | **-** | **-** |
| | | **173,697** | **175,563** |
| **CURRENT ASSETS** | | | |
| **Non-current assets held for sale** | | **183** | **-** |
| **Trade and other receivables** | | **80,273** | **81,781** |
| Trade receivables | 8 | 34,031 | 34,263 |
| Companies accounted for using the equity method | 8 | 471 | 472 |
| Current tax assets | 8 | 42,544 | 43,962 |
| Other receivables | 8 | 3,227 | 3,084 |
| **Current financial assets** | **7** | **16,221** | **59,011** |
| **Other current financial assets** | **7** | **22,135,164** | **22,539,024** |
| Realisation of guarantees received from participants | | 3,172,060 | 2,504,591 |
| Financial instruments in CCP | | 18,934,329 | 20,025,172 |
| Receivables for settlement | | 28,752 | 9,244 |
| Realisation of cash withheld for settlement | | - | 17 |
| Cash receivables for settlement | | 23 | - |
| **Other current assets** | **10** | **1,911** | **1,657** |
| **Cash and cash equivalents** | **9** | **275,739** | **224,429** |
| | | **22,509,491** | **22,905,902** |
| **TOTAL ASSETS** | | **22,683,188** | **23,081,465** |

| EQUITY AND LIABILITIES | NOTE | 31/12/2017 | 31/12/2016 (*) |
|---|---|---|---|
| **EQUITY** | **11** | **430,426** | **424,050** |
| **CAPITAL AND RESERVES** | | **427,968** | **422,432** |
| Capital | | 250,847 | 250,847 |
| Share premium | | - | - |
| Reserves | | 112,260 | 100,795 |
| (Parent shares and equity holdings) | | (12,426) | (13,313) |
| Prior years' profit and loss | | - | - |
| Other equity holder contributions | | - | - |
| Profit/(loss) for the year | | 153,319 | 160,260 |
| (Interim dividend) | | (83,133) | (83,096) |
| Other equity instruments | | 7,101 | 6,939 |
| **OTHER COMPREHENSIVE INCOME** | | **2,179** | **1,360** |
| Items not reclassified to profit or loss | | - | - |
| Items that may be reclassified to profit/(loss) for the year | | 2,179 | 1,360 |
| Available-for-sale financial assets | | 2,190 | 1,360 |
| Hedging transactions | | - | - |
| Translation differences | | (11) | - |
| Other valuation adjustments | | - | - |
| **EQUITY ATTRIBUTABLE TO THE PARENT** | | **430,147** | **423,792** |
| **NON-CONTROLLING INTERESTS** | **11** | **279** | **258** |
| **NON-CURRENT LIABILITIES** | | | |
| **Grants** | | **-** | **-** |
| **Non-current provisions** | | **15,024** | **15,514** |
| Other provisions | 12 | 4,351 | 4,984 |
| Long-term employee benefit obligations | 13 | 10,673 | 10,530 |
| **Non-current financial liabilities** | | **-** | **-** |
| **Deferred tax liabilities** | **16** | **5,100** | **4,823** |
| **Other non-current liabilities** | | **14** | **14** |
| | | **20,138** | **20,351** |
| **CURRENT LIABILITIES** | | | |
| **Liabilities associated with non-current assets held for sale** | | **-** | **-** |
| **Current provisions** | | **-** | **-** |
| **Current financial liabilities** | | **-** | **-** |
| **Other current financial liabilities** | **7** | **22,135,133** | **22,539,024** |
| Guarantees received from participants | | 3,172,052 | 2,504,591 |
| Financial instruments in CCP | | 18,934,329 | 20,025,172 |
| Payables for settlement | | 28,752 | 9,244 |
| Payables for cash withheld for settlement | | - | 17 |
| Payables for cash for settlement | | - | - |
| **Trade and other payables** | | **95,742** | **97,087** |
| Suppliers | 14 | 22,491 | 22,958 |
| Suppliers, companies accounted for using the equity method | 14 | - | - |
| Current tax liabilities | 14 | 49,065 | 52,314 |
| Other payables | 14 | 24,186 | 21,815 |
| Other current liabilities | **15** | **1,749** | **953** |
| | | **22,232,624** | **22,637,064** |
| **TOTAL EQUITY AND LIABILITIES** | | **22,683,188** | **23,081,465** |

(*) Figures presented solely and exclusively for comparison purposes. Notes 1 to 26 and Appendix I are an integral part of the consolidated balance sheet at 31 December 2017.

## CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 (Thousands of euros)

| | Notes | (Debit)/Credit 2017 | 2016 (*) |
|---|---|---|---|
| **Revenue** | **17** | **320,777** | **320,428** |
| **Own work capitalised** | **5** | **1,829** | **2,774** |
| **Other operating income** | **17** | **2,398** | **3,632** |
| **Variable direct cost of operations** | **17** | **(5,236)** | **(3,139)** |
| **REVENUE** | | **319,768** | **323,695** |
| **Staff costs** | **19** | **(70,439)** | **(69,498)** |
| Wages, salaries and similar expenses | | (56,686) | (56,656) |
| Social welfare expenses | | (10,489) | (9,729) |
| Provisions and other staff costs | | (3,264) | (3,113) |
| **Other operating costs** | **20** | **(39,541)** | **(38,113)** |
| External services | | (38,489) | (37,364) |
| Taxes other than income tax | | (399) | (448) |
| Losses, impairment and changes in trade provisions | 8 | (653) | (301) |
| **Amortisation and depreciation** | | **(8,105)** | **(7,660)** |
| Amortisation | 5 | (4,762) | (3,901) |
| Depreciation | 6 | (3,343) | (3,759) |
| Grants released to non-financial assets and other | | **-** | **-** |
| Impairment and gains/(losses) on disposal of non-current assets | **5 and 6** | **26** | **9** |
| Other gains and losses | | **-** | **-** |
| **OPERATING PROFIT (LOSS)** | | **201,709** | **208,433** |
| Finance income | | **2,114** | **(9,079)** |
| From equity investments | 7 and 21 | 408 | 352 |
| From marketable securities and other financial instruments | 7, 9 and 21 | 1,706 | (9,431) |
| Finance cost | | **(1,921)** | **9,461** |
| Third-party borrowings | 21 | (132) | (107) |
| Provision adjustments | 21 | (173) | (205) |
| Guarantees received from participants | 7 and 21 | (1,616) | 9,773 |
| Change in fair value of financial instruments | | **-** | **-** |
| Held for trading and others | | - | - |
| Taken to results for the year - available-for-sale financial assets | | - | - |
| Exchange gains/(losses) | **21** | **(128)** | **21** |
| Impairment and gains/(losses) on disposal of financial instruments | **7 and 21** | **-** | **2,469** |
| **NET FINANCE INCOME** | | **65** | **2,872** |
| Share of profit (loss) accounted for using the equity method | **2** | **1,094** | **63** |
| **PROFIT/(LOSS) BEFORE TAX** | | **202,868** | **211,368** |
| Income tax expense | **16** | **(49,528)** | **(51,063)** |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **153,340** | **160,305** |
| Profit/(loss) after tax for the year from discontinued operations | | **-** | **-** |
| **CONSOLIDATED PROFIT FOR THE YEAR** | | **153,340** | **160,305** |
| Profit attributable to parent | 11 | 153,319 | 160,260 |
| Profit/(loss) attributable to non-controlling interests | | 21 | 45 |
| **EARNINGS PER SHARE (€)** | | | |
| Basic | 3 | 1.84 | 1.92 |
| Diluted | 3 | 1.83 | 1.91 |

(*) Figures presented solely and exclusively for comparison purposes.

Notes 1 to 26 and Appendix I are an integral part of the consolidated income statement for the year ended 31 December 2017.

## CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016 (Thousands of euros)

| | Notes | Financial year 2017 | Financial year 2016 (*) |
|---|---|---|---|
| CONSOLIDATED PROFIT | | **153,340** | **160,305** |
| OTHER COMPREHENSIVE INCOME - ITEMS NOT RECLASSIFIED TO PROFIT OR LOSS | | **774** | **(1,801)** |
| Due to revaluation/(reversal of revaluation) of property, plant and equipment and intangible assets | | - | - |
| Actuarial gains and losses and other adjustments | 11 | 946 | (2,063) |
| Share in other recognised comprehensive income from investments in joint ventures and associates. | | - | - |
| **Other income and expense not reclassified to profit or loss for the year** | | - | - |
| **Tax effect** | 11 | (172) | 262 |
| | | - | - |
| **OTHER COMPREHENSIVE INCOME - ITEMS THAT MAY BE RECLASSIFIED TO PROFIT/(LOSS) FOR THE YEAR** | | **819** | **210** |
| **Available-for-sale financial assets:** | | **1,107** | **280** |
| a) Valuation gains/(losses) | 7 | 1,107 | 280 |
| b) Amounts transferred to profit or loss | | - | - |
| c) Other reclassifications | | - | - |
| **Cash flow hedges:** | | - | - |
| a) Valuation gains/(losses) | | - | - |
| b) Amounts transferred to profit or loss | | - | - |
| c) Amounts transferred at the initial value of the hedge item | | - | - |
| d) Other reclassifications | | - | - |
| **Translation differences:** | | **(11)** | - |
| a) Valuation gains/(losses) | | **(11)** | - |
| b) Amounts transferred to profit or loss | | - | - |
| c) Other reclassifications | | - | - |
| **Share in other recognised comprehensive income from investments in joint ventures and associates.** | | - | - |
| a) Valuation gains/(losses) | | - | - |
| b) Amounts transferred to profit or loss | | - | - |
| c) Other reclassifications | | - | - |
| **Other income and expense not reclassified to profit or loss for the year** | | - | - |
| a) Valuation gains/(losses) | | - | - |
| b) Amounts transferred to profit or loss | | - | - |
| c) Other reclassifications | | - | - |
| **Tax effect** | | **(277)** | **(70)** |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR** | | **154,933** | **158,714** |
| a) Attributable to the parent | | 154,912 | 158,669 |
| b) Attributable to non-controlling interests | | 21 | 45 |

(*) Figures presented solely and exclusively for comparison purposes.

Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of recognised income and expense for the year ended 31 December 2017.

## CONSOLIDATED STATEMENTS OF TOTAL CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

| | Equity attributable to the parent | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital and reserves | | | | | | | | | | | |
| | | Share premium and reserves | | | | | | | | | | |
| | Capital | Share premium | Reserves | Prior years' profit and loss | Other equity holder contributions | Interim dividend | (Parent shares and equity holdings) | Profit/ (loss) for the year | Other equity instruments | Other comprehensive | Non-controlling interests | Total Equity |
| **Closing balance at 31 December 2015 (*)** | **250,847** | **-** | **90,133** | **-** | **-** | **(83,420)** | **(4,449)** | **173,463** | **5,358** | **1,150** | **-** | **433,082** |
| Adjustments for changes in accounting criteria | - | - | - | - | - | - | - | - | - | - | - | - |
| Adjustments for errors | - | - | - | - | - | - | - | - | - | - | - | - |
| **Adjusted opening balance** | **250,847** | **-** | **90,133** | **-** | **-** | **(83,420)** | **(4,449)** | **173,463** | **5,358** | **1,150** | **-** | **433,082** |
| **Total recognised income and expense** | **-** | **-** | **(1,801)** | **-** | **-** | **-** | **-** | **160,260** | **-** | **210** | **45** | **158,714** |
| **Transactions with shareholders** | **-** | **-** | **-** | **(77,580)** | **-** | **(83,096)** | **(10,478)** | **-** | **-** | **-** | **213** | **(170,941)** |
| Capital increases/(decreases) | - | - | - | - | - | - | - | - | - | - | - | - |
| Conversion of financial liabilities into equity | - | - | - | - | - | - | - | - | - | - | - | - |
| Distribution of dividends | - | - | - | (77,580) | - | (83,096) | - | - | - | - | - | (160,676) |
| Transactions with parent company shares and equity holdings | - | - | - | - | - | - | (10,478) | - | - | - | - | (10,478) |
| Increases / (reductions) in equity due to business combinations | - | - | - | - | - | - | - | - | - | - | 213 | 213 |
| Acquisitions / (disposals) of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - |
| Other transactions with shareholders | - | - | - | - | - | - | - | - | - | - | - | - |
| **Other changes in equity** | **-** | **-** | **12,463** | **77,580** | **-** | **83,420** | **1,614** | **(173,463)** | **1,581** | **-** | **-** | **3,195** |
| Equity-settled share-based payments | - | - | - | - | - | - | 1,614 | - | 1,581 | - | - | 3,195 |
| Transfers between equity items | - | - | 12,463 | 77,580 | - | 83,420 | - | (173,463) | - | - | - | - |
| Other changes | - | - | - | - | - | - | - | - | - | - | - | - |
| **Closing balance at 31 December 2016 (*)** | **250,847** | **-** | **100,795** | **-** | **-** | **(83,096)** | **(13,313)** | **160,260** | **6,939** | **1,360** | **258** | **424,050** |
| Adjustments for changes in accounting criteria | - | - | - | - | - | - | - | - | - | - | - | - |
| Adjustments for errors | - | - | - | - | - | - | - | - | - | - | - | - |
| **Adjusted opening balance** | **250,847** | **-** | **100,795** | **-** | **-** | **(83,096)** | **(13,313)** | **160,260** | **6,939** | **1,360** | **258** | **424,050** |
| **Total recognised income and expense** | **-** | **-** | **774** | **-** | **-** | **-** | **-** | **153,319** | **-** | **819** | **21** | **154,933** |
| **Transactions with shareholders** | **-** | **-** | **-** | **(66,473)** | **-** | **(83,133)** | **(465)** | **-** | **-** | **-** | **-** | **(150,071)** |
| Capital increases/(decreases) | - | - | - | - | - | - | - | - | - | - | - | - |
| Conversion of financial liabilities into equity | - | - | - | - | - | - | - | - | - | - | - | - |
| Distribution of dividends | - | - | - | (66,473) | - | (83,133) | - | - | - | - | - | (149,606) |
| Transactions with parent company shares and equity holdings | - | - | - | - | - | - | (465) | - | - | - | - | (465) |
| Increases / (reductions) in equity due to business combinations | - | - | - | - | - | - | - | - | - | - | - | - |
| Acquisitions / (disposals) of non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - |
| Other transactions with shareholders | - | - | - | - | - | - | - | - | - | - | - | - |
| **Other changes in equity** | **-** | **-** | **10,691** | **66,473** | **-** | **83,096** | **1,352** | **(160,260)** | **162** | **-** | **-** | **1,514** |
| Equity-settled share-based payments | - | - | - | - | - | - | 1,352 | - | 162 | - | - | 1,514 |
| Transfers between equity items | - | - | 10,691 | 66,473 | - | 83,096 | - | (160,260) | - | - | - | - |
| Other changes | - | - | - | - | - | - | - | - | - | - | - | - |
| **Closing balance at 31 December 2017** | **250,847** | **-** | **112,260** | **-** | **-** | **(83,133)** | **(12,426)** | **153,319** | **7,101** | **2,179** | **279** | **430,426** |

(*) Figures presented solely and exclusively for comparison purposes.
Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of total changes in equity for the year ended 31 December 2017.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

| | Notes | Financial year 2017 | Financial year 2016 (*) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | **152,451** | **130,481** |
| **Profit before tax** | | **202,868** | **211,368** |
| **Adjustments to profit (loss)** | | **9,373** | **5,276** |
| Amortisation and depreciation | 5 and 6 | 8,105 | 7,660 |
| Other adjustments to profit/(loss) (net) | | 1,268 | (2,384) |
| **Changes in working capital (1)** | | **(8,789)** | **(33,720)** |
| **Other cash flows from operating activities:** | | **(51,001)** | **(52,443)** |
| Interest paid | | (1,921) | 9,461 |
| Dividends and interest on other equity instruments paid | | - | - |
| Dividends received | | - | - |
| Interest received | | 1,692 | (9,535) |
| Income tax received (paid) | 16 | (49,528) | (51,063) |
| Other amounts received/(paid) in operating activities | | (1,244) | (1,306) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | **39,454** | **43,644** |
| **Payments for investments-** | | **(4,559)** | **(5,415)** |
| Group companies, jointly controlled entities and associates | | - | - |
| Property plant and equipment, intangible assets and investment properties | 5 and 6 | (4,413) | (4,302) |
| Other financial assets | | (146) | (10) |
| Other assets | | - | (1,103) |
| **Proceeds from disposals** | | **44,013** | **49,059** |
| Group companies, jointly controlled entities and associates | | - | - |
| Property plant and equipment, intangible assets and investment properties | 6 | 801 | 203 |
| Other financial assets | | 43,212 | 48,856 |
| Other assets | | - | - |

| | Notes | Financial year 2017 | Financial year 2016 (*) |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | **(140,595)** | **(162,854)** |
| Proceeds from and payments for equity instruments | | **(465)** | **(10,478)** |
| Issue of equity instruments | | - | - |
| Redemption of equity instruments | | - | - |
| Acquisition of parent company equity instruments | | (465) | (10,478) |
| Disposal of parent company equity instruments | | - | - |
| Acquisitions of non-controlling interests | | - | - |
| Disposals of non-controlling interests | | - | - |
| Grants, donations and bequests received | | - | - |
| Proceeds from and payments for financial liabilities | | - | - |
| Issue | | - | - |
| Redemptions and repayment | | - | - |
| Dividends and interest on other equity instruments paid | | **(140,130)** | **(152,376)** |
| Gross dividend | 11 | (149,606) | (160,676) |
| Withholding | 16 | 9,476 | 8,300 |
| Other cash flows from financing activities | | **-** | **-** |
| Interest paid | | - | - |
| Other amounts received/(paid) in financing activities | | - | - |
| **EFFECT OF EXCHANGE RATES FLUCTUATIONS** | | **-** | **-** |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **51,310** | **11,271** |
| Cash and cash equivalents at beginning of year | | 224,429 | 213,158 |
| Cash and cash equivalents at end of year | | 275,739 | 224,429 |
| **COMPONENTS OF CASH AND CASH EQUIVALENTS AT YEAR END** | | | |
| Cash in hand and at banks | 9 | 138,492 | 61,400 |
| Other financial assets | 9 | 137,247 | 163,029 |
| *Less: Bank overdrafts repayable on demand* | | | |
| **TOTAL CASH AND CASH EQUIVALENTS AT YEAR END** | | **275,739** | **224,429** |

(*) Figures presented solely and exclusively for comparison purposes.

Notes 1 to 26 and Appendix I are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

(1) In order to more clearly present the changes in working capital, the cash flows generated by other current financial assets and liabilities (see Note 7) are included in the statement of cash flow at their net value.

**Notes to the consolidated financial statements for the year ended 31 December 2017**

# 1. Background, basis of presentation of the consolidated financial statements and other information

## a) Background

Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. (hereinafter the "Company", "Bolsas y Mercados Españoles" or "BME") was incorporated by public deed dated 15 February 2002, through the performance of the preliminary agreement signed between the shareholders of the companies administrating the markets and systems for the trading, registration, settlement and clearing of securities (the "Affected Companies", namely Bolsas y Mercados Españoles Consulting, S.A.; Sociedad Unipersonal (then called FC&M, Sociedad Rectora del Mercado de Futuros y Opciones sobre Cítricos, S.A.); MEFF AIAF SENAF Holding de Mercados Financieros, S.A.; Servicio de Compensación y Liquidación de Valores, S.A.; Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.; Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A.; Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.; and Sociedad Rectora de la Bolsa de Valores de Valencia, S.A.).

On 7 May 2002, the Board of Directors of Bolsas y Mercados Españoles resolved to carry out a wide-reaching share swap for all the shares of the Affected Companies. In 2003, with effect from 1 January of that year, Banco de España acquired 9.78% of the Group's share capital in a rights issue in which the preferential subscription rights of the remaining shareholders were waived. Banco de España was accordingly the sole subscriber of the non-monetary capital increase carried out by Bolsas y Mercados Españoles. The in-kind consideration contributed by Banco de España for this ownership interest consisted of 100% of the 4,541 shares it held at that time in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (the Systems Company). As a consequence of this transaction, the Bolsas y Mercados Españoles Group (the "Group"), of which Bolsas y Mercados Españoles is the parent company, started to perform not only the registration, settlement and clearing of securities already carried out by the Affected Companies, but also the clearing, settlement and registration activities which up until that time had been carried out by the Central de Anotaciones del Mercado de Deuda Pública en Anotaciones del Banco de España (the Banco de España public debt book-entry trading system, or "CADE"). This transaction also gave rise to the recognition by the Group of goodwill, specifically attributed to the functions formerly tasked to CADE and supported by future revenue from this activity, as well as operating and business synergies deriving from the consolidation of the settlement platforms (Notes 2-b and 5).

On 14 July 2006, the shares of Bolsas y Mercados Españoles were admitted for trading on the stock exchanges of Madrid, Barcelona, Valencia and Bilbao, and all the outstanding shares of Bolsas y Mercados Españoles were included in the Spanish electronic trading platform (Sistema de Interconexión Bursátil).

The reform of the Spanish securities clearing, settlement and registration system (instigated by Law 32/2011, of 4 October, and culminating in the first final provision of Law 11/2015, of 18 June, with the aim of standardising Spanish post-trading activities in line with those of our main European partners) involves three main changes: a) a move to a holdings-based register system for equity securities; b) the introduction of a central counterparty (CCP) and c) the bringing together the current settlement systems, CADE and SCLV, into a single platform.

In this regard, on 27 April 2016, Phase I of the Reform of the Spanish securities clearing, settlement registration system commenced with the migration of the equities settlement platform from the old system (SCLV) to the new (ARCO) and the commencement of the clearing by BME Clearing of equity spot trades originating from the Spanish electronic trading platform.

On 18 September 2017, the second phase of Reform was completed with the migration of the Eurosystem to the Target2 Securities (T2S) settlement platform, thus permitting the standardisation of the post-trade systems of the Spanish market with those of the other European markets. This step constitutes the second and last phase of the Reform of the Spanish clearing, settlement and registration system, which also includes the change of the fixed income model, which is now settled together with equity securities, using a single system, ARCO.

The corporate purpose of Bolsas y Mercados Españoles is active ownership of the share capital of the companies that manage the securities registration, settlement and clearing systems, central counterparties, secondary markets, and multilateral trading systems; and responsibility for the unity of action, decision-making and strategic co-ordination of trading, registration, clearing and settlement systems, central counterparties, secondary markets and multilateral trading systems. To this end, it may implement operational, functional and structural improvements, including raising its international profile. Without prejudice to the above, the Affected Companies shall maintain their own identity, operating capacity, governing bodies and managerial and general staff.

The registered offices of Bolsas y Mercados Españoles are in Madrid at Plaza de la Lealtad, 1.

Appendix I provides significant information on the companies composing the Group.

**b) Bases of presentation of the consolidated financial statements**

The Group's consolidated financial statements for 2017 were authorised for issue by the Company's Directors (at the Board Meeting of 27 February 2018) in accordance with the regulatory framework applicable to the Group, which is established in the Spanish Commercial Code and other corporate law, and in the International Financial Reporting Standards as endorsed by the European Union, in due consideration of Circular 9/2008 issued by the Spanish Securities Market Regulator (Comisión Nacional del Mercado de Valores, hereinafter "CNMV") on 10 December, amended by CNMV Circular 5/2016, of 27 July, and applying the consolidation, accounting and measurement principles, policies and bases set forth in Note 2, to present fairly the Group's consolidated equity and financial position at 31 December 2017, and its financial performance and changes in its consolidated equity and cash flows in the year then ended. These consolidated financial statements, which were prepared from the accounting records of the Company and of each of the entities composing the Group, include the restatements and reclassifications required to standardise the accounting policies and measurement bases applied across the Group.

CNMV Circular 5/2016, of 27 July, amends CNMV Circular 9/2008, of 10 December to adapt the accounting and financial system of Spanish market infrastructures to specific European regulatory requirements and the new structure defined by the previously mentioned reform of the securities settlement, clearing and registration system. The Circular includes the following amendments:

- Specific accounting principles are adapted to the new securities settlement, clearing and registration system.

- Certain financial statement models are updated to include a greater desegregation of items or to adapt them to the new operations to be carried out by entities.

The consolidated balance sheet, income statement, statement of recognised income and expense, statement of total changes in equity, and statement of cash flows for the financial years 2017 and 2016 presented in these consolidated financial statements were prepared in accordance with the formats provided in Appendix IV of Circular 5/2016, of 27 July, to the extent that this Appendix includes templates for the balance sheet, income statement, statement of recognised income and expense, statement of total changes in equity, and statement of cash flows applicable to groups of companies issuing consolidated annual financial statements in accordance with IFRSs adopted by the European Union and foresees that for the remaining financial statements, the presentation templates are adjusted to the formats or provisions which, in this connection, are stipulated by the regulatory framework applicable to the Group. Accordingly, the presentation formats of the aforementioned financial statements contained herein do not significantly differ from those contained in CNMV Circular 5/2015 of 28 October, amending CNMV Circular 1/2008 of 30 January, as a result of which a new "Variable direct cost of operations" item is included below the revenue items in the consolidated income statement, from which it is then subtracted, resulting in a "Net revenues" subtotal, which better reflects the operations of the market infrastructures. Several less important changes are also included, and additional disclosures for some headings show items provided for in Circular 9/2008, amended by Circulars 6/2011 and 5/2016, to improve clarity.

The 2017 consolidated financial statements have yet to be approved by BME's shareholders in a general meeting. However, the Company's directors believe that they will be approved without modification. The consolidated financial statements for 2016 were authorised for issue by the Company's Directors (at the Board meeting on 27 February 2017) and approved by the General Shareholders' Meeting held on 27 April 2017.

Unless indicated otherwise, the consolidated financial statements are presented in thousands of euros (€).

All the 2016 figures in these notes to the consolidated financial statements are presented solely and exclusively for comparison purposes.

All accounting principles and measurement bases with a significant effect on the consolidated financial statements were applied.

*i. Adaptation to new standards and interpretations issued*

***Standards and interpretations effective in this financial year***

The following Standards and Interpretations adopted by the EU became effective in 2017:

- IAS 12 (Amendment) "Amendment to recognition of deferred tax assets": Clarifies that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period and this is not affected by the possible future changes in the carrying amount or the expected standard on the recovery of the asset.

- IAS 7 (Amendment) "Disclosure Initiative": The main objective is to improve the presentation and detail in the financial statements. Therefore, there are some clarifications on disclosure requirements concerning cash flow.

These amendments have not had a material impact on the consolidated financial statements.

***Standards, amendments and interpretations that are not yet in force, but may be adopted ahead of financial years beginning on or after 1 January 2017***

At the date on which these consolidated financial statements were drawn up, the IASB and the IFRS Interpretations Committee had published the following standards, amendments and interpretations that are mandatory as of the financial year 2018, and which the Group did not adopt ahead of schedule.

- *IFRS 9 "Financial instruments"*. Addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was published in July 2014, and its replaces the guidance of IAS 39 on classifying and measuring financial instruments. IFRS 9 maintains but simplifies the mixed valuation model and establishes three main categories of valuation for financial assets: amortised cost, at fair value through profit or loss, and at fair value through other comprehensive income. The basis for classification depends on the business model of the entity and the characteristics of the contractual cash flows of the financial asset. Equity instruments are required to be measured at fair value through profit or loss with the initial irrevocable option of presenting changes in fair value in other non-recyclable comprehensive income, provided that the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are recognised in the income statement. There has been no change in the classification and measurement of financial liabilities, except for the recognition of changes in the entity's own credit risk in other comprehensive income for liabilities designated as at fair value with changes in profit or loss. Under IFRS 9 there is a new impairment loss model, the expected credit loss model, which replaces the incurred loss model set forth in IAS 39 and which will allow losses to be recognised before, as was being done under IAS 39. IFRS 9 relaxes the requirements for effectiveness of hedges. Under IFRS 39, hedge must be highly effective both prospectively and retrospectively. IFRS 9 replaces this line and requires an economic relationship between the hedged item and the hedging instrument and that the hedged ratio be the same as that which the entity in fact uses for its risk management. Documentation continues to be required, but is different than the documentation prepared under IAS 39. Lastly, ample information is required, including a reconciliation of the opening and closing amounts of the provision for expected credit losses, assumptions and data, and a reconciliation in the transition between the categories of the original classification under IAS 39 and the new classification categories under IFRS 9.

  IFRS 9 is effective for annual periods beginning on or after 1 January 2018, although early adoption is permitted. IFRS 9 will be applied prospectively but will not require the restatement of comparative figures. If an entity elects to apply IFRS 9 early, it must apply all requirements at the same time. Entities that would have applied the standard before 1 February 2015 had the option of phasing it in. The Group did not apply this option.

- *IFRS 15 "Revenue from Contracts with Customers"*: In May 2014, the IASB and the FASB jointly issued a convergent rule with regard to recognising revenue from contracts with customers. Under this rule, revenue is recognised when a customer obtains control of the good or service sold, that is, when the customer has the capacity to both direct the use of the good or service and to obtain the benefits from it. This IFRS includes new guidance for determining if revenue should be recognised over time or at a given moment. IFRS 15 requires broad information both on recognised revenue and on revenue expected to be recognised in the future with regard to existing contracts. It also requires quantitative and qualitative information on significant judgements made by management in determining the revenue that is recognised as well as on the changes in these judgements. Subsequently, in April 2016 the IASB published amendments to this standard, which, although these do not change the fundamental principles they do clarify some of the most complex aspects.

  IFRS 15 is effective for annual periods beginning on or after 1 January 2018, although early adoption is permitted.

- *IFRS 15 [Amendment] "Clarification of IFRS 15 "Revenue from Contracts with Customers"*: The IASB has amended IFRS 15, with the aim of:

  - Clarifying the guidelines for identifying performance obligations, accounting for intellectual property licences, and the principal versus agent considerations (presentation of ordinary net revenue versus gross).
  - Include new and amended illustrative examples for each one of the areas of the guidelines.
  - Provide additional practical resources relating to the transition to the new standard

  These amendments do not change the fundamental principles of IFRS 15 but they do clarify some of the most complex aspects of this standard. The changes could affect a large variety of entities and how Management assesses the impact of IFRS 15 should be taken into consideration.

This amendment is effective for annual periods beginning on or after 1 January 2018.

- *IFRS 16 "Leases":* In January 2016 the IASB published a new standard on leases derogating IAS 17 "Leases", as part of a joint project with the FASB. The IASB and the FASB reached the same conclusions in many areas relating to accounting for lease contracts, including the definition of a lease, the general requirement to recognise leases on the balance sheet, and the measurement of lease liabilities. The IASB and the FASB also agreed not to make any major changes to the accounting by the lessor, and to maintain requirements similar to those stipulated in the previous standard. However, there are still discrepancies between the IASB and the FASB in relation to the recognition and presentation of expenditure in connection with leases on the income statement and the statement of cash flows.

  This standard will be applicable to annual periods beginning on or after 1 January 2019. It may be adopted early, but only if IFRS 15 "Revenue from Contracts with Customers" is applied simultaneously.

The application of these amendments is not expected to have a material impact on the Group.

***Standards, amendments and interpretations the effective date of which is subsequent to the date of these consolidated financial statements, or which have yet to be adopted by the European Union***

At the date of preparation of these consolidated financial statements, the most significant standards and interpretations that had been published by the IASB but had not become effective, either because their effective date was subsequent to the reporting date or because they had yet to be adopted by the European Union, are as follows:

- *IFRS 10 (Amendment) and IAS 28 (Amendment) "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*: These amendments clarify the accounting treatment of sales and contributions of assets between an investor and its associate or joint venture, which will depend on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". The investor will recognize the full gain or loss when the non-monetary assets constitute a "business". If the assets do not comply with the definition of a business, the investor recognises the gain or loss to the extent of other investors' interests. The amendments will apply only when an investor sells or contributes assets to its associate or joint venture.

  Originally, these amendments to IFRS 10 and IAS 28 were prospective and effective for annual periods beginning on or after 1 January 2016. However, at the end of 2015 the IASB decided to defer their date of application (although it did not set any specific new date), as it is planning to undertake a more extensive review that could lead to the simplification of accounting for these transactions and other aspects of accounting for associates and joint ventures.

- *IFRS 2 (Amendment) "Classification and measurement of share-based payment transactions":* The amendment to IFRS 2, which was implemented through the IFRS Interpretation Committee, clarifies how to account for certain types of share-based payment transactions. It provides the accounting requirements for the effect of vesting and non-vesting conditions in the measurement of cash-settled share-based payments; share-based payments settled net of tax withholdings; and a modification of share-based payment transactions from cash-settled to equity-settled.

  The amendment is effective for annual periods beginning on or after 1 January 2018, although early adoption is permitted.

- *Annual improvements to IFRS. 2014 - 2016 Cycle:* Amendments affect IFRS 1, IFRS 12 and IAS 28 and will apply to annual periods beginning on or after 1 January 2018 (IFRS 1 and IAS 28), and 1 January 2017 (IRFS 12). All are subject to adoption by the EU. The main amendments relate to:

  - IFRS 1, "First-time Adoption of International Financial Reporting Standards": Deletion of short-term exemptions for first time adopters.

  - IFRS 12, "Disclosure of interests in other entities": Clarification on the scope of the standard.

  - IAS 28 "Investments in Associates and Joint Ventures"; Fair value measurement of investments in associates and joint ventures.

- *IAS 40 (Amendment) "Transfers of investment property":* This amendment clarifies that an entity shall transfer a property to, or from, investment property when there is evidence of a change in use. A change of use occurs if property meets the definition of investment property. This change must be backed by evidence. The IASB confirms that a change in the intentions for use of a property by itself is not sufficient to support a transfer.

  The amendment will be effective for annual periods beginning on or after 1 January 2018, although early adoption is permitted.

- *IFRIC 22 "Foreign currency transactions and advanced consideration"*: IFRIC 22 clarifies how to determine the transaction date for the application of the standard on transactions in foreign currencies, IAS 21. The interpretation applies when an entity has paid or received advanced consideration in a foreign currency. The transaction date determines the exchange rate to use on initial recognition of the related asset, expense or income. The issue arises because IAS 21 requires entities to use the exchange rate at the "transaction date", which is defined as the date on which the transaction first qualifies for recognition. Therefore, the question is whether the transaction date is the date on which the asset, expense or income is initially recognised or the first date on which the advanced consideration is paid or received, resulting in an advance payment or deferred income. The interpretation provides guidance for when a single payment/receipt is made and when there are multiple payments/receipts. The purpose of the guidance is to reduce divergent practices.

The interpretation will be effective for annual periods beginning on or after 1 January 2018, although early adoption is permitted.

- *IFRS 17 "Insurance contracts"*: In May 2017, the IASB completed its long-term project to develop an accounting standard for insurance contracts and published IFRS 17, "Insurance contracts". IFRS 17 replaces IFRS 4 "Insurance contracts", which currently permits a wide variety of accounting practices. IFRS 17 will fundamentally change the accounting for all entities issuing insurance contracts and investment contracts with discretionary participation features.

  This standard will be applicable to annual periods beginning on or after 1 January 2021 and may be adopted earlier, if IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial instruments" are also applied simultaneously. IFRS 17 is pending approval by the European Union.

- *IFRIC 23, "Uncertainty over income tax treatments":* The interpretation provides requirements that are added to those of IAS 12 "Income taxes", detailing how to reflect the effects of uncertainty in the accounting of income taxes. This interpretation clarifies how to apply the recognition and measuring requirements of IAS 12 when there is uncertainty concerning their accounting treatment.

  The interpretation will be effective for annual periods beginning on or after 1 January 2019, although early adoption is permitted.

- *IFRS 9 (Amendment) "Characteristics of advance payment with negative offsetting"*: The terms of instruments with advance payment with negative offsetting characteristics, where the lender may be obliged to accept an advanced amount substantially lower than the unpaid amounts of principal and interest, were incompatible with the idea of "fair additional compensation" due to the early termination of contract according to IFRS 9. Subsequently, these instruments would not have any contractual cash flows which are only capital and interest payments, which would be accounted for at fair value with changes reflected in the income statement. The amendment to IFRS 9 clarifies that a party can pay or receive fair compensation when a contract is terminated early, which would allow these instruments to be measured at amortised cost or fair value with changes in other comprehensive income.

  The amendment will be effective for annual periods beginning on or after 1 January 2019, although early adoption is permitted.

- *IAS 28 (Amendment) "Long term interests in associates and joint ventures"*: This amendment to the limited scope clarifies that long-term interests in associates and joint ventures which, in substance, form part of the net investment in the associate or in the joint-venture, but to which the equity method is not applied, are accounted for according to the requirements set forth in IFRS 9 "Financial Instruments". Similarly, the IAS published an example which illustrates how the requirements of IAS 28 and IFRS 9 should be applied with regard to save long-term interests.

  The amendment will be effective for annual periods beginning on or after 1 January 2019, although early adoption is permitted.

- *Annual improvements to IFRS. 2015 - 2017 Cycle:* The modifications affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and will apply to annual periods beginning on or after 1 January 2019, subject to their adoption by the EU. The main amendments relate to:

  - IFRS 3 "Business Combinations": An interest previously held in a joint-venture is remeasured when control of the business is obtained.

  - IFRS 11 "Joint Arrangements": An interest previously held in a joint-venture is not remeasured when joint control of the business is obtained.

  - IAS 12 "Income taxes": All tax effects arising from the payment of dividends are accounted for in the same manner.

  - IAS 23 "Borrowing costs": Any borrowing directly attributable to the construction or production of a qualifying asset forms part of the general borrowing when the asset is ready for use all sale.

As at the reporting date the Group is analysing the possible impacts deriving from these new standards.

**c) Use of estimates**

The Group's consolidated profits and the determination of its equity are determined by the accounting policies and rules, measurement bases and estimates applied by management in preparing the consolidated financial statements. The main accounting policies and rules and measurement bases used are disclosed in Note 2.

These consolidated financial statements rely occasionally on estimates made by the Senior Management of the Group and of the consolidated entities in order to quantify certain assets, liabilities, revenue, expenses and commitments recognised. These estimates basically relate to the following:

The assessment of potential impairment losses on certain assets (Notes 2, 5, 6, 7, 8, 9, 10 and 16).

- Assumptions used in the actuarial calculation of provisions for long-term employee benefits (Notes 2-k and 13).

- The useful life of property, plant and equipment and of intangible assets (Notes 2-c, 2-d, 5 and 6).

- The assessment of potential impairment of goodwill (Notes 2-b and 5).

- The fair value of certain financial instruments (Notes 2-e and 7).

- The calculation of provisions (Notes 2-i, 2-j, 2-k, 12 and 13).

- Assumptions used to determine share-based payment arrangements (Notes 2-m and 19-c).

- Recognition of deferred tax assets (Notes 2-p and 16).

These estimates were drawn up on the basis of the best information available at 31 December 2017. However, it is feasible that future events may require them to be modified (upwards or downwards) in subsequent years. Under IAS 8, the effect of a change in accounting estimates is recognised prospectively by including it in profit or loss in the period of the change.

**d) Environmental impact**

In view of the business activities carried on by the Group companies, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its consolidated equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

**e) Events after the reporting period**

At the date of authorisation for issue of these consolidated financial statements, no significant events have occurred that have not been disclosed herein.

## 2. Accounting policies and measurement bases.

The accounting policies and rules and measurement bases applied in preparing these consolidated financial statements were as follows:

**a) Consolidation principles**

*i. Subsidiaries*

"Subsidiaries" are defined as entities over whose management the Company has the ability to exercise control. The Group is exposed to, or has the right to receive, variable returns from its involvement with the investee and it has the ability to use its power over the investee to influence the amount of the Group's returns. Subsidiaries are consolidated as from the date their control is transferred to the Group, and they are excluded from consolidation as from the date the Group ceases to exercise control.

The share of non-controlling interests of subsidiaries in the Group's equity is presented in "Non-controlling interests" in the accompanying consolidated balance sheet and in "Profit/(loss) attributable to non-controlling interests" in the accompanying consolidated income statement.

The financial statements of subsidiaries are fully consolidated with those of the Company. Therefore, all material balances and results of transactions carried out between consolidated companies are eliminated on consolidation. Where necessary, adjustments are made to the subsidiaries' financial statements to adapt the accounting policies used to those of the Group.

The results of subsidiaries acquired during the year are included in the consolidated income statement only from the date of acquisition to the year-end. Similarly, the results of subsidiaries disposed of during the year are included on the consolidated income statement from the beginning of the year to the date of disposal.

Appendix I provides a list of subsidiaries, along with key information (corporate name, registered address, and ownership interest held by the parent).

All subsidiaries are consolidated using full consolidation, except for the 50% shareholding Regis-TR, S.A., which is accounted for using the equity method (see section below).

As shown in section v) of this note, on 25 February 2016, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. acquired a 50% stake in Infobolsa, S.A. (now Bolsas y Mercados Españoles Inntech, S.A.U. - see section v of the present note), from Deutsche Börse A.G. for €8,200 thousand, taking its holding to 100%.

*ii. Joint arrangements*

“Joint arrangements” are investments in companies that are not subsidiaries, but which are jointly controlled by two or more unrelated companies. Joint control is evidenced by a contractual arrangement whereby two or more entities (“venturers”) invest in entities (jointly-controlled entities) or undertake activities or hold assets such that any strategic financial or operating decision affecting the joint venture requires the unanimous agreement of all the venturers.

The Group applies IFRS 11 “Joint Arrangements” to all joint arrangements. Investments in joint arrangements under IFRS 11 are classified as joint operations or joint ventures, depending on each investor’s contractual rights and obligations. The Group has evaluated the nature of its joint arrangements and determined that they are joint ventures. The Group accounts for its joint ventures using the equity method, i.e., at the Group’s share of the net assets of the joint venture, after taking into account the dividends received and other equity eliminations. Gains and losses resulting from transactions are eliminated to the extent of the Group’s interest in the joint venture.

The value of investments in joint ventures is recognised in “Investments accounted for using the equity method” in the consolidated balance sheet. At 31 December 2017 and 2016, all of the balance for this item relates to evaluation of the investment in Regis-TR, S.A.

Information on joint ventures is disclosed in Appendix I to these notes to the consolidated financial statements.

*iii. Associates*

Associates are entities over which the Group has significant influence and that are neither a subsidiary nor a jointly controlled entity. Usually, this influence is evidenced by a direct or indirect holding of 20% or more of the investee’s voting rights.

In the consolidated financial statements, the Group accounts for its investments in associates using the equity method, i.e. at the Group’s share of the net assets of the associate, after taking into account the dividends received and other equity eliminations. Gains and losses resulting from transactions with an associate are eliminated to the extent of the Group’s interest in the associate.

At 31 December 2017 and 2016, the Group did not have any investments in associates.

*iv. Changes in the scope of consolidation*

***2017***

As a result of the incorporation of BME Regulatory Services, S.A.U. and BME Soporte Local Colombia, S.A.S. (see section v of this note), these companies have been included within the scope of consolidation. These companies are fully consolidated within the consolidated financial statements from their date of incorporation.

Similarly, as a result of the dissolution of Centro de Cálculo de Bolsa, S.A.U. (see section v of this note), this company have been removed from the scope of consolidation.

***2016***

The changes in the scope of consolidation occurred during 2016 after control was taken of Infobolsa, S.A.U. (now Bolsas y Mercados Españoles Inntech, S.A.U. –see section v of this note). This operation resulted in the change to the consolidation method of the investee company, with this changing from the “equity method” (2015) to the “full consolidation method” as from the takeover date detailed in the following section.

*v. Acquisitions, disposals and other corporate transactions*

The following changes took place in the Group's scope of consolidation in 2017:

- ***Incorporation of BME Soporte Local Colombia, S.A.S.:***

  "BME Soporte Local Colombia, S.A.S." was incorporated on 5 January 2017 as a simplified joint stock company, incorporated in accordance with the laws of the Republic of Colombia. The main registered office of the company is in the city of Bogotá, Distrito Capital (Colombia). The subscribed capital is 150,000 thousand Colombian pesos (the equivalent of €50 thousand as at 30 June 2017), divided among 150 million ordinary shares with a par value of 1 Colombian peso each, fully subscribed and paid-in by Infobolsa, S.A.U. (now Bolsas y Mercados Españoles Inntech, S.A.U.).

  The company was incorporated for an indefinite period and its corporate purpose is to provide local support to the activities and businesses of the BME Group, among these being the provision of consultancy services in the use of information technology, the provision of services encompassing the study, development, analysis, programming, marketing, licensing, support and maintenance of computer software and electronic equipment, the registration of design data, the establishment, creation, support and operation of procedures, programs, systems, IT, electronic and communications services or networks of any nature with the aim of developing financial activities or activities relating to securities markets.

- ***Dissolution of Centro de Cálculo de Bolsa, S.A.U.:***

  On 1 March 2017, the Sole Shareholder of Sociedad Rectora de la Bolsa de Valores de Barcelona S.A.U. adopted the resolution for the dissolution and simultaneous liquidation of the investee company Centro de Cálculo de Bolsa, S.A.U. Furthermore, on the above date other resolutions were adopted such as the appointment of the sole Liquidator for said Company, approval of the final liquidation balance sheet, the report on liquidation operations and the liquidation fee for this company. The liquidation fee was satisfied by the sole shareholder on 1 March 2017, the latter assuming any rights and obligations deriving from the liquidation process.

  Similarly, on the aforementioned date the corresponding public deed of dissolution, liquidation and termination of Centro de Cálculo de Bolsa, S.A.U., was executed, with this deed being entered in the Barcelona Companies Register on 15 March 2017.

- ***Incorporation of BME Regulatory Services, S.A.U.:***

  "BME Regulatory Services, S.A.U." was incorporated on 12 May 2017 as a limited company. The share capital was set at €60 thousand represented by 60,000 registered shares with a par value of one Euro each, which were fully subscribed and paid-in by Infobolsa, S.A.U. (now Bolsas y Mercados Españoles Inntech, S.A.U.).

  The company was incorporated for an indefinite period and its corporate purpose is:

  - To receive, process, prepare, handle, disseminate, store, market and distribute any type of financial, economic, stock market, monetary and commercial information of any type by electronic or other means.

  - To prepare, develop and market programs, computer materials, systems or other elements designed to capture, handle, disseminate and use all kinds of financial, economic, stock market, monetary and commercial information.

  - To receive, process, develop, handle, disseminate store, market and distribute information on issuing entities, financial instruments, operations relating to the foregoing, and their intervening parties, as well as their communication to any natural, legal or institutional persons or public and private authorities, both national or international.

  - Perform consultancy and advisory activities and provide services relating to the procedures, developments, management and compliance of legal obligations in respect of the information referred to in the above-mentioned activities.

- ***Merger by absorption of MEFF Euroservices S.A.U. (Absorbed Company) by MEFF Tecnología y Servicios, S.A.U. (Absorbing Company):***

  The respective Governing Bodies of the above-mentioned companies, unanimously formed the merger project of the above mentioned entities on 29 and 30 March 2017, respectively, through the absorption of the company "MEFF Euroservices, S.A.U." (Absorbed Company) by the company "MEFF Tecnología y Servicios, S.A.U." (Absorbing Company) and, as a result of the merger by absorption this has resulted in the extinction by means of dissolution without liquidation of the Absorbed Company, with the equity of the latter transferring en bloc to the Absorbing Company.

The Single Shareholder (Bolsas y Mercados Españoles) of these companies by way of resolutions on 25 April 2017, approved the aforementioned merger which was notarised on 29th of May 2017, and which was filed with the Barcelona Companies Register on 10 July 2017. The operations of the Absorbed Company are considered for accounting purposes to have been performed by the Absorbing Company as of 1 January 2017.

The referred to merger operation is subject to the special regime for mergers, spin-offs, asset contributions, exchanges of assets and change of registered office of a European Company or a European Cooperative Company of a member State to another of the European Union regulated by Chapter VII of Title VII of Law 27/2014, of 27 December on Income Tax.

- ***Merger by absorption of the companies Bolsas y Mercados Españoles Innova S.A.U. and Visual Trader Systems, S.L.U. (Absorbed Companies) by Infobolsa, S.A.U. (Absorbing Company):***

On 10 may 2017 the respective Governing Bodies of the above-mentioned companies, formed the merger project of the companies “Bolsas y Mercados Españoles Innova S.A.U.” and “Visual Trader Systems, S.L.U.” (Absorbed Companies) by the company “Infobolsa, S.A.U.” (Absorbing Company ) and, as a result of the merger by absorption this has resulted in the extinction by means of dissolution without liquidation of the Absorbed Companies, with the equity of the latter transferring en bloc to the Absorbing Company.

The above-mentioned merger was approved in the resolutions adopted by the Single Shareholder (Bolsas y Mercados Españoles) of the aforementioned companies, all dated 7 June 2017. Furthermore, it was approved to change of the name of “Infobolsa S.A.U.” (Absorbing Company) to “Bolsas y Mercados Españoles Inntech, S.A.U.”. On 10 July the above-mentioned merger was notarised and filed with the Madrid Companies Register on 21 July 2017. For accounting purposes, the operations of the Absorbed Companies are considered to have been performed by the Absorbing Company as of 1 January 2017.

The Absorbed Companies and the Absorbing Company are wholly owned by the same shareholder (Bolsas y Mercados Españoles).

The referred to merger operation is subject to the special regime for mergers, spin-offs, asset contributions, exchanges of assets and change of registered office of a European Company or a European Cooperative Company of a member State to another of the European Union regulated by Chapter VII of Title VII of Law 27/2014, of 27 December on Income Tax.

The following corporate operation was carried out within the Group in 2016:

- ***Acquisition of 50% of share capital of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U., after the above-mentioned merger):***

On 25 February 2016, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. acquired 50% of the share capital of Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) from Deutsche Börse A.G. for €8,200 thousand, taking its holding to 100%. The Company also now indirectly owns through Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) ownership of 81% of the share capital of Open Finance, S.L., 100% of Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A. and 100% de Infobolsa Deutschland, GmbH, all of which are directly owned by Infobolsa, S.A.U. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.)

On 25 February 2016, it took effective control of the acquired entity, the date agreed with Deutsche Börse. A.G., although the business combination is recognised in the acquired entity’s financial statements from 29 February 2016, showing no significant differences with respect to the financial statements at the date control was taken.

A breakdown of the fair value of the assets and liabilities of the entity acquired in the business combination at 29 February 2016, which does not differ materially from its carrying amount, is as follows:

[Figures in thousands of euros]

| Assets (*) | Fair value | Liabilities (*) | Fair value |
|---|---|---|---|
| Intangible assets | 3,186 | Non-current provisions | 43 |
| Tangible assets | 246 | Trade and other payables | 2,496 |
| Non-current investments | 60 | Current accruals | 539 |
| Deferred tax assets | 94 | Non-controlling interests | 213 |
| Trade and other receivables | 3,813 | | |
| Current accruals | 238 | | |
| Cash and cash equivalents | 7,097 | | |
| **Total assets** | **14,734** | **Total liabilities** | **3,291** |

(*) These proforma financial statements of Infobolsa, S.A. – Sociedad Unipersonal (Now Bolsas y Mercados Españoles Inntech, S.A.U.) and its subsidiaries at 29 February 2016, the separate financial statements of which, in addition those of Open Finance, S.L., were audited on 31 December 2015 (limited review in the case of Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A. and Infobolsa Deutschland, GmbH).

| Breakdown of first-time consolidation difference | Thousands of euros |
|---|---|
| Consideration for the acquisition of 50% of the share capital of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) | 8,200 |
| Fair value of 50% of the share capital of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) and subsidiaries held prior to the takeover of the business. | 8,200 |
| Equity of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) and its subsidiaries at 29th of February 2016 | 11,443 |
| **Goodwill on consolidation (see Note 5)** | **4,957** |

In this exercise, no adjustments in the carrying amounts of the acquired entity were observed, and therefore the difference between the consideration made and the entity's equity is to be considered goodwill.

In the consolidated financial statements of 2016 the classification and measurement of this business combination were recognised according to the Management estimates of the fair value of its assets and liabilities, with the transaction cost allocated to specific assets, liabilities and contingent liabilities ("Purchase Price Allocation" or PPA).

At the transaction date, the fair value of the equity investments held by the purchasing entity in the acquired company immediately before the transaction date totalled €8,200 thousand, and the cost of the shareholding stood at €5,721 thousand at 25 February 2016. In accordance with IFRS 3, the fair value of the shareholding previously held must be recognised at the amount of the acquisition. Therefore, the gain recognised in 2016 as a result of valuing the equity investment held by the purchasing entity in the acquired company at fair value prior to the business combination was €2,479 thousand, shown under "Impairment and gains/(losses) on disposal of financial instruments" on the consolidated income statement (see Note 21).

In accordance with applicable accounting standards, there is an evaluation period of one year before the business combination is classified as definitive. At 31 December 2017 and after the expiry of the period provided for by the regulation, the accounting is considered definitive without any discrepancies with the initial recognition of the business combination.

If the acquisition date had been 1 January 2016, net revenue and after-tax profit contributed to the Group by the business acquired would have totalled €7,831 thousand, and €372 thousand respectively.

Net revenue and after-tax profits of the acquired business from the takeover date included in the consolidated income statement at 31 December 2016 stood at €6,746 thousand and €484 thousand, respectively.

***Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U., after the above-mentioned merger)***

At 31 December 2015, the share capital of Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) consisted of 55,000 shares (all with the same voting and dividend rights) with a par value of €6.01 each, all of them fully subscribed and paid in, with the Group (through Bolsas y Mercados Españoles) and Deutsche Börse AG becoming the shareholders of Infobolsa, S.A. Deutsche Börse, A.G.– Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) with 50% of the shares each. Deutsche Börse, A.G. became a shareholder of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) when it acquired a stake in this company from Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., Sociedad Unipersonal in 2002.

As a result of the acquisition of 50% of the share capital of Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) described in this note, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. now holds 100% of the share capital of that company. The consolidated financial statements detail the consolidation of this company using the full consolidation method from takeover date referred to in section a.i) of this Note.

Additionally, on 25 March 2011, Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) acquired 62% of the shares of the company Open Finance, S.L., for €3,514 thousand. Further, in a supplementary agreement, Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) and all non-controlling shareholders of Open Finance, S.L. signed long-term sale-purchase agreements on the remaining 38% capital of Open Finance, S.L. (cross options). On 1 July 2014, Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) acquired a further 19% of the capital of Open Finance, S.L. for €550 thousand, holding 81% of its registered shares at 31 December 2015. The company is consolidated in the consolidated financial statements from takeover date described in section a.i) of this Note, and the Group's "Non-controlling interests" correspond to the minority shareholders of Open Finance, S.L. (Note 11).

***Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A***

As a result of the acquisition of 50% of the share capital of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) described in the section "Acquisitions, disposals and other corporate transactions" of this note, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. holds 100% of the share capital of Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A, thus becoming a Group company. The company is fully consolidated in the consolidated financial statements from date of control described in section a.i) of this Note.

***Infobolsa Deutschland, GmbH***

As a result of the acquisition of 50% of the share capital of Infobolsa, S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U.) described in the section "Acquisitions, disposals and other corporate transactions" of this note, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. holds 100% of the share capital of Infobolsa Deutschland, GmbH, thus becoming a Group company. The company is fully consolidated in the consolidated financial statements from date of control described in section a.i) of this Note.

***b) Goodwill***

Goodwill represents advance payments made by the acquirer for future economic benefits arising from assets that have not been individually identified and separately recognised. Goodwill is recognised only when the business combination is set up for valuable consideration. Goodwill is not amortised, but is tested periodically for impairment and in the case of impairment the appropriate write-down is made. For the purposes of these consolidated financial statements, goodwill refers both to that arising on consolidation and that originating in Group companies' financial statements (in the latter case, only with reference to Iberclear - Note 5).

For the purpose of analysing impairment, goodwill is assigned to one or more cash-generating units (CGUs) which are expected to benefit from the synergies deriving from the business combinations. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows for the Group that are largely independent of the cash inflows generated from other assets or groups of assets. Each unit or units to which goodwill is assigned:

- Represents the lowest level at which the goodwill is monitored for internal management purposes; and

- Is not larger than an operating segment.

Cash-generating units to which goodwill has been allocated are tested for impairment including the portion of the goodwill allocated to their carrying amount. This test is performed at least annually, and whenever there are indications of impairment.

For the purposes of measuring impairment in the value of a cash-generating unit to which a portion of goodwill has been allocated, the unit's carrying amount, adjusted, as appropriate, for the amount of goodwill attributable to non-controlling interests, unless the non-controlling interests are measured at fair value, is compared with its recoverable amount.

The recoverable amount of a cash-generating unit is the higher of its fair value less costs of disposal and its value in use.

If the carrying amount of the cash-generating unit exceeds its recoverable amount, the Group recognises an impairment loss. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit, and then, if losses remain, to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. If non-controlling interests are measured at fair value, the impairment of goodwill attributable to these non-controlling interests is recognised. In any event, impairment losses relating to goodwill cannot be reversed.

Goodwill impairment losses are recognised in “Impairment losses and gains (losses) on disposal of non-current assets” on the consolidated income statement. In 2017 and 2016, no goodwill impairment losses were recognised given that it was considered unnecessary to do so in light of the results of the tests conducted.

### *c) Other intangible assets*

Intangible assets are identifiable (i.e. separable from other assets) non-monetary assets without physical substance which arise from contractual or other legal rights or which are developed internally by the Group. They are recognised only when their cost can be estimated reliably and when it is probable that the expected future economic benefits will flow to the Group.

Intangible assets are measured initially at acquisition or production cost, and subsequently carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets can have an indefinite useful life (when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group) or a finite useful life (all other cases).

All the Group’s intangible assets have a finite useful life and correspond primarily to computer software. Most of the computer applications are developed internally by the Group (Note 5). These assets are amortised over the best estimate of their useful lives, using methods similar to those used to depreciate property, plant and equipment (Note 2-d).

Expenditures on in-house research initiatives related to software are recognised as an expense for the period in which they are incurred. Expenditure during the development phase of computer software of an internal project is recognised as an intangible asset with a credit to “Own work capitalised” in the consolidated income statement, if, and only if, the entity can demonstrate all of the following:

1. The availability of adequate technical, financial and other resources to complete the development and to use the software.

2. The intention to complete the software and use it.

3. The ability to use the software.

4. The usefulness of the software.

5. Its ability to reliably measure the expenditure attributable to the software during its development.

The annual amortisation charge for software is recognised under “Depreciation and amortisation - Amortisation of intangible assets” in the consolidated income statement.

Maintenance costs of computer systems are recognised in the consolidated income for the period in which they are incurred.

The Group recognises any impairment losses on intangible assets with a balancing entry against “Impairment losses and gains (losses) on disposal of non-current assets” in the consolidated income statement. The criteria for recognising impairment losses on these assets and any recovery of impairment losses recognised in prior years are similar to those used for property, plant and equipment (Note 2-d).

### d) Property, plant and equipment

Property, plant and equipment for own use (which represents all the property, plant and equipment and includes, basically, own assets intended for continued use) is presented at acquisition cost less accumulated depreciation and any impairment losses estimated by comparing the carrying amount of each item with its recoverable amount.

Depreciation is calculated by applying the straight-line method to the acquisition cost of the assets less their residual value. The land on which Group buildings and other constructions are located is deemed to have an indefinite life and, therefore, is not depreciated.

The annual depreciation charge for property, plant and equipment is recognised with a balancing entry in “Depreciation and amortisation - Depreciation of property, plant and equipment” in the consolidated income statement. Generally, the following annual depreciation rates are used (based on the remaining estimated useful lives of the different items taken as an average):

| | % Annual |
|---|---|
| Buildings (except land) | 2% |
| Furniture and installations | 8% - 20% |
| Information technology equipment | 17% - 33% |
| Motor vehicles and other | 5% - 17% |

At the end of each reporting period, management assesses whether there are any internal or external indications that the carrying amount of an item of property, plant and equipment exceeds its recoverable amount, in which case the asset is written down to the recoverable amount and the future depreciation charges are adjusted in proportion to the revised carrying amount and the new remaining useful life, if it needs to be re-estimated.

Similarly, if there is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased, the impairment loss previously recognised is reversed and the future depreciation charges are adjusted accordingly. The increased carrying amount attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

Similarly, the useful lives of all items of property, plant and equipment for own use are reviewed at least at each financial year-end. If expectations differ significantly from previous estimates, the changes are recognised prospectively in the consolidated income statement by adjusting the depreciation charges to reflect the new estimated useful lives.

Upkeep and maintenance expenses on property, plant and equipment for own use are charged to the consolidated income statement in the year in which they are incurred.

Impairment losses, and any reversals therefore, are recognised in "Impairment losses and gains (losses) on disposal of non-current assets" in the consolidated income statement.

No assets of significant amounts had been acquired by the Group under finance lease arrangements at 31 December 2017 or 2016.

**e) Definitions, recognition, classification and measurement of financial instruments**

*i. Definitions*

A "financial instrument" is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

An "equity instrument" is any contract that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A "financial derivative" is a financial instrument whose value changes in response to changes in an observable market variable (such as an interest or exchange rate, financial instrument price or market index, including credit ratings) and that requires only a very small initial investment relative to other financial instruments that have a similar response to changes in market factors, and is generally settled at a future date.

The following are scoped out of the accounting rules for financial instruments:

- Investments in subsidiaries, joint ventures and associates.

- Rights and obligations under employee benefit plans (Note 13).

- Contracts and obligations related to share-based payment transactions (Note 19-c).

*ii. Recognition and classification of financial assets for measurement purposes*

Financial assets are recognised in the Group's balance sheet upon acquisition. Financial assets are initially measured at fair value (which, unless there is evidence to the contrary, is equivalent to cost), plus, in general, attributable transaction costs.

The financial assets held by the Group are classified as follows:

- Loans and receivables: Includes mainly financial assets originated by the Group companies in exchange for supplying cash (including reverse repurchase agreements and deposits given) or in exchange for providing the services that constitute the corporate purpose of each company (this item includes the balances pending next day settlement for futures margin calls and for daily option trades). This item also includes financial assets in which BME Clearing and MEFF Tecnología y Servicios invest the funds received as collateral from participants and members of the electricity market.

- Financial assets held for trading: Includes all fixed income securities (cleared through BME Clearing Repo) equity securities and option trades in which the Group acts as the CCP, which is why the positions held in these financial assets are matched by equivalent positions in financial liabilities (see section v, of this Note).

- Held-to-maturity investments: Includes debt securities with fixed maturity and fixed or determinable payments traded in an active market, which the company has the intention and ability to hold to maturity.

- Available-for-sale financial assets: Includes all financial assets that are not held for trading and that are not classified as held-to-maturity, such as loans or receivables originated by the Group, or at fair value through profit or loss..

*iii. Classification of financial assets for presentation purposes*

In the accompanying consolidated balance sheets, financial assets are classified by maturity; those maturing in 12 months or less are classified as "current" and those maturing in over 12 months as "non-current".

The various classes of financial instruments outlined above are classified in the balance sheet as follows:

- Non-current financial assets: includes mainly listed and unlisted equity securities and long-term guarantees extended in respect of the lease of the buildings where the Bolsas y Mercados Españoles Group companies currently conduct their activities, as well as assets arising from measurement of defined-benefit post-employment obligations due to retirement bonuses.

- Current financial assets: includes mainly debt securities and bank deposits in which any surplus cash held by the Group companies is invested.

- Other current financial assets – realisation of guarantees received from participants: includes mainly reverse repurchase agreements, deposits given, and, where applicable, other cash equivalents in which the Group invests the funds temporarily obtained as a result of transactions involving the margin deposits that members of BME Clearing (Appendix I) and members of the electricity market, where MEFF Tecnología y Servicios (Appendix I) acts as a clearing house for settlements and guarantees, are required to make to guarantee open positions in their respective markets (see section V of this note).

- Other current financial assets – Financial instruments in CCP: Includes fixed-income securities (cleared through BME Clearing Repo), equity securities and options in which the Group acts as the CCP, presented at the position held by each counterparty (see section V below).

- Other current financial assets – Receivables for settlement: includes outstanding balances (for next day settlement) on futures margin calls and daily option trades, presented at the position held by each clearing member (section V below).

- Other current financial assets – Realisation of cash withheld for settlement: includes the cash withheld temporarily in the settlement process in the market spot segment as a result of the BME Clearing's involvement in all buy and sell instructions.

- Other current financial assets – Cash receivables for settlement: Includes the Group's collection right for the financing provided by BME Clearing to the system for the cash differences of the failed instructions pending settlement in which the Company is involved.

- Trade and other receivables (current assets): includes mainly balances arising from the provision of the services that constitute the Group companies' corporate purposes and with public bodies.

- Cash and cash equivalents (current assets): includes cash, reverse repurchase agreements, short-term bank deposits and other cash equivalents (maturity of less than three months) in which any surplus cash held by the Group companies is invested.

*iv. Measurement and recognition of gains (losses) on financial assets*

Available-for-sale financial assets are measured at fair value at subsequent measurement dates. Gains or losses arising from changes in fair value are recognised directly in equity (under "Valuation adjustments - Available-for-sale financial assets") until the investment is derecognised or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is recognised under "Impairment losses and gains (losses) on disposal of financial assets" in the consolidated income statement.

Financial assets held for trading are also measured at fair value at subsequent measurement dates (in all cases fair value is deemed to be the quoted prices published on the stock markets and on MEFF's own active market). Given the exact match between the asset and liability positions under this heading (financial liabilities), changes in fair value have an impact on the amounts shown in the balance sheet, but do not affect the consolidated income statement.

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date between two knowledgeable, willing parties in an arms' length transaction acting prudently. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an active, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it. Notwithstanding the foregoing, the limits of the valuation models developed and possible inaccuracies in the assumptions required by these models may lead to the fair value of a financial instrument measured using this method not coinciding exactly with the price at which the instrument might be bought or sold on the measurement date.

Equity investments in other companies whose fair value cannot be determined in a sufficiently objective manner are carried at cost adjusted for any impairment losses.

Loans and receivables and held-to maturity investments are measured at amortised cost and interest income accrued is recognised in the consolidated income statement (under "Finance income") using the effective interest rate method (EIR). Amortised cost is the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation of any difference between the initially recognised amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument based on its contractual conditions, but without considering future credit losses. For fixed-rate financial instruments, the effective interest rate coincides with the contractual rate of interest at the time of acquisition, adjusted as necessary for any commissions or fees which by their nature are assignable to a rate of interest. In the case of floating rate financial instruments, the effective interest rate coincides with the prevailing total yield for all items up to the earliest resetting of the benchmark interest rate.

All derivatives are recognised in the balance sheet at fair value from the trade date. If the fair value is positive, they are recognised as an asset, and if the fair value is negative, they are recognised as a liability. The fair value on the trade date is deemed, in the absence of evidence to the contrary, to be the transaction price. Given the exact match between the asset and liability positions on all derivatives entered into by the Group, changes in the fair value of derivatives from the transaction date are not recognised with a balancing entry in the consolidated income statement. Specifically, the fair value of standard financial derivatives included in the portfolios of financial assets or liabilities held for trading is deemed to be their daily quoted price and if, due to exceptional circumstances, the quoted price cannot be determined on a given date, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

*v. Classification of financial liabilities for measurement and presentation purposes*

Financial liabilities classified for measurement purposes as "Financial liabilities held for trading" include fixed income securities (cleared through BME Clearing Repo), equity securities and option trades in which the Group acts as the CCP, which is why the positions held are matched by equivalent positions in financial assets (section (ii) above). Therefore, the criteria applied to these assets are also used to measure these liabilities (previous section).

For measurement purposes, all other financial liabilities, including cash deposits received by the Group as collateral from participants to ensure their compliance with all obligations with the Group, are classified as "Debts and payables". Therefore, these financial liabilities will be initially recognised at fair value and subsequently, at least at the date of each monthly close, measured at amortised cost using the effective interest rate method.

In the accompanying consolidated balance sheets, financial liabilities are classified by maturity; those maturing in 12 months or less are classified as "current" and those maturing in over 12 months as "non-current".

In 2017 and 2016, financial liabilities at amortised cost were recognised basically under "Trade and other payables" in the consolidated balance sheets (Note 14), except for guarantees received from the participants, recognised in "Other current financial liabilities – Guarantees received from participants", for unsettled balances for futures margin calls and daily option trades pending next day settlement, which are recognised in "Other current financial liabilities – Payables for settlement" on the consolidated balance sheets, and for the balancing entry for initial recognition of the cash withheld for settlement described in section iii. of this note, which is recognised in "Other current financial liabilities – Payables for cash withheld for settlement".

All financial liabilities classified as "Financial liabilities held for trading" were recognised" in "Other current financial liabilities - Financial instruments in CCP" in 2017 and 2016 (section iii. of this note and Note 7).

*vi. Impairment of financial assets*

A financial asset is considered to be impaired (and therefore its carrying amount is adjusted to reflect the effect of impairment) when there is objective evidence that loss events have occurred which:

- have an adverse impact on the future cash flows estimated at the transaction date, in the case of debt instruments (mainly trade receivables and marketable debt securities).

- Mean their carrying amount may not be fully recovered, in the case of equity instruments.

As a general rule, impairment losses on financial instruments are recognised in the income statement in the period in which the impairment is identified. Reversals, if any, of previously recognised impairment losses are recognised in the income statement in the period in which the impairment is eliminated or decreases. In all cases, impairment losses are recognised with a charge or credit to "Other operating costs – Losses, impairment and changes in trade provisions" in the consolidated income statement, in the case of impairment of non-performing trade receivables and any reversals thereof (Note 8), and to "Impairment losses and gains (loss) on disposal of financial assets" in all other cases (Notes 7 and 9).

When the recovery of any recognised amount is considered unlikely, the amount is written off, without prejudice to any actions that the Group may initiate to seek collection until its rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

Impairment losses for each class of financial asset are calculated as follows:

- Financial assets at amortised cost: the amount of the loss on these instruments is the negative difference between the asset's carrying amount and the present value of estimated future cash flows, and is presented as a reduction in the carrying amount of the impaired assets.

  Specifically, as regards impairment losses arising from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency when there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons.

  The process of assessing these assets for potential impairment losses is performed individually for the vast majority of financial assets measured at amortised cost.

- Available-for-sale financial assets: the amount of the loss is measured as the positive difference between acquisition cost (net of any principal repayments in the case of debt securities) and fair value less any impairment loss on that financial asset previously recognised in the consolidated income statement.

  When, at the measurement date, there is objective evidence that these assets are permanently impaired, the cumulative loss that had been recognised directly in equity in "Other comprehensive income – Available-for-sale financial assets" is removed from equity and recognised in full in the consolidated income statement.

  If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases in part or in full, the impairment loss shall be reversed, with the amount of the reversal recognised in the consolidated income statement in the period in which the reversal occurs (or in "Other comprehensive income – Available-for-sale financial assets" in the case of equity instruments).

- Equity instruments measured at cost: the amount of the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows discounted at the market rate of return for similar securities.

  Impairment losses are recognised in the consolidated income statement under "Impairment losses and gains (losses) on disposal of financial assets" in the period in which they arise, by directly reducing the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

In 2017, impairment losses recognised by the Group corresponded to losses on trade and other receivables and equity instruments for the amount of €653 thousand ( €301 thousand in the case of trade and other receivables and a €10 thousand in the case of equity instruments during 2016) (Notes 7 and 8).

*vii. Valuation techniques*

A summary of the valuation techniques used by the Group to measure financial instruments at fair value (except financial assets held for trading, which relate entirely to financial instruments in CCP) using the fair value hierarchy in the following levels at 31 December 2017 and 2016 (see Note 7):

- Level 1: quoted prices (unadjusted) in active markets for an identical instrument.

- Level 2: quoted prices for similar Instruments in active markets, prices of recent transactions or expected cash flows or other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.

- Level 3: from valuation techniques in which there is a significant input not based on observable market data.

The detail of level 1, 2 and 3 fair value measurements at 31 December 2017 and 2016 is as follows:

| | | | Fair value hierarchy (Thousands of euros) | | |
|---|---|---|---|---|---|
| 2017 | Total balance (*) | Fair value | Level 1 | Level 2 | Level 3 |
| Available-for-sale financial assets | 8,941 | 8,941 | 8,941 | - | - |
| | **8,941** | **8,941** | **8,941** | **-** | **-** |

(*) Does not include certain unquoted equity securities measured at cost (Note 7).

| | | | Fair value hierarchy (Thousands of euros) | | |
|---|---|---|---|---|---|
| 2016 | Total balance (*) | Fair value | Level 1 | Level 2 | Level 3 |
| Available-for-sale financial assets | 7,834 | 7,834 | 7,834 | - | - |
| | **7,834** | **7,834** | **7,834** | **-** | **-** |

(*) Does not include certain unquoted equity securities measured at cost (Note 7).

There were no transfers between Levels 1 and 2 in 2017 and 2016.

*viii. Derecognition of financial assets and financial liabilities*

Financial assets are only derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred, i.e., the risks and rewards incidental to ownership of the financial assets have been substantially transferred. Similarly, financial liabilities are derecognised only when the obligations they generate have been extinguished or when they are acquired (with the intention either to cancel them or resell them).

**f) Own equity instruments**

*i. Definition*

Own equity instruments are those that meet the following conditions:

- The instrument includes no contractual obligation: (i) to deliver cash or another financial asset to another entity; or (ii) to exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the issuer.

- If the instrument will or may be settled with the issuer's own equity instruments, it is: (i) a non-derivative that includes no contractual obligation for the issuer to deliver a variable number of its own equity instruments; or (ii) a derivative that will be settled only by the issuer by exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

Capital and other equity instruments issued by the Group are recognised in equity at the amount received, net of direct issuance costs.

Treasury shares acquired by the Company during the year are recognised at the amount of consideration paid and are deducted directly from equity under "Parent shares and equity holdings" (Note 11).

Gains or losses on transactions with own equity instruments, including issuance and cancellation of these instruments, are recognised directly in equity.

**g) Classification of payables into current and non-current**

Payables in the accompanying consolidated balance sheets are classified by maturity; i.e., those maturing in 12 months or less are classified as current, and those maturing in over 12 months as non-current.

### h) Other assets and other liabilities (current and non-current)

"Other assets" and "Other liabilities" in the consolidated balance sheets include amounts not recognised in other items. These balances correspond basically to accrual accounts (excluding accrued interest, which is recognised in the items that include the financial instruments that give rise to the interest).

### i) Provisions and contingent liabilities (assets)

At the date of authorisation for issue of the consolidated annual financial statements, the directors distinguished between:

- Provisions: present obligations at the balance sheet date arising from past events which could give rise to a loss for the entities, which is considered to be likely to occur and certain as to nature, but uncertain as to its amount and/or timing,

- Contingent liabilities: possible obligations arising from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities, and

- Contingent assets: possible assets arising from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or uncertain future events not wholly within the control of the Group. Contingent assets are not recognised in either the consolidated balance sheet or the consolidated income statement, but are disclosed in the accompanying notes when an inflow of resources embodying economic benefits is probable.

The consolidated financial statements include all the material provisions with respect to which it is considered more likely than not that the obligation will have to be settled (Note 12). Contingent liabilities are not recognised in the consolidated financial statements, but disclosed in the accompanying notes.

Provisions (which are quantified based on the best available information about the consequences of the events giving rise to them and reviewed at each reporting date) are recognised to meet specific obligations for which they were originally recognised, and are reversed, fully or partially, whenever these obligations cease to exist or are reduced.

### j) Ongoing litigation and/or claims

At year-end 2017 and 2016 a number of legal proceedings and claims had been filed against Group Companies in connection with the ordinary course of their businesses. Both the Group's legal advisors and directors believe that the outcome of these proceedings and claims will not have any effect on the consolidated financial statements of the years in which they are resolved that has not been adequately provisioned (Note 12).

### k) Post-employment and other long-term benefits

Certain Group Companies are required, under their prevailing collective bargaining agreements and/or the collective bargaining agreement, which applies to most Group Companies, to fulfil a number of commitments vis-à-vis their employees.

*i. Post-employment obligations*

Post-employment benefits are amounts payable to employees that are settled upon termination of employment. Post-employment benefits, whether covered with internal or external pension funds, are classified as defined-contribution or defined-benefit plans according to the terms of the obligations, considering all the commitments assumed within and outside the contractual arrangements with the employees.

Post-employment obligations are classified as "defined contribution plans" when the Group pays fixed contributions into a separate entity (recognised under "Employee benefits expense – Social welfare expenses" in the consolidated income statement) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. All other post-employment benefit plans are "defined-benefit plans".

*Defined-contribution plans*

The contributions made each year in this connection are recognised under "Staff costs – Social welfare expenses" in the consolidated income statement. The amounts not yet contributed at each year-end are recognised under "Non-current provisions – Long-term employee benefit obligations" on the liability side of the consolidated balance sheet, discounted to present value where warranted.

The Group has an agreement with a small group of employees whereby it undertakes to contribute a fixed percentage of the pensionable salary of these employees to a defined contribution plan. This contribution is made to an external plan called the *"Plan de Pensiones AIAF Mercado de Renta Fija"*, part of the Santander Colectivos Equities Mixta 2 pension fund, which is managed by Santander Pensiones S.A., E.G.F.P. The expense recognised for the contributions made by the Group in this connection in 2017 and 2016, totalling €58 thousand and €62 thousand respectively, was recognised under "Staff costs - Social welfare expenses" in the consolidated income statement (Note 19).

The Group has also taken out a collective life insurance policy carrying social provision benefits, covering the retirement, death or permanent disability of certain Directors (see Note 4). The annual contribution to this insurance, including contributions on account of other Group employees not classified as senior management, amounted to €343 thousand in 2017 (€385 thousand in 2016), recognised in "Staff costs – Social welfare expenses" in the consolidated income statement (Note 19).

*Defined-benefit plans*

The Group recognises under "Non-current provisions – Long-term employee benefit obligations" on the liability side of the consolidated balance sheet (Note 13) the present value of defined-benefit post-employment obligations, net of the fair value of the Plan assets.

The present value of defined-benefit post-employment obligations is calculated by discounting the expected future cash flows using a discount rate determined by reference to market yields on high quality corporate bonds, consistent with the currency and estimated terms under which the post-employment benefit obligations will be settled.

If the treatment described in the previous paragraph gives rise to an asset, it is recognised under "Non-current financial assets" on the assets side of the consolidated balance sheet (Note 7) up to the present value of any economic benefits that could return to the Group in the form of direct refunds from the plan or reductions in future payments to the plan. Any adjustments to be made to the measurement of a post-employment benefits asset are recognised directly in equity as reserves.

The "Plan assets" are those assets that will be used directly to settle the obligations and meet the following conditions:

- They are not held by the consolidated entities, but by a legally separate entity that is not a related party of the Group.

- They are available to be used only to pay or fund post-employment benefits, and are not available to the Group's own creditors (even in bankruptcy).

- They cannot be returned to the consolidated entities unless the remaining assets of the Plan are sufficient to meet all the related employee benefit obligations of the Plan or the entity with current or former employees, or they are returned to the Group to reimburse it for employee benefits already paid.

- They are not non-transferable financial instruments by the Group.

Defined-benefit plans are recognised as follows:

a. Actuarial gains and losses arising in the year from changes in financial-actuarial assumptions or differences between assumptions and what actually occurred are recognised immediately in the period in which they arise directly under "Other recognised income and expense" in the consolidated statement of recognised income and expense. These amounts may not be reclassified to profit or loss in a subsequent period.

b. Current service cost, understood to be the increase in the present value of the obligations resulting from employee service in the current period, and past service cost, which is the change in existing post-employment benefits or the introduction of new benefits, are recognised fully in the consolidated income statement under "Employee benefits expense - Provisions and other employee benefits expense".

c. The interest cost of the obligation and expected return on plan assets are determined as a net interest amount by multiplying the defined benefit liability (asset) by the discount rate at the beginning of the year and recognised under "Finance cost – Provision adjustments".

The defined benefit post-employment obligations held by the Group include:

- Retirement bonus commitments in connection with the obligation undertaken by certain Group companies to pay a bonus to employees who leave the company after a specific age (60-65) to retire.

  The Group externalised its retirement bonus commitments in 2006. The vehicle used by the Group was an insurance policy written with Aegón España, S.A. de Seguros y Reaseguros.

- Health benefit commitments, understood as the obligation, restricted to a specific number of Group employees, to take out health insurance to supplement the social security medical coverage. The policy covers current employees and their beneficiaries, defined as those entitled to health care under the state Social Security scheme under the same social security number as the employee, as regulated by prevailing social security legislation, and those retiring after this agreement comes into effect and their beneficiaries (as defined above, plus those becoming widows/widowers and orphans after the agreement comes into effect that are also stipulated beneficiaries of the policy holder).

*ii. Other long-term employee benefits*

Other long-term employee benefits, including the obligation entered into by certain Group Companies to pay a bonus for good conduct and outstanding employee loyalty, as reflected in the number of years of ongoing service, after 25, 30, 35 and 45 years of effective service, are recognised, where applicable, as described above for defined benefit post-employment plans, except that the actuarial gains and losses are recognised in the consolidated income statement under "Staff costs - Wages, salaries and similar expenses".

**l) Termination benefits**

In accordance with current legislation, the Group is required to pay termination benefits to any employee whose employment is terminated without due cause. The Group recognised the expense incurred in connection with termination benefits accrued on redundancies agreed in 2016 under "Staff costs – Wages, salaries and similar expenses" (Note 19). Any outstanding termination benefits payable were recognised on the liability side of the consolidated balance sheet at year-end under "Trade and other payables – Other payables". There was no detailed redundancy plan warranting recognition of a provision in this connection at 31 December 2017 and 2016.

**m) Share-based remuneration schemes**

The delivery of own equity instruments (shares) to employees as consideration for their services when these are delivered after a defined service period is recognised as a service cost (with a corresponding increase in equity) as the employees provide their services over the period. At the grant date, the services received (and the corresponding increase in equity) are measured at the fair value of the equity instruments granted. If the equity instruments vest immediately, the full amount of the grant-date fair value is expensed immediately. When the performance conditions of the payment arrangement include external market-based performance features (e.g., achieving a specified price in the equity instruments granted), the amount ultimately recognised in equity depends on the degree of achievement of the other performance conditions, regardless of whether the market conditions stipulated have been met. If the conditions of the agreement are met, but the market conditions are not, the amounts previously recognised in equity are not reversed, even when employees do not exercise their rights to receive the equity instruments (Note 19-c).

**n) Recognition of revenue and expense**

The paragraphs below summarise the most significant criteria applied by the Group to recognise revenue and expense:

*i. Revenue*

Revenue from the rendering of services (e.g., trading, clearing, settlement, market listings, ongoing listing fees and delistings) is recognised on an accrual basis in accordance with the fees and tariffs applicable for each year, as established in the respective listing bulletins.

*ii. Variable direct cost of operations*

Incremental expenses directly attributable to the provision of a service, such as expenses depending on trading or settlement volumes, to revenue distribution agreements and sources of information acquired are recognised in this item on an accrual basis and corresponding to the transactions to which they are directly related.

*iii. Non-finance income and costs*

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

*iv. Finance income and costs*

BME Clearing, S.A. - Sociedad Unipersonal earns finance income from its clearing house activities and interest income on the funds held in guarantee for market members (Note 7 recognised with a credit (charge in the case of a negative return) to "Finance income – From marketable securities and other financial instruments" and a charge (credit in the case of a negative return) to "Finance cost – Guarantees received from participants", respectively, on the consolidated income statements (Notes 7 and 21). Similarly, when the funds provided are deposited with Banco de España, the penalty corresponding to the negative interest rate of the deposit facility charge to BME Clearing, S.A. - Sociedad Unipersonal by Banco de España recognised as a charge to "Finance cost – Guarantees received from participants" and the transfer of this cost to the members with a credit to "Finance income – From marketable securities and other financial instruments" on the consolidated income statement (Notes 7 and 21). Similarly, in 2017, MEFF Tecnología y Servicios, S.A.U. passed on to the members of the electricity market the Negative returns obtained through the investment of the guarantees received from said members, recognising these as a charge to "Finance income – From marketable securities and other financial instruments" and a credit to "Finance cost – Guarantees received from participants", respectively, on the consolidated income statements (Notes 7 and 21).

Also, in 2016, MEFF Euroservices, S.A., S.V. - Sociedad Unipersonal (Formerly known as MEFF Euroservices, S.A. - Sociedad Unipersonal and now absorbed by MEFF Tecnología y Servicios, S.A.U.), as a trader of EUREX, required guarantee deposits from members of MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal, for the open positions they maintain on its books, and, which, additionally furnish the required guarantees (Note 7). The Group recognised the finance return obtained on the margins posted arranged in "Finance income – From marketable securities and other financial instruments" on the consolidated income statement, while recognising the portion of this return which is passed on to the deposit holders in "Finance cost – Guarantees received from participants" (Notes 7 and 21). As indicated in Appendix I, MEFF Euroservices no longer acts as a securities company, and was deregistered from the CNMV's register of securities companies on 25 November 2016, and, as a result, on 31 December 2016 that Company had no statutory guarantees deposited.

Lastly, from its securities clearing and settlement activities and as a result of settlement risk hedging via cash deposits, Iberclear and the Barcelona, Valencia and Bilbao stock exchange management companies (Appendix I) obtained deposits that they invested, passing a portion of the returns generated on to the depositories. With the entry into force in 2016 of the first phase of the Reform of the securities clearing, settlement and registration system, the above-mentioned companies stopped receiving deposits from the market in 2016. The amount corresponding to the return is obtained and passed on and recognised in "Finance income – From marketable securities and other financial instruments" and "Finance cost – Guarantees received from participants", respectively, on the consolidated income statements (Notes 7 and 21) at 31 December 2016.

### o) Offsetting

Financial assets and liabilities are offset, i.e., reported in the consolidated balance sheet at their net amount, only if the entities have a legally enforceable right to set off the amounts of such instruments and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### p) Income tax

Income tax expense is recognised on the consolidated income statement, except when it results from a transaction recognised directly in equity, in which case the tax effect is also recognised in equity, or from a business combination, in which case the deferred tax is recognised as an asset thereof.

Current income tax is calculated as the amount payable for taxable profit for the year adjusted for any changes in recognised deferred tax assets and liabilities from temporary differences, tax credits and relief and tax loss carryforwards.

A temporary difference is deemed to exist when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Group vis-à-vis the related tax authorities. A deductible temporary difference is one that will generate for the Group a future claim for the recovery of taxes paid or a reduction in the amount payable to the pertinent tax authorities in the future.

Unused tax credits and tax losses are amounts that, after the performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in tax regulations are met and it is probable that the Group will use them in future periods.

Current tax assets and liabilities are taxes expected to be recovered from or paid to the taxation authorities within 12 months from the date of recognition. Deferred tax assets and liabilities are amounts of income taxes expected to be recovered from or paid to the taxation authorities in future periods.

On 16 February 2016, the Spanish Accounting and Auditing Institute's Resolution of 9 February 2016, was published in the Official State Gazette (BOE), implementing the policies, measurement bases and preparation criteria for financial statements to account for income tax. The Resolution governs the regulatory implementation of the recognition and measurement criteria established in the General Accounting Plan and replaces previous resolutions issued by the ICAC on this subject.

It introduces various amendments such as a review of the criteria for recognising deferred tax assets, whereby the limit on not activating tax loss carryforwards or other tax assets expected to be recovered in more than ten years from the end of the period is eliminated, or deferred tax liabilities relating to the deductibility of impairment losses on goodwill and their systematic amortisation. The Resolution also clarifies the criteria to follow in accounting for income tax expense in the separate financial statements of the companies that pay taxes under a special tax regime, independently of the agreements in place between Group companies for sharing the tax burden. The Group's policy with regard to the distribution of consolidated income tax is to allocate the consolidated income tax payable on a proportional basis to each company's taxable income. Therefore, the Resolution has not had a material impact on the Group.

Deferred tax liabilities are recognised for all significant taxable temporary differences. The Group only recognises deferred tax assets arising for deductible temporary differences, the carryforward of unused tax credits and unused tax losses when the following conditions are met:

- Deferred tax assets are only recognised to the extent that it is probable that the consolidated entities will generate future taxable profit against which they can be utilised, and

- the unused tax losses result from identifiable causes which are unlikely to recur.

Royal Decree-Law 3/2016 of 2 December was published on 3 December 2016, adopting tax measures aimed at consolidating public finances and other urgent measures in the social domain. In regard to Income Tax, this Royal Decree includes the following measures, applicable for years beginning on or after 1 January 2016:

- Restriction on the use of tax loss carryforwards: The use of tax loss carryforwards from previous years for large companies (with turnover of more than €60 million) is limited to 25% of taxable income.

- Limits on deductions for double-taxation: A new limit is established for deductions on international or domestic double taxation, generated or pending application, of 50% of the full amount for companies with a net turnover of at least €20 million.

- Reversal of impairment losses on investments: The reversal of impairment losses on investments that were tax deductible in tax periods prior to 2013 must be made on a linear manner over five years, as a minimum requirement.

As a result of this measure, in 2017 and 2016 the Group has reversed tax deductible impairments (see Note 16).

Deferred tax assets and liabilities arising on the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting profit nor taxable profit or loss are not recognised.

The carrying amounts of recognised deferred tax assets and liabilities are reviewed at each reporting date in order to ascertain if they still exist and to evaluate the reasonableness of their recoverability in the corresponding time frame and they are adjusted as appropriate based on the outcome of the analysis performed.

Bolsas y Mercados Españoles files consolidated tax returns for the tax group of which it is the Parent..

**q) Foreign currency transactions**

The Group's functional currency is the euro. Consequently, all non-euro balances and transactions are considered foreign currency balances and transactions.

Foreign currency transactions carried out by consolidated companies are initially recognised in their respective financial statements at their functional currency equivalent, applying the exchange rates in force on the corresponding transaction dates. In general, foreign currency balances were converted to euros at the average official market spot exchange rates prevailing at each year-end.

Exchange differences arising on translating foreign currency balances into the consolidated companies' functional currency (in all instances, the euro) are generally recognised at their net amount in the consolidated income statement under "Exchange differences" (Note 21), except for exchange differences arising on financial instruments at fair value through profit and loss, which are recognised, without separate presentation, in the consolidated income statement together with other fair value changes.

At 31 December 2017 and 2016, the Group's exposure to exchange rate risk was not material. Accordingly, the impact on the Group's consolidated equity and consolidated income statement of an appreciation or depreciation of exchange rates of other currencies relative to the euro would not be material.

### r) Accounting for operating leases

Under operating leases, the lessor retains substantially all the risks and rewards incidental to ownership of the leased asset.

When the consolidated entities act as lessee, lease expenses, including any incentives granted by the lessor, are charged to "Other operating costs – External services" in the consolidated income statement on a straight-line basis (Note 20).

### s) Consolidated statement of cash flows

The following terms are used on the consolidated statements of cash flows:

- Cash flows are inflows and outflows of cash and cash equivalents.

- Operating activities: the principal revenue-producing activities of the Group and other activities that are not investing or financing activities.

- Investment activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

- Financing activities are activities that result in changes to the size and composition of equity and borrowings of the entity.

For the purposes of presenting the cash flows from investing activities, collections and payments from financial assets with a high turnover are presented in the statement of cash flows.

For the purposes of drawing up the consolidated statements of cash flows, "Cash and cash equivalents" are understood to be short-term highly liquid investments that are subject to an insignificant risk of changes in value, and which do not entail the realisation of guarantees and deposits received from participants, without taking into account the financial instruments for which BME Clearing, S.A. - Sociedad Unipersonal acts as central counterparty (CCP), the realisation of cash withheld for unsettled operations, or receivables (payables) for the settlement of daily trading in options and futures, and cash receivables (payables) for settlement.

### t) Consolidated statements of recognised income and expenses

The "Consolidated statement of recognised income and expenses" shows the income and expense generated by the Group as a result of its activity during the year, distinguishing between items of income and expense that are recognised in profit and loss for the year and other income and expense that, as required under current regulations, are recognised directly in consolidated equity (other comprehensive income). This financial statement therefore presents:

a. Consolidated profit for the year.

b. The net amount of the income and expense recognised as other comprehensive income which is not reclassified in profit (loss).

c. The net amount of the income and expense recognised as other comprehensive income which may be reclassified in profit (loss).

d. The tax effects of a), b) and c) above, except in relation to impairment losses on investments in other comprehensive income originating from interests in associates or joint ventures consolidated using the equity method, which are presented on a net basis.

e. The total Comprehensive income for the period, calculated as the sum of (a) through (d) above, showing separately the total amounts attributable to equity holders of the parent and to non-controlling interests.

Any items of income and expense recognised directly in equity in connection with investments in entities consolidated using the equity method are presented net of tax under "Share in other recognised comprehensive income from investments in joint ventures and associates".

**u) Consolidated statements of total changes in equity**

These statements show all changes in equity, including the effects of changes in accounting policies and corrections of errors. These statements accordingly present a reconciliation between the carrying amount of each component of consolidated equity at the beginning and the end of the period, separately disclosing each change into the following headings:

a. Adjustments for changes in accounting criteria and adjustments for errors: include any changes in consolidated equity arising from the retrospective restatement of financial statement balances due to changes in accounting criteria or for the correction of errors.

b. Total recognised income and expense: comprises an aggregate of all the aforementioned items recognised in the statement of recognised income and expense.

c. Transactions with shareholders: changes in equity due to dividend payments, capital increases (decreases), share-based payments, etc.

d. Other changes in equity: other items recognised in equity, such as distribution of profit, transfers between equity items and any other increase or decrease in consolidated equity.

# 3. Distribution of Bolsas y Mercados Españoles' profit and earnings per share

**a) Distribution of the Company's profit**

The proposed distribution of the profit of Bolsas y Mercados Españoles, the Group's parent company, for 2017 and 2016 is as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Dividends: | | |
| Interim | 83,133 | 83,096 |
| Complementary | 64,819 | 66,473 |
| Voluntary reserves | 481 | 1,125 |
| **Profit for the year of Bolsas y Mercados Españoles (*)** | **148,433** | **150,694** |

(*) Profit obtained by the Parent company, as stated in its separate financial statements for 2017 and 2016. This profit measure constitutes the basis of distribution under prevailing Spanish legislation.
(**) At 27 April 2017, the proposed distribution of 2016 profit was ratified at the General Shareholders' Meeting without modification.

At its meetings on 27 July 2017 and 20 December 2017, the Board of Directors of Bolsas y Mercados Españoles, agreed to distribute two interim dividends from 2017 profit in the amount of €33,257 thousand and €49,876 thousand, respectively, recognised under "Interim dividend", with a reduction to "Equity" in the consolidated balance sheet at 31 December 2017 (Note 11). At that date, both dividends had been fully paid.

At its meetings on 28 July 2016 and 21 December 2016, the Board of Directors of Bolsas y Mercados Españoles, agreed to distribute two interim dividends from 2016 profit in the amount of €33,242 thousand and €49,854 thousand, respectively, recognised under "Interim dividend", with a reduction to "Equity" in the consolidated balance sheet at 31 December 2016 (Note 11). At that date, both dividends had been fully paid.

The provisional statement of accounts which, in accordance with Article 277 of the Spanish Corporate Enterprise Act, were prepared by the Board of Directors of Bolsas y Mercados Españoles, on the dates indicated, confirming the existence of sufficient liquidity to pay the interim dividends, is as follows:

(Thousands of euros)

| | 25/07/2017 | 19/12/2017 |
|---|---|---|
| Profit for the year available at the dividend date (*) | 79,714 | 143,848 |
| Interim dividend paid in the year | - | (33,257) |
| **Amount available for distribution** | **79,714** | **110,591** |
| Available liquidity | 49,007 | 94,793 |
| Interim dividend | (33,257) | (49,876) |
| **Retained earnings** | **15,750** | **44,917** |

(*) From the separate financial statements of Bolsas y Mercados Españoles.

(Thousands of euros)

| | 30/06/2016 | 20/12/2016 |
|---|---|---|
| Profit for the year available at the dividend date (*) | 70,926 | 144,679 |
| Interim dividend paid in the year | - | (33,242) |
| **Amount available for distribution** | **70,926** | **111,437** |
| Available liquidity | 50,009 | 86,553 |
| Interim dividend | (33,242) | (49,854) |
| **Retained earnings** | **16,767** | **36,699** |

(*) From the separate financial statements of Bolsas y Mercados Españoles.

**b) Earnings per share from continuing and discontinued operations**

*i. Basic earnings per share*

Basic earnings per share is calculated by dividing profit for the year attributable to equity holders of the parent by the weighted average number of shares outstanding during the year, excluding the average number of treasury shares held in the year.

Accordingly:

| | 2017 | 2016 |
|---|---|---|
| Net profit for the year attributable to owners of the Parent (thousands of euros) | 153,319 | 160,260 |
| Weighted average number of outstanding shares | 83,119,737 | 83,274,217 |
| Conversion of convertible debt | - | - |
| Adjusted number of shares | 83,119,737 | 83,274,217 |
| **Basic earnings per share (euros)** | **1.84** | **1.92** |

*ii. Diluted earnings per share*

Diluted earnings per share is calculated by adjusting both profit for the year attributable to ordinary equity holders and the weighted average number of ordinary outstanding shares, net of treasury shares, for all the effects of dilutive potential ordinary shares.

Accordingly:

| | 2017 | 2016 |
|---|---|---|
| Net profit for the year attributable to owners of the Parent (thousands of euros) | 153,319 | 160,260 |
| Weighted average number of outstanding shares | 83,119,737 | 83,274,217 |
| Conversion of convertible debt | - | - |
| Dilutive effective of Pluri-Annual Variable Remuneration Plan in Shares (Note 19-c) | 510,195 | 532,998 |
| Adjusted number of shares | 83,692,932 | 83,807,215 |
| **Diluted earnings per share (euros)** | **1.83** | **1.91** |

At 31 December 2017 and 2016, there were dilutive ordinary shares resulting from the 2014-2019 and 2017-2020 Pluri-Annual Variable Remuneration Plan in Shares and the medium term Variable Remuneration Plan in Shares in effect (see Note 19-c) and approved by the Ordinary General Shareholders' Meeting of BME on 30 April 2014 and 27 April 2017, respectively, as detailed below:

## MAXIMUM NUMBER OF SHARES

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| **Pluri-Annual Variable Remuneration Plans in Shares:** | | |
| 2011 – 2016 Plan [1] | - | - |
| 2014-2019 Plan | 354,846[3] | 532,998[2] |
| 2017-2020 Plan | 155,349[4] | - |
| | **510,195** | **532,998** |

(1) In 2016, 118,792 dilutive shares were disposed of, corresponding to the final number of (gross) shares delivered as implementation of the third three-year period of the 2011-2016 Plan expiring on 31 December 2015 and settled in May 2016 (see Note 19-c).

(2) The estimated maximum number of theoretical shares at 31 December 2016 was calculated on the basis of 118,768 units allocated to the first three-year period 112,422 units for the second three-year period and 124,142 units to the third three-year period.

(3) The maximum number of theoretical shares at 31 December 2017 for the 2014-2019 Plan was calculated on the basis of 112,422 units allocated to the second three-year period and 124,142 units for the third three-year period. In 2017, 88,713 dilutive shares were disposed of, corresponding to the final number of (gross) shares delivered as implementation of the third three-year period of the 2014-2019 Plan expiring on 31 December 2016 and settled in June 2017 (see Note 19-c).

(4) The maximum number of theoretical shares at 31 December 2017 for the 2017-2020 Plan was calculated on the basis of 103,566 units allocated to the last three-year period.

## 4. Remuneration and other benefits of Bolsas y Mercados Españoles' Board of Directors and Senior Management

### a) Director Remuneration

The entry into force of the Corporate Enterprises Act, as set forth in Law 31/2014, amended the responsibilities attributed to the General Shareholders' Meeting and to the Board of Directors with regard to Directors' remuneration.

Therefore, in 2017, the Board of Directors determined the per diems and fixed remuneration paid to members of the Board of Bolsas y Mercados Españoles in their capacity as such during 2017, within the maximum amount of annual remuneration to be received by Directors in their capacity as such, approved by the General Shareholders' Meeting on 28 April 2016.

In 2016, the Board of Directors approved, on an annual basis, the per diems and bylaw-stipulated remuneration paid to members of the Board of Bolsas y Mercados Españoles in their capacity Directors of this Company during said period within the maximum amount of annual remuneration to be received by Directors in their capacity as such, approved by the General Shareholders' Meeting on 28 April 2016.

In 2017 and 2016, serving and former members of the Board of Directors of Bolsas y Mercados Españoles accrued the following gross amounts for sitting on the boards of Bolsas y Mercados Españoles and of other Group companies:

(Thousands of euros)

| | Per diems | | Bylaw-stipulated fixed remuneration | | Variable Remuneration | | Other items | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Antonio Zoido Martínez [1] | 70 | 120 | 732 | 732 | 413[2] | 472[3] | - | - | 1.215 | 1.324 |
| Javier Hernani Burzako [4] | 12 | - | 329 | - | 282[2] | - | - | - | 623 | - |
| Ignacio Garralda Ruiz de Velasco | 14 | 31 | 30 | 30 | - | - | - | - | 44 | 61 |
| Margarita Prat Rodrigo | 44 | 63 | 30 | 30 | - | - | - | - | 74 | 93 |
| Manuel Olivencia Ruiz [5] | 52 | 62 | 50 | 30 | - | - | - | - | 102 | 92 |
| María Helena dos Santos Fernandes de Santana [6] | 14 | 11 | 30 | 23 | - | - | - | - | 44 | 34 |
| Álvaro Cuervo García | 56 | 68 | 30 | 30 | - | - | - | - | 86 | 98 |
| Carlos Fernández González | 50 | 59 | 30 | 30 | - | - | 60 | 60 | 140 | 149 |
| Joan Hortalá i Arau [7] | 99 | 118 | 259 | 259 | 50[2] | 50[3] | - | - | 408 | 427 |
| Karel Lannoo | 24 | 28 | 30 | 30 | - | - | - | - | 54 | 58 |
| Juan March Juan [8] | 37 | 22 | 30 | 30 | - | - | - | - | 67 | 52 |
| Santos Martínez-Conde y Gutiérrez-Barquín [8] | 42 | 47 | 30 | 30 | - | - | - | - | 72 | 77 |
| Ramiro Mato García Ansorena [9] | 21 | 33 | 30 | 30 | - | - | - | - | 51 | 63 |
| **Total** | **535** | **662** | **1.640** | **1.284** | **745** | **522** | **60** | **60** | **2.980** | **2.528** |

(1) The remuneration of Mr. Zoido Martínez corresponds to the fixed remuneration established in connection with his executive functions.
(2) Amount of variable remuneration in 2017 to be paid in 2018.
(3) Amount of variable remuneration for 2016 paid in 2017.
(4) Mr. Hernani Burzako was appointed Chief Executive Officer on 27 April 2017. The fixed remuneration includes both the bylaw stipulated remuneration in his capacity as director as well as the fixed remuneration received since his appointment as Chief Executive Officer in connection with his executive functions.
(5) Mr. Olivencia Ruiz passed away on 1 January 2018. He received a fixed allocation of €20 thousand for the performance of the duties attributed to Lead Director in addition to the fixed allocation received as member of the board, in accordance with the Directors' Remuneration Policy.
(6) Ms. Dos Santos Fernandes de Santana was appointed as Director on 28 April 2016.
(7) The remuneration corresponding to Mr. Hortalá i Arau also includes the bylaw stipulated remuneration in his capacity as director as well as the fixed and variable remuneration received in connection to his executive functions at Sociedad Rectora de la Bolsa de Valores de Barcelona.
(8) Mr. March Juan was appointed member of the Markets and Systems Operating Procedures Committee on 28 April 2016 and on 27 September 2017 was appointed member of the Audit Committee. In addition, Mr. Martínez-Conde y Gutiérrez-Barquín was appointed as member of the Executive Committee and the Appointments and Remuneration Committee on 28 April 2016, and on the same date stood down as member of the Markets and Systems Operating Procedures Committee.
(9) Mr. Mato García Ansorena stood down as Director and Member of the Audit Committee on 27 September 2017.

The General Shareholders' Meeting held on 27 April 2017 agreed to establish the number of members that form the Board of Directors at thirteen, within the minimum and maximum number set forth in article 26, section 1 of the bylaws, proceeding to appoint Javier Hernani Burzako as Executive Director. The proposed amendments to the Directors' Remuneration Policy were also approved.

At its meetings on 24 May 2017 and 30 May 2016, the Board of Directors adopted the resolution establishing the amounts of the remuneration corresponding to Directors of the Company acting as such, the fixed emoluments and per diems for attending meetings of the Board of Directors and its delegated committees during 2017 and 2016, respectively, as well as the amount of the fixed remuneration of the Chairman (and Chief Executive Officer in 2017) and the variable remuneration system of the Chairman (and Chief Executive Officer in 2017) corresponding to both periods, which accrue prior to the close of each period, the foregoing in accordance with the Companies Remuneration Policy. From 2016, the criteria taken into account for the calculation of the Chairman's variable remuneration are his ordinary variable remuneration in the prior year and the degree of compliance with quantitative (performance of consolidated EBITDA) and qualitative variables.

Mr. Joan Hortalá i Arau accrued €50 thousand in variable remuneration in 2017 (€50 thousand in 2016), which may be submitted for approval by the Board of the Barcelona stock exchange management company.

## b) Other director benefits

The maximum number of theoretical shares of Bolsas y Mercados Españoles corresponding to the Executive Directors of Bolsas y Mercados Españoles beneficiaries of the Pluri-Annual Variable Remuneration Plans in Shares (the 2011-2016, 2014-2019 Plans) and the medium term Variable Remuneration Plan in Shares (2017-2020 Program) – hereinafter, the "Plans" – (see Note 19.c), has been established for the aforementioned at 65,467 shares for the 2011-2016 Plan, corresponding to 43,645 assigned units, at 90,548 shares for the 2014-2019 Plan, corresponding to 60,365 assigned units and at 36,804 shares for the 2017-2020 Plan, corresponding to 24,536 assigned units, detailed as follows:

### MAXIMUM NUMBER OF THEORETICAL SHARES (1)

| | First three-year period | Second three-year period | Third three-year period |
|---|---|---|---|
| **Pluri-Annual Variable Remuneration Plan in Shares:** | | | |
| **2011-2016 Plan:** | | | |
| Antonio Zoido Martínez | 18,712 | 19,707 | 19,567 (2) |
| Joan Hortalá i Arau | 2,415 | 2,542 | 2,524 (2) |
| | **21,127** | **22,249** | **22,091 (2)** |
| **2014-2019 Plan:** | | | |
| Antonio Zoido Martínez | 26,664 (3) | 25,267 | 31,694 |
| Joan Hortalá i Arau | 2,287 (3) | 2,056 | 2,580 |
| | **28,951 (3)** | **27,323** | **34,274** |
| **2017-2020 Plan:** | | | |
| Antonio Zoido Martínez | 24,051 | | |
| Joan Hortalá i Arau | 2,550 | | |
| Javier Hernani Burzako | 10,203 | | |
| | **36,804** | | |

(1) Based on units assigned however, the maximum number of shares attributable, as agreed by the respective General Shareholders' Meetings, where applicable, for the entire 2011-2016 Plan, the 2014-2019 Plan and the 2017 – 2020 Plan, is 56,134 shares, 79,992 shares and 24,051 shares to Mr. Antonio Zoido Martínez and 7,246 shares, 6,894 and 2,550 shares to Mr. Joan Hortalá i Arau Respectively and 10,203 shares to Mr. Javier Hernani Burzako for the 2017 – 2020 Plan.

(2) In the first half of 2016, fulfilment of the objectives as well as the definitive coefficients to be applied to the third three-year period of the 2011-2016 Plan, expiring on 31 December 2015, was reviewed, and the definitive number of shares to be delivered to Antonio Zoido Martínez and Joan Hortalá i Arau was set at 15,001 shares and 1,935 shares, respectively. In May 2016, the Plan settled through the net delivery, once the withholdings set forth in prevailing tax legislation had been applied, of 8,346 shares and 1,122 shares, respectively.

(3) In the first half of 2017, fulfilment of the objectives as well as the definitive coefficients to be applied to the third three-year period of the 2014-2019 Plan, expiring on 31 December 2016, was reviewed, and the definitive number of shares to be delivered to Mr. Antonio Zoido Martínez and Mr. Joan Hortalá i Arau was set at 13,332 shares and 1,143 shares, respectively. In June 2017, the Plan was settled through the net delivery, once the withholdings set forth in prevailing tax legislation had been applied, of 7,435 shares and 670 shares, respectively.

At 31 December 2017 and 2016, there were no other post-employment benefits or long-term benefits extended to former or serving members of the Board of Directors of Bolsas y Mercados Españoles nor any pension or life insurance obligations, except for those at 31 December 2017 relating to the Chief Executive Officer, with contributions having been made in 2017 for the amount of €11 thousand and €3 thousand in relation to the annual contribution for 2017 to the welfare scheme with Aegón España, S.A. de Seguros y Reaseguros and life-insurance and health care policy, respectively.

### c) Loans

At 31 December 2017 and 2016, no loans or advances had been extended to former or serving members of the Board of Directors of Bolsas y Mercados Españoles.

### d) Senior management

For the purposes of preparing these consolidated financial statements, 9 and 8 executives of Bolsas y Mercados Españoles were deemed to be senior management at 31 December 2017 and 2016 respectively, including the Head of Internal Audit, in 2017 and 2016 respectively. In 2017, a member of the Senior Management became Chief Executive Officer, one member stood down and three new members were appointed to the Senior Management. In January and February 2016, two members of Senior Management retired. The figures shown below include the remuneration paid to these members until their retirement.

Remuneration accrued to these executives in 2017 and 2016 amounted to €3,176 thousand and €3,856 thousand, respectively recognised under "Staff costs" in the consolidated income statements (Note 19-a), while per diems accrued during 2017 and 2016 totalled €273 thousand and €338 thousand, respectively, recognised under "Other operating costs - External services".

Furthermore, in 2017 post-employment benefits were granted to these executives in the amount of €289 thousand (€345 thousand in 2016), €285 thousand for the annual periodic contribution to the insurance arranged in 2006 with AEGON España, S.A. de Seguros y Reaseguros, by way of a supplementary pension (€280 thousand in 2016); €58 thousand in premiums payable for a collective life insurance policy carrying social provision benefits, to cover retirement, death and permanent disability that was not renewed on expiry and €4 thousand in contributions made by the Group to defined contribution plans in 2017 (€7 thousand in 2016) (Note 2-k).

Furthermore, the maximum number of theoretical shares at Bolsas y Mercados Españoles, where applicable, for the executive directors of Bolsas y Mercados Españoles who are beneficiaries of the Pluri-Annual Variable Remuneration Plans in Shares (2011-2016 and 2014-2019 Plans), hereinafter, the "Plans" (see Note 19-c), was set, for the plans overall, at 183,145 shares for the 2011-2016 Plan, 180,984 shares for the 2014-2019 Plan and 37,835 shares for the medium term Variable Remuneration Plan in Shares ( 2017-2020 Plan), as detailed below:

#### MAXIMUM NUMBER OF THEORETICAL SHARES (1)

| | First three-year period | Second three-year period | Third three-year period |
|---|---|---|---|
| **Pluri-Annual Variable Remuneration Plan in Shares:** | | | |
| 2011-2016 Plan | 58,628 | 61,751 | 62,766 |
| 2014-2019 Plan | 67,361 | 58,079 | 55,544 |
| 2017-2020 Plan | 39,485 | - | - |
| | **165,474** | **119,830** | **118,310** |

(*) The maximum number of theoretical shares includes the shares allocated to the former and serving members of Senior Management acting as such on the allocation date. The maximum number of shares allocated to the second and third three-year period of the 2014-2019 Plan includes 10,175 shares and 10,323 shares corresponding to the Chief Executive Officer, the accrual of which during 2017 for the amount of €84 thousand and €57 thousand respectively is detailed under "External services – Other expenses" of the consolidated income statement.

As described in Note 19-c), in the first half of 2016, fulfilment of the objectives as well as the definitive coefficients to be applied the third three-year period of the 2011-2016 Plan, expiring on 31 December 2015, was reviewed, and the definitive number of shares to be delivered was 118,792, of which 48,116 corresponded to senior management at the time of the accrual of their allocation. In May 2016, the Plan was settled through the delivery, once the withholdings set forth in prevailing tax legislation had been applied, of 27,778 shares.

In the first half of 2017, fulfilment of the objectives as well as the definitive coefficients to be applied the first three-year period of the 2014-2019 Plan, expiring on 31 December 2016, was reviewed, and the definitive number of shares to be delivered was 88,713, of which 28,134 corresponded to senior management at the time of the accrual of their allocation. In June 2017, the Plan was settled through the delivery, once the withholdings set forth in prevailing tax legislation had been applied, of 16,268 shares.

Expenses recognised in the Group's consolidated income statement in 2017 in connection with the provision accrued by the portion of estimated fair value of the equity instruments granted to senior management under the Pluri-Annual Variable Remuneration Plans in Shares in effect amounted to €871 thousand, recognised under "Staff costs – Wages, salaries and similar expenses", at 31 December 2017 (€1,182 thousand at 31 December 2016).

No other long-term benefits were extended to senior management of Bolsas y Mercados Españoles in either 2017 or 2016. Likewise, at 31 December 2017 and 2016, the Company had not assumed any pension or life insurance obligations vis-à-vis, or extended loans or advances to senior executives of Bolsas y Mercados Españoles other than the arrangements outlined above.

**e) Termination benefits**

In the event of termination of the contractual relationship with Mr. Antonio J. Zoido Martínez, he is entitled to receive an amount equal to 3 times the fixed annual remuneration at the time of termination. The aforementioned payment to the Chairman shall not be made in the event that he voluntarily leaves his position, fails to fulfil his duties or any of the cases needed for Bolsas y Mercados Españoles to be able to take corporate action against him for liability concur.

In the event of the termination of the Mr. Javier Hernani Burzako, the revocation of his powers, or the termination of the contract at the initiative of the CEO due to a non-fulfilment of the obligations assumed by the Company, the CEO shall have the right: "To receive the greater of the two following amounts: (i) payment of the amount equivalent to two years' fixed and annual variable remuneration existing at the moment of termination of the employment relationship as CEO or (ii) the legal compensation pursuant to the Workers' Statute at that time for any dismissal considered unfair. If termination results from a failure to fulfil his duties as CEO of the Company duly declared by a court and/or any of the cases needed for BME to be able to take corporate action against him for liability concur, neither resumption of the employment relationship nor payment of the aforementioned amount shall occur."

With respect to senior management, two (2) senior executives have signed senior management contracts entitling them to receive compensation in the event of dismissal equivalent to forty-five (45) days' salary per year of service and twenty-two (22) months' gross annual salary, respectively, unless employment law stipulates higher compensation. In addition, three senior executives are under ordinary employment contracts. Two of the executives are entitled to severance compensation equivalent to 45 days' salary per year of service, while the third is entitled to two years' gross salary.

**f) Information required under Article 229 of the Corporate Enterprises Act**

In accordance with Article 229 of the Spanish Corporate Enterprises Act, in order to enhance the transparency of Spanish corporations ("Sociedades Anónimas"), the Company's Directors have explicitly declared that they have not incurred in the conflicts of interest set forth in Article 229.1 of the Corporate Enterprises Act, and declare that none of the situations mentioned therein apply to the persons related to them.

## 5. Intangible assets

**a) Goodwill**

*i. Breakdown*

Goodwill at 31 December 2017 and 2016 breaks down as follows:

CONSOLIDATED COMPANIES (APPENDIX I)
(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. (Sociedad Unipersonal) | 16,995 | 16,995 |
| Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A. (Sociedad Unipersonal) | 6,184 | 6,184 |
| Sociedad Rectora de la Bolsa de Valores de Valencia, S.A. (Sociedad Unipersonal) | 4,940 | 4,940 |
| Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Sociedad Unipersonal) - Iberclear - | 52,500 | 52,500 |
| Bolsas y Mercados Españoles Inntech, S.A.U., anteriormente denominada Infobolsa, S.A. – Sociedad Unipersonal (Note 2.a.) | 4,957 | 4,957 |
| Open Finance, S.L. (*) | 3,142 | 3,142 |
| | **88,718** | **88,718** |

(*) As previously indicated in Note 2.a, Bolsas y Mercados Españoles Inntech, S.A.U., formerly Infobolsa S.A. – Sociedad Unipersonal, and its subsidiaries, including Open Finance, S.L., were consolidated using the full consolidation method in 2016, and therefore, goodwill relating to the acquisition of this company is recognised in the consolidated financial statements.

The goodwill relating to Iberclear arose from a corporate transaction undertaken in 2003 (Note 1-a) and was supported by the estimated future earnings from the clearing, settlement and registration of public debt securities formerly carried out by the Banco de España public debt book-entry trading system, or "CADE", and the business and operating synergies arising from the consolidation of the settlement platforms.

In 2015, due to operational, technical, management and regulatory changes within the Group, the Company concluded that the CGU initially defined (CADE) and financial and management information concerning CADE business had lost its relevance, given that management previously handled on a separate basis would be handled in integrated fashion at a level equivalent to the Settlement segment (Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores). Thus in 2015 it was considered that the goodwill must be assigned to Iberclear, which would meet the CGU definition as stipulated in IAS 36.6.

In accordance with the internal and external estimates, projections and measurements available to them, the Directors of Bolsas y Mercados Españoles have checked for signs of previous goodwill impairment losses, based on the estimate of their recoverable amount. The results of the analyses show that there have been no impairment losses on said goodwill (Note 2-b).

*ii. Valuation*

In relation to the Group's main source of goodwill, in 2017 and 2016, the measurement methodology employed by the independent expert to obtain the value in use associated with Iberclear is the discounted future cash flows (DCF) associated with Iberclear projected up to 2020 in both valuations. In particular, the expectation discounted was net cash flow. The key variables used to produce financial projections stem from an extremely prudent estimate of future trends in net cash flows associated with Iberclear.

The present value of future flows to be distributed to obtain value in use was calculated for the 2017 and 2016 valuations using as the discount rate the yield on risk-free assets plus a specific risk premium in line with Iberclear business. Based on this method, the discount rate used was 10.9% and 9.5% respectively. Residual value for both years' valuations was estimated as the present value of a perpetual income which Iberclear is expected to generate from the last year projected (based on normalised net operating profit in the year 2020) and considering, for the purpose of analysing sensitivity, a nominal annual growth rate of 1%.

### b) Other intangible assets

*i. Breakdown and significant changes*

The breakdown of this heading, which comprises entirely intangible assets with finite useful lives, is as follows:

(Thousands of euros)

| | **Estimated useful life** | **2017** | **2016** |
|---|---|---|---|
| Computer software | 3-15 years | 67,974 | 66,478 |
| **Total, gross** | | **67,974** | **66,478** |
| *Of which:* | | | |
| *Developed internally* | 4-5 years | 44,022 | 42,956 |
| *Purchases* | 3-15 years | 23,952 | 23,522 |
| Less: | | | |
| Accumulated amortisation | | (52,355) | (47,593) |
| **Total, net** | | **15,619** | **18,885** |

The changes in this heading (stated gross) were as follows:

(Thousands of euros)

| | **2017** | **2016** |
|---|---|---|
| Opening balance | 66,478 | 60,212 |
| Contributions due to business combinations (Note 2.a) (*) | - | 2,921 |
| Additions: | | |
| *Developed internally* | 1,829 | 2,774 |
| *Purchased* | 430 | 765 |
| Disposals/other changes | (763) | (194) |
| Impairment losses | **-** | - |
| **Closing balance** | **67,974** | **66,478** |

(*) Includes €2,450 thousand corresponding to computer applications developed internally.

All of the additions due to internally developed software in 2017 and 2016 were recognised with a credit to "Own work capitalised" in the consolidated income statements in the amounts of €1,829 thousand and €2,774 thousand, respectively. Most of these additions relate to developments associated with Authorised Publishing Agent (APA) and Authorised Information System (AIS) services and he development services for REGIS-TR in 2017, as well as the Reform of the securities clearing, settlement and registration system and REGIS-TR in 2016.

Fully amortised intangible assets with a finite useful life at 31 December 2017 and 2016 amounted to €44,587 thousand and €42,271 thousand, respectively.

There were no restrictions on ownership of recognised intangible assets and none of these assets were held for sale at either year-end.

*ii. Amortisation of intangible assets with a finite useful life*

The table below summarises the changes affecting accumulated amortisation of intangible assets with finite useful lives:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Opening balance | (47,593) | (40,815) |
| Contributions due to business combinations (Note 2.a) | - | (2,877) |
| Provisions recognised in income | (4,762) | (3,901) |
| Disposals/other changes | - | - |
| **Closing balance** | **(52,355)** | **(47,593)** |

*iii. Impairment and gains/(losses) on disposal of intangible assets*

In 2017, intangible assets were disposed of in the amount of €801 thousand (€203 thousand in 2016), at a net carrying amount of €763 thousand (€194 thousand in 2016), which generated €38 thousand in gains on disposal of other assets (€9 thousand in 2016), recognised under "Impairment losses and gains (losses) on disposal of non-current assets" on the consolidated income statement.

# 6. Property, plant and equipment

The changes in this consolidated balance sheet heading, which exclusively comprises property, plant and equipment for own use, were as follows:

(Thousands of euros)

| | Property, plant and equipment for own use | | | | | | |
|---|---|---|---|---|---|---|---|
| | Land | Buildings | Furniture and installations | Information technology equipment | Motor vehicles and other | Fixed assets in process | Total |
| **Cost:** | | | | | | | |
| Balances at 1 January 2016 | **24,375** | **9,902** | **31,450** | **55,943** | **256** | **46** | **121,972** |
| Contributions due to business combinations (Note 2.a) | - | - | 117 | 2,282 | - | 13 | 2,412 |
| Additions | - | - | 1,275 | 1,714 | - | 548 | 3,537 |
| Disposals | - | - | (19) | (723) | - | - | (742) |
| Transfers | - | - | 95 | 21 | - | (116) | - |
| **Balances at 31 December 2016** | **24,375** | **9,902** | **32,918** | **59,237** | **256** | **491** | **127,179** |
| Additions | - | - | 1,538 | 1,742 | 1 | 702 | 3,983 |
| Disposals | - | - | (205) | (2,563) | (3) | - | (2,771) |
| Transfers | - | - | 835 | - | - | (835) | - |
| **Balances at 31 December 2017** | **24,375** | **9,902** | **35,086** | **58,416** | **254** | **358** | **128,391** |
| **Accumulated depreciation:** | | | | | | | |
| Balances at 1 January 2016 | **-** | **(1,898)** | **(25,613)** | **(51,928)** | **(200)** | **-** | **(79,639)** |
| Contributions due to business combinations (Note 2.a) | - | - | (38) | (2,128) | - | - | (2,166) |
| Provisions (Note 2-d) | - | (198) | (1,683) | (1,867) | (11) | - | (3,759) |
| Disposals | - | - | 19 | 723 | - | - | 742 |
| **Balances at 31 December 2016** | **-** | **(2,096)** | **(27,315)** | **(55,200)** | **(211)** | **-** | **(84,822)** |
| Provisions (Note 2-d) | - | (198) | (1,090) | (2,044) | (11) | - | (3,343) |
| Disposals | - | - | 195 | 2,561 | 3 | - | 2,759 |
| Transfers | - | - | - | - | - | - | - |
| **Balances at 31 December 2017** | **-** | **(2,294)** | **(28,210)** | **(54,683)** | **(219)** | **-** | **(85,406)** |
| **Property, plant and equipment, net:** | | | | | | | |
| Balances at 31 December 2016 | 24,375 | 7,806 | 5,603 | 4,037 | 45 | 491 | 42,357 |
| Balances at 31 December 2017 | 24,375 | 7,608 | 6,876 | 3,733 | 35 | 358 | 42,985 |

Fully depreciated items of property, plant and equipment amounted to €74,222 thousand and €74,086 thousand at 31 December 2017 and 2016, respectively.

On 21 December 2005, the Group acquired a plot of land and some buildings, together with their installations, and the Group companies located in Madrid moved there in 2006. The overall acquisition cost was €37,185 thousand. Some of the Group companies have, however, carried on their business in 2017 and 2016 in leased premises. The rent paid in this respect in those years totalled €2,854 thousand and €2,779 thousand, respectively, and is recognised under "Other operating costs – External services - Leases" in the consolidated income statement (Note 20).

In 2017, data processing equipment, furniture and installations in the amount of €2,563 thousand and €208 thousand respectively were withdrawn, and a net carrying value of €2,561 thousand and €198 thousand, respectively, which have generated €12 thousand in losses due to the disposal of other items of property, plant and equipment (€723 thousand and €19 thousand, respectively, in 2016 in connection to fully depreciated elements), which are recognised under "Impairment losses and gains (losses) on disposal of non-current assets" in the consolidated income statement.

The Group has arranged insurance policies to cover the possible risks to which the various components of property, plant and equipment are exposed.

There were no encumbrances on any item of property, plant and equipment at either 31 December 2017 or 2016, nor had any assets of significance been acquired under a finance lease arrangement at those dates.

# 7. Current financial assets, other current financial assets (liabilities) and non-current financial assets

## a) Non-current financial assets, current financial assets and other current financial assets

*i. Breakdown*

The breakdown of these consolidated balance sheet line items, excluding balances under "Cash and equivalents" (Note 9), by classification for measurement purposes, origin, currency and nature of the transaction, is as follows:

(Thousands of euros)

| | 31/12/2017 | | 31/12/2016 | |
|---|---|---|---|---|
| | Non Current | Current | Non Current | Current |
| **Classification for measurement purposes:** | | | | |
| Financial assets held for trading | - | 18,934,329 | - | 20,025,172 |
| Available-for-sale financial assets | 12,164 | - | 11,057 | - |
| Loans and receivables | 859 | 3,207,558 | 1,064 | 2,522,774 |
| Held-to-maturity investments | | 9,498 | - | 50,089 |
| | **13,023** | **22,151,385** | **12,121** | **22,598,035** |
| **Source and classification for presentation:** | | | | |
| Other current financial assets | | | | |
| Realisation of guarantees received from participants | - | 3,172,060 | - | 2,504,591 |
| Financial instruments in CCP | - | 18,934,329 | - | 20,025,172 |
| Receivables for settlement | - | 28,752 | - | 9,244 |
| Realisation of cash withheld for settlement | - | - | - | 17 |
| Cash receivables for settlement | - | 23 | - | - |
| Current financial assets | - | 16,221 | - | 59,011 |
| Non-current financial assets | 13,023 | - | 12,121 | - |
| | **13,023** | **22,151,385** | **12,121** | **22,598,035** |
| **Currency:** | | | | |
| Euro | 2,629 | 22,151,385 | 2,834 | 22,598,035 |
| Other currencies | 10,394 | | 9,287 | - |
| | **13,023** | **22,151,385** | **12,121** | **22,598,035** |
| **Nature:** | | | | |
| Equity instruments | | | | |
| Equity securities | 12,164 | - | 11,057 | - |
| Debt securities | | | | |
| Other fixed income securities | - | 5,998 | - | 13,189 |
| Financial instruments in CCP | | | | |
| Fixed-income securities in CCP (BME Clearing Repo) | - | 17,868,540 | - | 18,896,416 |
| Options in CCP | - | 151,783 | - | 179,331 |
| Equity securities in CCP | - | 914,006 | - | 949,425 |
| Other financial assets | | | | |
| Public Debt reverse repurchase agreements | - | 17,173 | - | 1,056,688 |
| Bank deposits (own) | - | 10,223 | - | 45,822 |
| Bank deposits (third party) | - | 3,154,887 | - | 1,447,920 |
| Receivable for settlement of daily options and futures trades | - | 28,752 | - | 9,244 |
| Cash receivables for settlement | - | 23 | - | - |
| Guarantees given | 818 | - | 672 | - |
| Post-employment obligations | | | | |
| Retirement bonuses (Note 13) | 41 | - | 392 | - |
| | **13,023** | **22,151,385** | **12,121** | **22,598,035** |
| Less- Impairment losses | **-** | **-** | **-** | **-** |
| **Total financial assets** | **13,023** | **22,151,385** | **12,121** | **22,598,035** |

*Financial assets held for trading*

Details at each month end of all fixed income securities (cleared through BME Clearing Repo), equity securities and option trades in which the Group acted as the CCP in 2017 and 2016 (the positions held in these financial assets are matched by equivalent positions in financial liabilities - section (b) of this note) are as follows: As indicated in Note 1.a, as part of the reform of the securities clearing, settlement and registration system, the heading "Financial instruments in CCP – Equity securities" reflects the fair value of the securities in the stock market spot segment where BME Clearing acts as CCP, acting for its proprietary account between the buyers and sellers in the transactions made.

(Thousands of euros)

| | 2017 | | | | 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fixed-income securities in CCP (BME Clearing Repo) | Options in CCP | Equity securities in CCP | Total | Fixed-income securities in CCP (BME Clearing Repo) | Options in CCP | Equity securities in CCP | Total |
| January | 14,378,197 | 168,426 | 1,767,202 | 16,313,825 | 23,031,045 | 393,748 | - | 23,424,793 |
| February | 14,324,516 | 181,292 | 1,560,529 | 16,066,337 | 18,431,126 | 421,359 | - | 18,852,485 |
| March | 17,114,181 | 212,624 | 1,670,498 | 18,997,303 | 20,159,954 | 364,765 | - | 20,524,719 |
| April | 13,721,934 | 196,508 | 2,123,163 | 16,041,605 | 16,191,073 | 324,414 | 3,313,883 | 19,829,370 |
| May | 14,552,704 | 202,657 | 2,606,268 | 17,361,629 | 16,733,679 | 323,476 | 1,980,817 | 19,037,972 |
| June | 15,521,452 | 247,523 | 1,816,454 | 17,585,429 | 21,859,661 | 353,862 | 5,023,153 | 27,236,676 |
| July | 13,629,989 | 227,608 | 1,755,190 | 15,612,787 | 17,964,523 | 314,975 | 2,461,692 | 20,741,190 |
| August | 12,370,967 | 236,608 | 1,278,891 | 13,886,466 | 20,184,102 | 293,693 | 1,550,811 | 22,028,606 |
| September | 12,729,029 | 222,090 | 1,677,463 | 14,628,582 | 22,074,909 | 372,966 | 2,109,499 | 24,557,374 |
| October | 16,505,212 | 216,724 | 1,968,672 | 18,690,608 | 15,613,598 | 282,651 | 1,471,106 | 17,367,355 |
| November | 18,321,417 | 259,166 | 2,601,829 | 21,182,412 | 18,293,575 | 313,863 | 1,583,397 | 20,190,835 |
| December | 17,868,540 | 151,783 | 914,006 | 18,934,329 | 18,896,416 | 179,331 | 949,425 | 20,025,172 |

With regard to futures held for trading, since valuation adjustments are calculated daily and settled D+1, only receivables and payables corresponding to the daily margins payable at 31 December 2017 and 2016 are recognised in the balance sheet under "Other current financial assets – Receivables for settlement" and "Other current financial liabilities – Payables for settlement". The balance of these items and the total amount of futures margins calls paid during 2017 and 2016 are disclosed in "Loans and receivables" hereon.

The equity securities in CCP position at 31 December 2016 includes the securities borrowed by BME Clearing, as part of the fails management mechanism in the event of a failure to deliver securities, for the amount of €11,081 thousand, whose balancing entry is included under "Other current financial liabilities - financial instruments in CCP – Equity securities". Since the migration on 18 September 2017 to the Target2Securities (T2S) settlement platform of the Eurosystem (Note 1.a) this incident management mechanism is no longer applied by BME Clearing.

*Available-for-sale financial assets*

A breakdown of available-for-sale financial assets at 31 December 2017 and 2016 is provided below:

(Thousands of euros)

| | % ownership | 31/12/2017 | 31/12/2016 |
|---|---|---|---|
| **Non-current** | | | |
| **Quoted equity securities measured at fair value:** | | | |
| Bolsa Mexicana de Valores, S.A., de C.V. | 0,99% | 8,941 | 7,834 |
| **Unquoted equity securities measured at cost:** | | | |
| Operador del Mercado Ibérico de Energía – Polo Español, S.A. (OMEL) | 5.65% | 524 | 524 |
| OMIP – Operador do Mercado Ibérico (Portugal), SGPS, S.A. | 5.00% | 1,246 | 1,246 |
| Cámara de Riesgo Central de Contraparte de Colombia S.A. | 9.91% | 1,453 | 1,453 |
| Sociedad Promotora Bilbao Gas Hub, S.A. | 2.03% | - | - |
| | | **12,164** | **11,057** |

In 2017 and 2016, the Bolsas y Mercados Españoles Group received dividends from these securities amounting to €408 thousand and €352 thousand, respectively, which were recognised under "Finance income – From equity investments" in the consolidated income statement (Note 21).

*Loans and receivables*

At 31 December 2017 and 2016, loans and receivables, virtually all of which are current, corresponded to the following financial investments of guarantees received from participants (section (b) below):

- Reverse repurchase agreements and the balances of Banco de España and other banks current accounts, in the amount of €17,173 and thousand and € 3,154,887 thousand, respectively at 31 December 2017 (€1,056,688 thousand and €1,447,920 thousand, respectively, at 31 December 2016), which represent the investments in which the statutory deposits that the members of BME Clearing and MEFF Euroservices are required to make to guarantee the open positions held in their respective markets, as well as the statutory deposits required of the members of the electricity settlement clearance market in MEFF Tecnología y Servicios, to guarantee their positions in that market. In 2016, as a result of the reform of the equity securities clearing, settlement and registration system (Note 1.a), the spot market segment was included in BME Clearing's margin system.

- Balances receivable for the settlement (settled at D+1 by each clearing member) of daily options trades in the amount of €140 thousand and €476 thousand at 31 December 2017 and 31 December 2016 respectively, and of daily futures margin calls in the amount of €28,612 thousand and €8,768 thousand 31 December 2017 and 31 December 2016, respectively. The settled amount in 2017 and 2016 of the daily margins (receivables) of the futures traded together with the daily margins of the futures traded pending settlement at 31 December 2017 and 31 December 2016 amounted to €10,847,975 thousand and €11,827,915 thousand, respectively. The amount settled for daily margin calls receivable (debtor balance) is the same as the aggregate of the daily margin calls payable (creditor balance) and therefore, neither are recognised with a balancing entry in the consolidated income statement.

- Cash receivables for settlement of €23 thousand at 31 December 2017 includes the collection right of the Group for the financing provided by BME Clearing to the system for the cash differences of the failed instructions pending settlement in which the CCP is involved.

This category also contains the following:

- The amount of the guarantee required by Banco de España from the Group made in a blocked current account with Banco de España to guarantee that payments are made immediately in the event a cash settlement fails, in the amount of €6,723 thousand at 31 December 2017 (€8,922 thousand at 31 December 2016). Banco de España calculates these guarantees quarterly, adjusting the blocked amount in the current account with the same frequency.

- The assets arising from the measurement of long-term employee benefit obligations (retirement bonuses), in the amount of €41 thousand at 31 December 2017 (€392 thousand at 31 December 2016) (Notes 2-k and 13) and long-term guarantees given in the amount of €818 thousand and €672 thousand at 31 December 2017 and 31 December 2016, respectively.

The carrying amount of all these assets is similar to their fair value.

The net loss obtained by the Group in the 2017 and 2016 after transferring to the members the negative returns obtained from the investment of the guarantees in reverse repurchase agreements in Public Debt Securities as well as the financial cost corresponding to the Banco de España Deposits amounted to €15 thousand and €36 thousand respectively (Notes 2-n.iv and 21).

*Held-to-maturity investments*

Details of "Held-to-maturity investments" at 31 December 2017 and 2016 are shown below.

(Thousands of euros)

| | 31/12/2017 | | 31-12-2016 | |
|---|---|---|---|---|
| | **Non-current** | **Current** | **Non-current** | **Current** |
| **Debt securities:** | | | | |
| Other fixed income securities | - | 5,998 | - | 13,189 |
| **Other financial assets:** | | | | |
| Bank deposits | - | 3,500 | - | 36,900 |
| | **-** | **9,498** | **-** | **50,089** |

At 31 December 2016 bank deposits also include €400 thousand and €1,500 thousand relating to fixed-term deposits of Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. - Sociedad Unipersonal and Sociedad Rectora de la Bolsa de Valores de Valencia, S.A. - Sociedad Unipersonal, and €35,000 thousand corresponding to a fixed-term deposit of Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. - Sociedad Unipersonal (Iberclear), which in 2016 and up until the entry into force of the reform of the equity securities clearing, settlement and registration system (Note 1.a), was subject to the guarantee required by Banco de España for cash settlement fails, with this amount being freely available since the entry into force of the Reform.

At 31 December 2017 bank deposits also include €2,000 thousand relating to fixed-term deposits from Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. - Sociedad Unipersonal, and €1,500 thousand corresponding to a fixed-term deposit of Infobolsa Deutschland, GmbH.

Other fixed income securities at 31 December 2017 and 2016 correspond to commercial paper, whose counterparty is Banco Sabadell, S.A. at 31 December 2017 and Banco Sabadell, S.A. and Banco Santander, S.A. at 31 December 2016. The above-mentioned assets are admitted to trading on AIAF.

***ii. Residual maturities and average interest rates***

Details, by maturity, of the consolidated balance sheet headings "Non-current financial assets" (excluding equity instruments and guarantees extended), "Current financial assets" (except others), and "Other current financial assets" (excluding fixed-income securities in CCP(BME Clearing Repo), equity securities in CCP, options in CCP , receivables for the settlement of daily options and futures trades, and cash receivables for settlement):

*Current financial assets and other current financial assets*

(Thousands of euros)

| | **Up to 1 week** | **1 week to 1 month** | **1 to 3 months** | **3 to 12 months** | **Total** | **Average interest rate** |
|---|---|---|---|---|---|---|
| **31 December 2017:** | | | | | | |
| Other financial assets | | | | | | |
| Reverse repurchase agreements | 17,173 | - | - | - | 17,173 | 0.00% |
| Bank deposits (own) | 6,723 | - | 3,500 | - | 10,223 | 0.02% |
| Bank deposits (others) | 3,154,887 | - | - | - | 3,154,887 | -0.40% |
| Debt securities | | | | | | |
| Other fixed income securities | - | - | - | 5,998 | 5,998 | 0.10% |
| | **3,178,783** | **-** | **3,500** | **5,998** | **3,188,281** | |
| **31 December 2016:** | | - | **-** | | | |
| Other financial assets | | | | | | |
| Reverse repurchase agreements | 1,056,688 | - | - | - | 1,056,688 | -0.43% |
| Bank deposits (own) | 8,922 | - | - | 36,900 | 45,822 | -0.07% |
| Bank deposits (others) | 1,447,920 | - | - | - | 1,447,920 | -0.40% |
| Debt securities | | | | | | |
| Other fixed income securities | - | - | - | 13,189 | 13,189 | 0.22% |
| | **2,513,530** | **-** | **-** | **50,089** | **2,563,619** | |

***iii. Acquisitions and disposals***

*Equity instruments*

The main acquisitions and disposals of equity instruments undertaken in 2017 and 2016 were as follows:

(Thousands of euros)

| | |
|---|---|
| Balance at 1 January 2016 | 10,777 |
| Less - Valuation adjustments (gross) | 280 |
| **Balance at 31 December 2016** | **11,057** |
| Plus - Valuation adjustments (gross) | 1,107 |
| **Balance at 31 December 2017** | **12,164** |

The most significant variations in equity instruments classified as available-for-sale financial assets in 2017 and 2016 are as follows:

In January 2016, the Parent acquired 380 shares in Sociedad Promotora Bilbao Gas Hub, S.A. for a par value of €10 plus a share premium of €15 each, for a total of €10 thousand. The entirety of the shareholding in Sociedad Promotora Bilbao Gas Hub, S.A., for the amount of €294 thousand is fully impaired at the close of both periods, of which €10 thousand correspond to impairment recognised during 2016 and charged to the consolidated income statement under "Impairment losses and gains (losses) on disposal of financial assets" (no amount was recognised in 2017 under this heading).

The gain in the "fair value" of Bolsa Mexicana de Valores, S.A., de C.V. (listed entity) compared to 31 December 2016, of €1,107 thousand (gain of €280 thousand in 2016) was recognised, net of tax, with a charge to equity (under "Other comprehensive income – Available-for-sale financial assets") - Note 11. At 31 December 2017 and 2016, the Parent owned 6,250,000 shares of Bolsa Mexicana de Valores, S.A., de C.V. approximately equivalent to a stake of 0.99%.

*Debt securities and other financial assets*

The main acquisitions and disposals of debt securities and other financial assets (excluding third-party bank deposits, deposits given, receivables in connection with the settlement of daily options and futures trades, guarantees given and others) during 2017 and 2016 are as follow:

(Thousands of euros)

| | Private fixed income | Term deposits | Total |
|---|---|---|---|
| **Balance at 1 January 2016** | **53,415** | **53,954** | **107,369** |
| Acquisitions | 32,160 | 3,196 | 35,356 |
| Amortisations | (72,500) | (11,425) | (83,925) |
| Plus – Restatements for amortised cost (gross) | 114 | 97 | 211 |
| **Balance at 31 December 2016** | **13,189** | **45,822** | **59,011** |
| Acquisitions | 5,995 | 16,224 | 22,219 |
| Amortisations | (13,200) | (51,825) | (65,025) |
| Plus – Restatements for amortised cost (gross) | 14 | 2 | 16 |
| **Balance at 31 December 2017** | **5,998** | **10,223** | **16,221** |

In 2017, the Group recognised interest income on the aforementioned debt securities and other financial assets totalling €14 thousand and €2 thousand, respectively (€114 thousand and €97 thousand respectively in 2016) under "Finance income – From marketable securities and other financial instruments" in the consolidated income statement (Note 21).

The main acquisitions and disposals of reverse repurchase agreements in 2017 and 2016 are disclosed in Note 9, which analyses cash and cash equivalents.

***iv. Impairment losses***

At 31 December 2016, the Group's investment in Sociedad Promotora Bilbao Gas Hub, S.A., for €10 thousand, was fully impaired, and the impairment was recognised under "Impairment and gains/(losses) on disposal of financial instruments" in the consolidated income statement (Note 21).

Other than those indicated above, no impairment losses were identified in either 2017 or 2016 that affect "Non-current financial assets", "Other current financial assets" and "Current financial assets".

**b) Other current financial liabilities**

The breakdown of this consolidated balance sheet heading by classification for measurement purposes, origin, currency and class is as follows:

(Thousands of euros)

| | 31-12-2017 | 31-12-2016 |
|---|---|---|
| **Classification for measurement purposes:** | | |
| Financial liabilities held for trading | 18,934,329 | 20,025,172 |
| Debt and Account payable | 3,200,804 | 2,513,852 |
| | **22,135,133** | **22,539,024** |
| **Source and classification for presentation:** | | |
| Other current financial liabilities | | |
| Guarantees received from participants | 3,172,052 | 2,504,591 |
| Financial instruments in CCP | 18,934,329 | 20,025,172 |
| Payables for settlement | 28,752 | 9,244 |
| Payables for cash withheld for settlement | - | 17 |
| Payables for cash for settlement | - | - |
| | **22,135,133** | **22,539,024** |
| **Currency:** | | |
| Euro | 22,135,133 | 22,539,024 |
| Other currencies | - | - |
| | **22,135,133** | **22,539,024** |
| **Nature:** | | |
| Derivatives | | |
| Fixed-income securities in CCP (BME Clearing Repo) | 17,868,540 | 18,896,416 |
| Options in CCP | 151,783 | 179,331 |
| Equity securities in CCP | 914,006 | 949,425 |
| Other financial liabilities | | |
| Guarantees received from BME Clearing and MEFF Tecnología y Servicios | 3,172,052 | 2,504,591 |
| Payables for settlement of daily options and futures trades | 28,752 | 9,244 |
| Payables for settlement of transitory balances | - | 17 |
| | **22,135,133** | **22,539,024** |
| **Total financial liabilities** | **22,135,133** | **22,539,024** |

The Directors consider that the carrying amount of the balances under "Other current financial liabilities" in the consolidated balance sheet is equivalent to their fair value.

The finance costs passed on to members and depositors are recognised under "Finance cost – Guarantees received from participants" in the consolidated income statements (Note 21).

The residual maturity of "Other current financial liabilities", with the exception of fixed income securities and options held in CCP, changes daily depending on the market positions held by the owners of these instruments.

# 8. Trade and other receivables

***i. Breakdown***

The table below details the composition of this consolidated balance sheet heading:

(Thousands of euros)

| | 31-12-2017 | 31-12-2016 |
|---|---|---|
| Trade receivables | 38,031 | 37,781 |
| Companies accounted for using the equity method | 471 | 472 |
| Less- Impairment losses | (4,000) | (3,518) |
| | **34,502** | **34,735** |
| Current tax assets (Note 16) | 42,544 | 43,962 |
| Other receivables | | |
| Public bodies (Note 16) | 2,324 | 2,418 |
| Loans to employees | 903 | 666 |
| | 3,227 | 3,084 |
| | **80,273** | **81,781** |

"Trade receivables" relates mainly to amounts receivable from services rendered by the various Group Companies.

The carrying amount of trade and other receivables is similar to fair value. These balances do not generate interest.

*ii. Impairment losses*

The movement in provisions for impairment losses on assets included under “Trade receivables” in the consolidated balance sheets is as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 3,518 | 3,478 |
| Contributions due to business combinations (Note 2.a) | - | 190 |
| Provisions recognised in the income statement and write-downs | 1,251 | 1,226 |
| Release of provisions with a credit to income | (600) | (940) |
| Net provisions (releases) for the year and write-downs | 651 | 286 |
| Amounts used with no impact on profit or loss | (169) | (436) |
| **Balance at 31 December** | **4,000** | **3,518** |

Net provisions recognised in 2017 and 2016, amounting to €651 thousand and €286 thousand, respectively, in connection with impairment losses on the assets included in “Trade receivables” are recognised under “Other operating costs – Losses, impairment and changes in trade provisions” in the consolidated income statement (Note 20).

In 2017 and 2016, the Group also recognised impairment losses on the write-down of irrecoverable “Trade receivables” of €2 thousand and €15 thousand, respectively, under “Other operating costs – Losses, impairment and changes in trade provisions” in the consolidated income statement (see Note 20).

There follows a breakdown of “Trade receivables”, “Companies accounted for using the equity method” and “Other receivables” at 31 December 2017 and 2016, by maturity and geographical areas where the risks are located:

(Thousands of euros)

| | | Unpaid balances past-due by | | | | | |
|---|---|---|---|---|---|---|---|
| | Balances not yet due and past due Up to 3 Months | Between 3 and 6 Months | Between 6 and 12 Months | Between 12 and 18 Months | Between 18 and 24 Months | More than 24 Months | Total |
| **31 December 2017:** | | | | | | | |
| By geographic area | | | | | | | |
| Spain | 28,076 | 231 | 1,014 | 113 | 550 | 2,756 | 32,741 |
| Rest of the world | 7,981 | 289 | 357 | 61 | 33 | 267 | 8,988 |
| | **36,057** | **520** | **1,371** | **174** | **583** | **3,023** | **41,729** |
| **31 December 2016:** | | | | | | | |
| By geographic area | | | | | | | |
| Spain | 28,401 | 459 | 897 | 261 | 519 | 2,317 | 32,854 |
| Rest of the world | 7,332 | 486 | 257 | 106 | 18 | 284 | 8,483 |
| | **35,733** | **945** | **1,154** | **367** | **537** | **2,601** | **41,337** |

## 9. Cash and cash equivalents

"Cash and cash equivalents" includes the short-term financial assets in which the Bolsas y Mercados Españoles Group invests its surplus cash. The breakdown in 2017 and 2016 is as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| **Category:** | | |
| Cash | 138,492 | 61,400 |
| Reverse repurchase agreements | 137,247 | 161,529 |
| Short-term deposits | - | 1,500 |
| | 275,739 | 224,429 |
| Less - Impairment losses | - | - |
| **Net balance** | **275,739** | **224,429** |

The carrying amount of these assets is similar to their fair value.

The maturities and average returns on the assets included under "Cash and cash equivalents" in the consolidated balance sheets, excluding actual cash balances, at 31 December 2017 and 2016 are as follows:

(Thousands of euros)

| | Up to 1 week | 1 week to 1 month | 1 to 3 months | Total | Average interest rate |
|---|---|---|---|---|---|
| **31 December 2017:** | | | | | |
| Reverse repurchase agreements | 137,247 | - | - | 137,247 | 0.00% |
| | **137,247** | **-** | **-** | **137,247** | |
| **31 December 2016:** | | | | | |
| Reverse repurchase agreements | 161,529 | - | - | 161,529 | -0.17% |
| Short-term deposits | 1,500 | - | - | 1,500 | 0.00% |
| | **163,029** | **-** | **-** | **163,029** | |

The changes in 2017 and 2016 in reverse repurchase agreements included under "Other current financial assets" (Note 7) and "Cash and cash equivalents" and in short-term deposits under "Cash and cash equivalents" consolidated balance sheet were as follows:

(Thousands of euros)

| | Reverse repurchase agreements | Short-term bank deposits | Private fixed income | Total |
|---|---|---|---|---|
| Balances at 1 January 2016 | **2,980,128** | **-** | **-** | **2,980,128** |
| Additions due to business combinations (Note 1-b) | 4,512 | 1,401 | - | 5,913 |
| Purchases | 729,527,573 | 1,500 | 21,000 | 729,550,073 |
| Sales | (731,293,996) | (1,401) | (21,000) | (731,316,397) |
| **Balances at 31 December 2016** | **1,218,217** | **1,500** | **-** | **1,219,717** |
| Purchases | 347,411,140 | 3,000 | - | 347,414,140 |
| Sales | (348,474,937) | (4,500) | - | (348,479,437) |
| **Balances at 31 December 2017** | **154,420** | **-** | **-** | **154,420** |

No impairment losses were recognised for these financial assets in 2017 and 2016.

The income generated on these assets in 2017 and 2016, recognised under "Finance income – From marketable securities and other financial instruments" in the consolidated income statements (Note 21), is as follows.

(Thousands of euros)

| | Reverse repurchase agreements | Short-term bank deposits | Private fixed income | Total |
|---|---|---|---|---|
| 2017 | (1) | - | - | (1) |
| 2016 | (29) | - | 5 | (24) |

## 10. Other current assets

This consolidated balance sheet heading at 31 December 2017 and 2016 includes prepaid expenses recognised by the various Group companies in connection with their operating activities.

## 11. Equity

"Equity" on the consolidated balance sheets primarily includes the contributions by owners and retained earnings recognised in the consolidated income statement. Amounts in respect of subsidiaries are presented under separate headings.

Movements in the various balances included in equity in 2017 and 2016 were as follows:

(Thousands of euros)

| | | | RESERVES | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Capital | Share premium | Legal reserve | Other reserves | Reserves in consolidated companies | Parent shares and equity holdings | Results for the year attributable to Parent | Interim dividend (Note 3) | Other equity instruments | Other comprehensive income | Non-controlling interests | Equity |
| **Balances at 1 January 2016** | **250,847** | **-** | **54,016** | **315,735** | **(279,618)** | **(4,449)** | **173,463** | **(83,420)** | **5,358** | **1,150** | **-** | **433,082** |
| Distribution of 2015 profit | - | - | - | 12,463 | - | - | (173,463) | 83,420 | - | - | - | (77,580) |
| Actuarial gains and losses and other (Nota 13) | - | - | - | (1,008) | - | - | - | - | - | - | - | (1,008) |
| Equity-based payments, net (Note 19) | - | - | - | (785) | - | 1,614 | - | - | 1,581 | - | - | 2,410 |
| Valuation adjustments (Note 7) | - | - | - | - | - | - | - | - | - | 210 | - | 210 |
| Transfers between equity items | - | - | - | (1,038) | 1,038 | - | - | - | - | - | - | - |
| Transactions with parent company shares and equity holdings | - | - | - | - | - | (10,478) | - | - | - | - | - | (10,478) |
| Increase (decrease) in equity due to business combinations (Note 2.a) | - | - | - | - | - | - | - | - | - | - | 213 | 213 |
| Profit/(loss) for the year | - | - | - | - | - | - | 160,260 | - | - | - | 45 | 160,305 |
| Interim dividend from profit from 2016 | - | - | - | - | - | - | - | (83,096) | - | - | - | (83,096) |
| Other changes | - | - | - | (8) | - | - | - | - | - | - | - | (8) |
| **Balances at 31 December 2016** | **250,847** | **-** | **54,016** | **325,359** | **(278,580)** | **(13,313)** | **160,260** | **(83,096)** | **6,939** | **1,360** | **258** | **424,050** |
| Adjustments for changes in accounting criteria | - | - | - | - | - | - | - | - | - | - | - | - |
| **Balances at 1 January 2017** | **250,847** | **-** | **54,016** | **325,359** | **(278,580)** | **(13,313)** | **160,260** | **(83,096)** | **6,939** | **1,360** | **258** | **424,050** |
| Distribution of 2016 profit | - | - | - | 10,691 | - | - | (160,260) | 83,096 | - | - | - | (66,473) |
| Actuarial gains and losses and other (Note 13) | - | - | - | 269 | - | - | - | - | - | - | - | 269 |
| Equity-based payments, net (Note 19) | - | - | - | 516 | - | 1,352 | - | - | 162 | - | - | 2,030 |
| Valuation adjustments (Note 7) | - | - | - | - | - | - | - | - | - | 819 | - | 819 |
| Transfers between equity items | - | - | - | (5,233) | 5,233 | - | - | - | - | - | - | - |
| Transactions with Parent shares and equity holdings | - | - | - | - | - | (465) | - | - | - | - | - | (465) |
| Profit/(loss) for the year | - | - | - | - | - | - | 153,319 | - | - | - | 21 | 153,340 |
| Interim dividend from profit from 2017 | - | - | - | - | - | - | - | (83,133) | - | - | - | (83,133) |
| Other changes | - | - | - | (11) | - | - | - | - | - | - | - | (11) |
| **Balances at 31 December 2017** | **250,847** | **-** | **54,016** | **331,591** | **(273,347)** | **(12,426)** | **153,319** | **(83,133)** | **7,101** | **2,179** | **279** | **430,426** |

## a) Capital

***i. Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros (Parent company)***

At 31 December 2017 and 2016, Bolsas y Mercados Españoles' share capital consisted of 83,615,558 fully subscribed and paid-in shares with a par value of €3.00 each. The Company's shares are listed on the electronic trading system ("continuous market") of the Spanish stock exchanges and all enjoy the same voting and dividend rights.

At 31 December 2017 and 2016 the breakdown of shareholders holding interests of 3% or over in Bolsas y Mercados Españoles, according to the information in Shareholders' Register, which contains trades carried out in 2017 and 2016, was as follows:

| Name or corporate name of shareholder | Ownership interest | |
|---|---|---|
| | 2017 | 2016 |
| Corporación Financiera Alba, S.A. | 12,06% | 12,06% |

At 31 December 2016, the Groups "State Street Bank and Trust Co" and "Chase Nominees" appeared in the Shareholder Register with stakes in BME's share capital of 3.34% and 3.12%, respectively (both lower than 3% at 31 December 2017). However, the Company believes that these shares are held in custody for third parties and that, as far as BME is aware, none of these hold over 3% of the company's share capital or voting rights.

***ii. Subsidiaries***

At 31 December 2017 and 2016:

1. None of the shares of the Group's subsidiaries (Appendix I) were listed on the official stock exchanges:

2. No subsidiary had uncalled share capital.

3. No subsidiaries are in the process of increasing their capital, or, in any event, any such issuances were not material in respect of the overall Group.

4. No authorisations have been granted by the General Shareholders' Meetings to subsidiaries to increase capital, or, in any event, they have not done so for amounts material in respect of the overall Group.

## b) Reserves

***i. Legal reserve***

Under Article 274 of the Corporate Enterprises Act, an amount equal to 10% of the profit for the year must be earmarked for the legal reserve until such reserve represents at least 20% of share capital. The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Except as mentioned above, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At 31 December 2017 and 2016 the parent company of the Group had fully allocated the legal reserve in the amount of €54,016 thousand, included under "Reserves" in the accompanying consolidated balance sheet.

***ii. Other reserves***

The changes in this heading in 2017 and 2016 include €516 thousand and €785 thousand relating to the net gain and loss recognised by the Group as a result of the settlement of the first three-year period of the 2014–2019 Plan and the third three-year period of the 2011–2016 Plan respectively, (see sections c) and e) of this Note, and Note 19-c), respectively.

The remaining reserves are unrestricted:

***iii. Reserves in consolidated companies***

The breakdown of this consolidated balance sheet heading by company, after consolidation adjustments, is as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., - Sociedad Unipersonal [1] | (187,669) | (186,573) |
| Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A., - Sociedad Unipersonal [2] | (23,552) | (23,653) |
| Sociedad Rectora de la Bolsa de Valores de Valencia, S.A., - Sociedad Unipersonal | (12,361) | (12,236) |
| Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A., - Sociedad Unipersonal | (22,440) | (22,467) |
| Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., - Sociedad Unipersonal | 18,619 | 13,432 |
| Instituto Bolsas y Mercados Españoles, S.L., - Sociedad Unipersonal | (1) | 1 |
| MEFF Euroservices, S.A., Sociedad Unipersonal [3] | - | (787) |
| MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal | 1,385 | 1,293 |
| BME Clearing, S.A. – Sociedad Unipersonal | (33,097) | (33,082) |
| MEFF Tecnología y Servicios, S.A., - Sociedad Unipersonal [4] | (2,448) | (1,623) |
| BME Renta Fija, S.A., - Sociedad Unipersonal [5] | (802) | (817) |
| Bolsas y Mercados Españoles Innova, S.A., - Sociedad Unipersonal [5] | - | (1,856) |
| Bolsas y Mercados Españoles Market Data, S.A. | 703 | 676 |
| Bolsas y Mercados Españoles Sistemas de Negociación, S.A. | 256 | 256 |
| Sociedad de Bolsas, S.A. | (9,019) | (9,380) |
| Bolsas y Mercados Españoles Inntech, S.A. - Sociedad Unipersonal [6] | (743) | 881 |
| BME Post Trade Services, S.A.- Sociedad Unipersonal [7] | (1,869) | (2,223) |
| Regis-TR, S.A. | (309) | (422) |
| | **(273,347)** | **(278,580)** |

(1) Includes the reserves in consolidated companies contributed by Visual Trader, S.L. until its absorption by Bolsas y Mercados Españoles Innova S.A. - Sociedad Unipersonal in 2017 (Note 2.a).
(2) Included, at 31 December 2016, the reserves in consolidated companies contributed by Centro de Cálculo de Bolsa, S.A. - Sociedad Unipersonal, liquidated in 2017 (Note 2.a).
(3) Company absorbed in the 2017 by MEFF Tecnología y Servicios, S.A. – Sociedad Unipersonal (Note 2.a).
(4) At 31 December 2017, this includes the reserves in consolidated companies originating from the absorbed company MEFF Euroservices, S.A., Sociedad Unipersonal (Note 2.a).
(5) Formerly AIAF Mercado de Renta Fija, S.A., - Sociedad Unipersonal.
(6) Company absorbed in 2017 by Infobolsa. S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.) - Sociedad Unipersonal) -Note 2.a-.
(7) Formerly Infobolsa, S.A. – Sociedad Unipersonal. At 31 December 2017, this includes the reserves in consolidated companies originating from the absorbed company Bolsas y Mercados Españoles Innova, S.A., - Sociedad Unipersonal (Note 2.a).
(8) Formerly Link Up Capital Markets, S.A., Sociedad Unipersonal (Appendix I).

The negative balances of reserves in consolidated companies shown in the preceding table arose as a consequence of the distribution of dividends to Bolsas y Mercados Españoles by some of the Affected Companies with charges against reserves generated in respect of income earned prior to 1 October, 2002 (the date on which the Affected Companies began to generate profit for Bolsas y Mercados Españoles).

### c) Treasury shares

At 31 December 2017 and 2016, the breakdown of treasury shares held by the Company was as follows:

| | No. of shares | Par value (euros) | Average acquisition price (euros) | Total acquisition cost (Thousands of euros) |
|---|---|---|---|---|
| Treasury shares at 31 December 2017 | 489,258 | 3.00 | 25.40 | 12,426 |
| Treasury shares at 31 December 2016 | 524,833 | 3.00 | 25.37 | 13,313 |

At its meeting on 31 July 2008, the Board of Directors of the Company approved the acquisition of 337,333 shares in BME, equivalent to 0.40% of share capital, and the acquisition was carried out in August 2008, for the purpose of implementing the share-based payment plan approved in 2008, which was due for settlement on 31 December 2010. However, as the targets established under this plan had not been met at that date, no share-based bonuses were paid to beneficiaries.

In May 2016, to cover the settlement of the third three-year period of the 2011-2016 Pluri-Annual Variable Remuneration Plan, the Company delivered 71,083 treasury shares to the beneficiaries of said Plan (see Note 19-c), the fair value of which at the date of delivery was €1,979 thousand. The cost of these treasury shares, in the amount of €1,614 thousand, was derecognised.

In June 2017, to cover the settlement of the first three-year period of the 2014-2019 Pluri-Annual Variable Remuneration Plan, the Company delivered 53,301 treasury shares to the beneficiaries of said Plan (see Note 19-c), the fair value of which at the date of delivery was €1,682 thousand. The cost of these treasury shares, in the amount of €1,352 thousand, was derecognised.

In 2017 and 2016 the Company acquired 17,726 treasury shares and 400,000 treasury shares, respectively, in the amounts of €465 thousand and €10,478 thousand, respectively.

### d) Profit/(loss) for the year attributable to the Parent

The contributions to consolidated profit for the year in 2017 and 2016 by the companies included in the consolidation scope breakdown were as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. | (8,085) | (5,729) |
| Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., - Sociedad Unipersonal [1] | 52,118 | 52,484 |
| Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A., - Sociedad Unipersonal [2] | 10,703 | 13,505 |
| Sociedad Rectora de la Bolsa de Valores de Valencia, S.A., - Sociedad Unipersonal | 2,172 | 2,024 |
| Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A., - Sociedad Unipersonal | 6,920 | 6,882 |
| Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., - Sociedad Unipersonal | 36,520 | 39,476 |
| Instituto Bolsas y Mercados Españoles, S.L., - Sociedad Unipersonal | 26 | 69 |
| MEFF Euroservices, S.A., Sociedad Unipersonal [3] | - | (33) |
| MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal | 2,498 | 3,761 |
| BME Clearing, S.A. – Sociedad Unipersonal | 11,752 | 10,769 |
| MEFF Tecnología y Servicios, S.A., - Sociedad Unipersonal | 781 | 576 |
| BME Renta Fija, S.A., - Sociedad Unipersonal [4] | 3,171 | 3,654 |
| Bolsas y Mercados Españoles Innova, S.A., - Sociedad Unipersonal [5] | - | 801 |
| Bolsas y Mercados Españoles Market Data, S.A. | 25,314 | 24,098 |
| Bolsas y Mercados Españoles Sistemas de Negociación, S.A. | 2,065 | 2,168 |
| Sociedad de Bolsas, S.A. | 3,325 | 4,885 |
| Bolsas y Mercados Españoles Inntech, S.A. - Sociedad Unipersonal [6] | 2,168 | 372 |
| BME Post Trade Services, S.A.- Sociedad Unipersonal [7] | 777 | 379 |
| Regis-TR, S.A. | 1,094 | 119 |
| | **153,319** | **160,260** |

(1) In 2016, this included the profit/(loss) contributed by Visual Trader, S.L., absorbed by Bolsas y Mercados Españoles Innova, S.A. - Sociedad Unipersonal in 2017 (Note 2.a).

(2) In 2016, this included the profit/(loss) contributed by Centro de Cálculo de Bolsas, S.A., - Sociedad Unipersonal, liquidated in 2017 (Note 2.a).

(3) Company absorbed in the 2017 by MEFF Tecnología y Servicios, S.A. – Sociedad Unipersonal (Note 2.a).

(4) Formerly AIAF Mercado de Renta Fija, S.A., - Sociedad Unipersonal.

(5) Company absorbed in 2017 by Infobolsa. S.A. – Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.) - Sociedad Unipersonal) -Note 2.a-.

(6) Formerly Infobolsa, S.A. – Sociedad Unipersonal (Note 2.a).

(7) Formerly Link Up Capital Markets, S.A., Sociedad Unipersonal (Appendix I).

### e) Other equity instruments

This includes the amount of compound financial instruments having the nature of equity, the changes in equity owing to employee compensation, and other items not included in other equity items. At 31 December 2017 and 2016, the only items under this heading, in the respective amounts of €7,101 thousand and €6,939 thousand, relate to the equity instruments for staff remuneration stipulated in Note 19-c).

In 2017 and 2016, provisions were recognised in "Other equity instruments" resulting from the Pluri-Annual Variable Remuneration Plan in Shares and the medium term Variable Remuneration Plan in Shares in effect, in the respective amounts of €3,310 thousand and €3,467 thousand (see Note 19-c).

In 2016, the Company derecognised the estimated fair value at 31 December 2015 of the equity instruments for the third three-year period of the 2011–2016 Plan, corresponding to the beneficiaries of the Plan, in the amount of €1,886 thousand (excluding, for these purposes, 50% of the fair value of the Plan attributed to the beneficiaries of Infobolsa, S.A. – Sociedad Unipersonal, now Bolsas y Mercados Españoles Inntech, S.A.U. - Note 2.a -, accrued until its full integration with the Group, for the amount of €5 thousand) (Note 19-c).

Similarly, in 2017, the Company derecognised the estimated fair value at 31 December 2016 of the equity instruments for the first three-year period of the 2014–2019 Plan, corresponding to the beneficiaries of the Plan, in the amount of €3,148 thousand (excluding, for these purposes, 50% of the fair value of the Plan attributed to the beneficiaries of Infobolsa, S.A. – Sociedad Unipersonal, now Bolsas y Mercados Españoles Inntech, S.A.U. - Note 2.a -, accrued until its full integration with the Group, for the amount of €10 thousand) (Note 19-c).

### f) Other comprehensive income

This consolidated balance sheet heading reflects the amount (net of the tax effect) of changes in the fair value of assets classified as available-for-sale that, pursuant to Note 2-e above, must be classified directly in equity attributable to the parent. These changes are recognised in the consolidated income statement when the assets giving rise to them are sold.

The change in this heading in 2017 and 2016 was as follows:

Thousands of euros

| | |
|---|---|
| **Balance at 1 January 2016** | **1,150** |
| Net valuation gains (loss) | 210 |
| **Balance at 31 December 2016** | **1,360** |
| Net valuation gains (loss) | 819 |
| **Balance at 31 December 2017** | **2,179** |

Net valuation gains (losses) recognised correspond in their entirety to valuation adjustments due to changes in the fair value of the Group's shareholding in Bolsa Mexicana de Valores, S.A., de C.V. for the amount of €830 thousand (€210 thousand in 2016).

### g) Non-controlling interests

At 31 December 2017 and 31 December 2016, the amount recognised in "Non-controlling interests" on the consolidated balance sheet was €279 thousand and €258 thousand, respectively. This corresponded to the minority interests holding a 19% stake in Open Finance, S.L. (Note 2.a).

## 12. Non-current provisions - Other provisions

This section contains the provisions recognised by the Group at 31 December 2017 and 2016 deriving from contingencies inherent to its business. The table below shows the movements during 2017 and 2016.

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Balance at 1 January | 4,984 | 5,973 |
| Provisions recognised in income | - | - |
| Recoveries credited to income | - | (966) |
| Applications | (633) | (23) |
| **Balance at 31 December** | **4,351** | **4,984** |

## 13. Non-current provisions – Long-term employee benefit obligations

The breakdown of this heading is as follows:

(Thousands of euros)

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Provisions for employee benefits | | |
| Performance, loyalty and length-of-service bonuses | 586 | 743 |
| Retirement bonuses | - | - |
| Health benefits | 10,033 | 9,738 |
| | **10,619** | **10,481** |
| Other long-term employee benefits | 54 | 49 |
| **Total** | **10,673** | **10,530** |

As a result of the business combination of Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A.U., Note 2.a -), €43 thousand were incorporated into the Group under "Other long-term employee benefits" as a result of the takeover detailed in February 2016, and which at 31 December 2016 amounted to €49 thousand.

***Provisions for employee benefits***

Certain Group companies have undertaken, under the terms of the Collective Bargaining Agreement (or collective bargaining agreements), to pay their employees certain bonuses in reward of performance, loyalty and years of uninterrupted service, subject to certain requirements, in addition to retirement bonuses and health benefits (Note 2-k).

The Group measured the present value of pension obligations using the following criteria:

- Calculation method: "Projected credit unit", this considers each year of service as the generator of an additional unit of a right to remuneration, with each unit being valued separately.

- Actuarial assumptions used: unbiased and mutually compatible. In general, the most important actuarial assumptions used in the calculations are as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rate | 1.04%-1.84% | 1.03%-1.84% |
| Mortality tables | PERMF-2000P | PERMF-2000P |
| Retirement age | 65 years | 65 years |
| Expected return on assets (*) | 1.04%-1.76% | 1.03%-1.76% |
| Increase in health benefit cost | 3.5% | 3.5% |
| Future salary increase | 3.3% | 3.3% |
| Growth in retirement bonuses | 1.0% | 1.0% |
| Life expectancy (**) | | |
| *Employees retiring in 2017/2016* | | |
| Men | 22.80 | 22.68 |
| Women | 27.29 | 27.17 |
| Employees retiring in 2037/2036 | | |
| Men | 25.12 | 25.01 |
| Women | 29.43 | 29.34 |

(*) Range of market rates applied by the various Group companies, depending on the average length of time until bonus payments fall due in each of the collective bargaining agreements.
(**) Statistical data based on mortality tables.

- Discount rate: The Group determined the discount rate by reference to market yields at the end of the reporting period on high quality corporate bonds and debentures of a currency and term consistent with the currency and term of the post-employment benefit obligations. Specifically, the Group used the market yields of the Markit iBoxx € Corporates AA indexes. The weighted average duration of post-employment benefit obligations through retirement plans and health benefits is 12.82 and 22.74 years, respectively.

The sensitivity of post-employment defined benefit obligations for retirement bonuses and health benefits to changes in the main weighted assumptions, by weighting, is as follows:

| | Change in assumptions in bp | Increase in assumptions | Decrease in assumptions |
|---|---|---|---|
| Retirement bonuses: | | | |
| Discount rate | 50 | -5.80% | 6.35% |
| Bonus increases | 50 | 6.59% | -6.06% |
| Health benefits: | | | |
| Discount rate | 50 | -10.63% | 12.41% |
| Health benefit increases | 100 | 17.73% | -14.18% |

This sensitivity analysis is based on a change in assumptions, all other things being equal.

The expected maturity of undiscounted post-retirement pension benefits, in thousands of euros, is as follows:

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 - 2027 |
|---|---|---|---|---|---|---|
| Retirement bonuses | 97 | 245 | 446 | 725 | 783 | 2,392 |
| Health benefits | 94 | 99 | 120 | 146 | 185 | 1,184 |

The changes in the net accumulated balances of these provisions in 2017 and 2016 were as follows:

(Thousands of euros)

| | Pension obligations (Assets)/Liabilities - Note 2.k - | | | | |
|---|---|---|---|---|---|
| | **Retirement bonuses** | **Health benefits** | **Loyalty bonuses** | **Other long-term employee benefits** | **Total** |
| Balances at 1 January 2016 | **(398)** | **8,200** | **763** | **-** | **8,565** |
| Additions due to business combinations (Note 2.a) | - | - | - | 43 | 43 |
| Net provision (reversal) with a charge (credit) to profit/(loss) (*) | 377 | 461 | (20) | 15 | 833 |
| Net provision (reversal) with a charge (credit) to equity (Note 11) | (124) | 1,132 | - | - | 1,008 |
| Amounts used | (247) | (55) | - | (9) | (311) |
| **Balances at 31 December 2016** | **(392)** | **9,738** | **743** | **49** | **10,138** |
| Net provision (reversal) with a charge (credit) to profit/(loss) (*) | 440 | 465 | 52 | 15 | 972 |
| Net provision (reversal) with a charge (credit) to equity (Note 11) | (162) | (107) | - | - | (269) |
| Amounts used | 73 | (63) | (209) | (10) | (209) |
| **Balances at 31 December 2017** | **(41)** | **10,033** | **586** | **54** | **10,632** |

(*) Net reversals charged to income corresponding to loyalty bonuses relate to the current service cost for the period of €26 thousand (€28 thousand in 2016) – Note 19-, actuarial losses for the amount of €22 thousand (€56 thousand in 2016) - Note 19 - and an interest cost for the amount of €4 thousand (€8 thousand in 2016) (Note 21).

At 31 December 2017 and 2016, the asset arising from "Long-term employee benefit obligations" corresponding to retirement bonuses for the amount of €41 thousand and €392 thousand respectively, was recognised under "Non-current financial assets" in the consolidated balance sheet (Note 7).

***Retirement bonuses***

The amounts recognised in the consolidated income statement and directly in consolidated equity in respect of retirement bonuses were as follows:

(Thousands of euros)

| Long-term employee benefit obligations – Retirement bonuses | 2017 | 2016 |
|---|---|---|
| Current service cost (Note 19) | 441 | 380 |
| Interest costs (Note 21) | 103 | 146 |
| Expected return on insurance policies (Note 21) | (104) | (149) |
| Actuarial (gains)/losses recognised in equity | (162) | (124) |
| | **278** | **253** |

The changes in the fair value of the obligations accrued in respect of retirement obligations were as follows:

(Thousands of euros)

| Long-term employee benefit obligations – Retirement bonuses | 2017 | 2016 |
|---|---|---|
| Present value of obligations at 1 January | 7,795 | 6,826 |
| Adjustment due to business combinations (Note 2.a) | - | 299 |
| Current service cost | 441 | 380 |
| Interest costs | 103 | 146 |
| Actuarial (gains)/losses recognised in equity | (72) | 144 |
| Benefits paid | (385) | - |
| Transfers | (8) | - |
| **Present value of obligations at 31 December** | **7,874** | **7,795** |

The changes in the fair value of the insurance policies linked to the retirement obligations were as follows:

(Thousands of euros)

| Long-term employee benefit obligations – Retirement bonuses | 2017 | 2016 |
|---|---|---|
| Fair value of insurance policies  linked to pensions at 1 January | 8,187 | 7,224 |
| Adjustment due to business combinations (Note 2.a) | - | 299 |
| Expected return on insurance policies | 104 | 149 |
| Actuarial gains/(losses) recognised in equity | 90 | 268 |
| Premiums paid | 463 | 247 |
| Benefits paid and others | (921) | - |
| Transfers | (8) | - |
| **Fair value of insurance policies linked to pensions at 31 December** | **7,915** | **8,187** |

The status of retirement bonus obligations at year-end is set forth below:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Present value of obligations | 7,874 | 7,795 |
| Less: | | |
| Fair value of plan assets | 7,915 | 8,187 |
| **Provisions (assets) for employee benefits - retirement bonuses (Note 7)** | **(41)** | **(392)** |

Plan assets comprise qualifying insurance policies at 31 December 2017 and 2016, respectively.

Expected contributions to post-employment benefits for 2018 amount to €397 thousand.

***Health benefits***

The amounts recognised in the consolidated income statement and directly in consolidated equity in respect of health benefit commitments are as follows:

(Thousands of euros)

| Long-term employee benefit obligations – Health benefits | 2017 | 2016 |
|---|---|---|
| Current service cost (Note 19) | 295 | 261 |
| Interest costs (Note 21) | 170 | 200 |
| Actuarial (gains)/losses recognised in equity | (107) | 1,132 |
| | **358** | **1,593** |

The changes in the fair value of the obligations accrued in respect of health benefit commitments were as follows:

(Thousands of euros)

| Long-term employee benefit obligations – Health benefits | 2017 | 2016 |
|---|---|---|
| Present value of obligations at 1 January | 9,738 | 8,200 |
| Current service cost | 295 | 261 |
| Interest costs | 170 | 200 |
| Actuarial (gains)/losses recognised in equity | (107) | 1,132 |
| Benefits paid | (63) | (55) |
| **Present value of obligations at 31 December** | **10,033** | **9,738** |

The status of health benefit commitments at year-end is set forth below:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Present value of obligations | 10,033 | 9,738 |
| Less: | | |
| Fair value of plan assets | - | - |
| **Provisions for employee benefits - Health benefits** | **10,033** | **9,738** |

## 14. Trade and other payables

The breakdown of this consolidated balance sheet heading at 31 December 2017 and 2016 is as follows.

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Suppliers | 22,491 | 22,958 |
| Suppliers, companies accounted for using the equity method | - | - |
| Current tax liabilities (Note 16) | 49,065 | 52,314 |
| Other payables | | |
| Public bodies (Note 16) | 16,127 | 14,248 |
| Wages and salaries payable (Note 19) | 8,059 | 7,567 |
| | 24,186 | 21,815 |
| | **95,742** | **97,087** |

"Trade payables" mainly comprises amounts payable for business related procurements and related costs.

The Directors believe that the carrying amount of the balances grouped under "Trade and other payables" on the consolidated balance sheet are equivalent to their fair value.

## 15. Other current liabilities

At 31 December 2017 and 2016, this consolidated balance sheet heading mainly comprised deferred income recognised by the various Group companies.

## 16. Tax

### a) Consolidated tax group

Under prevailing tax legislation, the consolidated tax group includes Bolsas y Mercados Españoles as Parent Company plus all the consolidated entities as subsidiaries, except Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A., Sociedad Unipersonal, Difubolsa - Serviços de Difusão e Informação de Bolsa, S.A., Infobolsa Deutschland, GmbH, BME Soporte Local Colombia S.A.S. and Regis-TR, S.A. On 1 January 2017 Bolsas y Mercados Españoles Inntech, S.A.U., formerly Infobolsa, S.A. – Sociedad Unipersonal and Open Finance, S.L., and from the date of its incorporation (on 12 May 2017), BME Regulatory Services, S.A.U., were included in the Consolidated Tax Group. (Note 2-p).

At a meeting on 17 December 2014, the Board of Directors of Bolsas y Mercados Españoles unanimously agreed to adopt the Special Companies Group System for Value-Added Tax, exercising the option stipulated in Article 163 sexies, Five of Law 37/1992, as of 1 January 2015. Subsequently, on 29 December 2014, Bolsas y Mercados Españoles applied to pay tax under the Special System, with the Company as Parent and the following as subsidiaries: Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U., BME Clearing S.A.U., MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A.U., Sociedad de Bolsas, S.A., Bolsas y Mercados Españoles Sistemas de Negociación, S.A. and Bolsas y Mercados Españoles Market Data, S.A.

Effective as of 1 January 2017, the following companies were incorporated into the aforementioned Special System: Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U., Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.U., Sociedad Rectora de la Bolsa de Valores de Valencia, S.A.U., Bolsas y Mercados Españoles Renta Fija, S.A.U. (formerly AIAF Mercado de Renta Fija, S.A.U.) and BME Post Trade Services, S.A.U. (formerly Link Up Capital Markets, S.A.U.).

### b) Years open to inspection

All the Group companies have all operations carried out in the last four years (or since incorporation for those companies set up during this period) open to tax inspections in respect of the applicable taxes.

Due to the different possible interpretations of tax regulations, any tax audits of the years open to inspection that could be carried out in the future by the tax authorities could result in additional tax liabilities, the amount of which cannot be objectively quantified at present. However, Bolsas y Mercados Españoles' tax advisors and directors consider the possibility of significant additional liabilities arising in this respect to be remote.

### c) Tax receivable and payable

Receivables from and payable to public bodies at 31 December 2017 and 2016 are as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| **Deferred tax assets:** | | |
| Deferred taxes arising on | | |
| Differences between accounting and tax criteria | 9,065 | 10,284 |
| | **9,065** | **10,284** |
| **Current tax assets (Note 8):** | | |
| Tax assets arising on | | |
| Income tax withholdings and payments on account | 41,130 | 43,235 |
| Other tax assets | 1,414 | 727 |
| | **42,544** | **43,962** |
| **Other receivables (Note 8):** | | |
| Value-added tax | 2,304 | 2,398 |
| Other tax assets | 20 | 20 |
| | **2,324** | **2,418** |
| **Deferred tax liabilities:** | | |
| Deferred taxes arising on | | |
| Differences between accounting and tax criteria | 5,100 | 4,823 |
| | **5,100** | **4,823** |
| **Current tax liabilities (Note 14):** | | |
| Tax liabilities arising on | | |
| Income tax provision | 49,065 | 52,314 |
| | **49,065** | **52,314** |
| **Other payables (Note 14):** | | |
| Tax liabilities arising on | | |
| Withholdings and contributions payable to social security | 12,924 | 11,579 |
| Value-added tax | 3,203 | 2,669 |
| | **16,127** | **14,248** |

At 31 December 2017 and 2016, "Deferred tax assets" (non-current assets) included basically the temporary differences resulting from the recognition of non-current provisions (Notes 12 and 13) and the contributions to insurance arranged in the way of a supplementary pension, in addition to defined-benefit post-employment obligations held by the Group (see Note 2-k), as well as the provisions performed due to the share-based remuneration plans (Note 19-c).

At 31 December 2017 and 2016, "Deferred tax liabilities" mainly comprised the tax effect of the amortisation of goodwill in Iberclear (Note 5) for the amount of €3,747 thousand. At 31 December 2017, this balance also included €729 thousand relating to the tax effect of the valuation adjustment made to the Group's shareholding in Bolsa Mexicana de Valores, S.A., de C.V. (€452 thousand at 31 December 2016) (Note 7).

At 31 December 2017 and 2016, “Withholdings and contributions payable to Social Security” included withholdings on dividends of €9,476 thousand and €8,300 thousand respectively.

### d) Reconciliation of accounting profit to taxable income, and accounting profit to income tax expense

The reconciliation of accounting profit to taxable income and the income tax expense in 2017 and 2016 are as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Consolidated profit before tax | 202,868 | 211,368 |
| Impact of permanent differences and consolidation adjustments | 1,100 | (7,726) |
| Impact of temporary differences: | | |
| Increase | 7,715 | 15,250 |
| Decrease | (12,482) | (7,015) |
| Consolidated taxable income | 199,201 | 211,877 |
| Offset of tax loss carryforwards | (596) | (305) |
| Average tax rate | 24.73% | 24.86% |
| Share | 49,258 | 52,683 |
| Impact of temporary differences and consolidation adjustments | 1,298 | (1,419) |
| Tax credits | (139) | (225) |
| **Total income tax expense** | **50,417** | **51,039** |

Income tax payable for 2017 amounted to €50,417 thousand (€51,039 thousand in 2016), and is recognised under “Income tax expense” in the consolidated income statement, in the amount of €50,245 thousand (€51,301 thousand in 2016), with a charge to equity in the amount of €172 thousand (€262 thousand in 2016). Also included under this heading in 2017 was income of €717 thousand arising from the deductions for research and development activities in 2014 (€205 thousand in 2016).

As a result of the amendment introduced by Royal Decree Law 3/2016, of 2 December, adopting tax measures aimed at consolidating public finances and other urgent measures in the social domain, the Group has reversed tax deductible impairments, leading to an increase in income tax in the amount of €1,138 thousand (€352 thousand in 2016) – see Note 2.p-.

At 31 December 2017, the provision in connection with this tax, net of withholdings, amounted to €49,065 thousand (€52,314 thousand in 2016), recognised under “Current tax liabilities” (current liabilities). All the consolidated companies pay income tax at a rate of 25% of taxable income, except for Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A., Sociedad Unipersonal, which pays tax at 21%. At 31 December 2017 and 2016, the taxable income of this company was €8,637 thousand and €8,818 thousand respectively.

### e) Tax loss carryforwards

At 31 December 2017 the Group had recognised the following tax loss carryforwards which it expects to be able to utilise against taxable income in future years:

| Year of origin | Thousands of euros |
|---|---|
| 2002 | 1,146 |
| 2009 | 1,879 |
| 2010 | 2,676 |
| 2011 | 2,355 |
| 2012 | 2,524 |
| 2013 | 2,854 |
| | **13,434** |

At 31 December 2017 the Group’s Directors decided not to recognise tax loss carryforwards in the consolidated balance sheet.

# 17. Revenue, other operating income and variable direct costs of operations

## a) Revenue

In 2017, BME decided to restructure the resources, departments and companies of the Information and IT & Consulting business units, grouping the Groups' various activities related to market information and value added services in the fields of technology, regulation and innovation, according to their nature. The purpose of these changes is to improve efficiency and foster diversification within the Group. As a response to this organisational change, the "Market Data & VAS" business unit has been created, which combines these activities under the same management. The main effects in the segmented information arise from the merger under the Market Data & VAS Business unit of the previous information and IT and Consulting units and the allocation of certain activities, performed until now by the IT and Consulting unit, to the Equities and Corporate units. The breakdown by business unit under the heading "Revenue" for 2017 is presented already adapted to this organisational change, and the information corresponding to 2016 has been reformulated using the same criteria for comparison purposes.

The breakdown of "Revenue" by business unit is as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| **Business unit (Note 18):** | | |
| Equities | 143,815 | 145,224 |
| Settlement and Registration | 65,901 | 69,222 |
| Clearing | 27,430 | 24,318 |
| Market Data & VAS | 62,995 | 60,050 |
| Derivatives | 10,431 | 10,825 |
| Fixed Income | 8,683 | 9,242 |
| Corporate Unit | 1,522 | 1,547 |
| | **320,777** | **320,428** |

The revenue included under the Equities business unit includes revenue generated by trading equities on the stock market and post-trading activities, such as breaking down, tallying and documenting trades, before they are sent to the settlement system, as well as the Listing revenue and other services stemming from equity securities.

The Settlement and Registration business unit includes revenue generated on the registration and settlement of trades performed on the stock markets, on BME Fixed Income (formerly the AIAF Fixed Income Market) and on the public debt market, specifically from the activities engaged in by Iberclear in 2017 and 2016 also from the local clearing and settlement services run by the Barcelona, Bilbao and Valencia stock exchange management companies, until these services were transferred to Iberclear.

The revenue generated by the Clearing unit basically consists of revenue obtained by BME Clearing in conducting its clearing, central counterparty and settlement activities for derivatives, public debt repos, OTC interest rate derivatives and electricity derivatives, and from 27 April 2016, clearing activities for derivatives on equity spot trades from the Spanish Electronic Trading Platform, the culmination of its participation in the first phase of the reform of the Spanish securities clearing, settlement and registration system.

The Market Data & VAS Business unit includes income arising from primary data services and those relating to value-added services such as the sale of market solutions, financial information services and access to markets, consultancy and other lines of business that boost the Group's diversification into activities that complement its core business.

The revenue generated by the Derivatives unit includes revenue obtained on the activities engaged in by MEFF Sociedad Rectora del Mercado de Productos Derivados in the trading of financial derivatives and electricity derivatives.

The Fixed Income unit reflects revenue generated on fixed income security trades performed by the BME fixed income market and the four Spanish stock exchanges, as well as revenue originating in fixed income securities.

The amounts included in this note differ from those disclosed in Note 18, which breaks down revenue by operating segments. The operating segment allocation of revenue includes amounts later eliminated upon consolidation for the purposes of consolidated revenue disclosed here.

## b) Other operating income

"Other operating income" included €832 thousand of expenses passed on (€1,107 thousand in 2016).

### c) Variable direct cost of operations

“Variable direct costs of operations” includes €5,236 thousand relating to incremental expenses directly attributable to the provision of a service, such as expenses depending on trading or settlement volumes, to revenue distribution agreements and sources of information acquired (€3,139 thousand in 2016).

In 2017, this heading included the costs for settlement and information services invoiced by T2S to Iberclear since 18 September 2017, the date of the migration to the T2S settlement platform (Note 1.a).

## 18.Operating segments

***Basis of segmentation***

Segment disclosures are presented according to the business units into which the Bolsas y Mercados Españoles Group is structured for management purposes.

Because virtually all the Group’s operations are performed in Spain, it was not deemed necessary to present information regarding geographic distribution.

***Main business segments***

In 2016, resulting from the combination of businesses performed in relation to the subsidiary Bolsas y Mercados Españoles Inntech, S.A.U., formerly Infobolsa, S.A. – Sociedad Unipersonal (Note 2.a), the Market Data & VAS business unit includes all revenue and expenses deriving from the Infobolsa Group.

The business lines outlined below were established on the basis of the Bolsas y Mercados Españoles Group’s organisational structure, primarily taking into account the nature of the services provided.

Taking into account the reorganisation of the Group’s activities described above in Note 17, in 2017 and 2016, Bolsas y Mercados Españoles Group focused its activities on the following large business units:

| Operating segments (Business units) | Description of the core activity of each business unit |
|---|---|
| Equities | Trading of securities through the electronic trading platform (Sistema de Interconexión Bursátil) as well as listing and maintenance services for issuers on the equity market. |
| Settlement and Registration | Registration and settlement of equity, private fixed-income and public debt trades. |
| Clearing | Clearing, central counterparty and settlement activities of financial derivatives, public debt repos, OTC interest rate derivatives and electricity derivatives and, from 27 April 2016, clearing activities for derivatives on equity spot trades from the Spanish Electronic Trading Platform. |
| Market Data & VAS | Primary data services and value added services. |
| Derivatives | Trading of financial derivatives and electricity derivatives. |
| Fixed Income | Trading of private fixed-income and public debt securities as well as listing and maintenance services for issuers on the private fixed-income market. |

Income and expenses that cannot be specifically attributed to any operating line or that are a result of decisions affecting the Group as a whole – including expenses incurred in projects or activities affecting several lines of business – are attributed to the so-called “Corporate Unit”.

Ordinary revenue from the provision of services is presented separately for revenue from services rendered to third parties and services provided in-house. The latter component comprises primarily IT consultancy services and the sale of information across Group entities.

***Basis and methodology for segment reporting***

The segment information provided below is based on monthly reports prepared by the Group’s Finance Department and generated via by the Group’s comprehensive management information system, which is configured for all the parameters necessary to reflect the resources consumed by each business unit. In this way, revenues from the provision of services are allocated based on the nature of the activity carried out, independent of the Group company providing the service. Likewise, costs are allocated on the basis of an internal allocation system and are reviewed on a regular basis to ensure the information is accurate and that the data generated is comparable over time.

The Group’s management relies on the “Operating profit (loss)” figure, and the breakdown of revenue and expense used to arrive at this figure, as key performance indicators. Due to the nature of the Group’s business and its internal organisational structure, the following balances are allocated to the Corporate Unit: “Property, plant and equipment” and “Other intangible assets”, and the related income statement headings (basically “Own work capitalised” and “Depreciation and amortisation”), “impairment losses”, “net finance income” and “other assets”.

All the Group's non-current assets are in Spain, with the exception of the shareholdings in Bolsa Mexicana de Valores, S.A., de C.V.; OMIP – Operador do Mercado Ibérico (Portugal), SGPS, S.A. y Cámara de Riesgo Central de Contraparte de Colombia S.A. (Note 7), which account for 6.7% of non-current assets at 31 December 2017 (6% at 31 December 2016). Lastly, the Group had no material reconciling balances at 31 December 2017 or 31 December 2016.

The table below shows segment information for 2017 and 2016. For purposes of comparability, 2016 information was adjusted to reflect the changes made in the business units described above and to adapt the financial information disclosed to CNMV Circular 5/2016 (see Note 1.b):

(Thousands of euros)

| | Equities | | Settlement and Registration | | Clearing | | Market Data & VAS | | Derivatives | | Fixed Income | | Corporate Unit | | Consolidation adjustments | | Total Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| **Revenue:** | | | | | | | | | | | | | | | | | | |
| Revenue- | **144,459** | **145,505** | **66,265** | **69,385** | **30,065** | **25,657** | **67,416** | **62,522** | **11,526** | **10,870** | **8,683** | **9,242** | **14,425** | **14,396** | **(22,062)** | **(17,149)** | **320,777** | **320,428** |
| Services rendered | 143,815 | 145,224 | 65,901 | 69,222 | 27,430 | 24,318 | 62,995 | 60,050 | 10,431 | 10,825 | 8,683 | 9,242 | 1,522 | 1,547 | - | - | 320,777 | 320,428 |
| Services rendered among operating segments | 644 | 281 | 364 | 163 | 2,635 | 1,339 | 4,421 | 2,472 | 1,095 | 45 | - | - | 12,903 | 12,849 | (22,062) | (17,149) | - | - |
| Other operating income | - | - | - | - | - | - | - | - | - | - | - | - | 5,016 | 6,254 | (2,618) | (2,622) | 2,398 | 3,632 |
| Own work capitalised | - | - | - | - | - | - | - | - | - | - | - | - | 1,829 | 2,774 | - | - | 1,829 | 2,774 |
| Variable direct cost of operations | (3) | - | (2,590) | (1,012) | (3,104) | (1,238) | (4,685) | (3,516) | (685) | - | - | - | - | - | 5,831 | 2,627 | (5,236) | (3,139) |
| **Revenue** | **144,456** | **145,505** | **63,675** | **68,373** | **26,961** | **24,419** | **62,731** | **59,006** | **10,841** | **10,870** | **8,683** | **9,242** | **21,270** | **23,424** | **(18,849)** | **(17,144)** | **319,768** | **323,695** |
| **Expenses:** | | | | | | | | | | | | | | | | | | |
| Staff costs | (25,476) | (25,868) | (9,886) | (9,558) | (5,884) | (5,217) | (12,697) | (11,340) | (3,748) | (3,812) | (3,343) | (3,622) | (9,405) | (10,081) | - | - | (70,439) | (69,498) |
| Other operating costs | (16,390) | (16,220) | (6,300) | (7,364) | (3,984) | (4,391) | (10,430) | (7,653) | (2,644) | (1,868) | (1,339) | (1,294) | (17,303) | (16,467) | 18,849 | 17,144 | (39,541) | (38,113) |
| Amortisation and depreciation | - | - | - | - | - | - | - | - | - | - | - | - | (8,105) | (7,660) | - | - | (8,105) | (7,660) |
| Impairment and gains/(losses) on disposal of non-current assets | - | - | - | - | - | - | - | - | - | - | - | - | 26 | 9 | - | - | 26 | 9 |
| **Operating profit/(loss)** | **102,590** | **103,417** | **47,489** | **51,451** | **17,093** | **14,811** | **39,604** | **40,013** | **4,449** | **5,190** | **4,001** | **4,326** | **(13,517)** | **(10,775)** | **-** | **-** | **201,709** | **208,433** |
| **Net finance income** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **65** | **2,872** | **-** | **-** | **65** | **2,872** |
| **Share of profit (loss) accounted for using the equity method** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,094** | **63** | **-** | **-** | **1,094** | **63** |
| **Profit (loss) before tax** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **202,868** | **211,368** |

Inter-segment sales are carried out at prevailing market prices.

# 19.Staff costs

## a) Breakdown

The breakdown of "Staff costs" is provided below:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Wages, salaries and similar expenses: | | |
| Wages and salaries [*] | 52,776 | 51,923 |
| Share-based payment arrangements (Note 19-c) | 2,542 | 2,882 |
| Termination benefits | 1,368 | 1,851 |
| | 56,686 | 56,656 |
| Social welfare expenses: | | |
| Social Security | 10,088 | 9,282 |
| Contributions to defined contribution plans (Note 2-k) | 401 | 447 |
| | 10,489 | 9,729 |
| Provisions and other staff costs [*] | 3,264 | 3,113 |
| | **70,439** | **69,498** |

(*) The balance of these accounts includes provisions for employee benefits in 2017 of €784 thousand (€613 thousand in 2016) (see Note 13).

At 31 December 2017 and 2016, wages and salaries payable to employees amounted to €8,059 thousand and €7,567 thousand respectively, recognised under "Trade and other payables – Other payables" in the consolidated balance sheet (Note 14).

## b) Number of employees

The average number of Group employees at 31 December 2017 and 2016 by professional category and gender, was as follows:

Number of employees

| | 2017 [*] | | 2016 [*] | |
|---|---|---|---|---|
| | Men | Women | Men | Women |
| Senior management | 8 | 1 | 7 | - |
| Middle management | 38 | 16 | 41 | 18 |
| Specialist technicians | 295 | 180 | 297 | 177 |
| Auxiliary staff | 132 | 83 | 116 | 81 |
| Support staff | 2 | - | 15 | 10 |
| | 475 | 280 | 476 | 286 |

(*) Does not include employees of Regis-TR, S.A.

In compliance with Additional Provision Twenty-six of Organic Law 3/2007, dated 22 March, regarding effective gender equality, the breakdown of the Board of Directors of Bolsas y Mercados Españoles by gender is: male, 84.62% and female, 15.38%.

The average number of Group employees in each year, by category, was as follows:

Number of employees

| | 2017 [*] | 2016 [*] |
|---|---|---|
| Senior management | 7 | 7 |
| Middle management | 56 | 60 |
| Specialist technicians | 466 | 455 |
| Auxiliary staff | 211 | 210 |
| Support staff | 8 | 14 |
| | **748** | **746** |

(*) Does not include employees of Regis-TR, S.A.

The average number of Group employees in 2017 and 2016 with a disability of 33% or more, by category, was as follows:

| Average number of Employees | 2017 | 2016 |
|---|---|---|
| Middle management | - | 1 |
| Specialist technicians | 5 | 4 |
| Auxiliary staff | 2 | 3 |
| | **7** | **8** |

### c) Share based payment arrangement and other medium-term remuneration systems

***Pluri-Annual Variable Remuneration Plans in Shares:***

*2011-2016 Plan*

On 28 April 2011, the BME General Meeting approved the implementation of the 2011-2016 Pluri-annual Variable Remuneration Plan in Shares (the "2011-2016 Plan") whose beneficiaries may receive, subject to meeting the targets set to this end in the 2011-2016 Plan, a certain number of BME shares.

This remuneration consists of the promise to deliver ordinary shares of BME to Executive Directors, Senior Management and lower management of Group companies who have been designated as beneficiaries of the 2011-2016 Plan. The Plan entails assigning a number of shares to beneficiaries in financial years 2011, 2012 and 2013, as the basis for calculating the BME shares to be delivered to the beneficiaries, if appropriate, subject to fulfilment of the objectives set forth in the 2011-2016 Plan. This Plan involves implementing successive cycles for delivering shares to beneficiaries, each with a duration of three years, so that each year a cycle begins and, from 2013, another also ends.

The number of BME shares to be granted to each beneficiary, provided the conditions are right (including their remaining in the Group), will be equal to the result of multiplying the number of units assigned, by a factor of 0 to 1.5, which will be established based on the evolution of BME's Total Shareholder Return (TSR) and Efficiency Ratio (ER) during the periods (i) 1 January 2011 to 31 December 2013, (ii) 1 January 2012 to 31 December 2014, and (iii) 1 January 2013 to 31 December 2015, compared with the performance of those indicators for five benchmark companies over the same periods, in accordance with the following scale, separately weighting 50% for each of the aforementioned indicators:

| BME's position in the ranking | Factor |
|---|---|
| 1° | 1.5 |
| 2° | 1 |
| 3° | 0.8 |
| 4° | 0.6 |
| 5° | 0 |
| 6° | 0 |

The number of units, convertible into shares, attributable to the designated beneficiaries of the 2011-2016 Plan corresponding to the first, second and third three-year periods, respectively, was assigned in 2011, 2012 and 2013. The maximum number of BME shares included in the 2011 – 2016 Pluri-Annual Variable Remuneration Plan in Shares is 428,801 shares. The total units assigned were 97,368, 102,442 and 103,325 respectively, which correspond to a maximum number of theoretical shares of 146,052, 153,663 and 154,988, respectively.

Since the remuneration consists of an equity-settled share-based payment and the fair value of the services received by the Plan beneficiaries cannot be estimated reliably, this amount was determined indirectly by reference to the fair value of the equity instruments granted (BME shares).

In this connection, with the exception of cases in which market based performance features are included, transfer terms under the Plan are not taken into consideration to estimate the fair value of the equity instruments granted. Non-market performance features are considered by adjusting the number of shares included in the measurement of the costs of employee (beneficiary) service, so that ultimately, the amount recognised on the income statement reflects the number of shares transferred. With respect to the market performance features, the charge for services received is recognised regardless of whether or not the market conditions are met, although non-market performance conditions must be fulfilled. Share price volatility was estimated using the historical volatility of BME's shares in the 750 trading sessions prior to 30 December. In particular, at least at the end of every accounting period, the number of BME shares to be delivered to each beneficiary associated with the Efficiency Ratio ("ER") shall be recalculated, since this is not an indicator that is subject to market conditions.

In view of the nature of this incentives Plan, it was deemed advisable to base its valuation on a model that generates a large number of scenarios (10,000), using the Monte Carlo Method. The share price scenarios were generated based on daily volatility and correlations observed in the historic share performance series of BME and the benchmark companies for the three years immediately prior to the valuation date, taking into account the following variables:

| | First three-year period | Second three-year period | Third three-year period |
|---|---|---|---|
| Price of the underlying asset (euros) | 21.96 | 21.04 | 21.18 |
| Risk-free interest rate | 2,032% | 0,402% | 0,000% |
| Volatility of underlying shares | 26.39% | 29.63% | 22.93% |
| Expected duration of the Plan | 3 years | 3 years | 3 years |

As a result, the estimated fair value of the equity instruments granted for the first, second and third three-year periods of the 2011 - 2016 Plan (i.e., from 1 January 2011 to 31 December 2013, from 1 January 2012 to 31 December 2014 and from 1 January 2013 to 31 December 2015), amounted to €2,318 thousand, €1,999 thousand and €1,891 thousand, respectively, according to the latest estimates.

On 31 December 2015, the third three-year period of the 2011-2016 Plan expired. The Appointments and Remuneration Committee, in its 27 April 2016 meeting, validated the coefficients applicable to the theoretical units convertible into shares assigned to each beneficiary of the third three-year period of the 2011-2016 Plan at 1.5 for the efficiency ratio and 0.8 for Total Shareholder Return (TSR), putting the number of shares at 118,792, equivalent to the amount of €3,308 thousand (€9 thousand attributable to the 50% stake in Infobolsa, S.A. – Sociedad Unipersonal, now Bolsas y Mercados Españoles Inntech, S.A.U. - Note 2.a -, not held by the Group at that date), with 71,083 shares, equivalent to €1,979 thousand, delivered in May 2016, once the withholdings set forth in tax legislation had been applied.

_2014-2019 Plan_

On 30 April 2014, pursuant to Article 219 of the Corporate Enterprises Act and other applicable legislation, the Ordinary General Shareholders' Meeting approved a medium-term remuneration plan ("the 2014-2019 Plan") to be applied by the Company and its subsidiaries and intended for members of the management team, including Executive Directors.

The 2014-2019 Plan consists of the promise to deliver ordinary shares of BME to Executive Directors, Senior Management and lower management of Group companies who have been designated as beneficiaries of this plan. The 2014-2019 Plan entails assigning a number of shares to beneficiaries in financial years 2014, 2015 and 2016, as the basis for calculating the BME shares to be delivered to the beneficiaries, if appropriate, subject to fulfilment of the objectives set forth in the 2014-2019 Plan.

The number of BME shares to be granted to each 2014-2019 Plan beneficiary, provided the conditions are right, will be equal to the result of multiplying the number of units assigned, by a factor of 0 to 1.5, which will be established based on the evolution of BME's Total Shareholder Return (TSR) and Efficiency Ratio (ER) during the periods (i) 1 January 2014 to 31 December 2016, (ii) 1 January 2015 to 31 December 2017, and (iii) 1 January 2016 to 31 December 2018, compared with the evolution of those indicators for five benchmark companies over the same periods, in accordance with the following scale, separately weighting 50% for each of the aforementioned indicators:

| BME's position in the ranking | Factor |
|---|---|
| 1° | 1.5 |
| 2° | 1 |
| 3° | 0.8 |
| 4° | 0.6 |
| 5° | 0 |
| 6° | 0 |

The number of units, convertible into shares, attributable to the designated beneficiaries of the 2014-2019 Plan corresponding to the first, second and third three-year periods, respectively, was assigned in 2014, 2015 and 2016. The maximum number of BME shares included in the 2014-2019 Pluri-Annual Variable Remuneration Plan is 555,048 shares. The total number of units assigned was 118,768, 112,422 and 124,142, which correspond to a maximum number of theoretical shares of 178,152, 168,633 and 186,213, respectively.

Since the remuneration consists of an equity-settled share-based payment and the fair value of the services received by the 2014-2019 Plan beneficiaries cannot be estimated reliably, this amount was determined indirectly by reference to the fair value of the equity instruments granted (BME shares).

In this connection, with the exception of market based performance features, transfer terms under the 2014-2019 Plan are not taken into consideration to estimate the fair value of the equity instruments granted. Non-market performance features are considered by adjusting the number of shares included in the measurement of the costs of employee (beneficiary) service, so that ultimately, the amount recognised on the income statement reflects the number of shares transferred. With respect to the market performance features, the charge for services received is recognised regardless of whether or not the market conditions are met, although non-market performance conditions must be fulfilled. Share price volatility was estimated using the historical volatility of BME's shares in the 750 trading sessions prior to 30 December. In particular, at least at the end of every accounting period, the number of BME shares to be delivered to each beneficiary associated with the Efficiency Ratio ("ER") shall be recalculated, since this is not an indicator that is subject to market conditions.

In view of the nature of this incentives Plan, it was deemed advisable to base its valuation on a model that generates a large number of scenarios (10,000), using the Monte Carlo Method. The share price scenarios were generated based on daily volatility and correlations observed in the historic share performance series of BME and the benchmark companies for the three years immediately prior to the valuation date, taking into account the following variables:

| | First three-year period | Second three-year period | Third three-year period |
|---|---|---|---|
| Price of the underlying asset (euros) | 29.83 | 36.45 | 29.06 |
| Risk-free interest rate | 0,329% | -0,079% | -0,303% |
| Volatility of underlying shares | 26.46% | 24.88% | 25.77% |
| Expected duration of the Plan | 3 years | 3 years | 3 years |

As a result, the estimated fair value of the equity instruments granted for the first, second and third three-year periods of the 2014-2019 Plan (i.e., from 1 January 2014 to 31 December 2016, from 1 January 2015 to 31 December 2017 and from 1 January 2016 to 31 December 2018), which amounted to €3,158 thousand, €4,131 thousand and €3,112 thousand, respectively, according to the latest estimates, are recognised under "Staff costs - Wages, salaries and similar expenses" in the consolidated income statement for beneficiaries who are Group employees (see section a) of this Note), and under "External services - Other expenses" for Plan beneficiaries who are not Group employees, over the specific period during which the beneficiaries render services to the Group, with a credit in both cases to "Other equity instruments" (see Note 11). At 31 December 2017, the amount recognised under "Staff costs - Wages, salaries and similar expenses" and "External services – Other expenses" in the consolidated income statement amounted to €1,859 thousand and €556 thousand, respectively (€2,882 thousand and €585 thousand in 2016).

On 31 December 2016, the first three-year period of the 2014-2019 Plan expired. The Appointments and Remuneration Committee, in its 24 May 2017 meeting, validated the coefficients applicable to the theoretical units convertible into shares assigned to each beneficiary of the first three-year period of the 2014-2016 Plan. The coefficients were 1.5 in the case of the Efficiency Ratio and 0 in the case of Total Shareholder Return (TSR), resulting in 88,713 shares, equivalent to €2,799 thousand (including €9 thousand attributed to the 50% accrued by Infobolsa, S.A. – Sociedad Unipersonal, now Bolsas y Mercados Españoles Inntech, S.A.U. - Note 2.a - until it's full integration within the Group), with 53,301 shares, equivalent to €1,682 thousand, delivered in June 2017, once the withholdings set forth in tax legislation had been applied (Note 11).

***Medium Term Variable Remuneration Plan in Shares***

*2017-2020 Plan*

On 27 April 2017, pursuant to Article 219 of the Corporate Enterprises Act and other applicable legislation, the Ordinary General Shareholders' Meeting approved a medium-term remuneration plan ("the 2017-2020 Plan") to be applied by the Company and its subsidiaries and intended for members of the management team, including Executive Directors.

The 2017-2020 Plan consists of the promise to deliver ordinary shares of BME to Executive Directors, Senior Management and lower management of Group companies who have been designated as beneficiaries of this plan. The 2017-2020 Plan entails assigning a number of shares to beneficiaries in the financial year 2017, as the basis for calculating the BME shares to be delivered to the beneficiaries, if appropriate, subject to fulfilment of the objectives set forth in the 2017-2020 Plan.

The number of BME shares to be granted to each 2017-2020 Plan beneficiary, provided the conditions are right, will be equal to the result of multiplying the number of units assigned, by a factor of 0 to 1.5, which will be established based on the evolution of BME's Total Shareholder Return (TSR) and Efficiency Ratio (ER) during the periods 1 January 2017 to 31 December 2019, compared with the evolution of those indicators for five benchmark companies over the same periods, in accordance with the following scale, separately weighting 50% for each of the aforementioned indicators:

| BME's position in the ranking | Factor |
|---|---|
| 1° | 1.5 |
| 2° | 1 |
| 3° | 0.8 |
| 4° | 0.6 |
| 5° | 0 |
| 6° | 0 |

The number of units, convertible in shares, attributable to the designated beneficiaries of the 2017 – 2020 Plan were assigned in 2017. The maximum number of BME shares included in the 2017-2020 Medium Term Variable Remuneration Plan is 190,263 shares. The total number of units assigned was 103,566 which correspond to a maximum number of theoretical shares of 155,349.

Since the remuneration consists of an equity-settled share-based payment and the fair value of the services received by the 2017-2020 Plan beneficiaries cannot be estimated reliably, this amount was determined indirectly by reference to the fair value of the equity instruments granted (BME shares).

In this connection, with the exception of market based performance features, transfer terms under the 2017-2020 Plan are not taken into consideration to estimate the fair value of the equity instruments granted. Non-market performance features are considered by adjusting the number of shares included in the measurement of the costs of the employee (beneficiary) service, so that ultimately, the amount recognised on the income statement reflects the number of shares transferred.

With respect to the market performance features, the charge for services received is recognised regardless of whether or not the market conditions are met, although non-market performance conditions must be fulfilled. Share price volatility was estimated using the historical volatility of BME's shares in the 750 trading sessions prior to 30 December. In particular, at least at the end of every accounting period, the number of BME shares to be delivered to each beneficiary associated with the Efficiency Ratio ("ER") shall be recalculated, since this is not an indicator that is subject to market conditions.

In view of the nature of this incentives Plan, it was deemed advisable to base its valuation on a model that generates a large number of scenarios (10,000), using the Monte Carlo Method. The share price scenarios were generated based on daily volatility and correlations observed in the historic share performance series of BME and the benchmark companies for the three years immediately prior to the valuation date, taking into account the following variables:

| | **One three-year period** |
|---|---|
| Price of the underlying asset (euros) | 28.06 |
| Risk-free interest rate | -0.78% |
| Volatility of underlying shares | 23.11% |
| Expected duration of the Plan | 3 years |

As a result, the estimated fair value of the equity instruments granted for the first three-year period of the 2017-2020 Plan (i.e., from 1 January 2017 to 31 December 2019), which amounted to €2,685 thousand, according to the latest estimates, is recognised under "Staff costs - Wages, salaries and similar expenses" in the consolidated income statement for beneficiaries of the 2017-2020 Plan who have accrued said remuneration as Group employees (see section a) of this Note), and under "External services - Other expenses" for the beneficiaries of 2017-2020 Plan who are not Group employees, over the specific period during which the beneficiaries render services to the Group, with a credit in both cases to "Other equity instruments" (see Note 11). At 31 December 2017, the amount recognised under "Staff costs - Wages, salaries and similar expenses" and "External services – Other expenses" in the consolidated income statement amounted to €683 thousand and €212 thousand, respectively.

The amount recognised in the "External services – Other expenses" account arising from the aforementioned 2017-2020 Plan corresponds in its entirety to the amount accrued by the Executive Directors of the Company (Notes 4 and 20).

## 20. Other operating costs

The breakdown, by item, of this consolidated income statement heading was as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| External services: | | |
| Leases | 2,854 | 2,784 |
| Information technology equipment and computer software | 7,661 | 7,999 |
| Communications network | 3,062 | 3,108 |
| Travel, marketing and promotion | 4,501 | 4,348 |
| Independent professional services | 5,926 | 4,950 |
| Information services | 608 | 1,024 |
| Power and utilities | 1,348 | 1,343 |
| Security, cleaning and maintenance | 4,250 | 4,215 |
| Publications | 124 | 152 |
| Other | 8,155 | 7,441 |
| | **38,489** | **37,364** |
| Taxes | 399 | 448 |
| Losses, impairment and changes in trade provisions (Note 8) | 653 | 301 |
| | **39,541** | **38,113** |

"Leases" essentially includes amounts relating to rental expenses for the offices that are the operating headquarters of the various Group companies.

"Taxes" includes adjustments to income tax, adjustments to indirect tax via value added tax on working capital and investments, and taxes other than income tax paid by the various Group companies, essentially on the following items: business activity tax, property tax, and fees paid to local councils.

The balance of the "Information technology equipment and computer software" account in 2017 and 2016 includes costs relating to IT maintenance and IT services incurred by the Group.

"Other" includes expenses incurred for security, cleaning, messenger services and other sundry expenses as well as the amount paid to members of the Board of Directors of Bolsas y Mercados Españoles for serving on the Board of Directors of Bolsas y Mercados Españoles and other Group companies (Note 4). It also includes the amount accruable to consolidated income statement for the estimated fair value of the equity instruments granted to Mr. Antonio Zoido Martínez, Mr. Joan Hortalá i Arau and Mr. Javier Hernani Burzako under the Pluri-annual Variable Remuneration Plans in Shares and Medium-term Variable Remuneration Plan in Shares described in Note 19-c above.

At year-end 2017 and 2016, prepaid expenses in respect of sundry items were recognised under "Other current assets" on the asset side of the consolidated balance sheet (Note 10).

Fees paid to PricewaterhouseCoopers Auditores, S.L. for the audit of the consolidated financial statements and the separate financial statements of certain Group companies in 2017 and 2016 amounted to €505 and €518 thousand, respectively. In addition, fees paid to the auditor for other services in 2017 amounted to €26 thousand (€6 thousand in 2016) relating to assurance and other inspections required by the auditor for €6 thousand and the inspection relating to the Corporate Social Responsibility Report for the amount of €20 thousand (in 2016 the fees corresponded wholly to the assurance and other inspections required by the auditor).

***Information on deferred payments to suppliers in commercial transactions***

Information on the average payment period to suppliers required by additional provision three of Law 15/2010 is given below, taking into consideration the amendments introduced by Law 31/2014 of 3 December, which amends Spain's Corporate Enterprises Act for the improvement of corporate governance:

| | 2017 | 2016(*) |
|---|---|---|
| | **Days** | **Days** |
| Average supplier payment period | 34.59 | 34.77 |
| Ratio of operations paid | 35.29 | 35.33 |
| Ratio of operations pending payment | 13.39 | 26.70 |
| | **Thousands of euros** | **Thousands of euros** |
| Total payments made | 48,387 | 44,951 |
| Total payments pending | 1,587 | 3,147 |

***Information on leases***

Future minimum rentals payable by the Group under operating leases on buildings is as follows:

| | (Thousands of euros)* |
|---|---|
| Within one year | 2,551 |
| After one year but not more than five years | 8,982 |
| More than five years | 25,868 |

(*) Amounts not updated for CPI.

These buildings, all under operating leases, are mainly operating headquarters of stock exchange management companies, as well as other buildings used to provide technical support to various Group companies. The main lease contracts expire in 2022 and 2034.

In addition, it should be noted that these contracts do not contain contingent fees, restrictions or purchase options, but do contain annual review clauses for the contract validity periods, using the Consumer Price Index ("CPI") as the reference.

## 21. Net finance income

The breakdown of net finance income in 2017 and 2016 is as follows:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Finance income: | | |
| From equity investments (Note 7) | 408 | 352 |
| From marketable securities and other financial instruments | | |
| Commercial paper (Notes 7 and 9) | 14 | 119 |
| Reverse repurchase agreements (own) (Note 9) | (1) | (29) |
| Guarantees received from participants (Note 7) | 1,631 | (9,737) |
| Term deposits at credit institutions (Notes 7 and 9) | 2 | 97 |
| Other finance income | 60 | 119 |
| | 1,706 | (9,431) |
| | **2,114** | **(9,079)** |
| Finance cost | | |
| Third-party borrowings | (132) | (107) |
| Provisions adjustments (Note 13) | (173) | (205) |
| Guarantees received from participants (Note 7) | (1,616) | 9,773 |
| | **(1,921)** | **9,461** |
| Change in fair value of financial instruments | | |
| Held for trading and others | - | - |
| Exchange gains/(losses) | (128) | 21 |
| Impairment losses and gains (losses) on disposal of financial assets (Notes 2.a. and 7) | - | 2,469 |
| **Net finance income** | **65** | **2,872** |

## 22. Related party transactions

The entire balance of related party transactions relates to the balances outstanding with and transactions entered into with members of the Board of Directors and Senior Management of the Group disclosed in Note 4.

Due to the nature of the core businesses of the Group companies and the vast majority of their shareholders (primarily financial institutions and investment service companies) virtually all related party transactions involve the trading, settlement or issuance of securities, generating revenue for the Group. They are conducted on an arm's length basis. Nevertheless, no single shareholder had a significant influence on the Group's business at 31 December 2017 and 2016.

## 23. Other information

Other disclosures at 31 December 2017 and 2016 are provided below:

(Thousands of euros)

| | 2017 | 2016 |
|---|---|---|
| Collateral and guarantees managed: | | |
| Guarantees received | | |
| Received as transfer of securities | 1,079,643 | 539,934 |
| Received as pledge | 839,968 | 1,242,098 |
| | 1,919,611 | 1,782,032 |
| Collateral and guarantees received | 1,046,600 | 996,231 |
| Credit facilities: | | |
| Undrawn amount | 27,815 | 16,934 |
| Amount drawn | - | - |
| | 27,815 | 16,934 |
| | **2,994,026** | **2,795,197** |

The main items included in these accounts are as follows:

1. Guarantees received (in addition to guarantee deposits made in cash (Note 7)).

   At 31 December 2017, this item includes the guarantees (in addition to cash guarantees - Note 7) received by BME Clearing and put up by members as collateral for their open positions in their respective segments, totalling €1,919,611 thousand (€1,782,032 thousand at 31 December 2016).

2. Credit facilities balance: includes the undrawn amount of the credit facilities of MEFF Tecnología y Servicios set up for members of the electricity settlement clearance market according to prevailing legislation of €27,815 thousand and €16,934 thousand in 2017 and 2016, respectively.

## 24. Risk management

The main risks to which the Group is exposed from management of various financial markets are discussed below:

### a) Operational risks

The risk of direct or indirect losses resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risks are classified in terms of their applicability to the BME Group overall, or exclusive identification for one of the business units or corporate areas.

Operational risks affecting all BME Group business units and corporate areas include:

- Fraud risk: This is the risk of action taken to avoid a regulation, which may cause damage to a third party or to the Group itself.

- IT risk: This is the risk of faults in the IT and electronic systems used by the Group, either internally or in relation to the market. They may arise as a result of communications errors, or hardware or software malfunctions. They include failures in the collection and disclosure of market information to users. They also include any alterations and/or intrusions that may arise in system security. Given the nature of its operations, this is considered one of the main risks for the BME group.

- Risk of administrative errors: These arise from erroneous calculations, improper execution, faulty manual operations, or because databases have not been updated. They also include any events arising from errors during billing or monitoring of collections.

The main business risks arising from the specific activities carried on by BME Group companies are detailed below:

***• Risks of inadequate functioning of markets:***

Possibility of errors arising in trading or supervision processes to prevent adequate overall functioning of the system.

***• Risks affecting the Securities Settlement System:***

Risk of errors in settlement processes: These risks may relate to delays in reception of information from the issuer or payment agent and calculation of prices leading to errors in the multiple settlement or the amount of cash to be charged or credited.

Risk of errors in reconciliation processes: This is the risk of data mismatches between ARCO and T2S concerning positions or accounts.

***• Risks in relation to the dissemination of information:***

These risks chiefly relate to non-availability of systems over a longer period than expected, compromising dissemination of information from trading systems.

**b) Market risk**

This is the current or potential risk posed by unfavourable movements in interest rates or changes in prices or share prices, or in variations in trading volumes.

Given that the portfolio of financial assets is mainly made up of reverse repos (with public debt as the underlying asset), exposure to interest risk is minimal given amounts maturities very short-term and this exposure makes it possible for returns to adapt quickly to changes in interest rates. Meanwhile, the lack of borrowings or financial liabilities implying a finance charge means the Group is not exposed to risks in interest rates that could erode its margins or require a specific hedging policy.

The Group does not hold financial instruments in foreign currency other than the non-current financial investments described in Note 7.

The main risks and uncertainties faced by the Group in terms of delivering its strategic targets relate to trends in market trading volumes which, in turn, are its key revenue driver.

Experience shows that financial markets are subject to cycles of varying duration and intensity, which have a significant influence on ongoing business. Additionally, as the Company operates in a highly regulated sector, any changes in the regulatory framework could affect the Company's ability to improve on its results.

The margin calculation model developed by BME Clearing offers a coverage level that is appropriate for stress conditions, in alignment with the high confidence level required under EMIR regulations. For extreme conditions that go beyond the assumptions of this confidence level, the CCP supplements its monitoring of coverage with an analysis of sensitivity scenarios.

BME Clearing has procedures in place to recognise changes in market conditions, including an increase in volatility or a reduction in the liquidity of the financial instruments cleared, with a view to quickly adapting the calculation of its margin requirements so as to adequately reflect the new market conditions.

BME Clearing carries out daily back-testing to assess its margin coverage by performing an ex-post comparison of observed outcomes with expected outcomes in terms of losses in the application of margin models.

Additionally, to assess positions acquired temporarily as guarantees through members, BME Clearing applies a prudential (haircut).

BME Clearing applies haircuts for the following market risks:

- Interest rate risk.
- Currency risk.
- Credit spread risk (risk premium).
- Price fluctuation risk.
- Concentration risk,

**c) Liquidity and solvency risk.**

This is the risk that a Group company is unable to meet its payments commitments.

Financially, the Group is able to generate sufficient liquid funds to maintain its short-term liquidity and its medium- and long-term solvency, as shown in the respective consolidated statements of cash flows in the consolidated financial statements. The Group's liquidity position and cash flow generation ability enable it to fund its operating and investing activities with the cash flow generated from the activities without incurring financial debt.

The BME Group's liquidity generation ability is underpinned mainly by the effective collection of a large part of its revenue in very short terms and ongoing cost-containment efforts, guaranteeing its future operations.

Irrespective of the possible other investment decisions that the Group may take, subject to approval by their governing bodies and, where necessary, the General Shareholders' Meeting, Group-level criteria have been determined for the investment of cash in financial assets with a view to minimising exposure to credit and interest-rate risks. In order to ensure compliance with these objectives and policies, financial management regularly reviews the level of compliance with the investment policies in place. No incidents were detected in 2017 or 2016.

No contractual obligations, contingent liabilities or other firm commitment are known to date that could change the Group's liquidity and capital requirements. There are also no off-balance sheet transactions that could affect the Group's future liquidity.

- Liquidity or funding risk is the risk that the Group will encounter difficulties in meeting its payment obligations or, in order to do so, it is forced to raise funds under onerous conditions.

- Liquidity/market risk is the risk the Group will have one-off losses caused by the selling of assets where the strike price is significantly lower than the expected market price owing to a devaluation caused by frictions in the supply-demand balance.

Due to the specific nature of its activities, BME Clearing has adequate controls in place for both types of liquidity risk, that are consistent, proven and in line with the best - and even the most conservative - practices in financial risk management.

In relation to liquidity/funding risk, BME Clearing has a comprehensive liquidity plan in place, with a chain of guaranteed resources in the event more liquidity is needed than is available in the initial layers of liquidity. Further, on a daily basis, BME Clearing carries out a simulation of the two members with the largest exposure defaulting at the same time, evaluating whether the aforementioned resources would be sufficient.

As mentioned above, the application of haircuts is one way of controlling a lack of liquidity on the market. These are also applied in stress scenarios, therefore, the collateral can easily be liquidated at its reduced value in either a normal market situation or in an extreme situation of falling prices.

There are two types of "market illiquidity". Exogenous illiquidity results from the specific characteristics of a security, from the bid-ask spread affecting settlement of the securities held by market participants. Endogenous illiquidity is specific to each market participant's individual position – the larger a participant's position, the higher the security's illiquidity for this participant.

Using the application of haircuts as a way of controlling exogenous liquidity, BME Clearing also controls endogenous liquidity risk by controlling concentration risk, adjusting the initial margin according to a barometer of exposures measured against the volume of assets traded.

**d) Credit or counterparty risk**

The risk of a Company debtor failing to meet its payment commitments, or an impairment of its credit rating. Two main risks affecting the BME group are identified:

- Counterparty risk associated with BME Clearing: In its role as the central clearing house, the risk accepted by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk attached to the collateral called in from and paid by clearing members with respect to that risk.

- Risk deriving from non-payment of invoices or fees.

  In this respect, the Group's main financial assets, not including the assets for which BME Clearing, S.A. – Sociedad Unipersonal acts as CCP, are assets purchased under repurchase agreements, cash balances, commercial paper, Spanish public debt securities, and trade and other receivables, which represent the Group's maximum exposure to credit risk with respect to its financial assets.

The credit risk associated with assets and liquid funds is minimal, since the counterparties are banks assigned adequate ratings by international credit rating agencies.

- CCP concentration risk. To control risk deriving from its positions in financial assets and exposure to counterparties, BME Clearing continually and efficiently monitors CCP concentration risk at different levels:

  - At an aggregate level;
  - At clearing house member level;
  - At the level of each account open at the CCP;
  - In each issuer; and
  - In each country.

In addition to the characteristics of the assets, BME Clearing also takes into account the risks associated with them, including volatility, duration, illiquidity, non-linear price characteristics, "jump-to-default" and "wrong-way-risk", the latter two of which are closely related to credit or counterparty risk.

With regard to counterparty risk related specifically to non-compliance by members, BME Clearing calculates the amount of the default fund every quarter. The amount is calculated to cover the risk in a stress test risk calculated for the two members with the greatest exposure to the risk.

Counterparty risk not covered by the CCP's specific financial resources (i.e. margins requested from its members, the guarantee fund and own dedicated resources) is also analysed by BME. Non-covered counterparty risk is defined as the expected loss deriving from default by the counterparty as a result of insufficient accredited guarantees (specific financial resources) that could arise due to one-off market events that trigger a severe risk of default by settlement members.

BME has an internal model in place to estimate the expected loss due to insufficient guarantees in the event of one-off market or credit events.

With regard to the credit risk associated with the collection in cash of the various charges established by the Group by way of consideration for its services, most customers in terms of billing volume are financial institutions subject to supervision by the pertinent regulators. Further, as most of these services are settled within the standard settlement period for the corresponding transactions in each market and using the settlement instructions issued by the CCP, in the same way as it instructs the settlement of its own operations, any no balances receivable from clients for normal operations are short-lived. In any event, credit risk attributable to trade receivables is reflected in the balance sheet net of the provisions for insolvency estimated by the Group's management based on experience of previous years and their assessment of the prevailing economic situation.

The concentration of credit risk is not significant as the Group's exposure is distributed among a large number of counterparties and customers.

**e) Industry risk**

Compliance risks in connection with regulatory changes, the Company's reputation, sector competences, relations with stakeholders and the political, economic, penal, legal and tax environment.

The capacity to manage and the diversification of revenue sources make it possible to suitably mitigate this risk.

## 25. Capital management

At 31 December 2017 and 2016, capital managed by the Group comprised primarily capital, reserves and profit for the year attributable to the parent, which are recognised on the consolidated balance sheets under "Equity", less interim dividends and treasury shares, which are also recognised under this heading in the consolidated balance sheets (Note 11).

Capital is managed by the Group at two levels: regulatory and financial.

Regulatory capital management is based on an analysis of the minimum capital requirement established by the legislation applicable at 31 December 2017. In this regard, it should be mentioned that as well as the general restrictions on equity established by the Spanish Companies Act applicable to limited liability companies, for some Group companies the criteria adopted for managing capital comply with the minimum capital requirements established in specific legislation governing these entities, specifically:

1. Article 17.1 of Royal Decree 726/1989, of 23 June, on Stock Exchange Management Companies and Members, Stock Brokers, and Collective Funds, as set out in Royal Decree 363/2007, dated 16 March, establishing that "the capital of stock exchange management companies must be sufficient to ensure that they can fulfil their corporate purpose. The level of borrowings shall at no time exceed the carrying amount of own resources".

2. Article 17 of Royal Decree 1282/2010 of 16 October, regulating official futures and options markets, which is applicable to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. (Sociedad unipersonal), establishes that "the capital of stock exchange management companies must be sufficient to ensure they can fulfil their corporate purpose. The management company's own resources must not be lower than €18 million or the sum of the guarantees provided by the management company." By virtue of the provisions of this article, the Ministry of Economy and Finance, based on the favourable report by the National Securities Market Commission, the Banco de España and the Autonomous Communities of Catalonia, the Basque Country and the Valencian Community, determined that the own resources of MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. (Sociedad Unipersonal) nay not be lower than €7,980,000 As established in Order ECC 1556/2016, of 19 July.

3. European Parliament Regulation 648/2012 on, inter alia, central counterparties, came into effect in August 2012. Among other requirements, this Regulation establishes the prudential requirements applicable to central counterparties (CCPs), in order to guarantee that they are safe and solid and comply at all times with the capital requirements. Given that the risks stemming from clearing activities are largely covered by specific financial resources, these capital requirements must ensure that a CCP is at all times adequately capitalised against credit, counterparty, market, operational,

legal and business risks which are not already covered by specific financial resources and that it is able to conduct an orderly restructuring or winding down of its operations if necessary.

In this regard, in December 2012 Commission Delegated Regulation (EU) No 152/2013 of 19 December was approved supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to regulatory technical standards on capital requirements for central counterparties.

As indicated in these regulatory technical standards, CCPs will have sufficient capital to cover the sum of the requirements for the winding down or restructuring of their operations, for their operational and legal risks, for their credit, counterparty and market risks, as well as for their business risk.

BME Clearing, as the CCP of the BME Group, has a risk management framework comprising risk management policies, procedures, and systems that enable it to identify, measure, monitor and manage risks to which it is or may be exposed. All risks are first identified by the Internal Risk Committee, which periodically reviews risk management issues related with day-to-day operations, specifically the level of compliance with risk management criteria, models and parameters.

In the case of BME Clearing, S.A. - Sociedad Unipersonal, in the framework of the process of evaluating and confirming the licence to operate as a CCP required in EMIR regulations and carried out by the National Securities Market Commission and the College of Regulators established for this purpose, it was concluded that BME Clearing's own resources were sufficient and complied with the capital requirements included in the regulatory technical standards report regarding the capital requirements of CCPs.

4. Regulation (EU) No 909/2014 of the European Parliament and Council on improving securities settlement in the European Union and on central securities depositories was published in July 2014. Hence, this Regulation establishes that the capital, together with retained earnings and reserves of a CSD, will be proportional to the risks stemming from the activities of the CSD and will be at all times sufficient to ensure that the CSD is adequately protected against operational, legal, custody, investment and business risks so that the CSD can continue to provide services as a going concern and ensure an orderly winding down or restructuring of the CSD's activities over an appropriate time span of at least six months under a range of stress scenarios.

The Regulation also requires that CSDs maintain a plan for the raising of additional capital should its equity capital approach or fall below the requirements set forth above, and for the orderly winding down or restructuring of its operations and services where the CSD is unable to raise new capital. The plan must be approved by the management body or an appropriate committee of the management body, and be updated regularly.

On 11 November 2016 Commission Delegated Regulation (EU) No 2017/390 was published supplementing Regulation (EU) No 909/2014 with regard to regulatory technical standards on specific prudent requirements applicable to central securities depositories and the designated credit entities providing auxiliary services of the banking nature.

At 31 December 2017 and 2016, the various Group companies subject to the aforementioned special rules on capital requirements complied with the requirements established therein. In respect of Iberclear as a CSD, although the capital requirements are not applicable to the company until it obtains authorisation as a CSD, Iberclear has estimated within the application process for approval as a CSD the equity requirements in accordance with the technical standards mentioned above at 31 December 2017 and 2016.

Capital management from a financial perspective aims to optimise value creation in the Group and its business segments, and maximise value creation for shareholders.

In order to adequately manage the Group's capital, it is necessary to analyse future borrowing requirements based on estimates that allow projections of minimum capital requirements for regulatory and financial purposes to be made. These projections can then be used to devise the necessary management measures to reach these capital targets.

Irrespective of the possible other investment decisions that the Group may take, subject to approval by their governing bodies and, where necessary, the General Shareholders' Meeting, Group-level criteria have been determined for investment of cash in financial assets with a view to minimising exposure to credit and interest-rate risks.

With regard to capital management processes, Bolsas y Mercados Españoles has a treasury department in its financial area, which is responsible for investing in financial assets on behalf of all Group companies.

In order to ensure these objectives and policies are adhered to, financial management regularly reviews the level of compliance with the investment policies in place. No issues in this regard have been detected during 2017 and 2016.

## 26. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 1-b). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

## Appendix I

***2017***

(Thousands of euros)

| Name | Registered address | Direct ownership interest | Indirect ownership interest | Capital | Share premium and reserves | Interim dividend | Results: Operating | Results: Net | Other equity |
|---|---|---|---|---|---|---|---|---|---|
| | Data at 31 December 2017 | | | | | | | | |
| Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 21,348 | 7,077 | (55,151) | 68,981 | 58,212 | 1,082 |
| Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A., (Sociedad Unipersonal) [1] | Barcelona | 100.00% | - | 8,564 | 2,912 | (13,769) | 14,896 | 14,643 | 785 |
| Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A., (Sociedad Unipersonal) [1] | Bilbao | 100.00% | - | 2,957 | 3,394 | (10,465) | 8,682 | 10,863 | 331 |
| Sociedad Rectora de la Bolsa de Valores de Valencia, S.A., (Sociedad Unipersonal) [1] | Valencia | 100.00% | - | 4,111 | 1,195 | (5,687) | 2,892 | 5,846 | 473 |
| Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 114,380 | 22,144 | (28,686) | 40,731 | 31,179 | 2,280 |
| Instituto Bolsas y Mercados Españoles, S.L., (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 10 | 10 | - | 36 | 26 | 148 |
| Bolsas y Mercados Españoles Market Data, S.A [1][2] | Madrid | 51.00% | 49.00% | 4,061 | 702 | (20,321) | 33,734 | 25,314 | 245 |
| Bolsas y Mercados Españoles Renta Fija, S.A. (Sociedad Unipersonal) [1][3] | Madrid | 100.00% | - | 3,005 | 3,527 | (2,790) | 4,096 | 3,169 | 1,792 |
| BME Clearing, S.A. (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 18,030 | 24,475 | (10,601) | 15,625 | 11,751 | 1,437 |
| MEFF Tecnología y Servicios, S.A. (Sociedad Unipersonal) [1] | Barcelona | 100.00% | - | 60 | 546 | - | 1,023 | 784 | - |
| MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 6,650 | 2,296 | (3,868) | 3,189 | 4,366 | 627 |
| BME Servicios Corporativos, S.A. [1][4] | Madrid | - | 100.00% | 25,000 | 25,266 | - | 1,324 | 996 | 52 |
| Bolsas y Mercados Españoles Inntech, S.A. (Sociedad Unipersonal) [1][5] | Madrid | 100.00% | - | 331 | 12,044 | (1,500) | 3,078 | 2,168 | 289 |
| BME Post Trade Services, S.A. (Sociedad Unipersonal) [1][*] | Madrid | 100.00% | - | 60 | 13,538 | - | 836 | 777 | - |
| **Subsidiaries through the Spanish stock exchange management companies:** | | | | | | | | | |
| Bolsas y Mercados Españoles Sistemas de Negociación, S.A. [1] | Madrid | - | 100.00% | 60 | 317 | (1,577) | 2,753 | 2,065 | 265 |
| Sociedad de Bolsas, S.A [1] | Madrid | - | 100.00% | 8,414 | 1,551 | (3,033) | 4,319 | 3,281 | 1,202 |

(1) Data taken from the separate financial statements for the year ended 31 December 2017, which are audited, with the exception of those of Instituto Bolsas y Mercados Españoles, S.L. - Sociedad Unipersonal and BME Post Trade Services, S.A. - Sociedad Unipersonal (formerly Link Up Capital Markets, S.A. - Sociedad Unipersonal).

(2) Indirect shareholding via the Spanish stock exchange management companies, AIAF Mercado de Renta Fija, Bolsas y Mercados Españoles Renta Fija, S.A. – Sociedad Unipersonal (formerly AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal) and MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal.

(3) Formerly AIAF Mercado de Renta Fija, S.A., - Sociedad Unipersonal.

(4) Indirect shareholding via Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. - Sociedad Unipersonal; Bolsas y Mercados Españoles Renta Fija, S.A. - Sociedad Unipersonal; MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal; Sociedad de Bolsas, S.A.; and Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. - Sociedad Unipersonal.

(5) Data obtained from the financial statements of Bolsas y Mercados Españoles Inntech, S.A. – Sociedad Unipersonal (formerly Infobolsa, S.A. - Sociedad Unipersonal and its subsidiaries at 31 December 2017, the separate financial statements of which, in addition to those of Open Finance, S.L., are subject to audit (the following subsidiaries are not subject to audit: Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A., Infobolsa Deutschland, GmbH, BME Regulatory Services, S.A. and BME Soporte Local Colombia, S.A.S.).

(*) Formerly Link Up Capital Markets, S.A., Sociedad Unipersonal (Appendix I).

***2016***

(Thousands of euros)

| Name | Registered address | Direct ownership interest | Indirect ownership interest | Capital | Share premium and reserves | Interim dividend | Results: Operating | Results: Net | Other equity |
|---|---|---|---|---|---|---|---|---|---|
| | Data at 31 December 2016 | | | | | | | | |
| Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 21,348 | 7,030 | (52,155) | 67,392 | 56,194 | 895 |
| Sociedad Rectora de la Bolsa de Valores de Madrid, S.A., (Sociedad Unipersonal) [1] | Barcelona | 100.00% | - | 8,564 | 2,838 | (16,397) | 17,002 | 17,682 | 690 |
| Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A., (Sociedad Unipersonal) [1] | Bilbao | 100.00% | - | 2,957 | 3,392 | (10,503) | 8,671 | 11,066 | 278 |
| Sociedad Rectora de la Bolsa de Valores de Valencia, S.A., (Sociedad Unipersonal) [1] | Valencia | 100.00% | - | 4,111 | 1,178 | (6,213) | 2,687 | 6,371 | 427 |
| Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 114,380 | 22,303 | (31,760) | 45,179 | 34,129 | 1,914 |
| Bolsas y Mercados Españoles Innova, S.A., (Sociedad Unipersonal) [1] [2] | Madrid | 100.00% | - | 3,884 | 504 | - | 1,041 | 801 | 57 |
| Instituto Bolsas y Mercados Españoles, S.L., (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 10 | 11 | - | 92 | 69 | 120 |
| Bolsas y Mercados Españoles Market Data, S.A [1] [3] | Madrid | 51.00% | 49.00% | 4,061 | 674 | (20,417) | 32,051 | 24,098 | 180 |
| Bolsas y Mercados Españoles Renta Fija, S.A. (Sociedad Unipersonal) [1][4] | Madrid | 100.00% | - | 3,005 | 3,551 | (3,339) | 4,718 | 3,648 | 1,579 |
| BME Clearing, S.A. (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 18,030 | 24,493 | (9,654) | 14,414 | 10,768 | 1,200 |
| MEFF Tecnología y Servicios, S.A. (Sociedad Unipersonal) [1] | Barcelona | 100.00% | - | 60 | 545 | - | 731 | 576 | - |
| MEFF Euroservices, S.A., (Sociedad Unipersonal) [1][5][*] | Barcelona | 100.00% | - | 4,508 | 1,026 | - | (44) | (33) | - |
| MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. (Sociedad Unipersonal) [1] | Madrid | 100.00% | - | 6,650 | 2,274 | (5,367) | 4,915 | 5,611 | 503 |
| BME Servicios Corporativos, S.A. [1] [6] | Madrid | - | 100.00% | 25,000 | 25,198 | - | 864 | 658 | 30 |
| Bolsas y Mercados Españoles Inntech, S.A. (Sociedad Unipersonal) [1] [7] | Madrid | 100.00% | - | 331 | 10,999 | - | 630 | 372 | 26 |
| BME Post Trade Services, S.A. (Sociedad Unipersonal) [1] [**] | Madrid | 100.00% | - | 60 | 13,563 | - | 374 | 379 | (12,634) |
| **Subsidiaries through the Spanish stock exchange management companies:** | | | | | | | | | |
| Bolsas y Mercados Españoles Sistemas de Negociación, S.A. [1] | Madrid | - | 100.00% | 60 | 317 | (1,499) | 2,888 | 2,168 | 188 |
| Sociedad de Bolsas, S.A. [1] | Madrid | - | 100.00% | 8,414 | 1,237 | (4,074) | 6,421 | 4,838 | 976 |
| Visual Trader, S.L. [1] [2] | Madrid | - | 100.00% | 2,375 | 3,056 | (1,249) | 2,232 | 1,680 | 146 |

(1) Data taken from the separate financial statements for the year ended 31 December 2016, which are audited, with the exception of those of Instituto Bolsas y Mercados Españoles, S.L. - Sociedad Unipersonal and BME Post Trade Services, S.A. - Sociedad Unipersonal (formerly Link Up Capital Markets, S.A. - Sociedad Unipersonal).
(2) Now absorbed by Bolsas y Mercados Españoles Inntech, S.A., - Sociedad Unipersonal (Note 2.a)
(3) Indirect shareholding via the Spanish stock exchange management companies, AIAF Mercado de Renta Fija, Bolsas y Mercados Españoles Renta Fija, S.A. – Sociedad Unipersonal (formerly AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal) and MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal.
(4) Formerly AIAF Mercado de Renta Fija, S.A., - Sociedad Unipersonal.
(5) Now absorbed by MEFF Tecnología y Servicios, S.A.-Sociedad Unipersonal (Note 2.a).
(6) Indirect shareholding via Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. - Sociedad Unipersonal, Bolsas y Mercados Españoles Renta Fija, S.A. – Sociedad Unipersonal, MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal, Sociedad de Bolsas, S.A. and Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. - Sociedad Unipersonal.
(7) Data obtained from the financial statements of Infobolsa, S.A. - Sociedad Unipersonal (now Bolsas y Mercados Españoles Inntech, S.A. - Sociedad Unipersonal) and its subsidiaries at 31 December 2016, the separate financial statements of which, in addition to those of Open Finance, S.L., are subject to audit (the following subsidiaries are not subject to audit: Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A., Infobolsa Deutschland, GmbH).
(*) Formerly MEFF Euroservices, S.A., Sociedad de Valores, Sociedad Unipersonal (Appendix I).
(**) Formerly Link Up Capital Markets, S.A., Sociedad Unipersonal (Appendix I).

*2017*

[Thousands of euros]

| | Registered address | Ownership interest | Value of holding | Data at 31 December 2017 / Joint venture investment data: Assets | Liabilities | Revenues | Expenses | Equity: Capital | Share premium and reserves | Results: Operating | Results: Net | Non-controlling interests |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equity method:** | | | | | | | | | | | | |
| Regis-TR, S.A. [1] | Luxembourg | 50.00% | 4,287 | 10,787 [2] | 2,213 [2] | 11,194 | (8,978) [3] | 3,600 | 2,758 | 3,041 | 2,216 | - |

[1] Data taken from the financial statements for the year ended 31 December 2017, which are subject to audit.
[2] The assets balance comprises €1,794 thousand of "Non-current assets" and €8,993 thousand of "Current assets". Liabilities comprise €55 thousand of "Non-current liabilities" and €2,158 thousand of "Current liabilities".
[3] Comprises expenses with the Bolsas y Mercados Españoles Group of €1,663 thousand.

*2016*

[Thousands of euros]

| | Registered address | Ownership interest | Value of holding | Data at 31 December 2016 / Joint venture investment data: Assets | Liabilities | Revenues | Expenses | Equity: Capital | Share premium and reserves | Results: Operating | Results: Net | Non-controlling interests |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Equity method:** | | | | | | | | | | | | |
| Regis-TR, S.A. [1] | Luxembourg | 50.00% | 3,198 | 8,722 [2] | 2,359 [2] | 8,877 | 8,518 [3] | 3,600 | 2,403 | 581 | 359 | - |

[1] Data taken from the financial statements for the year ended 31 December 2016, which are subject to audit.
[2] The assets balance comprises €2,057 thousand of "Non-current assets" and €6,665 thousand of "Current assets". Liabilities comprise €36 thousand of "Non-current liabilities" and €2,323 thousand of "Current liabilities".
[3] Comprises expenses with the Bolsas y Mercados Españoles Group of €2,221 thousand.

***Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. - Sociedad Unipersonal***

This company was incorporated in Madrid on 7 June 1989, under the simultaneous incorporation procedure with the name of Sociedad Promotora de la Sociedad Rectora de la Bolsa de Valores de Madrid, S.A, and on 27 July 1989 then became Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.

In 2009, the Company acquired 15,025 shares in Bolsas y Mercados Españoles Sistemas de Negociación, S.A., equivalent to a 25% ownership interest, from Bolsas y Mercados Españoles, for €118.6 thousand. As a result of this purchase, at 31 December 2017 and 2016 the company had a 25% long-term shareholding in Bolsas y Mercados Españoles Sistemas de Negociación, S.A. At 31 December 2017, the Company also held long-term shareholdings in Sociedad de Bolsas, S.A and Bolsas y Mercados Españoles Servicios Corporativos, S.A. with ownership interests of 25%, and 48%, respectively. At 31 December 2016 the Company had an ownership interest of 90% in Visual Trader Systems, S.L. which was sold in 2017 to Bolsas y Mercados Españoles, prior to the absorption of Visual Trader, S.L. by Infobolsa, S.A.U (now Bolsas y Mercados Españoles Inntech, S.A.U.).

In 2011, in accordance with the provisions of the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group, the company accepted the capital increase at Bolsas y Mercados Españoles Market Data, S.A., subscribing 8,408 new shares, each with a par value of €50, equivalent to a 10.35% shareholding, which it currently holds at 31 December 2017. This capital increase was filed in the Madrid Companies Register on 16 August 2011. In this connection, and in accordance with the aforementioned protocol, on 1 January 2011 the company had transferred to Bolsas y Mercados Españoles Market Data, S.A. the information dissemination business unit.

***Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. - Sociedad Unipersonal***

Sociedad Promotora de la Bolsa de Valores de Barcelona, S.A. was incorporated on 8 June 1989, subsequently becoming Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. on 26 July 1989.

In 2009, the Company acquired 15,027 shares in Bolsas y Mercados Españoles Sistemas de Negociación, S.A., equivalent to a 25% ownership interest, from Bolsas y Mercados Españoles, for €118.6 thousand. As a result of this purchase, at 31 December 2017 and 2016 the company had a 25% long-term shareholding in Bolsas y Mercados Españoles Sistemas de Negociación, S.A. At 31 December 2017 and 2016, the company also held a long-term 25% shareholding in Sociedad de Bolsas, S.A. At 31 December 2016 and 100, the company also held a long-term 100% shareholding in Centro de Cálculo de Bolsa, S.A., which was wound up in 2017.

In 2011, in accordance with the provisions of the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group, the Company accepted the capital increase at Bolsas y Mercados Españoles Market Data, S.A., subscribing 8,268 new shares, each with a par value of €50, equivalent to a 10.18% ownership interest, which it retained at 31 December 2017. This capital increase was registered with the Madrid Companies Register on 16 August 2011.

According to the resolutions adopted by the Company's Board of Directors at its meetings of 25 June and 2015 and 27 July 2015, throughout 2015 the book-entry register of the shares of SICAVs (open-ended collective investment schemes), equity securities listed for trading exclusively on the Barcelona Stock Exchange, and non-listed securities registered on the SCLBARNA system, were progressively transferred to Iberclear. This process was completed in 2016 with the transfer of the remaining equity securities and the public debt securities of the Generalitat de Catalunya, and the Company ceased providing Clearing and Settlement services in 2016.

***Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A. - Sociedad Unipersonal***

This company was incorporated on 26 July 1989 as a public limited company on 26 July 1989.

In 2009, the Company acquired 15,025 shares in Bolsas y Mercados Españoles Sistemas de Negociación, S.A., equivalent to a 25% ownership interest, from Bolsas y Mercados Españoles, for €118.6 thousand. As a result of this purchase, at 31 December 2017 and 2016 the company had a 25% long-term shareholding in Bolsas y Mercados Españoles Sistemas de Negociación, S.A. At 31 December 2017 and 2016, the company also held a long-term 25% shareholding in Sociedad de Bolsas, S.A.

In 2011, in accordance with the provisions of the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group, the Company accepted the capital increase at Bolsas y Mercados Españoles Market Data, S.A., subscribing 8,268 new shares, each with a par value of €50, equivalent to a 10.18% ownership interest, which it retained at 31 December 2017. This capital increase was registered with the Madrid Companies Register on 16 August 2011.

In 2015, the Sole Shareholder resolved to concentrate in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal all the activities relating to central securities depositaries, including those that until that time had been performed by the Book-entry, Clearing and Settlement service of the Sociedad Rectora de la Bolsa de Valores de Bilbao ("SCL BILBAO"). As a result, in 2015, the book-entry register was progressively transferred to Iberclear, and this process concluded in 2016 with the transfer of the remaining equity securities listed for trading exclusively on the Bilbao stock exchange and the public debt issues made by the Basque government and provincial councils with the Company ceasing to provide book-entry, clearing and settlement services in 2016.

***Sociedad Rectora de la Bolsa de Valores de Valencia, S.A. - Sociedad Unipersonal***

This company was incorporated on 25 July 1989 as a public limited company.

In 2009, the Company acquired 15,025 shares in Bolsas y Mercados Españoles Sistemas de Negociación, S.A., equivalent to a 25% ownership interest, from Bolsas y Mercados Españoles, for €118.6 thousand. As a result of this purchase, at 31 December 2017 and 2016 the company had a 25% long-term shareholding in Bolsas y Mercados Españoles Sistemas de Negociación, S.A. At 31 December 2017 and 2016, the company also held a long-term 25% shareholding in Sociedad de Bolsas, S.A. At 31 December 2016 the Company had an ownership interest of 10% in Visual Trader Systems, S.L. which was sold in 2017 to Bolsas y Mercados Españoles, prior to the absorption of Visual Trader, S.L. by Infobolsa, S.A.U (now Bolsas y Mercados Españoles Inntech, S.A.U.).

In 2011, in accordance with the provisions of the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group, the Company accepted the capital increase at Bolsas y Mercados Españoles Market Data, S.A., subscribing 8,268 new shares, each with a par value of €50, equivalent to a 10.18% ownership interest, which it retained at 31 December 2017. This capital increase was registered with the Madrid Companies Register on 16 August 2011.

In 2015, the Sole Shareholder resolved to concentrate all activities carried out in this area by the central securities depositaries in Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., Sociedad Unipersonal, including those that had previously been carried out by the Book-entry, Clearing and Settlement service of the Sociedad Rectora de la Bolsa de Valores de Valencia ("SACL"). As a result, in 2015 all existing positions in the SACL were progressively transferred to Iberclear. This process was completed on 25 January 2016, resulting in the termination of the agreement signed between Banco de España and Sociedad Rectora de la Bolsa de Valores de Valencia, S.A. – Sociedad Unipersonal on 18 February 2008.

The most important information concerning the main companies in which the four stock exchange management companies have shareholdings is given below:

***Sociedad de Bolsas, S.A.***

Sociedad de Bolsas, S.A. was incorporated in Madrid on 16 March 1989 under the simultaneous incorporation procedure under the name of Mercado Continuo, S.A. Its initial share capital (€8,414 thousand) was subscribed and paid up by the four Spanish stock exchange management companies.

On 1 February 1990, its share capital was redistributed through the purchase and sale of shares between the four Spanish stock exchange management companies, in accordance with Law 24/1988, of 28 July, on the Securities Market which stated that the Company's share capital must be owned by the four stock exchange management companies in equal parts.

On 26 February 1990, Mercado Continuo, S.A. changed its name to Sociedad de Bolsas, S.A., and partially modified its articles of association to adapt them to the requirements of Article 50 of Law 24/1988, of 28 July, on the Securities Market and Articles 18 to 22 of Royal Decree 726/1989, of 23 June, on Stock Exchange Management Companies and Members, Stock Brokers and Collective Funds.

The Company's activity basically involves operating the programs enabling the trading of securities listed on the electronic stock market of the four official Spanish stock exchanges, and supervising the members of the market in relation to these securities.

In order to provide an additional service to market members, at the end of 1991 the Company also acquired the MEFF-30 and FIEX-35 indices, combining them into a single index, the IBEX 35®, which underpins the trading of futures and options on stock markets. The Company owns the IBEX indices and is responsible for managing, supervising and marketing them, and publishing them on a daily basis.

The company transferred the information dissemination business to Bolsas y Mercados Españoles Market Data, S.A. on 1 January 2011, in accordance with the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group. In continuance of the aforementioned Protocol, on 20 June 2017, the Second Information Dissemination Protocol was implemented, by virtue of which Bolsas y Mercados Españoles Market Data, S.A. assumes the promotion and marketing of the use of the IBEX indices, owned by Sociedad de Bolsas, S.A.

At 31 December 2017 and 2016, it held a long-term 11% shareholding in Bolsas y Mercados Españoles Servicios Corporativos, S.A.

***Bolsas y Mercados Españoles Sistemas de Negociación, S.A.***

Bolsas y Mercados Españoles Sistema de Negociación, S.A. was incorporated in Madrid, for an indefinite period of time, on 21 February 2006, as Mercado Alternativo Bursátil, S.A., via the simultaneous incorporation procedure, by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. On 6 May 2010 it adopted its current corporate name.

Its corporate purpose is to organise, manage and oversee the multilateral trading facilities, the Alternative Equity Market (MAB for its initials in Spanish) and Latin American Securities Market (Latibex), and to take responsibility for their organisation and internal functioning, for which it shall be endowed with the necessary resources. The company is therefore legally considered the management company of the MAB and Latibex.

The creation of the MAB was authorised by the Spanish Cabinet, based on a proposal made by the CNMV, on 30 December 2005. It is a nationwide organised trading system. Its organisation and operations are supervised by the CNMV and its overriding purpose is to provide an organised system for arranging, settling, clearing and registering trades in:

a. Shares and other instruments of Collective Investment Institutions
b. Securities and instruments issued by or relating to small-cap entities
c. Other securities and instruments which, because of their special characteristics, require specific regulations

MAB currently has four separate securities trading segments:

a. Open-ended collective investment schemes (SICAVs) and hedge funds (HF).
b. Venture capital firms.
c. Growth companies.
d. Listed real-estate investment trusts (REITs).

Latibex, created pursuant to authorisation by the Spanish Parliament on 29 November 1999, is a nationwide organised trading system. Its organisation and operations are supervised by the CNMV and its overriding purpose is to provide a multilateral facility for arranging, settling, clearing and registering trades involving securities issued by entities domiciled in Latin America and previously admitted to trading on a stock exchange in Latin America.

As a prerequisite to becoming the management company of the aforementioned multilateral trading facilities, Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. - Sociedad Unipersonal, Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. - Sociedad Unipersonal, Sociedad Rectora de la Bolsa de Valores de Valencia, S.A. - Sociedad Unipersonal y Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A. - Sociedad Unipersonal acquired 100% of this company's capital, in equal shares, from Bolsas y Mercados Españoles (until then, the company's sole shareholder). As a result, the four stock exchange management companies became the company's shareholders, each holding a 25% stake.

On 16 April 2010, the company was authorised by the CNMV to transform MAB and LATIBEX (formally organised trading systems) into multilateral trading facilities. Subsequently, on 6 May 2010, the company executed the change in its corporate purpose as a deed, expanding it to include organising, managing and overseeing the Latibex market, and adopting its current corporate name.

The Real Estate Investment Trusts ("REITs") Trading segment on the MAB was inaugurated on 28 November 2013.

***Bolsas y Mercados Españoles Market Data, S.A.***

Bolsas y Mercados Españoles Market Data, S.A. was incorporated in Madrid on 23 May 2008 for an indefinite period with a share capital of €61 thousand (consisting of 1,220 shares with a par value of €50 each). Its sole shareholder is Bolsas y Mercados Españoles.

On 22 December 2010, as sole shareholder, the Company decided to increase the amount of share capital by €2,000,000 (in the form of 40,000 new shares, each with a par value of €50, fully subscribed and paid in by the Company). The public deed for the capital increase was executed on 28 December 2010, submitted to the Companies Register on 29 December 2010 and placed on file on 3 January 2011.

During 2011, the Company decided to increase the amount of share capital by €2,000,000 (in the form of 40,000 new shares, each with a par value of €50). This share capital increase was fully subscribed and paid up by the Madrid, Barcelona, Bilbao and Valencia stock exchange companies, Bolsas y Mercados Españoles Renta Fija .S.A. – Sociedad Unipersonal, formerly AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal, BME Clearing, S.A. - Sociedad Unipersonal, formerly MEFF Sociedad Rectora de Productos Derivados de Equities, S.A. - Sociedad Unipersonal and Bolsas y Mercados Españoles, and registered in the Madrid Companies Register on 16 August 2011.

At 31 December 2017 and 2016, the Company's shareholders and their ownership interests were as follows:

| Company | Ownership interest |
|---|---|
| Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. | 51.00% |
| Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. - Sociedad Unipersonal | 10.35% |
| Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A. - Sociedad Unipersonal | 10.18% |
| Sociedad Rectora de la Bolsa de Valores de Valencia, S.A. - Sociedad Unipersonal | 10.18% |
| Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A. - Sociedad Unipersonal | 10.18% |
| MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal | 7.97% |
| Bolsas y Mercados Españoles Renta Fija, S.A. - Sociedad Unipersonal (1) | 0.14% |

(1) Formerly AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal.

The Company took on the information dissemination business on 1 January 2011, in accordance with the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group. In continuance of the aforementioned Protocol, on 20 June 2017, the Second Information Dissemination Protocol was implemented, by virtue of which Bolsas y Mercados Españoles Market Data, S.A. assumes the promotion and marketing of the use of the IBEX indices, owned by Sociedad de Bolsas, S.A.

The company's corporate purpose is:

a. To receive, process, prepare, manage, disseminate, market and distribute any type of financial, economic, stock market, monetary and commercial information of any type by electronic or other means.

b. To prepare, develop and market programs, computer materials, systems or other elements designed to capture, handle, disseminate and use all kinds of financial, economic, stock market, monetary and commercial information.

c. To receive, process, develop, handle, disseminate and distribute information on transactions in financial instruments and communicate this information to all kinds of national or international, public or private institutions and authorities.

d. To perform consultancy and advisory activities related to the procedures, development and management of the aforementioned activities.

Such activities may be carried out directly by the company or via interests in the activities of other companies with a similar corporate purpose, to which end it may promote the incorporation of such companies or take equity interests in them.

The Company will carry on the activities comprising its corporate purpose without prejudice to the application of the supervisory and legal regimes, administrative control and any inspections to which the information on these activities may be subject.

***BME Clearing, S.A. – Sociedad Unipersonal***

MEFF Sociedad Rectora de Productos Derivados, S.A. - Sociedad Unipersonal, was incorporated on 7 December 1988 under the name OM Ibérica, S.A., and commenced operations on 8 November 1989.

Its principal activity was the management of the Equity Derivative Financial Products Market and the clearing and settlement house for operations in this market. In 2010, as a result of publication of Royal Decree 1282/2010, of 15 October, regulating official secondary markets for futures, options and other derivative financial instruments, the company amended its Articles of Association, mainly to include the change in its name to MEFF Sociedad Rectora de Productos Derivados, S.A. and the inclusion in its corporate purpose of the performance of activities set forth in Article 59 of the Securities Market Act, as well as those provided by Article 44 ter relating to the central counterparty activities stipulated in said Royal Decree, its corporate purpose now being understood to include all activities permitting this purpose to be fulfilled and which are within the law, in particular those rules governing the markets at any given time.

In this connection, on 21 December 2010, the CNMV published in the Official State Gazette (BOE) the new official secondary futures and options markets (MEFF) regulation, which entered into force on 24 January 2011.

In 2011, in accordance with the provisions of the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group, the company accepted the capital increase at Bolsas y Mercados Españoles Market Data, S.A., subscribing 6,473 new shares, each with a par value of €50, equivalent to a 7.97% shareholding. The capital increase was registered with the Madrid Companies Register on 16 August 2011. In this connection, in accordance with the aforementioned protocol, on 1 January 2011 the company transferred the information dissemination business to Bolsas y Mercados Españoles Market Data, S.A.

On 28 June 2012, the Boards of Directors of MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Fija, S.A. - Sociedad Unipersonal and the company approved the merger and takeover by the company of MEFF Sociedad Rectora de Productos Derivados, S.A. - Sociedad Unipersonal with the latter being wound up through dissolution without liquidation and the transfer en bloc of its assets and liabilities to MEFF Sociedad Rectora de Productos Derivados, S.A. - Sociedad Unipersonal, which has acquired through universal succession the rights and obligations of MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Fija, S.A. - Sociedad Unipersonal.

Further, on 28 and 29 June 2012, the Boards of Directors of the company and MEFF Tecnología y Servicios, S.A. – Sociedad Unipersonal, respectively, agreed the partial spin-off of MEFF Tecnología y Servicios, S.A. - Sociedad Unipersonal in favour of the company. This involved transferring the business unit comprising the derivatives market technical and human resources to MEFF Tecnología y Servicios, S.A. - Sociedad Unipersonal, in favour of the company, which acquired all the assets and liabilities, rights and obligations of this business unit through universal succession.

The public deed of merger and partial spin-off was executed on 26 November 2012, and filed with the Barcelona and Madrid Companies Registers on 14 and 28 December 2012, respectively.

The merger and partial spin-off described above were conducted to reorganise the Bolsas y Mercados Españoles Group companies involved in activities in the derivatives markets, providing the technical services on which this market is based, to increase the Group's efficiency and reorganise the activities of the companies involved.

Lastly, as a result of the new fixed income securities clearing house activities carried on by the Company, its Regulations were amended on 31 October 2012.

On 27 June 2013, the Board of Directors of BME Clearing, S.A. – Sociedad Unipersonal and MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal, agreed the partial spin-off of BME Clearing, S.A. – Sociedad Unipersonal (the spun off company) to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal (the beneficiary). This involved transferring the business unit comprising the assets and technical and human resources necessary to manage the official secondary market for the derivative products of BME Clearing, S.A. – Sociedad Unipersonal to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal, which acquired all the assets and liabilities, rights and obligations of the business unit through universal succession.

The deed for the partial spin-off was granted on 9 September 2013 and filed with the Madrid Companies Register on 30 September 2013. From that date, BME Clearing's corporate purpose is to intervene on its own account in the clearing and settlement of securities or financial instruments as set forth at that time in Article 44 ter of the Securities Market Act and the implementing provisions thereof applicable at any given time.

The partial spin-off described above was conducted to reorganise the Bolsas y Mercados Españoles Group companies involved in activities in the derivatives markets and the technical services on which this market is based with a view to making the supervised Group's structure more efficient and reorganising the activities of the companies involved.

On 13 December, transferred its shareholding in Bolsas y Mercados Españoles Market Data, S.A. and Bolsas y Mercados Españoles Servicios Corporativos, S.A. to MEFF Sociedad Rectora del Mercados de Productos Derivados, S.A.U.

On 16 September 2014, the CNMV informed BME Clearing S.A. - Sociedad Unipersonal that it had been granted authorisation to perform clearing services as a central counterparty, in accordance with article 14 of Regulation (EU) 648/2012 of the European Parliament and Council, of 4 July 2012, relative to OTC derivatives, central counterparties and trade repositories, and point 1 of article 44 ter. of Law 24/1988, of 28 July, on the Securities Market.

On 29 July 2015, the CNMV informed BME Clearing S.A. - Sociedad Unipersonal that it had been granted authorisation to extend its activities, under Article 15 of EMIR, to provide services as central counterparty for equity (Equity Segment) and derivatives financial instruments (OTC) on interest rates (IRS), likewise authorising the amendment of the Rule Book of BME Clearing S.A. – Sociedad Unipersonal, the General Conditions of the Equity Segments and the General Conditions of the Derivatives (OTC) Segment on interest rates.

Therefore, with the entry into force of the reform of the Spanish securities clearing, settlement and registration system from 27 April 2016, the Company incorporated into its activity the clearing of trades on securities admitted to trading on the Spanish Stock Exchanges and on the MAB and Latibex multilateral trading systems.

On 1 June 2017, BME Clearing obtained authorisation to extend its services as central counterparty to GAS contracts, with physical delivery, which will form part of the CCP's Energy Segment. This new service is expected to be launched in the second quarter of 2018.

***MEFF Tecnología y Servicios, S.A. - Sociedad Unipersonal***

MEFF Tecnología y Servicios, S.A, formerly Mercado Español de Futuros Financieros Services, S.A, was incorporated with limited liability on 4 July 1996.

On 11 May 2006, MEFF Tecnología y Servicios signed a contract with Red Eléctrica de España, S.A., through which this latter company authorised MEFF Tecnología y Servicios to operate as a third party authorised to make collections and payments, and issue the corresponding invoices, as well as receive and manage guarantee deposits, in its role as CCP between electricity suppliers and purchasers, referred to as Market Subjects. Red Eléctrica de España, S.A. is the operator of the Spanish electricity system and, as established by Law 54/1997 amended by Royal Decree Law 5/2005, is responsible, inter alia, for the settlement and notification of payments and collections, as well as the receipt and management of guarantee deposits, where applicable, for operations performed by Market Subjects in relation to system adjustments and the power guarantee.

On 28 and 29 June 2012, the Boards of Directors of MEFF Sociedad Rectora de Productos Derivados, S.A. - Sociedad Unipersonal and the company, respectively, agreed the partial spin-off of the company to MEFF Sociedad Rectora de Productos Derivados, S.A. - Sociedad Unipersonal. This involved transferring the business unit comprising the derivatives market technical and human resources to MEFF Sociedad Rectora de Productos Derivados, S.A. – Sociedad Unipersonal, which acquired all the assets and liabilities, rights and obligations of the business unit through universal succession. The public deed of the partial spin-off was executed on 26 November 2012, and filed with the Barcelona and Madrid Companies Registers on 14 and 28 December 2012, respectively.

Also in 2012, MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Fija, S.A. - Sociedad Unipersonal was absorbed by MEFF Sociedad Rectora de Productos Derivados, S.A. - Sociedad Unipersonal - see above - and this, together with the partial spin-off described above was conducted to reorganise the Bolsas y Mercados Españoles Group companies involved in activities in the derivatives markets and the technical services on which this market is based with a view to making the supervised Group's structure more efficient, and to reorganise the activities of the companies involved.

On 25 April 2017, the Sole Shareholder (Bolsas y Mercados Españoles) de MEFF Tecnología y Servicios, S.A. - Sociedad Unipersonal and MEFF Euroservices, S.A., - Sociedad Unipersonal, approved the merger of the latter by the former, a merger that was notarised on 29 May 2017 and recorded in the Barcelona Companies Register on 10 July 2017.

***Bolsas y Mercados Españoles Renta Fija, S.A. - Sociedad Unipersonal (formerly AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal)***

The corporate purpose of Bolsas y Mercados Españoles Renta Fija, S.A. - Sociedad Unipersonal - after the merger with Sistema Electrónico de Negociación de Activos Financieros, S.A, as described below, is to supervise, manage and operate the fixed income securities market, AIAF MERCADO DE RENTA FIJA (the "AIAF Market"), to supervise, manage and operate the multilateral trading facility Sistema Electrónico de Negociación de Activos Financieros (SENAF.SMN), and to supervise, manage and operate the Mercado Alternativo de Renta Fija (MARF) multilateral trading facility and the activities performed through this platform.

AIAF Mercado de Renta Fija is an official, active, regulated and decentralised secondary market for fixed income securities. It was authorised by a Ministry for the Economy and Finance Order, of 1 August 1991, and its official status was recognised in accordance with the Transitional Provision Nine of Law 37/1998, of 16 November, of the Reform of Act 24/1988, of 28 July, on the Securities Market.

On 22 April 2009, the Board of Directors of AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal and Sistema Electrónico de Negociación de Activos Financieros, S.A. (absorbed company), approved the merger by absorption of Sistema Electrónico de Negociación de Activos Financieros, S.A. by AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal, with the former being wound up through dissolution without liquidation.

At the meetings held on 25 May 2009, the sole shareholder of AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal and the General Shareholders' Meeting of Sistema Electrónico de Negociación de Activos Financieros, S.A. approved the merger of the two entities through the absorption of Sistema Electrónico de Negociación de Activos Financieros, S.A. by AIAF Mercado de Renta Fija, S.A. - Sociedad Unipersonal, and the winding up by dissolution without liquidation of the latter, and the subsequent transfer en bloc of the absorbed company's assets and liabilities to the absorbing company, which acquired all the rights and obligations of the absorbed company by universal succession.

The public merger deed was executed on 17 July 2009 and filed with the Companies Register on 22 July 2009.

In 2011, in accordance with the provisions of the Information Dissemination Protocol of the Bolsas y Mercados Españoles Group, the company accepted the capital increase at Bolsas y Mercados Españoles Market Data, S.A., subscribing 113 new shares, each with a par value of €50, equivalent to a 0.14% shareholding, that it still held at 31 December 2014. This capital increase was filed in the Madrid Companies Register on 16 August 2011. In this connection, and in accordance with the aforementioned protocol, on 1 January 2011 the company had transferred to Bolsas y Mercados Españoles Market Data, S.A. the information dissemination business unit.

Since 7 October 2013, AIAF Mercado de Renta Fija is the governing body of the Mercado Alternativo de Renta Fija (MARF) multilateral trading facility.

In addition, at 31 December 2017 and 2016, it held a long-term 9% stake in Bolsas y Mercados Españoles Servicios Corporativos, S.A.

***Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. - Sociedad Unipersonal***

Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (Sociedad de Sistemas) was incorporated on 7 June 2000 under the name Promotora para la Sociedad de Gestión de los Sistemas Españoles de Liquidación, S.A.

This company's initial corporate purpose resulted from Act 44/2002 of 22 November, on measures for the reform of the financial system (the Spanish Finance Act), which established the legal changes necessary to complete the integration of the registration, clearing and settlement systems and designed a legal regime to enable the creation of the Sociedad de Sistemas (Systems Company) by integrating the S.C.L.V. and CADE.

In application of the aforementioned provisions of the Financial Systems Act, the Universal Extraordinary General Meeting held on 22 January 2003 adopted, inter alia, the following resolutions: to change the company's name to "Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A." and to amend the corporate purpose and the articles of association and to increase the company's share capital by means of non-cash contributions, namely: (i) 100% of the share capital of the S.C.L.V., contributed by Bolsas y Mercados Españoles; and (ii) the necessary resources to carry out the relevant public debt book-entry market functions consisting, among others, of goodwill in respect of public debt clearing, settlement and registration activity transferred from CADE to Sociedad de Sistemas, contributed by Banco de España.

Lastly, with economic effect from 1 January 2003, Sociedad de Sistemas merged and absorbed the S.C.L.V. under the terms laid down in the Financial Systems Act.

Sociedad de Sistemas currently has the following functions:

a. Keeping the register of securities represented in the form of book entries admitted for trading on the Government Debt Book-entry Market, in accordance with the provisions of the Securities Market Act; of securities admitted for trading on the Spanish Stock Exchanges, as designated by the corresponding Governing Companies; and of other securities admitted to trading on official secondary markets and multilateral trading systems, as designated by the governing bodies of the corresponding markets and systems.

b. Keeping the accounting records of other securities not admitted for trading on official secondary markets, regulated markets or multilateral trading systems.

c. Managing the settlement and, as necessary, the clearing of securities and cash arising from security trading.

d. To provide the services for which it has been authorised pursuant to Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

e. Providing services in connection with the European emission rights trading and registration system.

f. Any other duties assigned to it by the Spanish government, subject to prior reports from the CNMV and, if applicable, Banco de España

The Company may not carry out or include as part of its corporate purpose any activities for which it is not legally authorised or for the exercise of which the Law requires any kind of administrative authorisation it does not hold.

The reform of the Spanish securities clearing, settlement and registration system (instigated by Law 32/2011, of 4 October, and culminating in the first final provision of Law 11/2015, of 18 June, with the aim of standardising Spanish post-trading activities in line with those of our main European partners) involves three main changes: a) a move to a holdings-based register system for equity securities; b) the introduction of a central counterparty (CCP) and c) the bringing together the current settlement systems, CADE and SCLV, into a single platform.

With the entry into force of the Reform, since 27 April 2016, the Company has managed the following securities settlement systems: the ARCO securities settlement system and the clearing and settlement system for transactions carried out in the Book-entry Public Debt Market and the AIAF Fixed Income Market.

On 18 September 2017, the second phase of the Reform was completed with (a) the incorporation to the ARCO Settlement System for the settlement of securities included up until that time on the clearing and settlement system for transactions carried out in the book-entry public debt market and the AIAF fixed income market and (b) the migration of the Eurosystem to the Target2 Securities (T2S) settlement platform, thus permitting the standardisation of the post-trade systems of the Spanish market with those of the other European markets.

At 31 December 2017 and 2016, the Company held long-term shareholdings in Bolsas y Mercados Españoles Servicios Corporativos, S.A. and Regis-TR, S.A., with ownership interests of 21% and 50% respectively.

Significant information concerning Regis-TR, S.A. is provided below.

***Regis-TR, S.A.***

On 9 December 2010, Regis-TR, S.A. was incorporated in Luxembourg for an indefinite period by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. - Sociedad Unipersonal and Clearstream Banking, S.A., with share capital totalling €3,600 thousand (in the form of 36,000 shares, each with a par value of €100, fully subscribed and paid in, in equal amounts, by the two companies).

Its corporate purpose is:

a. The company will act as a trade repository and authorised information system under the provisions of the applicable Luxembourg legislation.

b. Its corporate purpose is the  administration and registration of information relating to any derivative contract and with transactions (hereinafter "Derivatives", including, but not limited to, over-the-counter derivatives(OTCs), exchange traded derivatives (ETDs), contracts and trades) entered into by financial and non-financial counterparties, as well as the reporting of information received on these derivatives, inter alia, to the market Supervisory authorities and regulatory authorities and derivative market participants.

c. The purpose of the company is the administration and registration of information relating to any trade on wholesale energy products (hereinafter, "Wholesale market energy products", including, but not limited to contracts, the execution of transactions and derivatives relating to the production, supply, transport and distribution of electricity and natural gas, and information on the capacity and use of facilities for the production, storage, consumption and transmission of electricity and natural gas and the use of liquefied natural gas (LNG) facilities, including non-scheduled and scheduled non-availability of these facilities) agreed between participants in the wholesale energy market, including the transmissions to the operators of the system, operators of storage and liquefied natural gas systems, together the reporting in its own name and on behalf of others of all data gathered on wholesale energy products, inter alia, to the Agency for the Cooperation of Energy Regulators (ACER) as well as the market supervisory authorities and regulators, wire automatic means of access to such information and/or prior request by the aforementioned authorities, as well as to the participants of the wholesale energy market.

d. To provide collateral evaluation and management services in relation to Derivatives. It may also delegate its services to a third party, and perform any commercial activity with regard to intellectual property in relation to the company's corporate purpose described above.

e. To provide supplementary financial, commercial and/or industrial services necessary to fulfil and develop its corporate purpose.

It is a private entity and therefore no quoted market prices for its shares are available. There is no contingent liability with regard to the Group's stake in the joint venture.

***BME Post Trade Services, S.A., - Sociedad Unipersonal (formerly Link Up Capital Markets, S.A. - Sociedad Unipersonal)***

The company's corporate purpose is to design, establish, create, exploit and market, in any format, all kinds of products, services, systems, procedures and IT networks, devised to capture orders, information and any class of message issued or received by entities acting as central depositories or engaged in keeping accounting records for securities and financial instruments, and the provision of services related to these entities.

Link Up Capital Markets, S.A., was incorporated by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., -Sociedad Unipersonal, together with a plurality of shareholders. Throughout the 2013 and 2014, Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A., -Sociedad Unipersonal performed a successive series of acquisitions from the aforementioned shareholders, a process that ended on 14 January 2014, with the acquisition of a 1.71% stake in Link Up Capital Markets, S.A. – Sociedad Unipersonal, an operation that resulted in a 100% shareholding.

On 21 November 2014, Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. acquired 100% of the share capital of Link Up Capital Markets, S.A. from Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. – Sociedad Unipersonal, for €878 thousand, equivalent to the carrying amount of the shares of Link Up Capital Markets, S.A. at 31 October 2014.

On 7 September 2016, the Company changed its name to BME Post Trade Services, S.A. - Sociedad Unipersonal (from Link Up Capital Markets, S.A. - Sociedad Unipersonal).

***Instituto Bolsas y Mercados Españoles, S.L. - Sociedad Unipersonal***

This company was incorporated in Madrid, for an indefinite time period, on 28 July 2006.

Its corporate purpose is to organise and give courses, seminars, lectures, postgraduate programmes, advanced training and, in general, any training activity connected with the financial industry and the securities markets, and to draw up, edit and publish related academic material of all kinds.

***Bolsas y Mercados Españoles Inntech, S.A.U., formerly Infobolsa S.A. – Sociedad Unipersonal***

This company was incorporated in Madrid in May 1990 under the name of Sociedad de Difusión de Información de la Bolsa de Valores de Madrid, S.A.

In 2008, Sociedad Rectora de la Bolsa de Valores de Madrid, S.A. - Sociedad Unipersonal sold its entire shareholding in Bolsas y Mercados Españoles Inntech, S.A.U., formerly Infobolsa, S.A. – Sociedad Unipersonal, equivalent to a holding of 50%, to Bolsas y Mercados Españoles.

On 25 February 2016, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. acquired 50% of Infobolsa, S.A. from Deutsche Börse, A.G. For €8,200 thousand, and now owns 100% of the company. Bolsas y Mercados Españoles now indirectly owns through Infobolsa, S.A. - Sociedad Unipersonal, 81% of the share capital of Open Finance, S.L., 100% of Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A. and 100% de Infobolsa Deutschland, GmbH, all of which are directly owned by Infobolsa, S.A.U. – Sociedad Unipersonal

On 25 March 2011, Infobolsa, S.A. – Sociedad Unipersonal acquired 62% of the share capital of Open Finance, S.L., for €3,514 thousand. Further, in a supplementary agreement, Infobolsa, S.A. – Sociedad Unipersonal and all non-controlling shareholders of Open Finance, S.L. signed long-term sale-purchase agreements on the remaining 38% capital of Open Finance, S.L. (cross options). On 1 July 2014, Infobolsa, S.A. – Sociedad Unipersonal acquired 19% of Open Finance, S.L., for €550 thousand, to hold a stake of 81% at 31 December 2017 and 2016.

“BME Soporte Local Colombia, S.A.S.” was incorporated on 5 January 2017 as a simplified joint stock company, incorporated in accordance with the laws of the Republic of Colombia. The share capital is represented by 150 million ordinary shares with a par value of 1 Colombian peso, fully subscribed and paid in by Infobolsa, S.A.U.

“BME Regulatory Services, S.A.U.” was incorporated on 12 May 2017 as a limited company with a share capital of 60 thousand registered shares with a par value of 1 euro each, fully subscribed and paid in by Infobolsa, S.A.U.

Therefore, at 31 December 2017, the company had a shareholding of 100% in BME Soporte Local Colombia, S.A.S. and BME Regulatory Services, S.A.U.

Lastly, on 7 June 2017, Bolsas y Mercados Españoles, approved the merger by absorption of the companies Bolsas y Mercados Españoles Innova S.A.U. and Visual Trader Systems, S.L.U. (Absorbed Companies) by Infobolsa, S.A.U. - Sociedad Unipersonal (Absorbing Company), the change of the corporate name of Infobolsa, S.A. - Sociedad Unipersonal to that of Bolsas y Mercados Españoles Inntech, S.A. - Sociedad Unipersonal and the extension of its corporate purpose as indicated below:

- To receive, process, prepare, handle, disseminate, market and distribute any type of economic, stock market, financial, monetary and commercial information of any means,

- To provide consultancy, training, advisory and technical support services in relation to business organisation and structuring projects, regulatory and corporate regimes, financial management and operating procedures, and also to design, create, develop, operate, provide support for and market, in any modality, procedures, programs, systems, services or computer, electronic or communication networks of all kinds whose purpose is to contribute, perfect, simplify, streamline, and, in general, improve, the development of financial activities or activities relating to securities markets.

- To design, establish, create, exploit and market, in any format, all kinds of products, services, systems, procedures and IT networks, devised to capture orders, information and any class of message to the securities and financial markets and of these, as well as provide services related to such markets or their participants.

***MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal***

MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal was incorporated in Madrid, for an indefinite period of time, on 21 November 2012 by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. with share capital of €60 thousand (consisting of 60,000 shares with a par value of €1 each, all of them fully subscribed and paid in).

Its corporate purpose was to analyse and prepare projects related to developing and managing markets for financial products.

On 27 June 2013, the Board of Directors of BME Clearing, S.A. – Sociedad Unipersonal and MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal, agreed the partial spin-off of BME Clearing, S.A. – Sociedad Unipersonal (the spun off company) to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal (the beneficiary). This involved transferring the business unit comprising the assets and technical and human resources necessary to manage the official secondary market for the derivative products of BME Clearing, S.A. – Sociedad Unipersonal to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. – Sociedad Unipersonal, which acquired all the assets and liabilities, rights and obligations of the business unit through universal succession.

On 26 June 2013, BME, as the sole shareholder of both companies, agreed the partial spin-off to this company and the amendment of its articles of association including, inter alia, the change of its name to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A.U. and its corporate purpose which, on authorisation by the Ministry of Economy and Competitiveness, became that of a management company of an official secondary market for futures and options, "to oversee and manage trading and recording trades in futures, options and other derivative financial instruments, irrespective of the underlying assets, provided for in Article 2 of Law 24/1988 of 28 July on the Securities Market."

On 5 September 2013, as the sole shareholder of the company, it carried out a capital increase with cash contributions of €6,590,000 through the issuance of 6,590,000 shares of €1 par value each, with an issue premium of €0,2019 per new share.

The deeds for the partial spin-off and capital increase were granted on 9 September 2013 and filed with the Madrid Companies Register on 30 September 2013.

At 31 December 2017 and 2016, the Company held long-term shareholdings in Bolsas y Mercados Españoles Servicios Corporativos, S.A. and Bolsas y Mercados Españoles Market Data, S.A., of 11% and 7.97%, respectively, these being the shareholdings acquired by virtue of the purchase contract executed with BME Clearing, S.A.U., on 13 December 2013.

# Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and Subsidiaries comprising the Bolsas y Mercados Españoles Group ("BME")

Directors' Report for 2017

## 1. Situation of the Entity

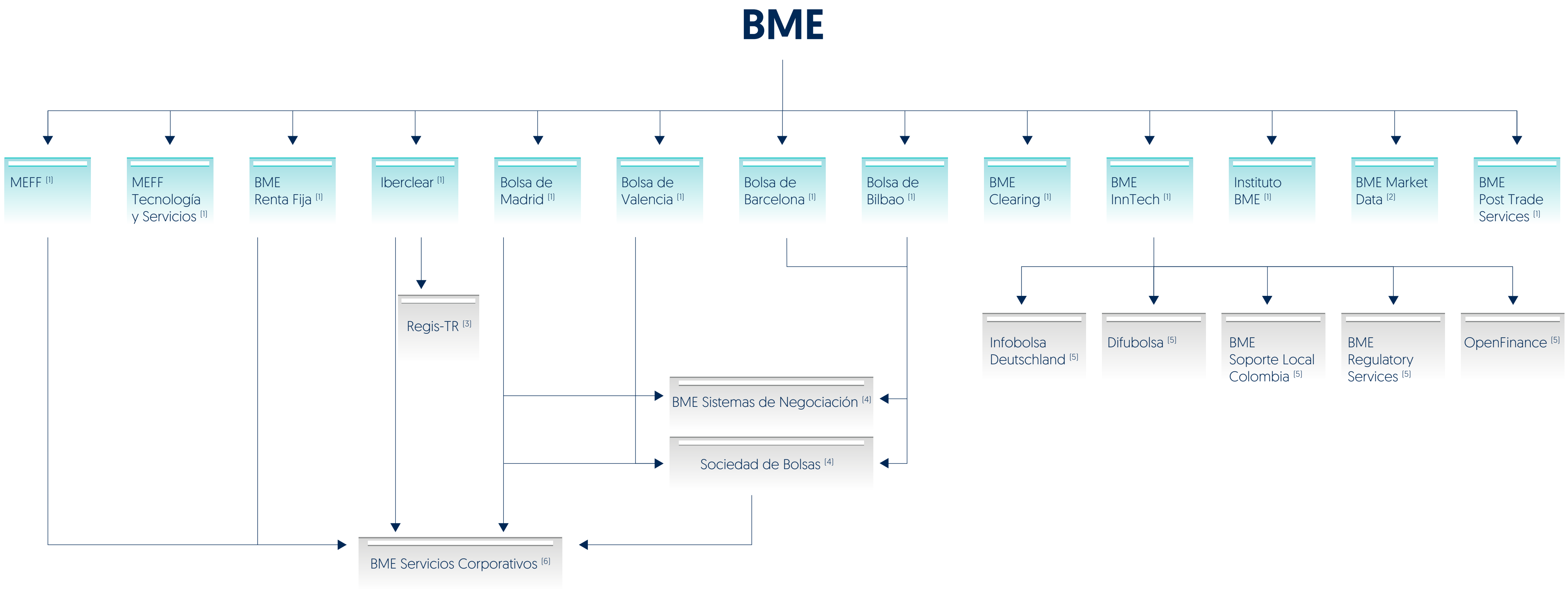
### 1.1 Organisational structure

BME is the operator of all stock markets and financial systems in Spain. A public limited company (sociedad anónima) listed since 14 July 2006, it forms part of the FTSE4Good IBEX® index and since its inception has been a benchmark in the sector in terms of solvency, efficiency and profitability.

***BME group companies***

Appendix I of the consolidated financial statements lists the Entity's main subsidiaries, jointly-controlled entities and associates, and information pertaining to them. This information is summarised in the flow chart of the corporate structure of the BME Group given below.

The Bolsas y Mercados Españoles (BME) Group is made up of the following companies:




(1) BME holds a 100% stake in the share capital of MEFF Sociedad Rectora del Mercado de Productos Derivados. S.A.U. MEFF Tecnología y Servicios. S.A.U. Bolsas y Mercados Españoles Renta Fija. S.A.U. Sociedad Rectora de la Bolsa de Valores de Madrid S.A.U. Sociedad Rectora de la Bolsa de Valores de Valencia. S.A.U. Sociedad Rectora de la Bolsa de Valores de Barcelona. S.A.U. Sociedad Rectora de la Bolsa de Valores de Bilbao. S.A.U. BME Cleaning. S.A.U. Bolsas y Mercados Españoles InnTech. S.A.U. Instituto Bolsas y Mercados Españoles. S.L.U. and BME Post Trade Services. S.A.U.

(2) BME, MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A.U., Bolsas y Mercados Españoles Renta Fija, S.A.U., Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U., Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.U., Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A.U. y Sociedad Rectora de la Bolsa de Valores de Valencia, S.A.U. have a stake of 51%, 7.97%. 0.14%, 10.35%, 10.18%, 10.18% and 10.18% respectively in the share capital of Bolsas y Mercados Españoles Market Data. S.A.

(3) IBERCLEAR holds a 50% stake in the share capital of REGIS-TR.

(4) Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U., Sociedad Rectora de la Bolsa de Valores de Valencia, S.A.U., Sociedad Rectora de la Bolsa de Valores de Barcelona, S.A.U., and Sociedad Rectora de la Bolsa de Valores de Bilbao, S.A.U. holds a stake of 25% in the companies Bolsas y Mercados Españoles Sistemas de Negociación, S.A. y Sociedad de Bolsas, S.A.

(5) Bolsas y Mercados Españoles InnTech, S.A.U. holds a 100% stake in the share capital of BME Regulatory Services, S.A.U., Infobolsa Deutschland, GmbH y BME Soporte Local Colombia, S.A.S., well as a stake of 99.99% and 81%, respectively, in the share of capital of Difubolsa – Serviços de Difusão e Informação de Bolsa, S.A. y Openfinance S.L.

(6) MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A.U., Bolsas y Mercados Españoles Renta Fija, S.A.U., IBERCLEAR, Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U. y Sociedad de Bolsas, S.A. hold a stake of 11%. 9%. 21%. 48% and 11% respectively in the company Bolsas y Mercados Españoles Servicios Corporativos, S.A.

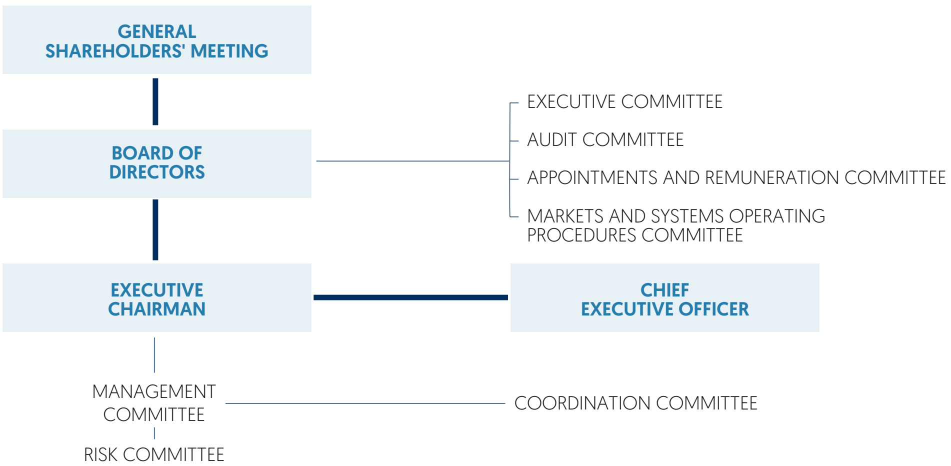
## Corporate governance.

BME's corporate governance structure conforms to the highest market standards in this field. Its guiding principles are transparency, shareholder participation and independence of the external auditor.

In this regard, BME's Board of Directors has approved its Corporate Governance Policy, which is available on the corporate website www.bolsasymercados.es together with the other Corporate Policies, and which details the principles and aspects that govern the actions of the Company and its Group in this area, as well as the commitments undertaken for the continuous improvement and review of the corporate governance regulations of the Company and its Group.

BME's internal regulations are available under the "Information for Shareholders and Investors" section of the corporate website: www.bolsasymercados.es.

CORPORATE GOVERNANCE BODIES




The **Board of Directors** is the company's most senior governing and administrative body. At 31 December 2017 it comprised 12 members of recognised capacity, integrity and independence. After the passing of Mr. Manuel Olivencia Ruiz on 1 January 2018, an external independent director, the Board of Directors was reduced to eleven members.

The composition of the Board of Directors as at 31 December 2017 complied with the recommendations of the Good Governance Code for listed companies, with 9 external directors (2 proprietary, 6 independent and 1 other external director) and only 3 executive directors.

## COMPOSITION OF THE BOARD OF DIRECTORS AS AT 31 DECEMBER 2017

| | | | | Committee | | | |
|---|---|---|---|---|---|---|---|
| **DIRECTORS** | **Position on the Board** | **Character** | **Length of service on the Board** | **Executive Committee** | **Audit Committee** | **Appointments and Remuneration Committee** | **Markets and Systems Operating Precedures Committee** |
| Mr. Antonio J. Zoido Martínez | Chairman | Executive | 15.02.2002 | Chairman | - | - | - |
| Mr. Javier Hernani Burzako | Chief Executive Officer | Executive | 27.04.2017 | - | - | - | - |
| Mr. Ignacio Garralda Ruiz de Velasco | First Deputy Chairman | External independent | 27.02.2014 | Member | - | - | - |
| Mrs. Margarita Prat Rodrigo | Second Deputy Chairman | External independent | 05.06.2006 | Member | Chairman | - | - |
| Mr. Manuel Olivencia Ruiz | Lead Director | External independent | 05.06.2006 | - | - | Chairman | - |
| Mrs. Maria Helena dos Santos Fernandes de Santana | Director | External independent | 28.04.2016 | - | - | - | - |
| Mr. Álvaro Cuervo García | Director | External independent | 05.06.2006 | Member | Member | Member | - |
| Mr. Carlos Fernández González | Director | Other external director | 25.03.2014 | - | - | Member | - |
| Mr. Joan Hortalá i Arau | Director | Executive | 15.02.2002 | - | - | - | Chairman |
| Mr. Karel Lannoo | Director | External independent | 05.06.2006 | - | - | - | Member |
| Mr. Juan March Juan | Director | External propietary | 30.10.2014 | - | Member | - | Member |
| Mr. Santos Martínez-Conde y Gutiérrez-Barquín | Director | External propietary | 30.10.2014 | Member | - | Member | - |

* Secretary of the Board and of the Committees: Mr. Luis María Cazorla Prieto.
* Deputy Secretary of the Board and of the Committee: Mrs. Cristina Bajo Martínez.
* Legal advisor: Mr. Jaime Aguilar Fernández-Hontoria.

All information on corporate governance can be found under the "Information for Shareholders and Investors" section of the corporate website, and in particular in the Annual Corporate Governance Report included in this document; in the Annual Report on Directors' Remuneration for 2017, which will be released as a significant event by the Company at the same time as the Annual Corporate Governance Report; as well as in the Corporate Social Responsibility Report and the Board of Directors' Report, which will all be made available to shareholders in advance of the General Shareholders' Meeting on the corporate website: www.bolsasymercados.es.

## Organisation

As established in the company's Articles of Association and Board of Directors' Regulations, the Board of Directors has entrusted the running of its ordinary business to its delegate bodies, the Board's executive members and the senior management team, and it falls to the Board of Directors to foster, direct and supervise those issues of special importance for the Company.

Accordingly, the Company has an **Executive Chairman**, the most senior executive and hierarchical superior, and a **Chief Executive Officer**, entrusted with managing the ordinary course of the Company's business with maximum executive functions, and who shall directly inform the Board of Directors and its Chairman regarding the progress of the Company.

BME's senior management forms the **Management Committee**, which is the body that directly supervises the management of the Business Units and Corporate Areas, ensuring a coordinated action between them, as well as that between the Company and the Group's companies.

| MANAGEMENT COMMITTEE (*) |
| --- |
| Mr. Antonio Zoido Martínez (Chairman) |
| Mr. Javier Hernani Burzako (Chief Executive Officer) |
| Mr. Jorge Yzaguirre Scharfhausen (Head of Markets And the Fixed Income, Equities and Derivatives Units) |
| Mr. Jesús Benito Naveira (Head of the Settlement and Registration Business Unit) |
| Mr. Ramón Adarraga Morales (Head of the Market Data and Value-Added Services Business Unit) |
| Mrs. Marta Bartolomé Yllera (Financial Director) |
| Mr. Francisco Nicolás Tahoces (Technology Director) |
| Mr. Pablo Malumbres Muguerza (Corporate Communication Director) |
| Mr. Jaime Aguilar Fernández-Hontoria (Legal Services Director) |

(*) Mr. Ignacio Solloa Mendoza and Mr. Luis García Berral, the respective Head of the Clearing Business Unit and Human Resources Director, may also attend the meetings of the Management Committee.

In the performance of their duties, the Management Committee shall have the support of the **Coordination Committee**, formed by members of the Management Committee and any other directors that the Chief Executive Officer should appoint. The Coordination Committee is responsible for the supervision and monitoring of the results of the Business Units, the projects that are being developed in the Group and the Groups' Strategic Plan.

Given the group's corporate structure, at 31 december the coordinated management of its activities is based on a structure of six business units and seven corporate areas providing support functions to all business units.

## BUSINESS UNITS

| | Head |
|---|---|
| **Fixed Income:** Trading of private fixed-income and public debt securities as well as listing and maintenance services for issuers on the private fixed-income market. | Mr. Jorge Yzaguirre Scharfhausen |
| **Equities:** Trading of securities through the electronic trading platform (Sistema de Interconexión Bursátil) or on the stock exchange floor, as well as listing and maintenance services for issuers on the equity market. | |
| **Derivatives:** Trading of derivatives by electronic means. | |
| **Clearing:** Clearing and central counterparty activities for equities, financial derivatives, public debt repos, interest rate derivatives and electricity derivatives. | Mr. Ignacio Solloa Mendoza |
| **Settlement and Registration:** Registration and settlement of equity, private fixed income and public debt trades. | Mr. Jesús Benito Naveira |
| **Market Data and Value-Added Services:** Primary information, index licences and other, technological, financial and consultancy innovation services, global access and algorithmic trading services and regulatory compliance services. | Mr. Ramón Adarraga Morales |

## CORPORATE AREAS

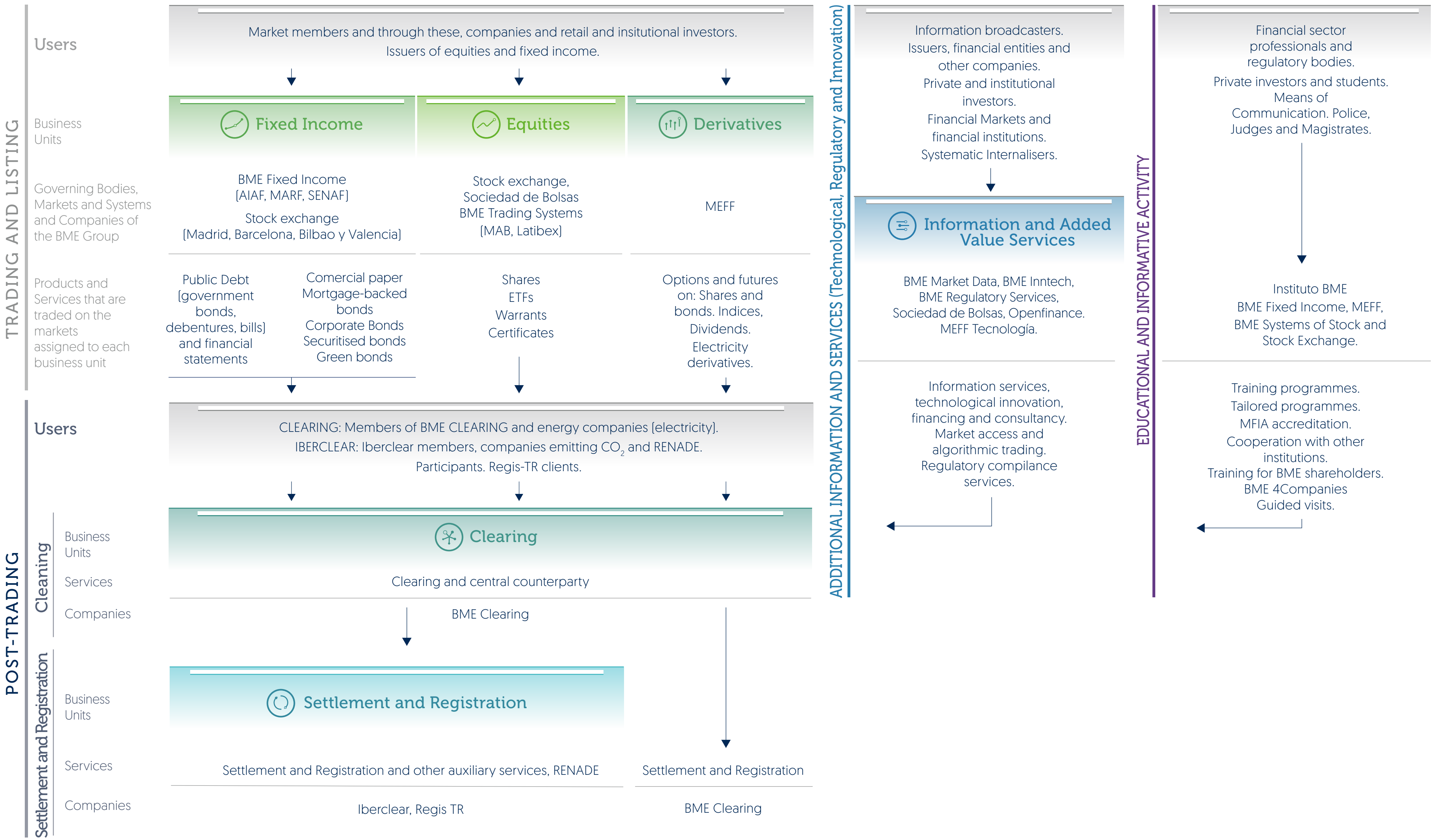
| | Person Responsible |
|---|---|
| **Financial** | Mrs. Marta Bartolomé Yllera |
| **Technology** | Mr. Francisco Nicolás Tahoces |
| **Corporate Communications** | Mr. Pablo Malumbres Muguerza |
| **Legal Services** | Mr. Jaime Aguilar Fernández-Hontoria |
| **Human Resources** | Mr. Luis García Berral |
| **International Coordination** | Mr. Ramón Adarraga Morales |
| **General Secretariat** | Mr. Luis María Cazorla Prieto |

## 1.2 Operations

### 1.2.1. Business model

BME's business model is predicated on three core executive pillars: integration of the value chain for products traded on its platforms, diversification of underlyings and businesses, and focus on internally developed technologies. This has positive effects on the company's profitability. BME's modus operandi is backed by generating a consistent flow of net free cash flow, keeping capex low, obtaining wide margins with low leverage, maintaining low marginal costs on new products or projects added to the business range and, in short, achieving a high degree of efficiency and healthy returns on equity.

BUSINESS MODEL



The above table contains a schematic representation of BME's value chain, which identifies the users of the main products and services provided by each one of the Business Units through the governing bodies and companies of BME Group. The educational and informative activity strengthens the aforementioned value chain and contributes to end-users and clients having the necessary and sufficient knowledge to allow them to obtain their objectives with greater assurance, transparency and security.

***Mission, Vision, Values and other key elements of the BME business model.***

**a) Mission and objectives.**

The mission of BME to be the go-to company for financial markets and systems in Spain, always striving to achieve service excellence and constantly innovate in markets and services. We also aim to create value for the Company and our shareholders.

The main objective of BME is to place the client in the centre of all corporate decisions and maximise the relationship with them in a manner so that excellence and the provision of the best service continue to be distinguishing features and BME's most recognisable hallmark.

BME's strategic objectives are:

- organic and inorganic growth,
- increased geographic diversification and in services,
- the strengthening BME's solid business model by adapting it to the new environment, and
- customer equity.

**b) Distinguishing values.**

BME is a leader in the sector in terms of solvency, efficiency, impartiality, transparency and protection and returns for the shareholder. It is a dynamic and modern company that is committed to customer service, innovation and development, using its own technology which has been exported to numerous countries.

**c) Necessary resources.**

The necessary resources so that BME can carry out the activities detailed in the value chain centre on the workforce, the constant development of knowledge and in-house technology and the strengthening of the relationship with suppliers and users.

**d) Value generated by BME for its stakeholders.**

- This is a source of financing and liquidity for companies, promoting the confidence of society in the financial system guaranteeing the proper functioning on the markets and undertaking the commitment to being a prominent leader of the economy of the Spanish companies and for Latin American companies through Latibex.
- It offers its users a wide range of products, services and trading systems based on an advanced and stable proprietary technology which it adapts to its requirements. BME also provides global market access systems to issuers, intermediaries and investors around the world, with customers in Europe, America and Africa.
- It also encourages the professional and personal development of its employees through the constant improvement of the services and activities that it provides them, its training programmes and professional motivation.
- It focuses its activity on the generation of shareholder value and is trusted by millions of investors who benefit from one of the highest pay-outs on the Spanish stock market, exceeding more than 90%.
- It generates business between its suppliers, of a general and local nature.

**e) Associated risks and policies applied by the Group.**

Within the framework of its risk management system, BME considers, inter alia, factors relating to the environmental and social performance of the organisation as well as other areas such as respecting human rights and the fight against corruption and bribery. The main risks associated with BME's activities are detailed in sections E and F of BME's Annual Corporate Governance Report for 2017, which is available on the Company's corporate web site.

The policies applied BME in the Group in relation to the activities it carries out, such as, the Corporate Governance Policy, the Directors' Remuneration Policy, the Dividend Policy, the Communication Policy, the Human Resources Policy, the Remuneration Policy, the Security Policy and the Environmental Policy, as well as the measures adopted in relation to the foregoing, are detailed in the Corporate Social Responsibility Report, which shall be made available to shareholders prior to the Ordinary General Shareholders' Meeting through the corporate website www.bolsasymercados.es.

### f) Key indicators of non-financial results.

***Main key performance indicators***

| Economic | Environmental | Social |
|---|---|---|
| Economic value generated: 320,906 thousand euros (-1.77% vs 2016) | Internal energy consumption (consumption of electricity and natural gas): 35,127.89 GJ -5.67% vs 2016) | Economic value distributed to stakeholders: 309,114 thousand euros (-3.31% vs 2016) |
| Shareholder remuneration through dividends: 149,606 thousand euros in dividends (-7.4% vs 2016) | Indirect greenhouse gas emissions (associated with the consumption of electricity, business trips by air and rail and employees commuting to the workplace using their own vehicle): 3,843.5 t of CO2 (+20.23% vs 2016) | Ratio of training hours received per employee: 14.17 hours/employee (+18.70% vs 2016) |
| Improvement and diversification of services for Users: News services provided through BME Inntech and BME Regulatory Services, as well as the BME 4Companies initiative | Environmental protection expenditures and investments: 525 thousand euros (-8.65% vs 2016) | Financing through the markets: 39,723 billion euros in new financing flows (+39% vs 2016) |

### 1.2.2. Responsible management model

As manager of Spain's financial markets and systems, BME is the nexus between Spanish and international companies and investors. It provides a channel through which savings can be used to finance companies, while endeavouring to offer maximum speed, reliability, transparency, efficiency and security to the markets and systems it manages.

In this regard, BME and the Group's companies carry out their activity efficiently, responsibly and sustainably, managing the financial markets and systems in strict compliance with both domestic and national legislation, and in particular, economic, social and environmental legislation, as well as the codes it voluntarily embraces.

BME's corporate social responsibility is an integral part of the Group's general strategy and day-to-day operations. It discloses all relevant information on financial and non-financial issues affecting the Company's activities with the utmost transparency.

General conduct principles and guidelines: BME, since its incorporation, has always been committed to playing a key role in the economy and Spanish and Latin American companies through the Latibex market. To achieve this, its actions are guided by the following principles:

- *Efficiency in service provision*, which is essential for the financial market to perform its key role in fostering sustainable economic growth.
- *Market integrity*, which allows several centres to undertake trading activity simultaneously and under identical conditions.
- *An impartial trading environment*, achieved through strict compliance with laws and regulations governing the financial markets and systems.
- *Transparency and fairness in the market*, by providing complete information on market performance so investors, without any privileges, can operate under the same conditions.
- I*nnovation and cutting-edge technology*, by providing the means necessary to help companies grow and actively participate in the creation of new financial products and the development of systems infrastructure.
- *Training*, as a cornerstone for the sustainable development of a financial market.

- *Investor protection*, which is crucial for creating a bond of trust between investors and the market.

The Company's guidelines for the different actors involved in the markets and society in general can be summarised as:

- compliance with Spanish, Community and international laws and regulations, (among them, those that regulate the activities related to the securities market, accounting, employment, social, and environmental aspects and the supply and use of products and services deriving from their operations), and the codes to which it adheres voluntarily, as well as complying strictly with social ethics and best practice models in its business operations. In light of the foregoing BME has not made provision for material fines or other concepts relating to environmental, social or corporate governance aspects in the audited financial statements:

- making the necessary efforts to ensure that relations with users, investors and shareholders are profitable for all concerned,

- maintaining solid and fluid relationships, through official channels, with government and watchdog bodies,

- implementing clear procedures for selecting partners and marketing services and technology,

- continuing contact with shareholders and potential investors, and,

- building fluid relationships between the Company, its employees and trade union organisations..

### 1.2.3. Regulatory framework

In view of the importance of the functions performed by BME in ensuring the smooth running of financial markets and, by extension, the Spanish economy, the company must maintain a smooth relationship with public bodies through official channels, predicated on strict adherence to applicable regulations, and with the domestic and international media.

The Spanish securities market has undergone a deep process of change and growth over the last decades. The technical, operating and organisational systems which support the market today have enabled substantial investment flows to be channelled and provided the markets with greater transparency, liquidity and efficiency.

Article 43 of prevailing Royal Legislative Decree 4/2015 of 23 October approving Spain's Revised Securities Market Act defines regulated markets as *"multilateral systems that allow parties interested in buying and selling financial instruments to be brought together to exchange contracts with respect to financial instruments that have been admitted for trading, are authorised and function regularly"*, pursuant to Chapter I of Title IV of the Securities Market Act and its implementing regulations, subject at all times to conditions of access, admission for trading, operating procedures, information and publicity. For such purposes, the following are considered to be official secondary equity markets:

- Stock Exchanges

- Book-Entry Public Debt Market

- Futures and Options Markets for any financial or non-financial underlying asset

- Private Fixed Income Market, AIAF.

- Any other state markets which meet the requirements of Section 1 of Article 43 of the Securities Market Act, which are authorised within the scope of this law and its implementing regulations, and any regional markets authorised by the proper authorities in Spain's Autonomous Communities.

In addition to the regulated markets, Multilateral Trading Systems (MTS) operate in Spain, trading both shares that are listed in regulated markets (Stock Exchanges) and Book-Entry Public Debt issues.

The Spanish securities market also includes other specific markets managed by BME, such as the Market for Latin American Securities ("LATIBEX"), the Alternative Equity Market ("MAB"), the Sistema Electrónico de Negociación de Activos Financieros ("SENAF), or the Alternative Fixed Income Market ("MARF"), all of which are used to trade securities with special characteristics. The MAB market has distinct sections for open-ended collective investment schemes (SICAVs), for venture capital firms (VCFs), for the investment funds segment, for Collective Investment Institutions (CIIs) or listed real-estate investment trusts (REITS) and for small- and medium-sized enterprises. All these markets operate via multilateral electronic trading systems. BME Renta Fija, the governing body of the fixed-income market AIAF, also managed the fixed income electronic trading platform, SEND.

### 1.2.4. Seasonal trends in the main business segments

BME's business is closely linked to the market environment and trading volumes, where trends are generally hard to forecast. Economic cycles and the economic situation prevailing at a given time, especially in Spain, are also likely to have an influence. Therefore, as part of its adherence to the principle of transparency, the group publishes on a daily basis on its website the main indicators of the markets it manages, on which the company's results are largely predicated.

# 2. Business performance and results

## 2.1. Key financial and non-financial indicators

The net profit of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and Subsidiaries comprising the Bolsas y Mercados Españoles Group ("BME") totalled €153.3 million in 2017, a decrease of 4.3% compared to net profit for 2016. EBITDA for the year amounted to €209.8 million, a drop of 2.9% year-on-year.

In 2017, operating costs rose 2.2% on the previous year to €110 million.

The cumulative efficiency ratio was 34.4%, compared to 33.2% in 2016.

Return on equity (ROE) stood at 36.1% compared to 37.5% the previous year.

The coverage ratio was 129% at year-end. This ratio measures the company's diversification into revenue sources not associated with market activity.

Equity market turnover totalled €651,952 billion, down 0.3% down on 2016.

Investment flows for the year as a whole channelled through the Exchange totalled €39,723 billion euros, compared to the €28,580 billion from the previous year, representing an increase of 39% year-on-year.

2017 has been a positive year for Fixed Income alternative funding (MARF), which continues to grow significantly. During the year, the total admitted to trading was €3,970 million, 74.1% more than in 2016.

In 2017, the Reform of the securities clearing, settlement and registration system was successfully completed with the inclusion of fixed income to the ARCO system and the migration to the T2S (Target2-Securities) settlement platform completed, thus allowing Iberclear to become a CSD in the pan-European setting and customer service.

## Results and management indicators

*Key indicators*

- Total revenue excluding net finance income amounted to €319,768 thousand, 1.2% lower than the previous year.
- Operating costs in 2017 totalled €109,980 thousand, for a 2.2% year-on-year increase.
- In 2017, EBITDA amounted to €209,788 thousand, down by 2.9% year-on-year.
- Profit before tax totalled €202,868 thousand, down by 4%, and net profit attributable to the parent company was €153,319 thousand, down 4.3%.

*Management ratios*

The prudent fund management referred to in section 1.2 of this report, aimed at optimising usage and boosting BME's value, was made evident once again in two standard metrics for the comparison of BME's performance vis-à-vis its competitors.

BME continued to present benchmark key management ratios:

- **In 2017 ROE** (return on equity) ended the year at 36.1%, a slightly down on the 37.5% reported the previous year. These values represented a difference with respect to the industry average of 16 points.
- **Cost to Income** (operating costs over operating income), the efficiency ratio measured for the full year stood at 34.4%, compared to 33.2% in 2016. This ratio measures the percentage of cost incurred on each unit of income. BME remains a sector benchmark for this indicator, outperforming the average of its peers by more than 10 points.

## Results of Business Units

BME's integrated business model is structured around six business units that provide stability and diversification.

The financial information is presented having been adapted to the restructuring carried out at the start of the year in its Information and IT, and Consulting business units, grouping the Group's different activities, according to their nature, into a new "Market Data & VAS" business unit. The information corresponding to the previous year has been reformulated using the same criteria for comparison purposes.

The section below sets out the contribution made by each in 2017 and 2016 (figures include intragroup transactions that are eliminated on consolidation):

| | NET REVENUE BY SEGMENT (Thousands of euros) | | | EBITDA BY SEGMENT | | |
|---|---|---|---|---|---|---|
| | Total at 31/12/17 | Total at 31/12/16 | Δ | Total at 31/12/17 | Total at 31/12/16 | Δ |
| Equities | 144,456 | 145,505 | -0.7% | 102,590 | 103,417 | -0.8% |
| Fixed Income | 8,683 | 9,242 | -6.0% | 4,001 | 4,326 | -7.5% |
| Derivarives | 10,841 | 10,870 | -0.3% | 4,449 | 5,190 | -14.3% |
| Clearing | 26,961 | 24,419 | 10.4% | 17,093 | 14,811 | 15.4% |
| Settlement and registration | 63,675 | 68,373 | -6.9% | 47,489 | 51,451 | -7.7% |
| Market Data & VAS | 62,731 | 59,006 | 6.3% | 39,604 | 40,013 | -1.0% |

### Equity Business Unit

The revenue for the Equity business unit at year-end 2017 amounted to €144,456 thousand, down by 0.7% against the previous year. EBITDA stood at €102,590 thousand, down 0.8% over the previous year.

EQUITIES-RESULTS PERFORMANCE (Thousands of euros)

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| Revenue | 144,456 | 145,505 | -0.7% |
| Trading | 119,750 | 122,483 | -2.2% |
| Listing and other services | 24,706 | 23,022 | 7.3% |
| Operating costs | (41,866) | (42,088) | -0.5% |
| EBITDA | 102,590 | 103,417 | -0.8% |

Of the total net revenue, trading revenue for listed products increased to €119,750 thousand for the year, down 2.2% year-on-year. In listing activities, net revenue increased to €24,706 thousand, improving on the previous year by 7.3%.

Of the unit's total net revenues for the year, 82.9% came from the trading of equity instruments. Net revenue from listing activities in 2017 represents 17.1% of the total, up 1.3 basis points year-on-year.

In the whole of 2017, a total of €651,952 billion have been traded, similar to that in the 2016, although the number of trades has fallen by 6.5% to 51.0 million.

2017 has not been a positive year in terms of trading volumes for warrants, certificates and exchange-traded funds, these also being lower compared to the previous year, in terms of cash as well as the number of trades. Trading on the warrants and certificates market was down 35.3% year-on-year to €463 million. The number of ETFs reached €4,464 billion, with trading falling 26.2%. Trades fell by 39.2% and 35.0%, respectively.

Total flows channelled in new stock amounted to €7,972 billion in 2017, up 141.1% on the previous year, thus making the Spanish exchange one of the leading European markets with regard the listing of new companies.

The number of companies admitted to trading in the MAB growth companies and REITs segments totalled 42 and 47 respectively at the year-end.

At 31 December 2017, the total market capitalisation of issuers admitted to markets managed by BME stood at €1.14 billion, up 9.9% on the 2016 figure.

In 2017, financing provided to listed companies totalled €31,751 billion, 25.6% more than the flows channelled through the Exchange in already listed shares for 2016, in spite of the 38% drop in scrip issues.

Investment flows for the year as a whole channelled through the Exchange totalled €39,723 billion euros, compared to the €28,580 billion from the previous year, representing an increase of 39% year-on-year.

The number of entities admitted to the MAB at 31 December 2017 was 2,966, down 11.1% compared to 31 December 2016.

In the ETF segment, 8 funds had been admitted for trading. The value of the assets indexed to IBEX® indices totalled €1,508 billion at year-end 2017.

5,661 warrants were listed in 2017, 26% less than in 2016.

## EQUITIY-ACTIVITY

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| **TRADING (millions of euros)** | 651,952 | 653,642 | -0.3% |
| **Shares** | | | |
| Trading volume (millions of euros) | 647,025 | 646,881 | 0.0% |
| Number of trades | 50,849,026 | 54,292,591 | -6.3% |
| Average value per trade (Euros) | 12,724 | 11,915 | 6.8% |
| **Exchange traded funds (ETFs)** | | | |
| Trading volume (millions of euros) | 4,464 | 6,045 | -26.2% |
| Number of trades | 98,381 | 151,310 | -35.0% |
| **Warrants** | | | |
| "Premiums" trading volume (millions of euros) | 463 | 716 | -35.3% |
| Number of trades | 100,865 | 165,795 | -39.2% |
| Securities traded (Millones) | 204,385 | 179,961 | 13.6% |
| **Listing** | | | |
| Number of companies listed | 3,144 | 3,527 | -10.9% |
| Market capitalisation (millions of euros) | 1,137,418 | 1,035,332 | 9.9% |
| Investment flows channelled through exchange (millions of euros) | | | |
| New listed companies | 7,972 | 3,307 | 141.1% |
| Already listed companies | 31,751 | 25,273 | 25.6% |

### Settlement and Registration

Net revenue generated in 2017 by the Settlement and Registration Unit amounted to €63,675 thousands of euros, a 6.9% year-on-year decline.

The incorporation of the clearing house activities for equities, begun at the end of April 2016 with the Reform of the Securities Clearing and Settlement System, has significantly reduced the number of trades settled due to the netting process that the Clearing House carries out, obtaining, as counterparty, revenues from the clearing of trades. Since mid-September, the connection to T2S (Target2-Securities) has similarly had an effect on the operation and development of the unit's business. As a result, net revenues from settlement activities dropped by 30.4% year-on-year, this being the first full year since the start of the aforementioned Reform.

#### SETTLEMENT AND REGISTRATION - RESULTS PERFORMANCE (Thousands of euros)

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| Revenue | 63,675 | 68,373 | -6.9% |
| Settlement | 16,017 | 23,021 | -30.4% |
| Registration | 34,221 | 33,548 | 2.0% |
| Other | 13,437 | 11,804 | 13.8% |
| Operating costs | (16,186) | (16,922) | -4.3% |
| EBITDA | 47,489 | 51,451 | -7.7% |

With Phase II of the Reform of the Securities Clearing and Settlement System concluded with the inclusion of fixed income to the ARCO system and the migration to the T2S settlement platform completed, activities have been redirected to other projects, placing the focus on customer service. Accordingly, on 17 October Iberclear signed an agreement with the Clearing and Direct Custody Division of Citi to provide global custody services for its clients.

The accumulated total number of settled trades for the year reached 10.8 million trades, a fall of 53.6% compared to those settled the previous year.

The daily cash volume settled during 2017 averaged out at €148 billion, 23.1% lower than the average daily settled cash volume for the previous year.

The volume recorded at the end of 2017 stood at 2,346.7 trillion, compared to the 2,211.8 trillion recorded at the end of the previous year, representing a 6.1% increase.

Of this volume, the cash volume recognised in equity increased 16.3% compared to the same period, amounting to €849.8 billion.

Net revenue from registration reached €34,221 thousand, an increase of 2.0% year-on-year.

Other services provided by the unit to settlement and registration entities, and the registered issuers, have generated a total net revenue of €13,437 thousand, an increase of 13.8% year-on-year.

#### SETTLEMENT AND REGISTRATION - ACTIVITY

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| Settled transactions | 10,848,376 | 23,363,649 | -53.26% |
| Cash settled (billions of €, daily average) | 148,0 | 192,4 | -23.1% |
| Volume booked -end of period- (billions of €) | 2,346,7 | 2,211,8 | 6.1% |
| Nominals registered in fixed income | 1,496,9 | 1,481,0 | 1.1% |
| Cash registered in Equity | 849,8 | 730,8 | 16.3% |

### Clearing Business Unit

The activities of the Clearing unit cover the clearing and settlement of all financial and electricity derivatives traded or registered on MEFF, spot transactions for equities through the Spanish Electronic Trading Platform (SIBE), and trading in fixed income securities (Spanish public debt repos) and OTC interest rate derivatives.

This brought the cumulative net revenue for the year to December to €26,961 thousand, an increase 10.4% compared to 2016. The accumulated EBITDA for 2017 stood at € 17,093 thousand, up 15.4% compared to 2016.

#### CLEARING- RESULTS PERFORMANCE (Thousands of euros)

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| Revenue | 26,961 | 24,419 | 10.4% |
| Operating costs | (9,868) | (9,608) | 2.7% |
| EBITDA | 17,093 | 14,811 | 15.4% |

The clearing activity for financial derivatives is shown in detail in the section on the Derivative business unit's activity. 12.2 million index-linked contracts were cleared over the entire year, 3.0% fall for year-on-year.

Similarly, 32.3 million derivatives contracts with underlying equities or share dividends were cleared, down 1.2% on the previous year. Open interest in financial derivatives at the year-end was 8.1 million contracts, 5.3% more than the previous year.

In electricity-market derivatives, the total volume cleared in 2017 reached 17.9 TWh, a drop of 25.6% year-on-year. Open interest at year-end was 8.0 TWh, 11.6% less than the previous year.

A total of 4,915 transactions with fixed-income securities (repos) were cleared in 2017, down 7.6% on 2016, in the amount of €295,257 billion, a 28.0% decrease year-on-year.

Trades in interest rate derivatives in 2017 had a notional value of €2,218 billion, with the open interest at the end of the year €470 million.

In the Equity segment, 102.1 million trades have been processed, an increase of 45.4% compared to 2016, although in 2016 the activity did not represent the whole of the year, as it began its activity during the second quarter.

## CLEARING-ACTIVITY

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| **Financial derivatives** | | | |
| Index derivatives (number of contracts) | 12,241,973 | 12,617,526 | -3.0% |
| Equity derivatives (number of contracts) | 32,335,004 | 32,736,458 | -1.2% |
| Open interest (number of contracts) | 8,067,257 | 7,660,947 | 5.3% |
| **Energy derivatives** | | | |
| Volume (Mwh) | 17,930,085 | 24,083,621 | -25.6% |
| Open interest (Mwh) | 8,009,264 | 9,061,967 | -11.6% |
| **Repo** | | | |
| Cash volume (millions of €) | 295,257 | 410,027 | -28.0% |
| Number of trades | 4,915 | 5,322 | -7.6% |
| **Interest rate derivatives** | | | |
| Nominal registered (millions of €) | 2,218 | 4,738 | -53.2% |
| Open interest (millions of €) | 470 | 1,656 | -71.6% |
| **Equities** | | | |
| Total number of novated transactions | 102,088,258 | 70,234,254 | 45.4% |
| Cash cleared (millions of €) | 1,293,464 | 767,769 | 68.5% |

### Market Data & VAS Business Unit

As a result of the restructuring of the management of the market data and value added services activities, the financial information was restructured with a breakdown into two types of revenue within the unit, that proceeding from the primary data services and that relating to added value services. In addition, certain activities carried out until the restructuring of the IT and Consulting unit have been allocated to the Equity unit and the Corporate unit.

## MARKET DATA & VAS - RESULTS PERFORMANCE (Thousands of euros)

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| Revenue | 62,731 | 59,006 | 6.3% |
| Primary information services | 39,535 | 39,219 | 0.8% |
| Value Added Services | 23,196 | 19,787 | 17.2% |
| Operating costs | (23,127) | (18,993) | 21.8% |
| EBITDA | 39,604 | 40,013 | -1.0% |

With regard to the primary information services, at the close of the year the total number of clients receiving the flow of primary information increased 0.5% compared to the same quarter year-on-year, whereas the direct connections to the BME servers have fallen 1.9%. The average of users subscribed to the various levels of information fell by 4.8% in terms of the total number of paid-up users, compared to the previous year.

The number of clients subscribed at the year-end receiving the "End of Day" information increased 5.3% compared to the same period in 2016.

Since 3 January 2018 BME Market Data includes the information supplied by the new APA BME service, managed by BME Regulatory Services, which has integrated, as real-time content, the details of OTC trades on financial instruments, as well as the firm trading prices of the Systematic Internalisers that have contracted the service.

The net revenue from the primary data services has increased 0.8% to €39,553 thousand compared to the previous year.

Within the scope of Value Added Services, with the entry into effect of MIFID II, MIFIR and their implementing regulations, new services have been incorporated for the compliance with the regulatory obligations, the preparation of the Best Execution reports and TCA (Total Cost Analysis), as well as the services of Approved Publication Agent (APA) and Approved Information System (AIS).

In 2017, the number of orders managed by BME Inntech increased by 16.2% compared to the previous year.

BME Inntech has consolidated itself as a comprehensive and complete supplier of technological solutions. The implementation of online-broker services, the expansion of customers with OpenFinance solutions, the growth of the robo-adviser platform, the digital onboarding solutions and electronic voice signature are some examples of the innovation of BME Inntech and the growth in services. Within this context, OpenFinance increased its revenue in 2017 by 37% compared to the previous year through the implementation of portfolio management solutions and the expansion of clients in Latin America.

The scope of the Master-Trader international consultancy project for the Colombian Stock Exchange (BVC) has been broadened with new functionalities of interest for the agents of the Colombian exchange, who shall have a technological platform for the unified access of the Banking intermediaries to all markets operated by the BVC.

The revenue corresponding to the Value Added Services area amounted to €23,196 thousand, a 17.2% increase year-on-year.

The combination of the activities of the two areas has led to total net revenues for the unit totalling €62,731 thousand, up 6.3% compared to 2016.

In EBITDA terms for the year, the unit has presented a fall of 1% year-on-year.

**Derivatives Business Unit**

DERIVATIVES- RESULTS PERFORMANCE (Thousands of euros)

| | **Total at 31/12/17** | **Total at 31/12/16** | Δ |
|---|---|---|---|
| Revenue | 10.841 | 10.870 | -0,3% |
| Operating costs | (6.392) | (5.680) | 12,5% |
| EBITDA | 4.449 | 5.190 | -14,3% |

In IBEX 35® derivatives, trading in IBEX 35® options grew 33.6% year-on-year.

In the equity derivatives segment, trading in futures performed well, up on the previous year by 23.3%. The accumulated annual volume of equity options traded declined slightly by 11.3%. Equity dividend futures closed the year down 5.7%.

The accumulated net revenue at year-end for the unit stood at €10,841 thousand, representing a decrease of 0.3% year-on-year.

In EBITDA terms, the amount reached €4,449 thousand, which when compared to the previous year is a decrease of 14.3%.

Of particular note is the open position in the main driver of the MEFF, the IBEX 35® futures contracts, which increased 26.5%. Also of note is the increase in the open position of other derivative products such as the increase of 43.9% in MiniIBEX® futures, 78.6% in IBEX 35® options, 33% in IBEX 35® Impacto Dividendo futures and 77.5% in equity futures.

## DERIVATIVES-ACTIVITY

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| **Derivatives contracts (Number of contracts)** | **44.576.977** | **45.353.984** | **-1,7%** |
| **Index derivatives (Number of contracts)** | | | |
| IBEX 35® Futures | 6,268,290 | 6,836,500 | -8.3% |
| Mini IBEX 35® Futures | 1,618,857 | 2,498,973 | -35.2% |
| IBEX 35® Div Impact Futures | 43,372 | 58,044 | -25.3% |
| IBEX 35® Sector Futures | 7,753 | 1,619 | 378.9% |
| IBEX 35® Index Options | 4,303,701 | 3,222,390 | 33.6% |
| Open position | 791,176 | 477,219 | 67.0% |
| Total notional value (million of euros) | 700,759 | 642,387 | 9.1% |
| **Equity derivatives (Number of contracts)** | | | |
| Equity Futures | 11,671,215 | 9,467,294 | 23.3% |
| Equity dividend Futures | 347,435 | 368,545 | -5.7% |
| Equity options | 20,316,354 | 22,900,619 | -11.3% |
| Open position | 7,270,081 | 7,183,728 | 1.2% |
| Total notional value (million of euros) | 23,902 | 21,895 | 9.2% |
| **Energy derivatives (Mwh)** | 17,930,085 | 24,083,621 | -25.6% |
| **Total number of trades** | 3,430,561 | 5,057,274 | -32.2% |

### Fixed Income Business Unit

This Unit has reported a fall in revenue (-6.0%). The positive performance in expenses (-4.8%) led to a 7.5% reduction in EBITDA to €4,001 thousand.

## FIXED INCOME- RESULTS PERFORMANCE (Thousands of euros)

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| Revenue | 8,683 | 9,242 | -6.0% |
| Trading | 4,838 | 5,138 | -5.8% |
| Listing | 3,845 | 4,104 | -6.3% |
| Operating costs | (4,682) | (4,916) | -4.8% |
| EBITDA | 4,001 | 4,326 | -7.5% |

The accumulated traded volume for 2017 was €215,555 billion, of which €139,652 billion was in public debt, and €75,903 billion in private fixed income. According to the new MiFID II Directive regulations, Regulated Markets may only publish those trades that are performed using their electronic trading systems. In preparation for this event, in the middle of September, coinciding with the entry into T2S the trading data of the Spanish market stopped gathering the bilateral volume performed between the Market Members.

The volume admitted to trading throughout 2017 reached €432,243 billion, representing an increase of 22.4% compared to the previous year. Public debt amounted to €306,738 billion and private fixed income €121,535 billion.

2017 has been a positive year for Fixed Income Alternative Funding (MARF), which continues to grow significantly. During the year, the total admitted to trading was €3,970 million, 74.1% more than in 2016.

BME has adapted its Fixed Income market so that the intermediaries may transfer all their operations to the regulated market, thus complying with the requirements set forth in MiFID II. 2,680 fixed income references are to be incorporated from the main European public debt markets, together with the securities admitted on the AIAF Market with the option to trade, according to the indications of interest for illiquid instruments, thus complying with the obligations of transparency required by the new regulations.

With these adaptations the BME Fixed Income market can cover all the needs of the members and their clients, so that they do not have to resort to Over The Counter (OTC) transactions.

For the year, the accumulated revenue stood at €3,845 thousand in listing and €4,838 thousand in trading showing a fall compared to the previous year of 6.3% and 5.8%, respectively.

FIXED INCOME-ACTIVITY

| | Total at 31/12/17 | Total at 31/12/16 | Δ |
|---|---|---|---|
| **TRADING (millions of euros)** | **215,555** | **352,889** | **-38.9%** |
| Public debt | 139,652 | 180,072 | -22.4% |
| Private fixed income | 75,903 | 172,817 | -56.1% |
| At maturity | 64,078 | 130,212 | -50.8% |
| Repos and simultaneous | 11,825 | 42,605 | -72.2% |
| Total fixed-income transactions | 72,276 | 93,956 | -23.1% |
| **LISTING (millions of euros)** | | | |
| Admission for trading (nominal) | 432,243 | 353,251 | 22.4% |
| Public debt | 306,738 | 220,833 | 38.9% |
| Private fixed income | 121,535 | 130,138 | -6.6% |
| MARF | 3,970 | 2,280 | 74.1% |

## 2.2. Environmental and employee issues, human rights, ethical behaviour and the fight against corruption

Every year the Board of Directors approves the Corporate Social Responsibility Report which is made available to shareholders prior to the call to the Ordinary General Shareholders' Meeting and which details the results of the commitments, services, activities and programmes during the year in relation to environmental and employee issues, human rights, ethical behaviour and the fight against corruption.

### 2.2.1. Environmental issues

BME is fully aware that all activities can pose a threat and cause global environmental damage, even though its activity, due to its nature, does not generate a significant direct impact on the environment. Therefore, BME contributes to protecting the environment through the sustainable management of its activities with the goal of minimising any environmental impacts that might arise from its operating processes and facilities, and the services it contracts.

In order to fulfil its commitment to the environment BME adopts a range of measures to meet its environmental commitments:

- Compliance with prevailing national, regional and local legislation, as well as with BME's own commitments to minimise the environmental impact of its activities.
- Fostering measures to reduce the use of resources consumed directly and indirectly by BME.
- Encouraging the recycling of waste in order to minimise the company's environmental impact. BME fosters compliance with the "Three Rs" approach to environmental protection: Reduce, Reuse, Recycle.
- Encouraging environmentally responsible behaviour by BME employees through the implementation of best environmental practices.
- Contributing to the advancement of environmentally-responsible behaviour by BME employees through the implementation of best environmental practices.

At 31 December 2017, BME's financial statements did not include any item that should be included in the environmental information document stipulated by Ministry of Economy Order of 8 October 2001. As in previous years, in 2017 BME did not recognise any significant fines or sanctions relating to the environment.

**Energy consumption and greenhouse gas emissions policy**

As part of its drive to protect the environment and sustainability, the Company implements internal measures to reduce energy consumption at its facilities and minimise the environmental impacts of the services managed at the Group's work centres, and externally through environmental support initiatives.

The Company's energy consumption is classified as either: internal, i.e. electricity and gas contracted by BME for its own activities; or external, i.e. consumption in activities that take place outside the Company's venues, such as travelling to the workplace, business travel and the generation of waste.

By consuming energy, BME generates greenhouse gas emissions directly (consumption of natural gas and the corporate shuttle service) and indirectly (consumption of electricity, business trips by air and rail and employees commuting to the workplace using their own vehicle).

GREENHOUSE GAS EMISSIONS BY SCOPE
(Tonnes $CO_2$)

| | 2016 | 2017 |
|---|---|---|
| Fuel consumption (natural gas) | 5,60 | 5,60 |
| Staff transport (corporate shuttle bus) | 73.21 | 75.54 |
| Electricity consumption | 2,200.61 | 2,510.44 |
| Staff commuting to and from work (own vehicle) | 521 | 530 |
| Business trips (by air and rail) | 344.34 | 802.80 |

The Corporate Social Responsibility Report, which is made available to shareholders prior to the Ordinary General Shareholders' Meeting, contains the total greenhouse gas emissions into the atmosphere by Scope, thus detailing the organisation's environmental performance.

**Projects and initiatives of an environmental nature**

With regard to the environment, BME, through its company Iberclear, has collaborated in the fight against climate change since 2005 through the National Registry of Greenhouse Gas Emission Rights (RENADE), Similarly, in 2006, the FTSE Group and BME jointly created the FTSE4Good IBEX comprising securities belonging to BME's IBEX 35® index and the FTSE Spain All Cap index, which comply with the best practices in corporate social responsibility. Furthermore, in addition to the commitments undertaken by BME in relation to the environment as a result of it adhering to the United Nations Global Compact in 2011, BME has participated in the *Sustainable Stock Exchanges* (SSE) initiative since 2015, a United Nations initiative that has been raising awareness of good corporate governance and CSR and championing sustainable business practices.

### 2.2.2. Employee matters

BME's employees are the company's main asset. The Human Resources Area works to ensure the professional and personal development of company employees by constantly improving the services and activities offered to them, their training and professional development programmes, and the technical tools available to facilitate any concerns, consultations or requests they may have.

To such effect, BME's Human Resources policy is based on the following inspirational principles:

(i) the professional development of persons in a motivating work environment which ensures and respects the responsible contribution of each one of its employees

(ii) identifying and attracting the best professionals to perform the different activities of BME while ensuring the principles of equality and non-discrimination;

(iii) retaining talent by promoting training, programmes and tools for all employees to improve their skills and abilities

(iv) the internal recognition of the culture of effort, identifying specific objectives and granting the necessary autonomy in order to attain them within a framework that recognises the goals achieved, and

(v) the promotion of project-based work of a transversal nature involving different divisions for their completion.

The Director of Human Resources oversees all employee matters and coordinates and supervises, among other aspects, occupational health and safety in BME, as well as the company-wide training plans prepared by the Training Manager.

The Corporate Social Responsibility Report includes the number of company employees (classified by professional category, gender, age bracket, geographical area, type of contract and number of disabled employees) and rotation rate, giving details of the number and classification of people joining and leaving the company during the course of the year. Likewise, in Note 19 to the Consolidated Financial Statements information is presented detailing changes to the workforce.

### Collective agreement and communication channels

All Group employees are subject to the state Statutory Collective Agreement for Companies Sharing Organisational and Productive Factors Corresponding to the period 2015-2017, which regulates the employment relationships between different companies of BME Group and its employees, with exception to the employees of the Barcelona Exchange and the Bilbao Exchange which are regulated by their own Collective Agreements, the clauses of which are equivalent in all their aspects (social benefits, rights and obligations of the employees and any other concepts) with the contents of the statutory Collective Agreement. The above-mentioned Collective Agreements are available for employees on the HR intranet.

BME guarantees all of its employees the right to form trade unions for the defence and promotion of their economic and social interests. Trade union workers' representation bodies and the technical committees deriving from the Collective Agreement in which the employees participate provide a constant channel of dialogue between the company and its employees, not only for collective bargaining but also to resolve any potential conflicts.

### Diversity and equal opportunities

BME fosters and guarantees a discrimination free working environment, built on respect and equal opportunities among all employees in their personal and professional development, regardless of gender, race, religion, age, sexual orientation, disability or nationality.

In this manner, the company's practices for selection, recruitment, remuneration, promotion, training, classification and working conditions guarantee diversity and equal opportunities, the absence of discrimination and follow the criteria of merit and capability in relation to the post's requirements, as highlighted with the measures adopted by BME to promote diversity, equal opportunities and prevent discrimination as detailed in the Corporate Social Responsibility Report.

In particular, the concept of gender equality permeates all BME's human resources management policies: hiring, recruiting, training, performance evaluation, promotion, compensation, working conditions, work/life balance issues and communications. BME created a Joint Equality Commission to study and, where necessary, implement possible measures concerning equality within the Group companies.

### Career development and remuneration policy

BME encourages the development of persons through the internal recognition of talent, rewarding good results and observing the culture of individual effort in an environment of compensation commensurate to performance. Subsequently, BME employees can advance professionally and be promoted to higher levels within their professional group by achieving targets in three main areas: annual performance assessment, training, and length of service at current level.

BME Group's remuneration policy, which was proposed by the Appointments and Remuneration Committee and approved by the Board of Directors during its meeting of 29 November 2017, responds to the objective of providing this Group suitable procedures to align the market trends concerning remuneration with the strategic objectives of the business.

This Policy is applicable to all persons with an employment relationship with BME or any of the companies forming the Group and those persons who, as a result of their status as members of the administrative bodies of the subsidiaries with executive powers, have had their employment relationship suspended with any of the companies of the Group. The Directors of BME are subject to the Directors' Remuneration Policy approved by the General Shareholders' Meeting.

The main principles of BME Group's Remuneration Policy are:

a. The fixed remuneration which comprises a base salary established in the applicable Collective Agreement and a personal compliment which remunerates, without any form of discrimination, the professional track record, the responsibility inherent in the post, the level of professionalism exercised and determined by the content of the post held.

b. The annual variable remuneration that a group of identified professionals may receive, according to the professional level and post held and dependant on the individual and area targets achieved, the aim of which, in the medium term, is to attract, retain and obtain the commit of mainly the directors and prominent persons of the Group, ensuring the establishment of a stable bond and with a view to remaining with the company for a long period of time.

c. Social benefits. Employees also have a series of social benefits through which it is aimed to obtain a balance between personal and work life, mainly through the financial support (aid for the physically and mentally disabled and attention to diversity, grants for the employees' children, nursery vouchers, assistance for employees' studies and their children's, baby bonus, wedding bonus, interest-free salary advances, personal loans, benefits for disabled employees).

**Work/life balance policy, benefits and other services.**

BME promotes flexibility and work/life balance for its permanent and temporary workers through a number of policies: unpaid and paid leave and working day reductions for legal guardianship and nursing mothers.

Other work/life balance measures benefiting all temporary and permanent employees include flexible start and finish times, a 5.5-hour working day on Fridays and the days before public holidays, and the possibility of requesting holidays at any time and split over different periods.

Similarly, the number of overtime hours per employee, which is voluntary, may not exceed 80 hours a year, except for those hours worked to prevent or repair accidents or other occasional and urgent damage, without this affecting their remuneration as overtime hours. BME aims to ensure the most extensive rotation possible among the workers affected by overtime hours, therefore preventing, insofar as is possible, the same persons always being affected. Also, employees may request to work from home should this be justified.

BME provides its employees with various services to facilitate their access to the workplace and allow them to perform their duties more comfortably, such as a restaurant service, travel agent to organise trips and private holidays, educational activities, shows, workshops and games for the employees' children, as well as special conditions for different services provided by third parties.

**Services for employees**

BME provides its employees with various services at some offices to facilitate travel to work and make their work easier; a shuttle coach service between company facilities in Madrid and the nearest public transport links, restaurant, rest areas and an on-site travel agent. It also organises educational activities such as shows, workshops and games to bring children into contact with nature, in addition to various sports and leisure activities.

**Occupational health and safety**

BME guarantees the health, safety and risk prevention measures established in Law on Occupational Health and Safety at all of its work centres and analyses, each year, any risks at its installations and its employees' workplaces. With the collaboration of its employees, through their legal representatives, and of internal bodies specifically entrusted with this issue, BME draws up a programme to address the risks detected and proposes and implements the corresponding preventive measures, such as training, information, personal protection equipment and routine checks.

Furthermore, in order to guarantee the protection of the fundamental rights of all BME Group employees, in 2017, the Board of Directors approved the "Internal Protocol in cases of presumed workplace and sexual harassment" aimed at ensuring zero tolerance and the prohibition of behaviour that may be considered as harassment.

### 2.2.3. Human rights.

BME has fully implemented the labour practices outlined in the United Nations Universal Declaration of Human Rights and its protocols, and in this regard has adhered to the United Nations Global Compact (BME) since 2011, an initiative that aims to promote business sustainability through the implementation of 10 universal principles of conduct and action in relation to human and corporate rights, labour practices, the environment and the fight against corruption, in the strategy and the day-to-day operations of all types of entities, thus promoting sustainable development objectives. Furthermore, BME has complied with the fundamental responsibilities in the areas of human rights, employment, the environment and anti-corruption, by incorporating the principles of the Global Compact into its strategies, policies and procedures, and by fostering a culture of business integrity.

BME respects the human rights in the performance of its activities and requires that its suppliers comply with the different quality standards according to the type of product and service they offer, show integrity in their business practices and comply with the legislation governing their activity, in particular, environmental, social and employment legislation, occupational health & safety and human rights.

### 2.2.4. Ethical behaviour and the fight against corruption.

The ethics and integrity at BME are the cornerstones upon which its commitment with its stakeholders is built. With this in mind, BME Group sets out the general principles of action of its directors, legal representatives, management and employees through diverse means with the aim of establishing a framework that allows BME to create efficient measures to prevent, discover, investigate and, where applicable internally penalise the crimes and inappropriate conduct that may be committed with the resources or during the performance of their activities in BME and the companies of the Group.

**General principles for operating in the securities market.**

The Company has in place an Internal Code of Conduct (ICC) that the Board of Directors maintain up-to-date, the purpose of which is to define the principles and framework for operating in the securities market for all BME personnel and the companies of its Group and any other person providing their services or maintaining a professional relationship with BME and its Group.

As per the Internal Code of Conduct, and in line with guidelines for disclosing insider information to third parties published by the CNMV, BME's Policy for the treatment and transfer of insider information lists the measures and internal control procedures to be established in BME and its group companies to safeguard insider information.

In addition to these rules of conduct, BME has established a Procedure for reporting deficiencies in internal control and management systems, which establishes the channels any employee can use to inform the competent internal body of any irregularities detected in these systems. No irregularities or deficiencies were reported in the risk management and internal control systems in 2017.

These regulations and the implementation of the procedure for reporting deficiencies in internal control and risk management systems are an effective mechanism for detecting potential cases of corruption and fraud.

**General principles governing the actions of BME employees.**

With the aim of combating and preventing all types of crime, and in particular fraud, corruption and bribery, which may potentially materialise in the performance of the activities carried out by the Company and to strictly comply with the legislation in force, BME has established a crime risk prevention system, which is based on general preventive controls, consisting of the rules, bodies and procedures and communication channels and other specific preventive controls such as the Integrated Risk Management System and the review carried out by the Regulatory Compliance and Internal Audit Departments.

Among the general preventive controls that facilitate the prevention of crime and the fight against corruption, bribery and fraud, are:

- **Code of Conduct:** *The Code of Conduct*, which comprises the ethical principles and rules of conduct by which all directors, legal representatives, managers and employees must comply.

  For illustrative purposes, employees are issued with *"Principles of Action Guidelines for Employees"*, which aims to provide employees with knowledge of those conducts that may involve a risk of becoming classified as a crime.

- **Criminal Risk Prevention model:** *The Principles for crime risk prevention of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. and its Group Companies*, which are the basis of the Crime Risk Prevention System, described among other documents in the general and specific part of the *Crime Risk Prevention Manual*, were updated during 2015 and 2016 due to the entry into force of the modification to Spain's Penal Code.

  *The Whistleblowing Channel*, available to employees on the Human Resources intranet together with its Usage Policy, establishes the procedure for communicating and processing the facts from which it may be inferred that there is evidence of non-compliance with the policies or procedures implemented by the Group, non-compliance with the Code of Conduct or other aspects that may be evidence of a possible crime, such as corruption, bribery or fraud. In 2017, a communication was received through the Whistleblowing Channel. Upon completion of the investigation no evidence was detected of a non-compliance with the policies or procedures implemented by the Group, non-compliance with the Code of Conduct or any other aspects that could be evidence of a possible crime.

The Crime Prevention Committee, reporting to the Audit Committee, was set up for the implementation, development of and compliance with BME Group's criminal risk prevention system.

In order to raise awareness among employees of the importance of these crime prevention risk measures, the Company has developed and given a specific training course on this topic to all of its employees with the aim of informing of the crimes that may be committed within the scope of the activities carried out by BME and its Group companies.

In particular, the Code of Conduct establishes the principles and guidelines of conduct to prevent actions related to the typical conduct associated with, for example, the crimes of corruption among civil servants or bribery and corruption in international business transactions, as well as the crimes of passive bribery and the exercise of undue influence and against the Spanish Taxation Authorities and Social Security, the controls of which aimed at mitigating the risks of committing associated conducts are detailed in the *Special Section of the Crime Risk Prevention Manual*.

In addition, the members of the Boards of Directors and certain positions of the companies of the BME Group that are considered supervised entities, must sign an Honesty Statement in which they declare that they do not have prior convictions for any serious fraudulent or negligent crime related to, for example, the provision of financial services and data services, acts of fraud, misappropriation of funds, bribery, or misconduct in the management of a company.

In this manner, BME, through the above channels effectively fights against any case of corruption, bribery or fraud that may affect, where applicable, the companies of the Group, the employees of BME and of its Group companies and the rest of persons who provide services or engage in a professional relationship with BME or its Group companies. No cases of corruption, bribery or fraud were reported or identified in 2017.

## 3. Liquidity and capital

Capital *managed* by the group comprises primarily capital, reserves and profit for the year attributable to the parent, which are recognised on the consolidated balance sheets under "Equity", less interim dividends and treasury shares, which are also recognised under this heading in the consolidated balance sheets.

Capital is managed by the group at two levels: regulatory and financial, as described in Note 25 to the consolidated financial statements. Financially, the Group is able to generate sufficient liquid funds to maintain its short-term liquidity and its medium- and long-term solvency, as shown in the respective consolidated statements of cash flows in the consolidated financial statements.

The Group's main sources of *liquidity* are included under "Cash and cash equivalents" and "Current financial assets" on the consolidated balance sheets at 31 December 2017 and 2016. This liquidity position and cash flow generation ability enable it to fund its operating and investing activities with the cash flow generated from the activities without incurring financial debt at either date.

The high levels of free cash flow generated have enabled BME to distribute ordinary dividends, with pay-outs of 96% and 93% in 2017 and 2016, once the proposed distribution of profit referred to in section 3 of the consolidated financial statements has been approved by the General Shareholders' meeting.

This high cash flow generation is the result of BME's business model and is based on three pillars:

- the effective collection of fees that the Company has set up as consideration for its various services, settled in the standard settlement period for the corresponding transactions in each market, using the settlement instructions issued by the CCP, in the same way as it instructs the settlement of its own operations.

- the moderate investment necessary for a Group based on in-house technology, and,

- the company's ongoing efforts to control costs.

These three pillars allow BME Group's liquidity generation ability to ensure future transactions, depending on the consolidated liquidity position, largely ensuring the shareholder remuneration policy and the extraordinary investment projects, although none are envisaged at the date of preparation of the consolidated financial statements.

The company does not expect any significant changes in the structure of its equity and debt or its relative cost of capital from 2017 to 2018.

Irrespective of the possible other investment decisions that the Group may take, subject to approval by their governing bodies and, where necessary, the General Shareholders' Meeting, Group-level criteria have been determined for investment of cash in financial assets with a view to minimising exposure to credit and interest-rate risks. The Board of Directors has laid down specific guidelines that restrict financial instruments to investments in Spanish government debt, autonomous governments' debt, debt issued by the member states of the third phase of European Economic and Monetary Union, fixed income issues on the AIAF market guaranteed by the Spanish government, and fixed income issues on the AIAF market classified by Bank of Spain as suitable for monetary policy operations and the management of guarantees presented before payment systems. The Board of Directors has also adopted a portfolio structure involving the investment of own treasury positions, primarily in the short term, while allowing part of these positions to be invested in the longer term (3-5 years) to maximise returns. Moreover, by virtue of renewal of the authorisation for the purchase of treasury shares, approved at the last General Meeting, the Board adopted a resolution concerning the conditions and limits for the purchase of treasury shares, delegating the necessary powers to the executive president and the general manager the necessary powers to enable each or either of them to carry out the full process of the purchase of BME shares.

With regard to capital management processes, Bolsas y Mercados Españoles has a treasury department in its financial area, which is responsible for investing in financial assets on behalf of all Group companies.

In order to ensure compliance with these objectives and policies, financial management regularly reviews the level of compliance with the investment policies in place. No incidents were detected in 2017 or 2016.

No contractual obligations, contingent liabilities or other firm commitment are known to date that could change the Group's liquidity and capital requirements. There are also no off-balance sheet transactions that could affect the Group's future liquidity.

## 4. Main risks and uncertainties

The presence of BME throughout the whole value chain in the management of several financial markets, exposes it to a variety of risks: Note 24 to the consolidated financial statements contains a full description of the risks.

Implementation of the **risk control and management policy**, defined by the Board of Directors and managed by the Management Committee, falls to the Risk Committee in its capacity as the body responsible for monitoring and analysing the risks arising from the various activities carried on by Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas. The Risk Committee also draws up the corporate Risk Map, which is maintained by the parties in charge of managing the risks identified, and by the Internal Audit Department.

The Risk Committee has constructed an integrated risk management system (IRMS) following the methodological framework specified in the COSO II paper. According to the nature of each specific risk, the following lines of action are carried on in parallel:

- Gestión descentralizada de los riesgos de negocio, con autonomía de gestión por parte de cada Unidad de Negocio/Área Corporativa e información común hacia el Comité de Riesgos.
- Gestión centralizada para los riesgos de ámbito corporativo (estratégicos, financieros, normativos, tecnológicos, recursos humanos), coordinados entre las diferentes áreas y tratados a nivel corporativo con comunicación homogénea al Comité de Riesgos.

The preparation and maintenance of the corporate Risk Map requires that each risk officer regularly update the information on each identified global risk needed for management and control; new events are identified and action plans are rearranged as necessary. Internal Audit assesses the controls established, and also residual risk.

As per the IRMS methodology, the Risk Committee Carries out a half yearly review of the identified representative risks that arise, any changes in how they are assessed, measures to mitigate them, actions plans and the status thereof. The half-yearly IRMS Assessment Report is generated based on this information and the updating of the information on risks that are managed by the Committee itself. Once approved by the Risk Committee, this report is distributed to the members of the Audit Committee and its conclusions presented to BME's Board of Directors every six months by the Chief Executive Officer, in his capacity as Chairman of the Risk Committee.

BME Group's risk control system has been drawn up in accordance with international standards. Its functioning is explained in more detail in Section E of the Annual Corporate Governance Report. Section F also includes information on the Internal Financial Reporting Management System.

## 5. Post-balance sheet events

No significant events occurred after the balance sheet date that have not been recorded in the consolidated financial statements.

## 6. Outlook for the Group

In January 2018, the Spanish stock exchange traded €50,862 billion, 6.7% up on the previous month and the best month since October 2017. The number of trades in January stood at 4.2 million, a growth of 28.7% compared to the previous month.

Trading on the Financial Derivatives markets increased by 3.5% compared to January 2017. Trading was up in IBEX 35® futures, Mini IBEX® futures, IBEX 35® options and Equity futures. Similarly, the open position for these contracts increased by 16%, 23%, 38%, and 34%, respectively.

In Fixed Income, of particular note was the volume of new issues admitted to trading on the MARF, which stood at €2,558 billion, representing an increase of 14.8% year-on-year.

The solidity of BME's business model with its highly diversified range of products and services, based around its six business units, and its highly positive operating leverage means we can look forward to the year ahead, confident that the group will be able to achieve its targets for profitability and efficiency.

## 7. Research and development activities

BME continues to develop its model for innovation and technological improvement, based on the design and the development of in-house applications to provide services to the Business Units. BME continued to develop high added-value projects in 2017:

- Development of the systems to provide Approved Publication Agent (APA) and Approved Information System (AIS) services in accordance with the rules established in MiFID II and MiFIR, which shall be applicable as of 3 January 2018.
- Development of new features for REGIS-TR.

## 8. Acquisition of treasury shares

At its meeting on 31 July 2008, the Board of Directors of the Company approved the acquisition of 337,333 shares in BME, equivalent to 0.40% of share capital, and the acquisition was carried out in August 2008, for the purpose of implementing the share-based payment plan approved in 2008, which was due for settlement on 31 December 2010. However, as the targets established under this plan had not been met at that date, no share-based bonuses were paid to beneficiaries.

For the periods 2014 to 2017, and as a result of the settlement of the first, second and third three-year periods of the 2011-2016 share-based payment Plan and the first three-year period of the 2014-2019 share-based payment Plan, the balance of treasury shares was reduced by 73,627; 67,790 and 71,083 and 53,301 shares delivered to plan beneficiaries, respectively. In 2017 and 2016 the Company acquired 17,726 treasury shares and 400,000 treasury shares, respectively, in the amounts of €465 thousand and €10,478 thousand, respectively.

Therefore, as a result of the deliveries and acquisitions made, the Company held 489,258 and 524,833 treasury shares at 31 December 2017 and 2016, respectively.

## 9. Other relevant information

### 9.1 Stock market data

The BME share price closed 2017 at €26.55 per share, registering a fall of 5.2% compared to the €28.0 per share at the close of 2016, being affected by a negative market environment during the fourth quarter. Taking into consideration the total return, with reinvestment and distribution of dividends, the return on BME shares for 2017 stood at 0.7%.

In the accumulated figure for the year, the volumes registered decreases of 29.6% for the average cash volumes traded, 34.9% in the number of securities and 22% in the number of trades.

SHARE PRICE PERFORMANCE

| | **Total at 30/12/17** | **Total at 30/12/176** | Δ |
|---|---|---|---|
| BME share price trend | | | |
| High | 33.60 | 31.17 | 7.8% |
| Low | 25.56 | 20.71 | 23.4% |
| Average share price | 29.96 | 27.74 | 8.0% |
| Closing price | 26.55 | 28.00 | -5.2% |
| Cash amount traded on BME shares (Million euros) | | | |
| Máximum daily volume | 19.3 | 68.7 | -71.9% |
| Minimum daily volume | 0.8 | 1.5 | -46.7% |
| Daily average volume | 5.0 | 7.1 | -29.6% |
| | | | |
| BME shares traded (millions of shares) | 42.7 | 65.6 | -34.9% |
| | | | |
| Number of trades on BME shares | 206,195 | 264,445 | -22.0% |

## 9.2 Dividend policy

BME is continuing its policy of maximising shareholder returns, with a proposed ordinary dividend pay-out of 96% of 2017 profit subject to approval at the General Shareholders' Annual Meeting.

The following table summarises the total amounts and amounts per share distributed in 2017 (the first refers to the 2016 profit) and two interim dividends paid out of 2017 profit.

| Year | Date of payment | Gross amount per share | Net amount per share | Type | Total amount (gross) shared (Thousands of euros) |
|---|---|---|---|---|---|
| 2016 | 5-may | 0.80 | 0.648 | Ordinary (Complementary) | 66,473 |
| 2017 | 8-sep | 0.40 | 0.324 | Ordinary (Interim) | 33,257 |
| 2017 | 29-dec | 0.60 | 0.486 | Ordinary (Interim) | 49,876 |

## 9.3 Average payment period

The entry into force of Law 31/2014 of 3 December, amending Law 15/2010 of 5 July, which in turn amended Law 3/2004 of 29 December, establishes measures to combat late payment in commercial transactions, requires that companies expressly include information on the payment periods to their suppliers in the notes to the financial statements and, in the case of listed companies, that they publish such information on their websites.

Article 262.1 of Spain's Corporate Enterprises Act also establishes the obligation for this information to be published in the Directors' Report. In connection with this compulsory information, the average payment period operated by the Bolsas y Mercados Españoles Group in 2017 was 35 days (see Note 20 to these consolidated financial statements).

This average payment period was calculated in accordance with the provisions of the Spanish Accounting and Auditing Institute's Resolution of 29 January 2016 concerning the information to be disclosed in financial statements in connection with average payment periods to suppliers in commercial transactions, published in the "BOE" Official State Journal on 4 February 2014, applicable to the financial statements for years commencing at 1 January 2015.

# ANNUAL CORPORATE GOVERNANCE REPORT FOR LISTED COMPANIES

## Issuer's particulars

**Financial year-end** 31.12.2017

**Company tax id nº (C.I.F.)** A-83.246.314

**Corporate Name:**

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

**Registered office:**

PLAZA DE LA LEALTAD, 1, (MADRID)

# A) OWNERSHIP STRUCTURE

### A.1 Complete the following table on the company's share capital:

| Last modified | Share capital (€) | Number of shares | Number of voting rights |
|---|---|---|---|
| 02/07/2013 | 250,846,674.00 | 83,615,558 | 83,615,558 |

**Indicate whether different types of shares exist with different associated rights:**

Yes

X No

### A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors:

The information disclosed in this section is based on the Shareholder Register, which contains transactions carried out in 2017.

| Name or corporate name of shareholder | Number of direct voting rights | Number of indirect voting rights | % of total voting rights |
|---|---|---|---|
| CORPORACIÓN FINANCIERA ALBA, S.A. | 10,084,949 | 0 | 12.06% |

**Indicate the most significant movements in the shareholder structure during the year:**

### A.3 Complete the following tables on company directors holding voting rights on company shares:

| Name or corporate name of director | Number of direct voting rights | Number of indirect voting rights | % of total voting rights |
|---|---|---|---|
| MR. ANTONIO J. ZOIDO MARTÍNEZ | 32,363 | 0 | 0.04% |
| MR. JAVIER HERNANI BURZAKO | 15,936 | 0 | 0.02% |
| MR. IGNACIO GARRALDA RUIZ DE VELASCO | 1,000 | 0 | 0.00% |
| MRS. MARGARITA PRAT RODRIGO | 100 | 0 | 0.00% |
| MR. MANUEL OLIVENCIA RUIZ (*) | 2,000 | 0 | 0.00% |
| MR. CARLOS FERNÁNDEZ GONZALEZ | 600 | 0 | 0.00% |
| MR. JOAN HORTALÁ I ARAU | 4,620 | 0 | 0.01% |
| MR. JUAN MARCH JUAN | 500 | 0 | 0.00% |
| MR. SANTOS MARTÍNEZ-CONDE GUTIÉRREZ BARQUÍN | 7,500 | 0 | 0.01% |

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

| % of total voting rights held by the Board of Directors | 0,08% (*) |
|---|---|

(*) This figure does not include the equity held by the shareholder represented on the Board of Directors justifying the qualification of two (2) of its Members as proprietary Directors. At 31 December 2017, the stake held by this shareholder was 12.06% of the share capital.

Based on the above, the total share capital represented by the Board of Directors at 31 December 2017 stood at 12.14%.

**Complete the following tables on share options held in the company by company directors:**

At 31 December 2017 the executive Directors are beneficiaries of two medium-term variable remuneration Plans to be implemented by the Company and its subsidiaries, designed for members of the management team, including the executive Directors who, in accordance with article 219.1 of the Companies Act, were approved by the company's Ordinary General Shareholders' Meetings on 30 April 2014 and 27 April 2017 and notified to the Spanish Securities Market Commission (CNMV) at these dates.

### Medium-term remuneration scheme approved on 30 April 2014.

This Plans, which covered the years 2014, 2015 and 2016, consisted of the promise to deliver in 2017, 2018 and 2019 ordinary shares of BME to the members of the Company's management team, including executive Directors, provided that the conditions stipulated were met.

The specific number of shares to be granted to the beneficiaries shall depend on the performance of BME's Efficiency Ratio and Total Shareholder Return, compared with those 5 benchmarked entities, and shall be calculated by dividing in two the number of theoretical units assigned in each financial year, 2014, 2015 and 2016, each being linked to one of the two indicators, and each being multiplied by a factor of 0 to 1.5 according to BME's final ranking among the benchmarked companies.

The maximum number of BME shares included in the Plan is 555,048, representing 0.66% of BME's share capital, of which a maximum of 79,992 shares shall be granted to Antonio Zoido Martínez and 6,894 shares to Joan Hortalá i Arau, as executive Directors. This maximum number of shares did not include any shares that may be allocated to Mr. Javier Hernani Burzako, who was appointed Managing Director at the time the theoretical share-convertible units were allocated.

At 31 December 2017 the second period of the Plan expired and shall be settled up in 2018, although at the date of this report no data are available to establish compliance with the targets set in the Plan and, where applicable, the specific number of shares to be received by each of the beneficiaries, including the executive Directors.

In execution of this Plan, the Appointments and Remuneration Committee, at its meetings on 24 February 2015 and 25 May 2016, granted Mr. Zoido Martínez and Mr. Hortalá i Arau the theoretical units corresponding to the second and third periods of the Plan. Thus the maximum theoretical number of shares that may be received in accordance with the aforementioned allocation in 2018 and 2019 amount to 25,267 and 31,693, in the case of Mr. Zoido Martínez, and 2,056 and 2,580, in the case of Mr. Hortalá i Arau.

The maximum theoretical number of shares that may be received by Mr. Hernani Burzako in 2018 and 2019 arising from the theoretical units allocated in 2015 and 2016 in his capacity as the Company's Managing Director are 10,309 and 10,323.

### Medium-term remuneration scheme approved on 27 April 2017.

This Plan was based on the allocation in 2017 of a number of theoretical units which shall serve as the basis for calculating any shares to be delivered, subject to fulfilment of the objectives of the Plan in the year 2020.

The specific number of shares to be granted in the year 2020 shall depend on the performance of BME's Efficiency Ratio and Total Shareholder Return, compared with those 5 benchmarked entities, and shall be calculated by dividing in two the number of theoretical units assigned in 2017, each being linked to one of the two indicators, and each being multiplied by a factor of 0 to 1.5 according to BME's final ranking among the benchmarked companies.

The maximum number of shares included in the Plan is 190,263, representing 0.23% of BME's share capital, of which a maximum of 24,067 shares may be granted to Antonio Zoido Martínez, 10,203 shares to Javier Hernani Burzako and 2,550 shares to Joan Hortalá i Arau, as executive Directors.

**A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:**

**A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:**

**A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Ley de Sociedades de Capital (the "Companies Act"). Provide a brief description and list the shareholders bound by the agreement, as applicable:**

Yes X No

**Indicate whether the company is aware of the existence of any concerted actions among its shareholders: If so, give a brief description:**

Yes X No

**Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:**

**A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Securities Market Act. If so, identify:**

Yes X No

**A.8 Complete the following tables on the company's treasury shares:**

**At year-end:**

| Number of shares held directly | Number of shares held indirectly (*) | % of total share capital |
|---|---|---|
| 489,258 | 0 | 0.59% |

**(*) Through:**

**Explain any significant changes during the year, pursuant to Royal Decree 1362/2007:**

**A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, purchase or transfer treasury stock.**

Authorisation for the issue of shares.

Pursuant to item seven on the agenda, the Ordinary General Shareholders' Meeting on 28 April 2016 agreed to grant authorisation to the Board to increase share capital, within a maximum period of five (5) years, up to 50% of the Company's share capital at the time of such authorisation, on one or more occasions, in the amount determined by it, and to set the terms and conditions of the capital increase, and also granted authorisation to the Board to exclude preferential subscription rights, limited to share capital increases not exceeding, either individually or together, 20% of the Company's share capital at the time of such authorisation.

Pursuant to item eight on the agenda, the same Ordinary General Shareholders' Meeting empowered the Board of Directors to issue, among other instruments, securities convertible to and/or exchangeable for BME shares, and warrants (options to subscribe to new shares or to purchase outstanding shares of the Company), and other similar securities granting the direct or indirect right to subscribe to or to purchase new or outstanding Company shares, on one more occasions, within a maximum period of five (5) years from the date of adoption of said agreement, in a total maximum amount of €1,500 million, with authorisation extended to the following aspects and powers: to set the conditions for each issue; increase share capital by the amount necessary to cater for conversion or subscription requests; exclude preferential subscription rights; and determine the conversion and/or swap ratio, and the time of occurrence.

This agreement clearly stipulates that authorisation to increase share capital may only be exercised if the sum of the capital required to execute the issue of convertible debentures or bonds, the exercise of warrants and any other share capital increases agreed pursuant to the authorisations granted by the General Meeting do not exceed 50% of the Company's share capital at the time of authorisation, and 20% of this total share capital if the issue of convertible debentures or bonds or warrants on newly issued shares waives preferential subscription rights.

Authorisation to acquire treasury shares

Pursuant to item eight on the agenda, the Ordinary General Shareholders' Meeting on 30 April 2015 agreed to grant authorisation to the Company's Board to, either directly or through any of its subsidiaries, over a maximum period of five (5) years from the date of approval, at any time and on as many occasions as it deems appropriate, proceed to purchase shares in compliance with the conditions established in the legislation applicable, and particularly the following: (i) that at no time may the nominal value of the treasury shares purchased, directly or indirectly, when added to any already held by BME and its subsidiaries, exceed 10% of BME's subscribed share capital; (ii) that purchase may not render equity less than the amount of share capital plus the reserves legally restricted or restricted by the Articles of Association; (iii) that the shares acquired must be fully paid up and free of any liens or encumbrances, and not subject to the fulfilment of any kind of obligation; and (iv) that the acquisition price per share must not be less than the par value or more than 20% of the share price listing on the Spanish Electronic Trading Platform (SIBE) at the time of the acquisition.

### A.9 bis Estimated floating capital:

| | % |
|---|---|
| Estimated floating capital | 87.28% |

### A.10 Indicate any restriction on the transfer of securities and/or the exercise of voting rights. In particular, refer to the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes X No

There are no restrictions under the law or under the Articles of Association on the acquisition or transfer of holdings in BME's share capital.

Despite the absence of legal restrictions on the acquisition of a shareholding in BME, the revised text of the Ley del Mercado de Valores (hereinafter, Spain's Securities Market Act), approved by Royal Legislative Decree 4/2015 of 23 October, grants the CNMV the power to object to the acquisition of significant stakes in the capital of BME pursuant to *Royal Decree 361/2007 of 16 March implementing Securities Market Act 24/1988 of 28 July concerning stakes in the capital of companies which manage secondary markets or securities registration, clearing and settlement systems.*

In accordance with the aforementioned Royal Decree the CNMV must be previously informed of any acquisition of BME shares which could reach directly or indirectly any of the following percentages of its capital or voting rights: 1%, 5%, 10%, 15%, 20%, 25%, 33%, 40% or 50%, or a lesser percentage that nonetheless permits the exercise of significant influence over the Company. "Significant influence" shall in any case be understood as the ability to appoint or remove at least one member of the Board.

The CNMV shall have a time limit of sixty working days from the date of its acknowledgement of receipt of the notification to object to the intended acquisition, notwithstanding interruptions in the computation of the time limit allowed under article 176 of the Securities Market Act. If, during this time, the CNMV issues no statement, no objection shall be deemed to exist.

This period is reduced for acquisitions of a significant stake equal to or higher than 1% but lower than 5%, or equal to or greater than 5% but less than 10%, of the Company's capital, in which case it shall be understood that the CNMV does not object if it has not issued a statement within the ten (10) working days or thirty (30) working days, respectively, following the date on which the information is relayed or from the time at which any additional information is furnished.

Furthermore, the Ministry of Economy, Industry and Competitiveness may, at the behest of the CNMV, oppose the acquisition of a significant stake in BME's capital if it deems this to be necessary to ensure smooth operation of the markets and to avoid distortions, or if Spanish companies are not provided with equivalent treatment in the acquirer's country of origin, or that of the entity which directly or indirectly controls the acquirer.

In addition, even though there are no legal restrictions on voting rights, article 178 of the Securities Market Act restricts the exercise of this right in the event of the irregular acquisition of significant holdings, i.e. shares acquired without the express authorisation of the CNMV, in the terms described in the following section.

### A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid under Act 6/2007.

Yes X No

**If applicable, explain the measures adopted and the terms under which these restrictions can be lifted:**

### A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes X No

**If so, identify the various classes of shares and, for each class of shares, the rights and obligations they confer.**

## B) GENERAL SHAREHOLDERS' MEETING

**B.1 Indicate and if any detail the quorum required to convene the General Shareholders' Meeting with respect to the system of minimum quorums established in the Companies Act**

Yes  X No

**B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Companies Act:**

Yes  X No

**Describe how they differ from the rules established in the Companies Act.**

**B.3 Indicate the rules governing amendments to the company's Articles of Association. In particular, indicate the majorities required to amend the Articles of Association and, if applicable, the rules for protecting shareholders' rights when making such amendments.**

The Company's Articles of Association and the Regulations of the Shareholders' Meeting set no special rules for amendments to the Articles of Association.

The procedure for amending the Company's Articles of Association is governed by sections 285 et seq of the Companies Act, according to which changes in the Company's Articles of Association must be agreed by the Shareholders' Meeting and the following requirements must be met:

a. The Directors or, as appropriate, the shareholders submitting the proposal, shall draft the wording of the proposed amendment in full and shall also draft a written report justifying the proposal.

b. The notice convening the Shareholders' Meeting must clearly set out the points to be amended and make reference to shareholders' right to inspect, at the registered office, the full text of the proposed amendments and of their supporting rationale, and to demand gratuitous delivery of such documents, which must also be made available to shareholders on the corporate website in accordance with article 518 of the Companies Act.

c. The resolution must be approved at the General Shareholders' Meeting in accordance with the rules on quorum and majorities laid down in sections 194 and 201 of the Ley de Sociedades de Capital (the "Companies Act").

Article 197 bis of the Companies Act includes the requirement for separate votes on items or groups of items that are substantially independent and, under all circumstances, amendments to the Articles of Association.

As well as being subject to the normal rules governing Spanish public limited companies, as a holding vehicle for companies that manage central counterparties, central securities depositories and secondary markets in Spain, BME is also subject to Additional Provision Six of the Securities Market Act, which states that amendments to its Articles of Association must be authorised by the CNMV.

**B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year to which this report refers and those of the preceding year:**

| | Attendance data | | | | |
|---|---|---|---|---|---|
| | | | % remote voting | | |
| Date of General Meeting | % attending in person | % by proxy | Electronic vote | Other | Total |
| 28/04/2016 | 14,16% | 27,90% | 0,06% | 1,41% | 43,53% |
| 27/04/2017 | 16,08% | 27,02% | 0,09% | 1,49% | 44,68% |

For the purposes of the provisions of article 148 of the Companies Act, in the quorum necessary for the General Shareholders' Meeting held on 28 April 2016, the 195,916 treasury shares held by the Company at the corresponding date were calculated, equivalent to 0.23% of the share capital, and in the quorum necessary for the General Shareholders' Meeting held on 27 April 2017, the 524,833 treasury shares held by the Company were calculated, equivalent to 0.63% of the share capital.

**B.5 Indicate whether the Articles of Association impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings:**

Yes X No

**B.6 Section revoked.**

**B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.**

In the "Information for shareholders and investors" section of the address of the corporate website: www.bolsasymercados.es.

# C) STRUCTURE OF COMPANY ADMINISTRATION

## C.1 Board of Directors

### C.1.1 List the maximum and minimum number of directors included in the Articles of Association:

| | |
|---|---|
| **Maximum number of directors** | 15 |
| **Minimum number of directors** | 9 |

### C.1.2 Complete the following table with Board members' details:

| Name or corporate name of director | Representative | Director category | Position on the Board | Date of first appointment | Date of last appointment | Election procedure |
|---|---|---|---|---|---|---|
| MR. ANTONIO J. ZOIDO MARTÍNEZ | - | EXECUTIVE | CHAIRMAN | 15/02/2002 | 27/04/2017 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. JAVIER HERNANI BURZAKO | - | EXECUTIVE | CEO | 27/04/2017 | 27/04/2017 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. IGNACIO GARRALDA RUIZ DE VELASCO | - | INDEPENDENT | FIRST DEPUTY CHAIRMAN | 27/02/2014 | 30/04/2014 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MRS. MARGARITA PRAT RODRIGO | - | INDEPENDENT | SECOND DEPUTY CHAIRMAN | 05/06/2006 | 30/04/2014 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. MANUEL OLIVENCIA RUIZ (*) | - | INDEPENDENT | LEAD INDEPENDENT DIRECTOR | 05/06/2006 | 30/04/2014 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA | - | INDEPENDENT | DIRECTOR | 28/04/2016 | 28/04/2016 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. ÁLVARO CUERVO GARCÍA | - | INDEPENDENT | DIRECTOR | 05/06/2006 | 30/04/2014 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. CARLOS FERNÁNDEZ GONZÁLEZ | - | OTHER EXTERNAL | DIRECTOR | 25/03/2014 | 30/04/2014 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. JOAN HORTALÁ I ARAU | - | EXECUTIVE | DIRECTOR | 15/02/2002 | 27/04/2017 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. KAREL LANNOO | - | INDEPENDENT | DIRECTOR | 05/06/2006 | 30/04/2014 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. JUAN MARCH JUAN | - | PROPRIETARY | DIRECTOR | 30/10/2014 | 30/04/2015 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |
| MR. SANTOS MARTÍNEZ-CONDE GUTIÉRREZ BARQUÍN | - | PROPRIETARY | DIRECTOR | 30/10/2014 | 30/04/2015 | GENERAL SHAREHOLDERS' MEETING RESOLUTION |

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

| Total number of directors | 12 |
|---|---|

### Indicate any Board members who left during the reporting period:

| Name or corporate name of director | Category of the director at the termination date | Leaving date |
|---|---|---|
| MR. RAMIRO MATO GARCÍA ANSORENA | PROPRIETARY | 27/09/2017 |

## C.1.3 Complete the following tables on Board members and their respective categories:

### EXECUTIVE DIRECTORS

| Name or corporate name of director | Position held in the company |
|---|---|
| MR. ANTONIO J. ZOIDO MARTÍNEZ | CHAIRMAN |
| MR. JAVIER HERNANI BURZAKO | CEO |
| MR. JOAN HORTALÁ I ARAU | DIRECTOR |

| Total number of executive directors | 3 |
|---|---|
| % of the Board | 25.00% |

### EXTERNAL PROPRIETARY DIRECTORS

| Name or corporate name of director | Name or corporate name of significant shareholder represented or proposing appointment |
|---|---|
| MR. JUAN MARCH JUAN | CORPORACIÓN FINANCIERA ALBA, S.A. |
| MR. SANTOS MARTÍNEZ-CONDE GUTIÉRREZ BARQUÍN | CORPORACIÓN FINANCIERA ALBA, S.A. |

| Total number of proprietary directors | 2 |
|---|---|
| % of the Board | 16.67% |

### EXTERNAL INDEPENDENT DIRECTORS

**Name or corporate name of director**

MR. IGNACIO GARRALDA RUIZ DE VELASCO

**Profile**

Graduate in Law from Madrid's Universidad Complutense.

He was Trade Collegiate Broker (1976 - 1982), stock-broker agent of "Ilustre Colegio de Agentes de Cambio y Bolsa de Madrid" (1982-1989) and Notary on unpaid leave since 1989.

He was Founding Member of "AB Asesores Bursátiles, S.A." where he served as Deputy Chairman to 2001. He was Deputy Chairman of "AB Morgan Stanley Dean Witter, S.V., S.A." (1989 to 2001) and Chairman of "Bancoval, S.A." (1994 - 1996). Between 1991 and 2009 he was a Director of Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.

He has been Chairman of "Mutua Madrileña" since 2008, where he has been a Director since 2002 and was Second Deputy Chairman from 2005 to 2008. He was appointed CEO on 27 June 2013, and was renewed in the post on 14 May 2015.

He has also worked as external proprietary Director at Caixabank, S.A. since 2017, and as external independent Director at ENDESA since 2015. Between 2013 and 2017 he was a Director at Faes Farma, S.A. and Consorcio de Compensación de Seguros.

He is Vice-President of "Fundación Lealtad" and member of the Board of Trustees of "Museo y Fundación Reina Sofía", "Fundación Teatro Real", "Real Instituto Elcano" and "Fundación Príncipe de Asturias".

**Name or corporate name of director**

MRS. MARGARITA PRAT RODRIGO

**Profile**

Graduate in Law from Madrid's Universidad Complutense in 1971 and in Economics and Business from Madrid's Universidad Pontificia Comillas in 1982, receiving an extraordinary prize, and holder of a PhD in Economics and Business (1989). She has also published several works and articles since 1989.

She was Director of the Financial Management Department in the Economics and Business faculty of Madrid's Universidad Pontificia Comillas from 1984 to 2000, Vice Dean at the same university from 1990 to 1993 and Dean from 1993 to 2002. From 2004 to 2012, she was Head of Internal Audit at Universidad Pontificia Comillas de Madrid.

She was also previously visiting lecturer at Universidad de Deusto in San Sebastián, Instituto Tecnológico de Monterrey in Mexico and Universidad Católica Argentina in Buenos Aires.

Until September, she was Chairman of the Audit Committee at the Institute of Internal Auditors in Spain, of which she is a member. She is also a member of the Management Board of the Spanish Institute of Financial Analysts.

| Name or corporate name of director |
| --- |
| MR. MANUEL OLIVENCIA RUIZ (*) |
| **Profile** |
| Graduate in Law from Seville University, where he was awarded the Extraordinary Graduation Prize (1951), he took his doctorate in law at Bologna University (1953). He was the author of numerous academic works. He was decorated with four Great Crosses (Isabel la Católica, Alfonso X el Sabio, San Raimundo de Peñafort and Military Merit crosses).<br>He was also Dean of the Law Faculty (1968-1971) and Economics and Business Faculty (1971-1975) at Seville University, Under-secretary for Education (1975-1976), Director of the Bank of Spain (1982-1991) and Chairman of the Special Committee for Drafting the Good Governance Code (1997).<br>Since 1960, professor of Commercial and Company Law at Seville University, where he was professor emeritus, a permanent member of the General Codification Committee and of the Royal Academy of Jurisprudence and Legislation and the Royal Seville Academies of Letters and Legislation and Jurisprudence. He was also an Extraordinary Ambassador for Spain, a Delegate on the United Nations International Law Commission, and a specialised arbitration lawyer. |

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

| Name or corporate name of director |
| --- |
| MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA |
| **Profile** |
| Mrs. Maria Helena dos Santos Fernandes de Santana has a degree in economics from the Faculty of Economics and Administration of the University of São Paulo (FEA-USP).<br>She is a member of the Audit Committee at ITAU UNIBANCO HOLDING, S.A.; coordinator of the Audit Committees Forum at IBGC - Brazilian Institution of Corporate Governance since 2017; member of the Management Board at the IFRS FOUNDATION, a body forming part of the INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB); and a member of the Consultative Committee of the MERCADO DE GOVERNANÇA DE ESTATAIS de BM&FBOVESPA and of the Mergers and Acquisitions Committee ("CAF").<br>She was also a member of the Board of Directors and Chairman of the Corporate Governance Committee at COMPANHIA BRASILEIRA DE DISTRIBUIÇÂO, S.A. between 2013 and 2017; a member of the Board of Directors and Coordinator of the Audit Committee at TOTVS, S.A. between 2013 and 2017; a member of the Board of Directors at CPFL ENERGÍA, S.A. between 2013 and April 2015; Executive Chairman of the Brazilian Securities And Exchange Commission (COMISIÓN DE VALORES MOBILIARIOS (CVM)) between 2007 and 2012; Director of this Commission between 2006 and 2007; and representative of this Commission on the FINANCIAL STABILITY BOARD (FSB) between 2009 and 2012.<br>She was previously Chairman of the Executive Committee of the International Organization of Securities Commissions (IOSCO) between 2011 and 2012, while also a member of the INTERNATIONAL INTEGRATED REPORTING COMMITTEE (IIRC); and Vice Chairman of the Brazilian Institute of Corporate Governance or INSTITUTO BRASILEIRO DE GOVERNANÇA between 2004 and 2006, and member of its Board of Directors since 2001.<br>She worked in Special Projects at the SÂO PAULO STOCK EXCHANGE (BOVESPA, now BM&FBOVESPA) between 1994 and 2006, and was Executive Superintendent of Corporate Relations between 2000 and 2006. In this post, she was responsible for the supervision of listed companies and development of the "Novo Mercado" or New Market segment, which requires high standards of corporate governance. |

| Name or corporate name of director |
| --- |
| MR. ÁLVARO CUERVO GARCÍA |
| **Profile** |
| Emeritus Professor of Business Economics at Madrid's Universidad Complutense, President of Colegio Universitario de Estudios Financieros (CUNEF), winner of the Rey Jaime I Economics Prize (1992), the Castilla-León "Infanta Cristina" Economics Prize (1999) and recipient of honorary doctorates from the universities of Oviedo, León, Castilla-La Mancha, Las Palmas de Gran Canaria, Salamanca and Rey Juan Carlos.<br>He is a member of the Board of Directors of ACS (Actividades de Servicios y Concesiones, S.L.), of BA Glass, S.A. (Portugal), a member of the Global Advisory Board of SONAE S.S. (Portugal) and a member of the Spanish Government's Consultative Committee on Privatisations. |

| Name or corporate name of director |
| --- |
| MR. KAREL LANNOO |
| **Profile** |
| He is the chief executive of the Centre for European Policy Studies, CEPS, based in Brussels. CEPS is one of Europe's major independent think tanks, leading the way in its research on economic and financial policies.<br>Mr. Lannoo is an expert on the regulation of financial markets, banking supervision and economic policy. He has published various books on these subjects (most recently 'The Great Financial Plumbing, From Northern Rock to Banking Union' 2015), in addition to reports and a large number of press articles. He has also been involved in surveys and has addressed a number of national and international institutions.<br>He holds a degree in Philosophy and an MA in History from the University of Leuven (Belgium) and a postgraduate degree in European Studies from the University of Nancy (France).<br>Mr. Lannoo also heads up the ECMI and ECRI research institutes specialising in Europe's capital and credit markets. He is also a director of Lannoo Publishing Group. |

| Total number of independent directors | 6 |
| --- | --- |
| **% of the Board** | 50.00% |

**List any independent directors who receive from the company or group any amount or payment other than standard directors' remuneration or who maintain or have maintained during the last year a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity that maintains or has maintained the said relationship.**

**If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.**

### OTHER EXTERNAL DIRECTORS

**Identify the other external directors and list the reasons why they cannot be considered proprietary or independent directors, and detail their relationships with the company, its executives or shareholders:**

| Name or corporate name of director | Company, executive or shareholder with whom the relationship is maintained | Reasons |
|---|---|---|
| MR. CARLOS FERNÁNDEZ GONZÁLEZ | MEDIACIÓN BURSÁTIL, S.V., S.A. and SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U. | He is Chairman of Mediación Bursátil, S.V., S.A., which holds a stake of less than 1% of BME's share capital. He is also a member of the Board of Directors of "Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.U.", a BME Group company, for which he receives per diems, and also its Investor Ombudsman, for which he receives remuneration. |

| | |
|---|---|
| **Total number of other external directors** | 1 |
| **% of the Board** | 8.33% |

**List any changes in the category of each director which have occurred during the period:**

**C.1.4 Complete the following table on the number of female directors over the past 4 years and their category:**

| | Number of female directors | | | | % of total directors of each type | | | |
|---|---|---|---|---|---|---|---|---|
| | **FY 2017** | **FY 2016** | **FY 2015** | **FY 2014** | **FY 2017** | **FY 2016** | **FY 2015** | **FY 2014** |
| **Executive** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Proprietary** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Independent** | 2 | 2 | 1 | 2 | 33.33% | 33.33% | 20.00% | 33.33% |
| **Other external** | 0 | 0 | 0 | 0 | 0.00% | 0.00% | 0.00% | 0.00% |
| **Total:** | 2 | 2 | 1 | 2 | 16.67% | 16.67% | 9.09% | 16.67% |

At 31 December 2017, 2016 and 2014 the Board was composed of 12 Directors, and of 11 Directors at 31 December 2015. At 31 December 2017, 2016 and 2014 the Board was composed of 6 independent Directors, and of 5 independent Directors at 31 December 2015.

**C.1.5 Explain the measures, if applicable, that have been adopted to ensure that there is a sufficient number of female directors on the Board to guarantee an even balance between men and women.**

| Explanation of measures |
|---|
| At a meeting on 23 December 2015 the Appointments and Remuneration Committee agreed to set the target for the gender with the lesser representation on the Board at 30% of the total number of Directors and, in order to attain this percentage, agreed that for each vacancy for an independent Director to be filled, at least 50% of the professional CVs considered by the Appointments and Remuneration Committee would belong to women.<br>Practically all the proposed appointees as independent Directors submitted by the Appointments and Remuneration Committees since shares were admitted for trading on the Stock Exchanges have been women.<br>Moreover, with regard to the other categories of Director, the Appointments and Remuneration Committee ensures that selection procedures are not biased against female candidates. |

**C.1.6 Explain the measures taken, if applicable, by the Appointments Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for and include in its selection process female candidates with the required profile:**

**Explanation of measures**

As stipulated in section C.1.5 above, the Appointments and Remuneration Committee agreed to set the target for the gender with the lesser representation on the Board at 30% of the total number of Directors, and that for each vacancy for an independent Director to be filled, at least 50% of the professional CVs considered by the Appointments and Remuneration Committee would belong to women.

Notwithstanding the foregoing, at a meeting on 29 November 2007 the Appointments and Remuneration Committee, on commencing the analysis of the criteria to be met for procedures to select independent Directors, had already established that *"female candidates must not be discriminated against in the selection processes"*.

**When, despite the measures taken, there are few or no female directors, explain the reasons:**

**Explanation of measures**

As indicated in section C.1.5 above, within the scope of its duty to propose the appointment of independent Directors and "other external Directors", the Appointments and Remuneration Committee has actively sought female candidates to fill vacancies for independent directorships arising since the Company's shares were first admitted for trading, also ensuring that the Director selection processes do not discriminate due to gender diversity.

With respect to other Director categories, within its powers and duties under prevailing law, the Appointments and Remuneration Committee reports on the extent to which the candidates proposed satisfy the requirements for appointment to a Directorship.

**C.1.6.bis Explain the conclusions of the Appointments Committee on the verification of compliance with the directors' selection policy. And in particular, how this policy is promoting the objective for the number of female directors to account for at least 30% of total Board members by the year 2020.**

Since November 2014 BME has operated medium and long-term planning of the structure and composition of the Board (hereinafter, "Medium and long-term Planning for the Board of Directors"), which includes the criteria that must determine the structure and composition of the Board of Directors, and defines the profile of knowledge, skills and professional experience required of Board appointees in due consideration of each category.

The Medium and long-term Planning for the Board of Directors includes the agreement by the Appointments and Remuneration Committee referred to in sections C.1.5 and C.1.6 above to set the percentage of the gender with lesser representation on the Board as 30% by the year 2020.

In order to enhance the role of the Appointments and Remuneration Committee in identifying the main candidates for independent directorships, following a proposal by the Appointments and Remuneration Committee, at a meeting on 27 October 2017 the Board of Directors approved the internal procedure for selection of candidates for independent Directors or "other external Directors", which establishes the mechanism for an orderly planned proposal of these categories of Director to fill any vacancies arising on the Board of Directors.

In 2017 the Company embarked upon a gradual and progressive process of transformation in the organisation of the Company's highest executive functions, from an organisational structure whereby the Chairman carried out executive functions towards a model of a Chairman with executive functions working alongside a CEO.

As part of this process, following a report by the Appointments and Remuneration Committee, at the Ordinary General Shareholders' Meeting on 27 April 2017 the Board of Directors submitted proposals to increase the number of members of the Board, re-elect the three proprietary and executive Directors whose terms were due to expire in 2017, and appoint a new executive Director to carry out functions as CEO.

To this end the Appointments and Remuneration Committee examined the advisability of the new organisational structure proposed by the Board of Directors with an executive Chairman and a CEO, the dimension of the Board and its knowledge, competences and experience, and the members making up the Board of Directors at that time, and concluded it was advisable to proceed with the re-election of the three Directors whose terms were due to expire in 2017, and simultaneously bring a new member onto the Board of Directors who would meet the necessary requirements to be appointed CEO subsequently.

Having reached this conclusion, the Appointments and Remuneration Committee defined the personal and professional profile which had to be met for the post of executive Director, identifying potential candidates with this profile, and the process terminated with the proposal to appoint Mr. Javier Hernani Burzako.

The Appointments and Remuneration Committee considers that the level of compliance of the Medium and long-term Planning for the Board of Directors in the process to re-elect and appoint Directors in 2017 was satisfactory, since it took account of the overall composition of the body, the diversity of knowledge, competences and experience, and made improvements to the structure of senior executive functions with the appointment of a Director, who was subsequently appointed CEO, in line with the best practices of good corporate governance.

The Appointments and Remuneration Committee took account of the fact that the proposals submitted to the General Meeting entailed a reduction in the percentage of women on the Board of Directors.

Notwithstanding the foregoing, during the process of appraisal of the composition of the Board of Directors to examine the advisability of re-election of Directors, and also during the process to define the professional profile and identify the candidate for executive Director, priority was given to selection criteria in relation to the knowledge, competence and professional experience of candidates, though under no circumstances did this hinder the selection of female candidates.

**C.1.7 Explain the form of representation on the board of shareholders with significant holdings.**

At 31 December 2017 the Company's sole significant shareholder was represented on the Board by two (2) Directors qualifying as proprietary.

**C.1.8 Explain, if applicable, the reasons why proprietary directors have been appointed at the behest of shareholders who hold less than 3% of the share capital:**

**Indicate whether formal requests have been rejected for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have been rejected:**

Yes X No

**C.1.9 Indicate whether any director has resigned before his/her term of office has expired, whether that director has given the Board his/her reasons and through which channel. If made in writing, list below the reasons given by that director:**

| **Name of director** |
|---|
| MR. RAMIRO MATO GARCÍA ANSORENA |
| **Reasons for resignation** |
| He tendered his resignation in writing on 27 September 2017 due to his retirement from the BNP Paribas Group, the major shareholder he represented on the Board of Directors. |

**C.1.10 Indicate what powers, if any, have been delegated to the CEO(s):**

| **Name or corporate name of director** |
|---|
| MR. JAVIER HERNANI BURZAKO |
| **Brief description** |
| The Board delegates all its powers to the CEO, except when these powers cannot be delegated by law. |

### C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

| Name or corporate name of director | Corporate name of the group company | Position | Does he/she have executive functions? |
|---|---|---|---|
| MR. ANTONIO J. ZOIDO MARTÍNEZ | SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U. | CHAIRMAN | YES |
| MR. ANTONIO J. ZOIDO MARTÍNEZ | SOCIEDAD DE BOLSAS, S.A. | DIRECTOR | NO |
| MR. JAVIER HERNANI BURZAKO | SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE BILBAO, S.A.U. | DIRECTOR | NO |
| MR. JAVIER HERNANI BURZAKO | BOLSAS Y MERCADOS ESPAÑOLES MARKET DATA, S.A. | DIRECTOR | NO |
| MR. JAVIER HERNANI BURZAKO | BOLSAS Y MERCADOS ESPAÑOLES INNTECH, S.A | JOINT DIRECTOR | YES |
| MR. JAVIER HERNANI BURZAKO | BOLSAS Y MERCADOS ESPAÑOLES SERVICIOS CORPORATIVOS, S.A. | JOINT DIRECTOR | YES |
| MR. CARLOS FERNÁNDEZ GONZÁLEZ | SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE MADRID, S.A.U. | DIRECTOR | NO |
| MR. JOAN HORTALÁ I ARAU | SOCIEDAD RECTORA DE LA BOLSA DE VALORES DE BARCELONA, S.A.U. | CHAIRMAN | YES |
| MR. JOAN HORTALÁ I ARAU | SOCIEDAD DE BOLSAS, S.A. | DIRECTOR | NO |

### C.1.12 Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

| Name or corporate name of director | Name of listed company | Position |
|---|---|---|
| MR. IGNACIO GARRALDA RUIZ DE VELASCO | CAIXABANK, S.A. | DIRECTOR |
| MR. IGNACIO GARRALDA RUIZ DE VELASCO | ENDESA, S.A. | DIRECTOR |
| MRS. MARIA HELENA DOS SANTOS FERNANDES DE SANTANA | ITAU UNIBANCO HOLDING, S.A. | MEMBER OF THE AUDIT COMMITTEE |
| MR. JUAN MARCH JUAN | CORPORACIÓN FINANCIERA ALBA, S.A. | DIRECTOR |
| MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN | CORPORACIÓN FINANCIERA ALBA, S.A. | CEO |
| MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN | ACERINOX, S.A. | DIRECTOR |
| MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN | INDRA SISTEMAS, S.A. | DIRECTOR |

### C.1.13 Indicate and, where appropriate, explain whether the Board of Directors' regulations have established rules regarding the maximum number of boards on which its directors can sit:

X Yes    No

| Explanation of rules |
|---|
| Article 23 of the Board of Directors' Regulations establishes that the Company's non-executive Directors may not hold directorships in more than four (4) companies whose shares are listed for trading on domestic or foreign stock exchanges. Directorships in companies belonging to the same Group and those in representation of the same significant shareholder they represent in the Company shall be considered a single post. Executive Directors may not hold directorships at any listed company. |

### C.1.14 Section revoked.

### C.1.15 List the total remuneration paid to the Board of Directors:

| | |
|---|---|
| Board remuneration (thousands of euros) | 2,981 [1] |
| Amount of cumulative pension rights of serving directors (thousands of euros) | 2,556 |
| Amount of cumulative pension rights of former directors (thousands of euros) | 0 |

(1) This figure includes remuneration received by Mr. Javier Hernani Burzako following his appointment as CEO on 27 April 2017, and does not include any shares that may be delivered to executive Directors as a result of expiry of the second validity period of the medium-term variable remuneration plan described in section A.3 of this Report.

### C.1.16 List any members of senior management who are not executive directors and indicate the total remuneration paid to them during the year: [*]

| Name or corporate name | Position |
|---|---|
| MR. RAMÓN ADARRAGA MORALES | DIRECTOR OF INTERNATIONAL COORDINATION AND HEAD OF INFORMATION AND ADDED-VALUE SERVICES |
| MR. JAIME AGUILAR FERNÁNDEZ-HONTORIA | DIRECTOR OF LEGAL COUNCIL |
| MRS. MARTA BARTOLOMÉ YLLERA | FINANCE DIRECTOR |
| MR. JESUS BENITO NAVEIRA | HEAD OF SETTLEMENT AND REGISTRATION |
| MR. LUIS MARÍA CAZORLA PRIETO | GENERAL SECRETARY AND SECRETARY TO THE BOARD |
| MR. PABLO MALUMBRES MUGUERZA | DIRECTOR OF COMMUNICATION |
| MR. FRANCISCO NICOLÁS TAHOCES | TECHNOLOGY DIRECTOR |
| MR. JORGE YZAGUIRRE SCHARFHAUSEN | CHAIRMAN OF MEFF AND AIAF AND HEAD OF EQUITIES, FIXED INCOME AND DERIVATIVES |
| MRS. ARANTZA TELLERIA DE LA FUENTE | DIRECTOR OF INTERNAL AUDIT DEPARTMENT |

| | |
|---|---|
| Total remuneration received by senior management (thousands of euros) | 3,465 (**) (***) |

(*) En el presente epígrafe se incorporan como alta dirección los miembros del Comité de Dirección y el Secretario General y del Consejo, así como, en cumplimiento de las instrucciones del modelo de Informe de Gobierno Corporativo, el Responsable del Departamento de Auditoría Interna.

(**) La remuneración total de la alta dirección a estos efectos incluye las remuneraciones percibidas de BME y del resto de las sociedades del Grupo.

Este importe incluye el estimado en concepto de retribución variable correspondiente al ejercicio 2017; las prestaciones post-empleo a favor de estos directivos por importe de 289 miles de euros, que se corresponden con la aportación periódica anual al seguro suscrito destinado a constituir un sistema complementario de pensiones; a las primas correspondientes a una póliza de seguro colectivo de vida de prestaciones de previsión social, para la cobertura de la jubilación, fallecimiento e invalidez permanente; y a las aportaciones realizadas por el Grupo a planes de aportación definida.

En esa cifra no se incluyen los 273 miles de euros que se han abonado en el ejercicio 2017 a los miembros de la alta dirección en concepto de dietas, ni el importe de las acciones que, en su caso, se entregarán a los miembros de la alta dirección como consecuencia del vencimiento del primer periodo de vigencia del Plan de Retribución Variable en Acciones descrito en el epígrafe A.3. del presente Informe.

(***) Este importe incluye las cuantías percibidas de BME y del resto de las sociedades del Grupo, incluidas las indemnizaciones por finalización de la relación contractual, por D. José Massa Gutiérrez del Álamo, hasta el 28 de septiembre de 2017, fecha en que causó baja como miembro de la alta dirección de BME, por D. Javier Hernani Burzako, hasta el 27 de abril de 2017, fecha en que fue nombrado Consejero Delegado, por Dª. Marta Bartolomé Yllera, desde el 24 de mayo de 2017, por D. Pablo Malumbres Muguerza, desde el 27 de septiembre de 2017, y por D. Jesús Benito Naveira, desde el 26 de octubre de 2017, fechas en las que se incorporaron al Comité de Dirección.

### C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies with significant shareholders and/or in group companies:

| Name or corporate name of director | Corporate name of significant shareholder | Position |
|---|---|---|
| MR. JUAN MARCH JUAN | CORPORACIÓN FINANCIERA ALBA, S.A. | DIRECTOR |
| MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ-BARQUÍN | CORPORACIÓN FINANCIERA ALBA, S.A. | CEO |

Mr. Juan March Juan, who is an external proprietary Director of the company on behalf of the significant shareholder Corporación Financiera Alba, S.A., is a Director of Banca March, S.A. and Deputy Chairman of Artá Capital S.G.E.C.R., S.A., companies forming part of the significant shareholder's group.

Mr. Santos Martínez-Conde y Gutiérrez-Barquín, who is an external proprietary Director of the company on behalf of the significant shareholder Corporación Financiera Alba, S.A., is a Director of Banca March, S.A. and of Artá Capital S.G.E.C.R., S.A., and Chairman of Artá Partners, S.A., Deyá Capital, S.C.R., S.A. and Deyá Capital IV, S.C.R., S.A., companies forming part of the significant shareholder's group.

**List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies:**

**C.1.18 Indicate whether any changes have been made to the Board regulations during the year:**

X **Yes**    **No**

| Description of amendments |
|---|
| At a meeting on 27 April 2017, after the Ordinary General Shareholders' Meeting of the same date, the Board of Directors agreed to amend the Board Regulations in order to regulate the concept of the CEO and establish an age limit for appointment or re-election as Director. |
| Approval was thus given to amend articles 10, section 4, 13, sections 2 and 3, and 15 and the addition of a new article 16.bis to address the existence and functions of the CEO, and add certain adaptations in articles referring to the Chairman of the Board of Directors and to the Lead Director for the purpose of harmonising their functions in accordance with a CEO. |
| An amendment was likewise made to article 6, section 2 of Board of Directors Regulations to establish a maximum age limit for the appointment or re-election of Directors, set at 70 for executive Directors and 75 for non-executive Directors. |
| The Company shall report the aforementioned amendment to the General Shareholders' Meeting at the next meeting, which has been entered in the Madrid Companies Register. |
| At a meeting on 31 January 2018, the Board of Directors agreed to amend the Board of Directors Regulations in relation to the competences attributed to the Markets and Systems Operating Procedures Committee in terms of interpretation and monitoring of the Internal Code of Conduct. |

**C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing directors. List the competent bodies, measures and criteria used for each of these procedures.**

Procedures for appointing, selecting, re-electing, evaluating and removing Directors are described in articles 26, 36 and 38 of the Company's Articles of Association and articles 6, 10, 20, 22 and 23 of its Board of Directors Regulations. The criteria for selection of candidates are set out in the Medium and long-term Planning for the Board of Directors referred to in section C.1.6.bis of this report, implemented by the Board of Directors at the behest of the Appointments and Remuneration Committee in the "Procedure for selection of candidates for independent or "other external Directors".

**1. Appointment.**

1. A. Responsibility.

The number of Company Directors as per the maximum (15) and minimum (9) set by the Articles of Association, as well as the appointment of Directorships, shall be established at the General Shareholders' Meeting.

In accordance with the agreement approved at the Ordinary General Shareholders' Meeting held on 27 April 2017, the Board of Directors shall comprise thirteen (13) members.

However, if any vacancies exist, the Board of Directors, by virtue of the powers of co-option legally attributed to it, may appoint the persons to fill such vacancies until the next General Shareholders' Meeting is held, for which the condition of shareholder shall not be necessary. Should a vacancy arise after the General Shareholders' Meeting has been called but before it has been held, the Board of Directors may appoint a Director until the next General Shareholders' Meeting is held.

1. B. Appointment requirements.

Candidates proposed by the Board of Directors for appointment or re-election as Directors must be persons of acknowledged prestige, solvency and honourability, who have the necessary expertise for the performance of their functions. Likewise, following the amendment of article 6, section 2 of Board Regulations, referred to in section C.1.18, those who have reached the age of 75, in the case of non-executive Directors, and the age of 70 in the case of executive Directors, cannot be appointed or re-elected as Directors.

The Medium and long-term planning for the Board of Directors sets out the additional requirements that must be met by the candidates for Director depending on the category of directorship that they are to undertake.

The proposed Board candidates must not be affected by any conflict of interests or prohibition pursuant to the Company's Articles of Association and Board of Directors' Regulations, and need not be shareholders to be appointed as Directors.

In accordance with the provisions of article 23 of the Board of Directors' Regulations, the Company's non-executive Directors may only hold the position of director on four (4) Boards, under the terms set out in section C.1.13 of this report, and the executive Directors may not hold the position of director in any listed company.

1. C. Term of office.

The Directors shall hold office for a period of four (4) years and may be re-elected on one or more occasions for the same term of office.

1. D. Procedure.

The Appointments and Remuneration Committee is responsible for proposing the appointment or re-election of members of the Board of Directors if they are independent or other external Directors, and the Board of Directors is responsible for doing so in all other cases. In the latter case, a preliminary report shall be issued by the Appointments and Remuneration Committee.

Pursuant to regulations, the proposals for appointment shall be accompanied by an explanatory report by the Board of Directors in which the proposed candidate's competence, experience and merit are evaluated. This shall be attached to the minutes of the General Meeting or the Board meeting.

The Appointments and Remuneration Committee, within the scope of its competences to propose and appoint independent or other external Directors, approved the aforementioned "Procedure for selection of candidates for independent or other external Directors", which establishes the procedure to be followed in the event of a vacancy on the Board of Directors which the Appointments and Remuneration Committee considers must be filled by an independent Director.

To summarise, this Procedure establishes that the Appointments and Remuneration Committee shall initially determine the academic profile, professional experience and diversity criteria that must be met by the candidate, and to this end it shall take account of the Medium and long-term Planning of the structure and composition of the Board, and shall take account of the various profiles of professional training and experience of members of the Board of Directors at any given time.

When the Appointments and Remuneration Committee has received the professional CVs of the candidates from Directors and, where applicable, from the external consultant or consultants, it shall check the mandatory legal requirements and shall exclude any candidates that do not meet the characteristics of the profile determined.

Following an appraisal of the suitability of the candidates in accordance with the criteria determined by the Company and their availability, the Appointments and Remuneration Committee shall submit a selection of alternative proposals for analysis and where applicable for appointment to the Board of Directors, in the order of preference given to candidates, to fill the vacancy on the Board.

The Board of Directors shall submit the proposal to the General Shareholders' Meeting to appoint the candidate it deems most suitable for proper operation of the Board.

The General Shareholders' Meeting shall vote separately on the appointments, ratifications or re-elections of Directors so that shareholders may exercise their voting preferences separately.

1. E.- Breakdown of Directorships by type.

The Board of Directors shall seek to distribute its members among the different types of Director after the fashion best suited at any given time to the Company's ownership structure and its corporate purpose and the corporate purpose of group companies. However, the Board shall be obliged to submit its proposals at the General Shareholders' Meeting and appointments by co-option in such a way that external or non-executive Directors are a majority over executive Directors and that there is a significant presence of independent Directors.

**2. Re-election.**

Proposals for the re-election of Directors, in addition to observing the same procedures as for appointments, also take into account the quality of the services provided by the Director and their commitment during the previous term. Directors standing for re-election shall not take part in any discussions or decisions concerning their re-election.

**3. Appraisal.**

The Board of Directors shall annually assess the efficiency of its operation and the quality of its work on matters within its remit. The Board shall also assess the operation of its Committees based on the reports they prepare on the performance of their tasks.

**4. Resignation and removal.**

Directors shall vacate office at the end of the term for which they were appointed, unless they are re-elected, or when it is so decided at the General Shareholders' Meeting.

The Board of Directors may not propose the removal of any independent Directors before the expiry of the term for which they were appointed, unless they have just cause on the basis of a proposal from the Appointments and Remuneration Committee. Just cause shall be deemed to exist when the Director occupies new positions, undertakes new obligations preventing him/her from devoting sufficient time to performing Director functions, when he/she breaches the duties inherent in his/her post or when any of the circumstances arise causing a conflict with his/her status as independent.

Directors who stand down from the Board before the end of their term for any reason must explain their reasons for doing so in a letter sent to all Board members.

**C.1.20 Explain, if applicable, to what extent this annual assessment of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:**

| Description of amendments |
|---|
| In 2017 the Board assessed its functioning in the terms described in section C.1.20.bis, and this report did not state the need for any further changes to the internal organisation of the Board or to the procedures applicable to its activities. |

**C.1.20.bis Describe the assessment process and the areas assessed by the Board of Directors aided, where appropriate, by an external consultant, regarding the diversity of its structure and competences, the functioning and breakdown of its committees, the performance of the Chairman of the Board of Directors and of the company's chief executive, together with the diligence and contributions of each director.**

### Assessment of the Board of Directors

In accordance with the provisions of article 10.3 of the Board of Directors' Regulations, each year the Board of Directors assesses the efficiency of its operation and the quality of its work on matters within its remit. The Board of Directors also assesses the operation of its Committees based on the reports they prepare on the performance of their tasks.

Every year each of the Board's Committees, with the participation of all their members and under the management and coordination of their respective Chairmen, prepares and approves a Report on the actions undertaken in the financial year, to be furnished to the Board of Directors. Following the same procedure, and also with the participation of all the Directors, the Board of Directors prepares a report on its own actions.

On the basis of these reports, the Board of Directors in full assesses the internal organisation and operation of the Board of Directors and its Committees; the suitability of the procedures followed for calling meetings; the quality and suitability of the documentation issued to the Directors; the advance notice with which this documentation has been issued; the level of attendance of the Directors at the meetings of the collegiate bodies of which they form part; and the running of their meetings. The Board of Directors also assesses the support and information received from each of the Board's Committees within the scope of their respective powers.

In 2017 the Board's assessment was carried out without the assistance of an independent external consultant.

### Assessment of the Chairman and the CEO

Pursuant to the provisions of article 10.4 of Board of Directors Regulations, this collegiate body annually assesses the performance of the functions of the Chairman of the Board of Directors and the Company's chief executive and of the CEO. If the Chairman of the Board of Directors is considered an executive Director, the process to assess the Chairman shall be undertaken by the Lead Director. Following the death of BME's Lead Director Mr. Manuel Olivencia Ruiz on 1 January 2018, the process to assess the functions of the Chairman of the Board of Directors in 2017 shall be led by the Appointments and Remuneration Committee.

For the purposes of boosting active participation by all Directors in the process to assess the Chairman, at a meeting on 27 October 2016 the Board of Directors approved the Procedure for assessment of performance of the functions of the Chairman of the Board of Directors, which was amended by a Board resolution on 26 October 2017 to include the procedure for assessment of performance of the functions of the CEO.

Pursuant to the provisions of said assessment process, in December 2017 the Directors were sent a questionnaire assessing performance of the functions of the Chairman and the CEO, in order to compile their individual impressions and opinions.

The aspects which shall be taken into account to assess exercise of the functions of the Chairman of the Board of Directors are dedication to the post of Chairman, leadership capacity on the Board and the Executive Committee, and quality of relations with the other Directors.

The aspects to be taken into account with respect to assessment of exercise of the functions of the CEO shall be dedication to the CEO's post, his relations with the Chairman, the Board as a whole and Directors on an individual basis, his leadership capacities in the ordinary management of Company business, in carrying out the Company's strategy and organisation and management of the administration team and employees of the Company to meet its objectives.

The Appointments and Remuneration Committee shall examine and approve the reports assessing the functions of the Chairman and the CEO, and they shall be submitted to the Board of Directors for approval.

**C.1.20.ter Breakdown, where appropriate, of the business relationships that the consultant or any of its group companies holds with the company or any of its group companies.**

No independent external consultants were engaged to assess the Board of Directors in 2017.

**C.1.21 Indicate the cases in which directors must resign.**

Under article 38.2 of the Company's Articles of Association and sections 3 and 4 of article 22 of the Board of Directors' Regulations, members of the Board of Directors must tender their resignation in the following circumstances:

- in cases of incompatibility or prohibition stipulated by the Company's Articles of Association and Board of Directors' Regulations;
- in the case of proprietary Directors, when the shareholder they represent sells its entire shareholding, or in the appropriate numerical proportion to any reduction in that shareholder's stake;
- in general, when their continuation as Board members could jeopardise the Company's interests.

When the aforementioned circumstances affect an individual representing a legal entity that is a Director, the entity must immediately replace that representative.

In addition to the above, and as stated in section C.1.19, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, may propose the removal of independent Directors when the Director occupies new posts or assumes new obligations preventing him/her from devoting sufficient time to performing Director functions, breaches the duties inherent in his/her post, or when any of the circumstances arise causing a conflict with his/her status as independent.

**C.1.22 Section revoked.**

**C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?**

Yes     X No

**If applicable, describe the differences:**

**C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman of the Board of Directors.**

Yes X No

**C.1.25 Indicate whether the Chairman has the casting vote:**

X Yes No

| Matters involving a casting vote |
|---|
| Under article 30 of the Company's Articles of Association and article 13 of the Board of Directors' Regulations, the Chairman of the Board of Directors shall hold the casting vote in the event of a tie.<br>Likewise, as stipulated in article 34 of the Articles of Association and articles 13 and 18 of the Board of Directors' Regulations, the Chairman of the Executive Committee shall hold the casting vote in all votes put to it. |

**C.1.26 Indicate whether the Articles of Association or the Board regulations set any age limit for directors:**

X Yes No

| | |
|---|---|
| Age limit for Chairman | 0 years |
| Age limit for CEO | 0 years |
| Age limit for directors | 0 years |

Article 6, section 2 of Board of Directors Regulations establishes a maximum age limit for the appointment or re-election of Directors, set at 70 for executive Directors and 75 for non-executive Directors.

**C.1.27 Indicate whether the Articles of Association or the Board regulations set a limited term for independent directors, other than that set forth in the regulations:**

Yes X No

**C.1.28 Indicate whether the Articles of Association or Board regulations stipulate specific rules on proxy voting within the board, the procedures therefor and, in particular, the maximum number of proxy votes a director may hold. Also indicate whether any restrictions have been imposed on the categories of directors that may be appointed as a proxy, beyond the limitations imposed by law. If so, give brief details.**

The Articles of Association and Board Regulations do not establish specific rules for proxy voting on the Board of Directors. Article 29.2 of the Company's Articles of Association and article 11 of the Board of Directors' Regulations stipulate that in the event of members of the Board of Directors being unable to attend a meeting in person they may appoint another Director to represent them. No upper limit is specified on the number of proxy appointments a single Director may hold. It is specified that non-executive Directors can only delegate their representation to another non-executive Director.

Proxies must be appointed in writing specifically for each meeting and the appropriate instructions as to how to represent the Director appointing them must be given.

**C.1.29 Indicate the number of Board meetings held during the year. Also indicate, where appropriate, the number of times the Board has met without its Chairman in attendance. Attendance shall also include proxies appointed with specific instructions.**

| | |
|---|---|
| Number of Board meetings | 12 |
| Number of Board meetings held without the Chairman in attendance | 0 |

**If the Chairman is an executive director, indicate the number of meetings held, without the attendance or representation of any executive director or under the chairmanship of the lead independent director.**

| | |
|---|---|
| **Number of meetings** | 0 |

**Indicate the number of meetings held by the various Board committees during the year:**

| | |
|---|---|
| **Executive or delegate committee** | 1 |
| **Audit Committee** | 8 |
| **Appointments and Remuneration Committee** | 16 |
| **Market and Systems Operating Procedures Committee** | 10 |

**C.1.30 Indicate the number of Board meetings held during the year with all members in attendance: Attendance shall also include proxies appointed with specific instructions:**

| | |
|---|---|
| **Number of Board meetings held with all directors in attendance** | 3 |
| **% of attendances of the total votes cast during the year** | 91.95% |

**C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the Board are previously certified:**

Yes X No

**Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the Board:**

**C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified audit report.**

The mechanisms established to prevent the individual and consolidated financial statements from being laid before the General Shareholders' Meeting with a qualified audit report are set out in articles 8, 19 and 31 of the Board of Directors' Regulations.

Specifically, article 8 of the Board of Directors' Regulations states that the Board of Directors shall be responsible for ensuring that the Company's individual and consolidated financial statements and directors' report provide a true and fair view of its assets, the financial position and results, according to legal requirements. Furthermore, each and every Director must have access to all the necessary information before they put their signature to the financial statements.

Article 31 of these Regulations also establishes that the Board of Directors shall adopt the necessary measures to ensure that the half-yearly and quarterly reporting and any other financial reporting that is made available to the securities markets is prepared in accordance with the same principles and practices as are used in the preparation of the annual financial statements, and that it is equally reliable.

Likewise, under article 19 of Board Regulations, the Audit Committee is responsible for liaising with the external auditors in order to receive information on any issues connected with the auditing procedure, and to maintain with the auditors the communications envisaged in audit legislation and in the technical auditing regulations. The Audit Committee also receives information on a regular basis regarding the audit plan and the results of its execution, and ensures that the auditors' recommendations are taken into consideration by senior management.

In the exercise of its duties, the Audit Committee invites the external auditor to attend its meetings whenever it is deemed appropriate and, in any event, when the agenda includes the audit assessment preceding the issue of the Company's and the Group's financial statements and Directors' report or the release of the Company's half-year report.

The Managing Director also attended meetings of the Audit Committee until he was appointed CEO, as did the Finance Director since she was appointed. They were convened to address issues within their remit, to enable the Committee to conduct rigorous monitoring of the preparation of regular public disclosures.

Article 8.1 of the Board of Directors' Regulations establishes that in the event the auditors' report on the financial statements contains reservations or qualifications, the Chairman of the Audit Committee and the auditors themselves shall explain to shareholders and to the markets the content and scope of such reservations and qualifications.

**C.1.33 Is the Secretary of the Board also a director?**

Yes   X No

**If the Secretary of the Board is not also a director, fill in the following table:**

| Name or corporate name of secretary | Representative |
|---|---|
| MR. LUIS MARÍA CAZORLA PRIETO | - |

**C.1.34 Section revoked.**

**C.1.35 Indicate, where applicable, the specific mechanisms implemented by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.**

1. Mechanisms established by the Company to preserve the independence of external auditors.

In accordance with article 7.4 of the Board of Directors' Regulations, the Board of Directors, acting in full and through its Committees, with the support of the Audit Committee, is responsible for ensuring the external auditor is both independent and professionally acceptable.

Article 19 of the Board of Directors' Regulations authorises the Audit Committee to maintain relations with the external auditors in order to receive detailed individual information on any issues that might jeopardise the auditors' independence and, where applicable, to authorise services other than those prohibited in the terms established by regulations, and to monitor compliance with the regulations in force concerning the provision of additional services other than audit services, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. The Audit Committee was tasked with authorising the external auditor to provide advisory services, supervise and review information in connection with the Company's corporate social responsibility, having ascertained that the provision of such services did not jeopardise its independence.

Each year it shall receive from the auditors written confirmation of their independence vis-à-vis the Company, in addition to detailed individual information on any other type of service provided by the auditors and the fees received by the auditors or persons or entities related to them, and shall issue a report each year, prior to the auditor's report, stating an opinion on whether the independence of the auditors has been compromised. The report must contain a motivated assessment of provision of each and every additional service, considered individually and together, other than statutory legal services, and in relation to the regime of independence or to the regulations governing the auditing of accounts.

2. Mechanisms established by the Company to preserve the independence of financial analysts.

The Investor Relations Department, a division of the Finance Department, provides institutional investors and financial analysts with all possible information on the Company's performance, periodic results and strategy.

The management of information by the department of Investor Relations is carried out with the utmost respect for the principles of transparency and non-discrimination, and always in the strictest compliance with regulations relating to the securities markets and the policy for communicating with shareholders, analysts, institutional investors and proxy advisors.

3. Mechanisms established by the Company to preserve the independence of investment banks and rating agencies.

In 2017 the Company did not hire the services of investment banks or rating agencies.

**C.1.36 Indicate whether the company changed its external audit firm during the year. If so, identify the incoming and outgoing auditors:**

Yes X No

**Explain any disagreements with the outgoing auditor and the reasons therefor:**

**C.1.37 Indicate whether the audit firm performs any other non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group:**

X Yes No

| | Company | Group | Total |
|---|---|---|---|
| **Amount of non-audit work (thousands of euros)** | 26 | 0 | 26 |
| **Amount of non-audit work / Aggregate amount billed by the audit firm (%)** | 9.59% | 0% | 4.93% |

**C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations: Indicate any reasons given by the Chairman of the Audit Committee to explain the content and scope of such reservations or qualifications.**

Yes X No

**C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:**

| | Company | Group |
|---|---|---|
| **Number of consecutive years** | 5 | 5 |
| **Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)** | 31.25% | 31.25% |

**C.1.40 Indicate and give details of any procedures through which directors may receive external advice:**

X Yes No

| Procedures |
|---|
| Article 29.3 of the Articles of Association establishes that the Chairman of the Board "may invite Company executives and technical staff, as well as Directors and executives of group companies, or any expert or third party that he considers appropriate to attend the proceedings based on the matters to be discussed at the meeting. These attendees shall have the right to speak but not vote." |

**C.1.41 Indicate, and where appropriate detail, whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies:**

X Yes No

| Procedures |
|---|
| Board meetings are generally called at least six days in advance of the date on which they are scheduled to be held. The call notice includes the agenda of the Board meeting and the relevant documentation and information concerning the items on the agenda.<br>In accordance with articles 13.2.c) and 16.2 of the Board of Directors' Regulations, the Chairman of the Board of Directors, assisted by the Secretary, ensures that the Directors receive, with sufficient notice and in the appropriate format, the information necessary to discuss the matters included in the agenda of the corresponding meetings.<br>Furthermore, under article 24 of Board Regulations, Directors shall have the powers to obtain information on any aspect of the Company and its group, and shall be granted access to any documents, registers, past records or any other information they may require.<br>All requests for information shall be addressed to the Chairman and shall be dealt with by the Secretary of the Board who shall directly provide the information required or put the Director in contact with the appropriate person within the Company, while ensuring that the necessary measures are taken to guarantee that the Directors' right to information is met to their full satisfaction. |

**C.1.42 Indicate, and where appropriate, give details of whether the company has established rules obliging directors to inform the Board of any circumstances that might harm the company's name or reputation, tendering their resignation as the case may be:**

X **Yes** **No**

| Procedures |
|---|
| Article 28 of the Board of Directors' Regulations stipulates that Directors shall disclose any fact or situation which may affect the nature or terms under which their appointment as Directors was made, or which could materially influence their activity as Directors. They must also disclose any legal, administrative or other types of claims affecting them the importance of which could seriously affect the Company's reputation. More specifically, this article establishes that they must disclose any legal, administrative or other types of claims affecting them the importance of which could seriously affect the Company's image.<br>In addition, articles 38.2 of the Articles of Association and 20.4 of the Board of Directors' Regulations stipulates that Directors must resign when their continuation in office could jeopardise the Company's interests. |

**C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Companies Act:**

**Yes** X **No**

**Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or expected to be taken by the Board up to the date of this report.**

**C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.**

The Company has not formalised significant agreements with the characteristics described.

**C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities, warranties or lock-in clauses in the event of resignation, unfair dismissal or termination as a result of a takeover bid or other types of operations.**

| Number of beneficiaries | 6 |
|---|---|

| Type of beneficiary |
|---|
| The Chairman, in connection with his executive duties, the CEO and four (4) senior executives. |

**Description of the resolution**

*1.- Executive directors.*

There are no such clauses which include benefits for executive Directors, except for the Chairman and the CEO.

With regard to the Chairman, classified as an Executive Director, at BME's Extraordinary General Shareholders' Meeting held on 5 June 2006 the following resolution was adopted:

*"It is agreed by the General Shareholders' Meeting that, in the event of the Chairman of the Board of Directors being removed from his post, he shall be entitled to receive an amount equivalent to three times his annual fixed compensation established by the Shareholders' Meeting at the time of this event. Payment of this amount implies a non-competition duty binding the Chairman for three years with respect to companies other than the BME Group pursuing identical or similar corporate purposes or activities. In the event the Chairman fails to comply with this obligation, he shall be obliged to return the amount received. The Chairman shall not be paid the amount mentioned above if he voluntarily leaves the post, fails to fulfil his duties or any of the cases needed for Bolsas y Mercados Españoles to be able to take corporate action against him for liability concur." (...)"*

The terms of this resolution by the Extraordinary General Shareholders' Meeting have been listed in the provision of services contract between BME and Antonio J. Zoido Martínez, dated 29 June 2007, subsequent to a report by the Appointments and Remuneration Committee and approval by the Board of Directors.

The Ordinary General Shareholders' Meeting on 27 April 2017 approved amendment of the Directors' Remuneration Policy for the purposes of including, among other aspects, the main conditions of the "Contract for Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, among which it is established that, in the event of departure, revocation of his competences or powers, or termination of the contract at his own behest on the basis of failure by the Company to meet the obligations undertaken, the CEO shall be entitled: *"To receive the greater of the two following amounts: (i) payment of the amount equivalent to two years' fixed and annual variable remuneration existing at the moment of termination of the employment relationship as CEO or (ii) the legal compensation pursuant to the Employment Statute at that time for any dismissal considered unfair.*

*If termination results from a failure to fulfil his duties as CEO of the Company duly declared by a court and/or any of the cases needed for BME to be able to take corporate action against him for liability concur, neither resumption of the employment relationship nor payment of the aforementioned amount shall occur."*

This condition was set out in the "Contract of Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, which was approved unanimously by the Board of Directors, with no involvement by Mr. Hernani Burzako, on 27 April 2017, at the behest of the Appointments and Remuneration Committee.

*2.- Senior management.*

With respect to senior management, one (1) senior executive has signed a senior management contract entitling the senior executive to receive compensation in the event of dismissal equivalent to twenty-two (22) months of the gross annual salary, unless employment law stipulates higher compensation. In addition, three (3) senior executives are under ordinary employment contracts. Two of the executives are entitled to severance compensation equivalent to forty-five (45) days' salary per year of service, while the third is entitled to two (2) years' gross annual salary.

**Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:**

| | Board of Directors | General Shareholders' Meeting |
|---|---|---|
| **Body authorising clauses** | Yes | Yes |

| | YES | NO |
|---|---|---|
| **Is the General Shareholders' Meeting informed of such clauses?** | Yes | |

The four (4) contracts of employment for executives of the BME Group that contain indemnity or "golden parachute" clauses were entered into before BME shares were listed on stock exchanges. Three (3) of these contracts were signed by Group companies other than BME itself.

## C.2 Board Committees

**C.2.1 Give details of all the Board Committees, their members and the proportion of executive, proprietary, independent and other external directors forming part thereof:**

### EXECUTIVE OR DELEGATE COMMITTEE

| | Position | Category |
|---|---|---|
| **MR. ANTONIO J. ZOIDO MARTÍNEZ** | CHAIRMAN | Executive |
| **MR. ÁLVARO CUERVO GARCÍA** | MEMBER | Independent |
| **MR. IGNACIO GARRALDA RUIZ DE VELASCO** | MEMBER | Independent |
| **MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN** | MEMBER | Proprietary |
| **MRS. MARGARITA PRAT RODRIGO** | MEMBER | Independent |

| | | |
|---|---|---|
| **% of executive directors** | 20.00% | 20,00% |
| **% of proprietary directors** | 20.00% | 20,00% |
| **% of independent directors** | 60.00% | 60,00% |
| **% of other external directors** | 0.00% | 0,00% |

**Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.**

The Executive Committee is regulated by articles 34 of the Articles of Association and 18 of the Board of Directors' Regulations.

Organisation and operation

- The Executive Committee shall consist of at least three (3) and not more than seven (7) Directors designated by the Board of Directors. The Company shall endeavour to ensure that the size and composition of the Executive Committee comply with efficiency criteria and the Board of Directors' basic guidelines on composition.

  At its meeting after the ordinary General Shareholders' Meeting of 30 April 2014, the Board of Directors established the number of members of the Executive Committee as five (5).

- The Chairman and Secretary of the Executive Board shall be the same as for the Board of Directors with the substitution regime stated for the Board of Directors, whereby the Chairman shall be substituted by one of the Vice Chairmen in descending order in case the office is vacant or the Chairman is absent, unable to attend or falls sick. Likewise, the Secretary shall be substituted by the Deputy Secretary of the Board of Directors and in the event there are several Deputy Secretaries, the longest standing or the eldest shall be chosen.

- Except when higher voting majorities are required by law or under the Articles of Association, resolutions shall be adopted by an absolute majority of the Board members who are either present or represented at the meeting. In the event of a tie, the Chairman shall have the casting vote.

- The Executive Committee shall meet at the behest of its Chairman, provided this has been requested by at least two (2) of its members.

- At each meeting of the Board of Directors, the Executive Committee shall report on the issues discussed and resolutions adopted at the meetings it has held since the previous Board meeting, so that the Secretary can send a copy of the minutes of the Committee's meetings to its members.

Responsibilities

The Committee shall have the following responsibilities:

a. Continuous monitoring and supervision of the day-to-day management of the Company, also ensuring that there is adequate coordination between the Group companies for their mutual benefit and that of the Company.

b. Supervising the strategy for communication and relations with investors and shareholders.

c. Supervising implementation of the Company's corporate social responsibility policy and monitoring the strategy and practices of corporate social responsibility.

d. Assessing matters related to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks, and coordinating the process of reporting of non-financial information.

e. Discussing and reporting to the Board of Directors on all issues relating to the following:

   - The Company's individual and consolidated annual budget.

   - Significant tangible or financial investments and their economic rationale.

   - Cooperation agreements with other companies the size or nature of which make them significant for the Company.

   - Financial operations of particular economic importance for the Company.

   - Assessment of the Company's achievement of its objectives

f. Adopting resolutions relating to the acquisition or disposal of the Company's treasury shares, if and as authorised at the General Shareholders' Meeting and the general policy regarding treasury shares established by the Board of Directors.

In addition to the responsibilities described above, all the Board's powers have been delegated to the Executive Committee, except for those which cannot be delegated by law, in accordance with the resolution adopted by the Board of Directors at its meeting on 27 July 2006.

Notwithstanding the foregoing, at a meeting on 20 July 2016 the Executive Committe agreed to focus its meetings on the analysis of strategic issues or any other issues it sees fit to discuss.

Action taken in 2017

In the course of 2017 the Executive Committee held one (1) meeting, and took the action stipulated in the report approved by the Board of Directors on its competences in 2017, which shall be provided in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.

**Indicate whether the breakdown of the Delegate or Executive Committee reflects participation on the Board of the different types of directors:**

X **Yes** **No**

## AUDIT COMMITTEE

| Name | Position | Category |
|---|---|---|
| MRS. MARGARITA PRAT RODRIGO | CHAIRMAN | Independent |
| MR. ÁLVARO CUERVO GARCÍA | MEMBER | Independent |
| MR. JUAN MARCH JUAN | MEMBER | Proprietary |

| | |
|---|---|
| % of proprietary directors | 33.33% |
| % of independent directors | 66.67% |
| % of other external directors | 0.00% |

**Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.**

The Audit Committee is regulated by article 35 of the Articles of Association and article 19 of Board Regulations.

The Audit Committee is working to draw up Audit Committee Regulations in keeping with the recommendations of the "Spanish Securities Market Commission's Technical Guide 3/2017 on the Audit Committees of public-interest entities".

Organisation and operation

- The Audit Committee shall be composed of a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed and removed by the Board of Directors. All the Committee members must be non-executive Directors, and a majority must qualify as independent Directors.

  The Audit Committee currently comprises three (3) members pursuant to the agreement adopted by the Board of Directors at its meeting on 27 July 2006.

- The Chairman of the Audit Committee shall be appointed by the Board of Directors from among its independent Directors and must be replaced every four (4) years. The Chairman may be re-elected one year after completing his term.

  In the event of the absence or temporary unavailability of the Chairman, his place shall be taken by the independent Director Committee member designated for that purpose by the Board of Directors and, in his absence, by the eldest independent Director Committee member and, if the independent members are the same age, by the member chosen by lot.

- The Secretary to the Committee shall be appointed by the Board of Directors from among its members and shall draw up the minutes of the resolutions adopted. The Board may also appoint the Board Secretary or any of the Deputy Secretaries as Secretary to the Committee even if they are not Committee members, as well as a member of the Company's Legal Advisory Services, in which cases the Secretary may speak at meetings but may not vote.

- The Audit Committee shall meet whenever it is convened by the Chairman or a meeting is requested by at least two (2) of its members, and at the request of the Board of Directors.

- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting by proxy. When there is a tie in voting, the Chairman, or the person standing in for him, shall have the casting vote.

- In order to perform its tasks the Committee may seek the assistance and collaboration of independent experts and request attendance of its meetings by Company or group executives.

- The Audit Committee must report to the Board of Directors on its activities in the course of each year, and the Secretary shall send the members of the Board of Directors a copy of the minutes of Committee meetings.

Responsibilities

At 31 December 2017, the Audit Committee had been assigned the duties established in article 529 *quaterdecies* of the Companies Act, as well as the following additional competences:

- To supervise the Group's regulatory compliance function, under the authority of the Audit Committee.

- Supervision of the effectiveness of risk control systems includes supervision of tax risks.

- To be informed of the fiscal policies applied by the Company.

- To analyse information on structural and corporate changes the Company plans to carry out and report on the economic conditions thereof and their accounting impact.

Action taken in 2017

The Audit Committee held eight (8) meetings in 2017, at which it addressed all issues in relation to the responsibilities attributed to it. None of these can be described as more important than others, since they are all considered important.

All these actions are detailed in the report that this Committee approves regarding implementation of its responsibilities during 2017, which shall be made available in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.

**Identify the director member of the audit committee appointed in the light of his/her knowledge and experience of accounting, audit or both, and report on the number of years the Chairman of this committee has held the post.**

| | |
|---|---|
| **Name of the director with experience** | MRS. MARGARITA PRAT RODRIGO |
| **Nº of years the Chairman has held this post (1)** | 3 |

(1) Mrs. Margarita Prat Rodrigo has been Chairman of the Audit Committee since 30 April 2014. She previously held this position from 27 July 2006 to 29 April 2010.

## APPOINTMENTS AND REMUNERATION COMMITTEE

| Name | Position | Category |
|---|---|---|
| **MR. MANUEL OLIVENCIA RUIZ (*)** | CHAIRMAN | Independent |
| **MR. ÁLVARO CUERVO GARCÍA** | MEMBER | Independent |
| **MR. SANTOS MARTÍNEZ-CONDE Y GUTIÉRREZ BARQUÍN** | MEMBER | Proprietary |
| **MR. CARLOS FERNÁNDEZ GONZÁLEZ** | MEMBER | Other external |

(*) Mr. Manuel Olivencia Ruiz is no longer a member of the Board of Directors, as he passed away on 1 January 2018.

| | |
|---|---|
| **% of proprietary directors** | 25.00% |
| **% of independent directors** | 50.00% |
| **% of other external directors** | 25.00% |

**Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.**

The Appointments and Remuneration Committee is regulated by article 36 of the Articles of Association and article 20 of the Board of Directors' Regulations.

Organisation and operation

- The Appointments and Remuneration Committee shall comprise at least three (3) and at most five (5) Directors, appointed by the Board of Directors from among its non-executive members, of which at least two (2) must be independent Directors. The members of this Committee shall remain in office for as long as they continue to be Company Directors, unless the Board of Directors resolves to remove them.

  Currently the Appointments and Remuneration Committee comprises four (4) members pursuant to the resolution adopted by the Board of Directors at its meeting on 27 February 2014.

- The Chairman shall be appointed by the Board of Directors from among its independent Directors.

- The Board of Directors shall also appoint a Committee Secretary, an office which need not be held by a member of the Committee and may be filled by the Board's Secretary or any of its Deputy Secretaries, as well as by a member of the Company's legal advisory services, in which cases the Secretary may speak at meetings but not vote.

- The Committee shall meet as often as is necessary in the Chairman's opinion for the performance of its functions, at the request of the Board of Directors and whenever a meeting is requested by at least two (2) Committee members.

- There shall be quorum at Committee meetings when a majority of Committee members are present or represented by proxy, and resolutions shall be adopted by an absolute majority of the members who are present or represented. In the event of a tie, the Chairman shall have the casting vote.

- The Committee shall report to the Board on the performance of its functions and tasks in the course of each year and the Committee Secretary shall send a copy of the minutes of all Appointments and Remuneration Committee meetings to all Board members.

Responsibilities

The Appointments and Remuneration Committee has been assigned the duties established in article 529 quindecies of the Companies Act, as well as the following additional responsibilities:

- To report on compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment, re-election and removal of members of the Board of Directors proposed to sit on any of the Board Committees, as well as, where applicable, to hold any posts thereon.

- To report on compliance with the Articles of Association and the Board of Directors' Regulations regarding the appointment and removal of the Deputy Secretaries of the Board.

- To verify compliance with the Company's remuneration policy.

- To verify information on remuneration received by Company Directors and senior executives contained in corporate documents.

- To ensure the independence of the external advice provided for the Committee.

- To supervise, at the behest of the Board of Directors, compliance with the rules of corporate governance.

Action taken in 2017

Throughout 2017, the Appointments and Remuneration Committee held sixteen (16) meetings, at which it addressed all issues in relation to the responsibilities attributed to it. None of these can be described as more important than others, since they are all considered important.

All these actions are detailed in the report that this Committee approves regarding implementation of its responsibilities during 2017, which shall be made available in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.

## MARKETS AND SYSTEMS OPERATING PROCEDURES COMMITTEE

| Name | Position | Category |
|---|---|---|
| **MR. JOAN HORTALÁ I ARAU** | CHAIRMAN | Executive |
| **MR. KAREL LANNOO** | MEMBER | Independent |
| **MR. JUAN MARCH JUAN** | MEMBER | Proprietary |

| | |
|---|---|
| **% of executive directors** | 33.33% |
| **% of proprietary directors** | 33.33% |
| **% of independent directors** | 33.33% |
| **% of other external directors** | 0.00% |

Mr. Luis María Cazorla Prieto is Secretary (non Member) of all the Committees.

**Explain the functions attributed by this Committee, describe its processes and rules of organisation and functioning and summarise its most important procedures in the year.**

The Markets and Systems Operating Procedures Committee is regulated by article 37 of the Articles of Association and article 21 of Board Regulations, and also by the Regulations of the Markets and Systems Operating Procedures Committee.

At a meeting on 31 January 2018, the Board of Directors agreed the amend Board Regulations and the Regulations of the Markets and Systems Operating Procedures Committee in relation to the competences attributed to this Committee in terms of interpretation and monitoring of the Internal Code of Conduct.

Organisation and operation

- The Markets and Systems Operating Procedures Committee shall consist of a minimum of three (3) and a maximum of five (5) Directors, who shall be appointed, re-elected and removed by the Board of Directors.

The Markets and Systems Operating Procedures Committee currently comprises four (4) members pursuant to the resolution adopted by the Board of Directors at its meeting on 29 November 2007, and there is one (1) vacancy.

- The Board of Directors shall appoint the Chairman of the Markets and Systems Operating Procedures Committee from among its members.

- The Board of Directors shall appoint a Committee Secretary, an office which need not be held by a member of the Board and may be filled by the Board's Secretary or any of its Deputy Secretaries, as well as by a member of the Company's legal advisory services. In these cases, the Secretary may speak at meetings but not vote.

- The Markets and Systems Operating Committee shall meet at least once a month, and whenever it is convened by the Chairman, and there shall be quorum when a majority of Committee members are present or represented by proxy.

- Resolutions must be adopted with the favourable vote of the majority of the members who are present or represented at the meeting. When there is a tie in voting, the Chairman shall have the casting vote.

- The Markets and Systems Operating Committee must report to the Board of Directors on its activities, and to this end the Secretary must send the members of the Board of Directors a copy of the minutes of Committee meetings.

Responsibilities

At 31 December 2017 the Markets and Systems Operating Procedures Committee had the following responsibilities, as directed in the Committee's own regulations:

a. To analyse and monitor the procedures and regulations laid down by Group companies for the proper functioning of the markets and systems they manage.

b. To be cognisant of the procedures established so that normal market conditions and the principle of equal treatment are applied to the transactions, operations and actions which the Company, its Directors or shareholders with significant and stable capital shareholdings perform as issuers, clients or users in the markets and systems managed by Group companies.

c. To be cognisant of the application of the Internal Code of Conduct of the Company and its Group. To this end it shall periodically receive information in this regard from the Standards of Conduct Committee or equivalent body as envisaged in the aforementioned Code of Conduct, and shall also report prior to any amendment of the Code submitted to the Company's Board of Directors for approval.

d. Any other general or specific tasks commissioned by the Board.

Action taken in 2017

Throughout 2017, the Markets and Systems Operating Procedures Committee held ten (10) meetings, at which it addressed all issues in relation to the responsibilities attributed to it. None of these can be described as more important than others, since they are all considered important.

All these actions are detailed in the report that this Committee approves regarding implementation of its responsibilities during 2017, which shall be made available in the section of information for shareholders and investors on the Company's corporate website www.bolsasymercados.es.

**C.2.2 Complete the following table on the number of female directors on the various Board committees at the end of the last four years:**

NUMBER OF FEMALE DIRECTORS

| | 2017 | | 2016 | | 2015 | | 2014 | |
|---|---|---|---|---|---|---|---|---|
| | **Number** | **%** | **Number** | **%** | **Number** | **%** | **Number** | **%** |
| **Executive or delegate committee** | 1 | 20.00% | 1 | 20.00% | 1 | 25.00% | 1 | 25.00% |
| **Audit Committee** | 1 | 33.33% | 1 | 33.33% | 1 | 33.33% | 1 | 33.33% |
| **Appointments and Remuneration Committee** | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 1 | 25.00% |
| **Market and Systems Operating Procedures Committee** | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% | 0 | 0.00% |

At 31 December 2017 and 2016 the Company's Executive Committee had 5 members, whereas at 31 December 2015 and 2014 it had 4 members.

**C.2.3 Section revoked.**

**C.2.4 Section revoked.**

**C.2.5 Indicate, as appropriate, whether there are any regulations governing the Board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.**

The operation of the Board Committees is governed by the Board of Directors' Regulations. The Markets and Systems Operating Procedures Committee also has its own operating regulations.

As mentioned above, in accordance with the provisions of article 10.3 of the Board of Directors' Regulations, the Committees prepare a report on their responsibilities, which is sent to the Board of Directors so that their activities can be assessed.

The Regulations of the Board of Directors and of the Markets and Systems Operating Procedures Committee and the activity reports of the Board's Committees from each financial year can be found in the "Information for Shareholders and Investors" section of the corporate website www.bolsasymercados.es.

**C.2.6 Section revoked.**

# D) RELATED-PARTY AND INTRAGROUP TRANSACTIONS

**D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.**

## Procedure to notify the approval of related-party transactions

Article 7.4.d) of Board Regulations establishes that the Board of Directors, acting in full and through its Committees, shall approve the transactions that the Company or the Group companies carry out with shareholders holding significant ownership interests, including shareholders represented on the Board of Directors of the Company or other companies that form part of the same group or with persons related thereto. The transactions that simultaneously meet the following three characteristics are excluded from the aforementioned approval:

- they are governed by standard form agreements applied on an across-the-board basis to a large number of clients;
- they are performed at prices or rates established on a general basis by the person supplying the goods or services; and
- the amount does not exceed 1% of the Company's annual revenue.

Section l) of article 19.2 of the Board of Directors' Regulations also states that the Audit Committee shall report on the transactions that the Company or the Group companies carry out with shareholders holding significant ownership interests, including shareholders represented on the Board of Directors of the Company or other companies that form part of the same group or with persons related thereto.

Moreover, given the market/systems activities carried on by the Group companies, article 29 of Board Regulations establishes that transactions, operations or actions undertaken by Directors and significant shareholders and their related parties in their activities on the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties.

**D.2 List any significant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:**

**D.3 List any significant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors:**

**D.4 Report on significant transactions performed by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.**

**In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:**

**D.5 Indicate the amount from transactions performed with other related parties.**

0 (in thousands of euros)

**D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.**

1. <u>Conflicts of interests between the Company and/or its group and its Directors.</u>

The general duties of diligences and loyalty, which include the duty to avoid conflicts of interests, are regulated by articles 25, 26 and 27 of the Board of Directors' Regulations, under the same terms as established in the current legislation.

Directors must abstain from participating in the deliberations and voting on resolutions and decisions in which the Director or a related person has a direct or indirect conflict of interests. This obligation to abstain shall not include resolutions or decisions that affect their status as Director, such as their appointment or removal for positions on the Board of Directors or other similar decisions.

Proprietary Directors must not participate in votes on matters in which the shareholders who proposed their appointment and the Company have a direct or indirect conflict of interests.

For these purposes, Directors shall notify the other Directors and, where applicable, the Board of Directors of any situation that may entail a direct or indirect conflict of interests between them or any persons related thereto and the Company.

Directors of the Company must also notify the Audit Committee before accepting any Directorship or management position in another company or entity.

Moreover, transactions, operations or actions undertaken by Directors and/or their related parties in their activities in the markets and systems managed by Group companies shall not require prior authorisation, nor shall they be subject to disclosure obligations, provided that they are within the ordinary course of business of the parties involved and on an arm's length basis, without prejudice to compliance with any regulations applicable to transactions with related parties.

The above is understood as notwithstanding the fact that members of the Company's Board of Directors are also affected by the obligations established in this respect by the Internal Code of Conduct for BME and Group companies described below.

2. Conflicts of interests between the Company and its Group and employees.

On 29 November 2017 the Board of Directors approved a new Internal Code of Conduct which came into force on 1 January 2018. Articles 9, 10 and 11 of this Internal Code of Conduct regulates conflicts of interests in terms similar to the Internal Code of Conduct of BME and companies in its Group in force until 31 December 2017.

Rule V of the current Code stipulated that all those subject to the Internal Code must act with due impartiality and in no case place their own interests before those of the Company, and must base their decisions on that which best serves the interests and legally attributed functions of BME.

Section B of Rule V of the Internal Code of Conduct states that BME's Directors, senior management and employees shall endeavour to avoid conflicts of interests with BME shareholders, members of or participants in the markets or systems governed or managed by companies belonging to the BME group, or with the issuers of the securities affected listed on those markets or systems or which have applied for listing.

If affected by a conflict of interests, they shall refrain from intervening in or influencing discussions and decisions concerning the persons or entities to which the direct interest in conflict refers, and shall notify whoever is responsible for decision-making accordingly. Notwithstanding the foregoing, the individuals affected may participate in the discussion and approval of any rules, instructions or decisions that shall apply generally to all investors, market members or companies with securities admitted for trading.

All individuals affected by the Internal Code of Conduct must notify the Standards of Conduct Unit of any possible conflicts of interests, which may affect them or related parties, as stipulated by the Internal Code of Conduct.

The existence of any conflicts of interests must be notified within five (5) days of the moment they become known and notification must be given before any decision or measure is taken which may be affected by the existence of the conflict of interests. Individuals affected must keep the information they supply up to date, giving notice of the termination of or any change in the situation of conflict and the emergence of new situations of this type.

Section G of Rule V stipulated that if they have any doubts about the existence of a possible conflict of interests, those affected by the Internal Code of Conduct should consult the Standards of Conduct Committee on the matter before taking any decision or action that could be affected by the possible conflict.

3. Conflicts of interests between the company and its significant shareholders.

Article 21.2.b) of the Board of Directors' Regulations and article 7.1b) of the Regulations of this Committee stipulate that the Markets and Systems Operating Committee must oversee the procedures established so that normal market conditions and the principle of equal treatment are applied to the transactions, operations and actions which the Company, its Directors or shareholders with significant and stable shareholdings perform as issuers, clients or users in the markets and systems managed by Group companies.

In this regard, article 29 of the Board of Directors' Regulations stipulates that transactions, operations or actions undertaken by significant shareholders and their related parties on the markets and systems managed by Group companies shall require prior authorisation by the entire Board, unless they form part of the ordinary course of business of the parties involved and are carried out in normal conditions or in recurring market conditions, without prejudice to compliance with any regulations applicable to transactions with related parties..

**D.7 Is more than one Group company listed in Spain?**

Yes X No

Listed subsidiary

**Indicate whether the type of activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies, have been publicly and accurately defined;**

| |
|---|
| **Define any business dealings between the parent and the listed subsidiary and between the latter and other group companies** |

**Identify the mechanisms in place to resolve possible conflicts of interests between the listed subsidiaries and the other group companies:**

| |
|---|
| **Mechanisms to resolve possible conflicts of interests** |

# E) RISK CONTROL AND MANAGEMENT SYSTEMS

### E.1 Describe the Risk Management System in place at the company, including tax contingencies.

The inherent risks of the activity carried out by BME Group companies are managed with criteria which allow the Company to pursue its interests and maximise its value, profitability and efficiency along with its other legitimate interests, both public and private, in a way whereby it is able to grow and operate in the markets and systems where Group companies operate and abide by EU law, the Securities Market Act and its implementing provisions.

BME is directly or indirectly the owner of companies operating in securities registration, clearing and settlement systems, central counterparty companies, official secondary markets in Spain and multilateral trading systems, and, as such, is responsible for the unity of action, decision and strategic coordination of those companies.

Implementation of the risk control and management policy, defined by the Board of Directors and managed by the Management Committee, falls to the Risk Committee in its capacity as the body responsible for monitoring and analysing the risks arising from the various activities carried on by Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas. The Risk Committee also draws up the corporate Risk Map, which is maintained by the parties in charge of managing the risks identified, and by the Internal Audit Department.

The Risk Committee has constructed an integrated risk management system (IRMS) following the methodological framework specified in the COSO II paper. According to the nature of each specific risk, the following lines of action are carried on in parallel:

- Business risks are managed on a decentralised basis; each Business Unit or Corporate Area is autonomous, and they all report to the Risk Committee.

- Corporate risks (strategic, financial, regulatory, technology, human resources) are managed on a centralised basis, coordinated among the different areas and treated at corporate level with standardised reporting to the Risk Committee.

The preparation and maintenance of the corporate Risk Map requires that each risk officer regularly update the information on each identified global risk needed for management and control; new events are identified and action plans are rearranged as necessary.

The Risk Committee regularly reviews the most significant matters relating to the Business Units and Corporate Areas, and receives the results from the activities of BME's control functions (Compliance, IT Security and Internal Audit). The Risk Committee is capable of identifying the existence of risks and proposing the implementation of action plans. These plans are reviewed by BME's control functions.

The BME Group's **risk control system** applicable in 2017 was drawn up in accordance with international standards. Its functioning is governed by the following aspects:

1. BME Group companies that manage securities registration, clearing and settlement systems, Spanish official secondary markets and multilateral trading systems are governed by European Union law and the Securities Market Act and its implementing provisions.

2. In accordance with this legal framework, BME's financial statements and those of most of its Group companies are verified by an external auditor. Likewise, as required by the laws and regulations governing all markets, multilateral trading systems, central counterparties, and registration, clearing and settlement systems, the external auditors must review the internal control systems and assess the appropriateness thereof.

3. A Risk Committee, which reports to the Management Committee, comprising senior managers from the various Corporate Areas in charge of monitoring and analysing the risks arising from the various activities carried on by the companies in the BME Group in the framework of management coordinated through Business Units and Corporate Areas, as well as logical security and physical safety risks. The Heads of Compliance and Internal Audit, as well as the Head of Logical Security, may attend Risk Committee meetings with the right to speak but not to vote.

4. The Company has an Internal Audit Department, as an independent body of the Company's executive line, reporting to the Audit Committee which operates throughout the BME Group and which acts in keeping with the Framework for Professional Practice of the Institute of Internal Auditors.

5. The Company also has a Compliance Department that operates independently from the Company's executive officers and bodies, reporting to the Audit Committee. Its role is to ensure compliance with the laws and regulations applicable to Group activities and to support the Audit Committee in supervising related regulatory compliance risk.

**6**. In order to establish common control systems there are regulations governing the different business units and corporate areas which regulate basic matters including:

**a.** Financial and accounting matters. The financial reporting process is subject to an internal control system (ICFR) which has been reviewed and documented in accordance with BME's IRMS methodology. This enables it to comply with the new regulatory requirements aimed at improving the transparency of listed companies' reports to the market. These include, inter alia:

**i.** A Procedures Manual for subprocesses containing a description of the operations, identification of the main risks and controls in place to mitigate them, valuation rules and accounting recognition criteria for the activities and transactions that could have a material impact on financial reporting.

**ii.** Corporate Accounting Plan.

**iii.** Annual calendar for financial and accounting information.

**b.** Information to markets::

**i.** Policies on the collection, treatment and disclosure of information to the markets.

ii. Procedure for drawing up and sending periodical information to Supervisory Bodies

**c.** IT Security. This area constantly strives to meet the most demanding standards and the sector's best practices. To this end it has:

**i.** An Information Security Management System ("SGSI") in accordance with ISO/IEC 27001, which includes policies, procedures and organisational structures to ensure that the BME Group's assets are efficiently and suitably protected.

**ii.** A Comprehensive Security Policy for each and every company belonging to the BME Group, in which security applies to protection against any type of risk that could jeopardise the interests of BME, as well as the people, processes, information, facilities etc. under their responsibility as set out in the Logical Security Policy, the Business Continuity Policy and the Physical Safety Policy.

**iii.** A Policy on Handling Sensitive Information in order to establish a criterion for classifying and handling documents according to the level of confidentiality in order to reduce the risk of unauthorised access to sensitive information belonging to the BME Group.

**d.** Project Management Office. The Project Management Office defines and maintains the standards for managing the projects of the BME Group, following best practices in project management and the strategy defined for the organisation. This Office is responsible for centralising the information and status of all Group projects and regularly reporting to the project managers, the heads of the different departments and the management of BME regarding the status of the projects and the progress, risks or changes identified in the different monitoring tasks.

**7.** A Security Committee, reporting to the Finance Director, in charge of defining and applying the BME Group's Security Policy on information security, through the Head of Logical Security, who is responsible for implementing, operating and maintaining the SGSI in accordance with the guidelines issued by the Security Committee, and on IT systems, through the Head of Physical Safety, who is in charge of safeguarding the physical infrastructures.

**8.** The Company is a member of CECON ("Consorcio Español de Continuidad de Negocio", the Spanish business continuity consortium), together with the leading players in the financial services industry (regulatory bodies and commercial entities). It was created to contribute to financial stability by improving awareness concerning business continuity and disseminating the best practices applicable. CECON initiatives include the creation of the 'CONTINUAM' Business Continuity Institute. The Company, through BME Inntech, is a founding partner of the institute, together with AENOR and leading players in the financial sector. The mission of CONTINUAM is to create, disseminate and promote a holistic business continuity culture at all levels of society, with the help of leaders from the various sectors.

**9.** The Company has an Internal Code of Conduct which applies to all members of the Boards of Directors and employees of all Group companies, and establishes their duties in connection with confidentiality and integrity, implemented in relation to insider information with the approval of the Board of Directors of the "Policy for the processing and transfer of insider information", and also allows Group companies to approve special rules of conduct. In these cases, the Internal Code of Conduct shall apply in the absence of such special rules.

**10**.On 30 September 2010 BME embraced the Code of Best Tax Practices, approved by the Large Businesses Forum on 20 July 2010 and, following up the recommendations of the Code, approved policies and courses of action in relation to tax, which were updated by the Board of Directors at a meeting on 30 July 2015, after the Company's tax strategy had been defined. In 2016 the other Group companies joined the aforementioned Code of Best Tax Practices, and approved their respective tax policies.

**11.** At the behest of the Audit Committee, the Board of Directors established a Criminal Risk Prevention System for the BME Group which, among other issues, introduces a Code of Conduct with the main ethical principles and standards of conduct governing the actions of directors, legal representatives, management and employees of BME Group companies, and an Internal Whistleblowing Channel, used by BME employees and management to report any facts which may lead to indications of breaches by other employees or managers of Group policies or procedures or the Code of Conduct, or other actions that could constitute indications of a possible criminal offence.

**12.** Liquidity management is homogeneous throughout the BME Group, in accordance with the criteria established by the Company's Board of Directors, following a report by the Audit Committee. However, within the scope of these criteria, Group companies may prioritise investment in assets offering higher liquidity as opposed to returns in order to comply with the specific regulations applicable. In this respect, the criteria for investing the Group's liquidity set out the criteria for investing the minimum own funds of BME Clearing, S.A.U. to cover the types defined in Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012, on OTC derivatives, central counterparties and trade repositories, and its implementing provisions.

This specifies the criteria pursuant to which the Company should purchase assets, the term of such operations and authorisation levels. The main objective is to prioritise security and minimise liquidity risk, and this rules out the possibility of carrying out speculative operations.

**13.** The Company also has a Communication Procedure in place regarding deficiencies in risk control and management systems which has been approved by the Audit Committee, whereby personnel from the Company and the Group's companies may anonymously report any irregularities in the aforementioned systems.

In addition to the Group's risk control system, which applies to all Group companies, BME Clearing, S.A.U., the central counterparty, has an additional governance system and mechanisms for internal control and managing specific risks in accordance with the provisions of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories, and its implementing provisions.

## E.2 Identify the bodies responsible for preparing and implementing the Risk Management System, including tax contingencies.

Board of Directors

The Board of Directors is BME's most senior governing and administrative body, in charge of stimulating, directing and supervising matters that are of particular importance to the Company.

The general functions of the Board of Directors, which are set out in article 7 of the Board of Directors' Regulations, include defining the policy for the control and management of risks, including tax risks, and supervising the internal information management and control systems, including those that are tax-related, and internal audit systems.

The Board of Directors is assisted in its functions by the Audit Committee.

Audit Committee

Pursuant to article 19 of the Board of Directors' Regulations, the Audit Committee shall have the following responsibilities, among others:

- To supervise the effectiveness of the Company's internal control and risk control systems, including tax risks, which shall involve the review, at least once a year, of the internal control and risk management systems to ensure that the main risks are adequately identified, managed and reported. The Audit Committee is also charged with discussions with the auditors or, as the case may be, experts appointed for that purpose, regarding any significant weaknesses detected in the auditing process, and also with the submission of recommendations or proposals to the Board of Directors.

- To supervise the Company's internal audit services. To this end, the Committee shall monitor the independence and efficiency of internal audit functions, receiving periodical information regarding its activities and ensuring that senior management takes into consideration the conclusions and recommendations of its reports.

La Sociedad tiene establecido un procedimiento de comunicación de deficiencias en los sistemas de The Company has a communication procedure in place regarding deficiencies in the risk control and management systems which are directly supervised by the Audit Committee.

The Audit Committee has set up a Crime Prevention Committee, which is responsible for the prevention of criminal risks, and the implementation and development of and compliance with the BME Group's criminal risk prevention system.

Markets and Systems Operating Procedures Committee

Pursuant to article 21 of the Board of Directors' Regulations, and article 7 of the Regulations of the Markets and Systems Operating Procedures Committee, the Committee shall have the following functions, among others:

- To analyse and monitor the procedures and regulations set forth by group companies for the correct operation of the markets and systems managed thereby.
- To be cognisant of the application of the Internal Code of Conduct, to which end it had the assistance of the Standards of Conduct Committee up to 31 December 2017. As of 2018, the Markets and Systems Operating Procedures Committee shall be assisted by the General Secretary and the Secretary of the Board of Directors and also the Compliance Department.

Management Committee

The Management Committee, composed of the Chairman, the CEO and the heads of Business Units and Corporate Areas, is the body which carries out the strategic plan approved by the Board of Directors, examines proposals concerning new activities and business opportunities, and carries through the risk control and management policy defined by the Board of Directors.

Risk Committee

In 2017 the Risk Committee, which reports to the Management Committee, took charge of monitoring and analysing the risks arising from the various activities carried on by Group companies in the framework of a scheme of management coordinated through Business Units and Corporate Areas.

The Risk Committee is responsible for implementing the risk management and control policy laid down by the Board of Directors and overseen by the Management Committee. Specifically, the Risk Committee is in charge of:

a. implementing the risk assessment model adopted by the Management Committee in pursuance of the risk management policy defined by the Board of Directors.

b. producing the corporate Risk Map, subsequently to be maintained by the various officers responsible for managing identified risks and by the Internal Audit Department.

c. reporting to the Management Committee on all matters relevant to the Group's risk management policy.

d. submitting proposals to the Management Committee for action to improve risk monitoring and control procedures.

Security Committee

The Security Committee is in charge of establishing the BME Group's Security Policy, covering both logical and physical security.

### E.3 Indicate the main risks, including tax contingencies, that can prevent the company from achieving its targets.

BME is present throughout the entire value chain in the management of several financial markets, exposing it to a variety of risks:

**Operational risks:** The risk of direct or indirect losses arising from inadequate or failed internal processes, people and systems, or from external events. Operational risks are classified in terms of their applicability to the BME Group overall, or exclusive identification for one of the business units or corporate areas.

Operational risks affecting all BME business units and corporate areas include:

- **Risk of fraud:** This is the risk of action taken to avoid a regulation, which may cause damage to a third party or to the Group itself.
- **IT risk:** The risk of faults occurring in the IT and electronic systems used by the group, either internally or affecting the market. They may arise as a result of communications errors, or hardware or software malfunctions. They include failures in the collection and disclosure of market information to users. They also include any alterations and/or intrusions that may arise in system security. Given the nature of its operations, this is considered one of the main risks for the BME group.
- **Risk of administrative errors:** These arise from erroneous calculations, improper execution, faulty manual operations, or because databases have not been updated. They also include any events arising from errors during billing or monitoring of collections.

**Market risk:** Shows the current or potential risks posed by adverse movements in interest rates or changes in prices or share prices, or variations in trading volumes.

**Liquidity and solvency risk:** Defined as the risk that a Group company is unable to meet its payment commitments.

**Credit or counterparty risk:** Risk arising in the event a debtor fails to meet its payment commitments, or its credit rating is impaired. This includes, among other scenarios, risk of non-payment of bills or charges.

**Industry risks:** Compliance risks in connection with regulatory changes, the Company's reputation, sector competences, relations with stakeholders and the political, economic, legal and tax environment.

**Key business risks:** risks arising from the specific activities carried on by BME Group companies. The following are the main business risks:

- **Risks of inadequate functioning of markets:** Possibility of errors arising in trading or supervision processes to prevent adequate overall functioning of the system.

- **Risks in relation to the Securities Settlement System (Iberclear):**

  - **Risk of errors in settlement processes:** These risks may relate to delays in reception of information from the issuer or payment agent and calculation of prices leading to errors in the multiple settlement or the amount of cash to be charged or credited.

  - **Risk of errors in reconciliation processes:** This is the risk of data mismatches between ARCO and T2S concerning positions or accounts.

- **Counterparty risk associated with BME Clearing:** In its role as the Central Counterparty, the risk undertaken by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk and controlling the collateral called in from and paid by clearing members with respect to that risk.

- **Risks in relation to the dissemination of information:** These risks chiefly related to non-availability of systems over a longer period than expected, compromising dissemination of information from trading systems.

## E.4 State whether the company has a risk tolerance level, including with respect to tax contingencies.

As mentioned in section E.1, BME, directly or indirectly, is ultimately the sole shareholder of the companies managing securities registration, clearing and settlement systems, central counterparties, official Spanish secondary markets and multilateral trading systems.

BME's Group companies are members of the European Association of CCP Clearing Houses (EACH), the European Central Securities Depositories Association (ECSDA) and the Federation of European Securities Exchanges (FESE). These bodies share a common goal of obtaining greater efficiency and integration in the capital markets based on the best practice recommendations for settlement systems proposed by the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO).

Group companies operate specific governance systems and mechanisms for internal control, risk management and ongoing supervision which enable them to design response plans in alignment with specified risk tolerance levels, in due consideration of applicable laws and regulations and to the recommendations issued by the organisations referred to above (see section E.6).

The Risk Committee is responsible for monitoring and analysing all risks arising from the activities performed by Group companies. These tasks are conducted as part of coordinated management through the business units and corporate areas.

The Risk Committee is also responsible for implementing the risk management and control policy laid down by the Board of Directors and overseen by the Management Committee. In particular, implementation and monitoring of the risk assessment model adopted by the Management Committee. It must also take account of the level of risk tolerance.

Based on the most advanced standards (Basel, BIS), for each of the Group's main activities and sources of risk, the model estimates contingent losses in extreme but realistic worst-case scenarios for exposures to various risks. The Group's expected loss model is an internal probabilistic model calibrated at the 99% confidence level for reasonable timeframes that provide a good fit with each activity segment. Some Group companies, however, use a higher confidence interval in compliance with the regulations specifically applicable to their activities. The model is supplemented by stress tests (extreme worst-case scenarios) to gain an insight into how risk exposures might behave in extreme and improbable situations.

### E.5 Identify any risks, including tax contingencies, that have occurred during the year.

Of the risks covered by the system, as mentioned in E.3 above, IT risk is particularly noteworthy.

The systems supporting Group companies' activities undergo continuous review and adaptation in response to regulatory changes and the implementation of IT recommendations and best practices as they emerge. Given their connections to public and private entities, the systems are subject to functional modifications and improvements that require changes and new versions.

The incidents related to this risk that have occurred have been managed by prioritising recovery of service, with sufficient internal and external reporting.

Resolving such incidents has entailed the implementation of improvements in the control systems and reporting to the Markets and Systems Operating Procedures Committee and, where appropriate, to the CNMV.

None of the other main risks materialised to any significant extent (see section E.6).

Finally, there was no significant impact on the company's results or its capacity to generate value, and response systems performed satisfactorily.

### E.6 Explain the response and monitoring plans for the main risks to which the company is exposed, including tax contingencies.

***IT risk:*** *This is the risk of faults in the IT and electronic systems used by the Group, either internally or in relation to the market. They may arise as a result of communications errors, or hardware or software malfunctions. They include failures in the collection and disclosure of market information to users. They also include any alterations and/or intrusions that may arise in system security. Given the nature of its operations, this is considered one of the main risks for the BME Group.*

This risk is managed and controlled by the BME Technology Corporate Area. The Area has IT engineers specialising in each of the systems supporting BME's activities.

The systems supporting activities engaged in by BME companies are duplicated in order to eliminate single failure points. Critical infrastructure and equipment are duplicated in the alternative back-up centre at a different location to the main DPC. For most of the critical systems, all data stored by the central system are backed up simultaneously in real time at the alternative back-up centres. In trading applications, replication is based on an asynchronous parallel transaction processing solution in the contingent liability systems located in the alternative back-up centre. Back-up copies of all processes are kept. As with the primary DPC, the alternative centre is equipped with all the technical means required to resume the Company's activity in the event of a disruption of the primary centre.

The communications network providing access points for participants provides dual connections to the primary DPC and the back-up centre, with diversification of suppliers. Procedures and agreements are in place with the main communications suppliers to ensure lines from the primary DPC to the back-up centre can be switched transparently for the entities.

The Production and Systems Departments are responsible for monitoring any error messages, alerts or flags in any application, communication system, network, database or system. An internal server monitoring system is in place which reviews a series of parameters by default. The system can be configured so that updates and alert messages are triggered in certain circumstances involving usage of disk space, memory and processing power.

The Production and Systems Departments have documented incident response procedures in place. The various system performances are monitored daily. Data obtained from this monitoring are automatically processed to prepare statistics and reports that are available to authorised users on the intranet. All procedures are documented and available on the Group intranet.

***Risks of inadequate functioning of markets:*** *Possibility of errors arising in trading or supervision processes to prevent adequate overall functioning of the system.*

BME has a number of controls to supervise trading processes, including, among others, the following: automatic contrasts and validations of information, automatic checking of securities and prices (including multiple verifications and checks on securities) and monitoring of the proper functioning of systems and applications. The market quality department also has its own controls to contrast with the supervision department, and it sets up matches between the various sources of contrast information.

**Risks in relation to the Securities Settlement System (Iberclear):**

- ***Risk of errors in settlement processes:*** *These risks may relate to errors or delays in reception of information from the issuer or payment agent and calculation of prices leading to errors in the multiple settlement or the amount of cash to be charged or credited.*

  The procedure for reception and inspection of information received by Iberclear has a control list (checklist) and a double-checking system by both the legal department and the primary department. Time schedules are also established for the reception of information which, on a regular basis and with sufficient notice, is requested from the companies concerned to ensure it is received in time.

  In relation to the possibility of errors arising in calculation of prices, the company has an automatic process which conducts a weekly examination of the prices applied to each of the services.

- ***Risk of errors in reconciliation processes:*** *This is the risk of data mismatches between ARCO and T2S concerning positions or accounts.*

  Iberclear has a number of automatic reconciliation processes which are monitored by system users, and dynamically reconcile data between the two platforms, detecting any possible discrepancies in sufficient time to ensure the processes operate properly.

***Counterparty risk associated with BME Clearing:*** *In its role as the Central Counterparty, the risk undertaken by BME Clearing, S.A.U. as counterparty of the position of a clearing member is hedged by actively managing the risk and controlling the collateral called in from and paid by clearing members with respect to that risk.*

As a central counterparty, BME Clearing manages its business risks independently in accordance with BME's IRMS.

Therefore, under the EMIR rules applicable, it has a risk management framework comprising risk management policies, procedures, and systems that enable it to identify, measure and control any risks to which it is or may be exposed. In addition, a consultative Risk Committee advises the Company's Board on all measures that might affect the central counterparty's risk management.

The central counterparty's risk management framework encompasses, inter alia: margin requirements and how margins are to be enforced; topping up the default fund in the event of defaults; review of the models employed, stress tests, back testing, control of liquidity risk and the procedure to be followed in the event of default.

All risks are first identified by the Internal Risk Committee, which periodically reviews risk management issues related with day-to-day operations, specifically the level of compliance with risk management criteria, models and parameters.

The risk management system used by BME Clearing, in accordance with the laws and regulations referred to above, focuses on monitoring and measuring exposures to participants by measuring credit, market and concentration risks in real time, using applications for managing the issues involved and sending alerts to participants.

***Risks in relation to the dissemination of information:*** *These risks chiefly relate to non-availability of systems over a longer period than expected, compromising dissemination of information from trading systems.*

BME has a system to monitor activity in the different systems, supervising data transmission and reception processes, monitoring proper access of users, number of messages and latencies of each product. Alarms are also in place to detect any potential errors, in almost real-time mode.

***Industry risks:*** *Compliance risks in connection with regulatory changes, the Company's reputation, sector competences, relations with stakeholders and the political, economic, legal and tax environment.*

Group companies manage securities registration, clearing and settlement systems, central counterparties and multilateral trading systems. These activities are regulated by legislation passed by the European Parliament and Council, and by the Securities Market Act and its implementing provisions.

BME operates a Compliance Department to check that Group companies' processes are compliant with applicable laws and regulations and to help monitor regulatory changes that might affect the Group's activities. At a meeting on 27 July 2017, the Audit Committee approved the Compliance function's Statute to define the mission and objectives of the Compliance function and establish its area of jurisdiction and scope, its general principles, its organisation, as well as the powers and work methodology of the Compliance Department.

As already mentioned above in section E1 of this report, as BME undertook the Code of Best Tax Practices, the Audit Committee took due note of the tax policies applied by the Company in 2017, which were set out by the then Managing Director and now the CEO, before the financial statements were drawn up. Subsequently, at a meeting on 19 July 2017 the Audit Committee was informed by the Finance Director of the tax policies applied by the Company for the filing of the 2017 income tax return.

Furthermore, in accordance with specifically applicable regulations, BME Clearing has a Compliance Verification Unit tasked with supporting BME Clearing and its Board of Directors in meeting its objectives by implementing regulatory compliance control procedures which help provide services that are responsible and compliant with EMIR rules and Delegated Regulation (EU) No 153/2013.

The Board, through the Audit Committee, is responsible for ensuring that the BME Group's internal control and risk management systems, including tax risk, are efficient, as set out in article 19 of Board Regulations, which, among other matters, stipulates that the Audit Committee shall be authorised to *"supervise the efficiency of the Company's internal control and risk control systems, including tax risks. To this end, at least once a year it shall supervise the control and risk management systems to ensure that the main risks are properly identified, managed and reported, and shall discuss with the auditors or audit firms or experts appointed for that purpose any significant weaknesses detected in the auditing process."*

The Board of Directors determined the Company's tax strategy, in accordance with the provisions of article 529 ter of the Companies Act, and subsequently, at a meeting on 30 July 2015, it updated the tax policies applicable to BME, which set out the principles of tax strategy and had been approved since it embraced the Code of Best Tax Practices.

The Audit Committee is supported in its role of supervising the IRMS by the BME Group's Internal Audit Department. Thus, the regulations for the BME Group Internal Audit Service state that, among its functions, the Internal Audit department shall: *"… oversee the proper functioning of the internal control and risk management systems, and keep informed the Board of Directors, through its Audit Committee and senior management of BME, through the Risk Committee, on the adequacy and effectiveness of the procedures, norms, policies and instructions established by Group companies to ensure the proper functioning of these systems".*

# F) INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

**F.1 The entity's control environment**

Specify at least the following components with a description of their main characteristics:

**F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.**

As stipulated in articles 25 of the Articles of Association and 7 of the Board of Directors' Regulations, the Board of Directors is the Company's most senior governing and administrative body, and shall undertake, among other responsibilities, supervision of the transparency and veracity of Company information in its relations with shareholders and with the markets in general, identification of the principal risks affecting the Company, including tax risks, and supervision of internal control systems. The BME Group has defined an Integrated Risk Management System (IRMS), into which it incorporated the Internal Control over Financial Reporting (ICFR) system, after this had been approved by the Risk Committee.

As stipulated in article 7 of the Board of Directors' Regulations, the Board of Directors shall entrust the management of the Company's ordinary business to its delegate bodies, its executive members and the senior management team. In line with this delegation of management to senior management, the BME Group's finance department is responsible for the design, introduction and functioning of the ICFR.

The Board of Directors, through the Audit Committee, is the body responsible for ensuring the effectiveness of the Company's internal control and the BME Group's risk management systems, including tax risks, which includes supervising the IRMS, including the ICFR, as per article 19.2.e) of the Board of Directors' Regulations. This article, among other issues, stipulates the Audit Committee shall be authorised to *"supervise the effectiveness of the Company's internal control and risk control systems, including tax risks. To this end it shall supervise, at least on an annual basis, the risk control and management systems, in order to ensure that the main risks are identified, managed and properly made known, and shall discuss with the auditors or, where applicable, any experts that may be designated for this task, any significant weaknesses in the internal control system detected in the course of the audit."*

The Internal Audit Department of the BME Group plays a key role in carrying out the functions delegated to it by the Audit Committee with regard to monitoring IRMS and, particularly, ICFR. Thus, the regulations for the BME Group Internal Audit Service state that, among its functions, the Internal Audit department shall: *"... oversee the proper functioning of the internal control and risk management systems, and keep informed the Board of Directors, through its Audit Committee and senior management of BME, through the Risk Committee, on the adequacy and effectiveness of the procedures, norms, policies and instructions established by Group companies to ensure the proper functioning of these systems with respect to the achievement of goals related to:*

- *Effectiveness and efficiency of resources and operations.*
- *Reliability of financial and operational information; and*
- *Compliance with applicable laws and other regulations".*

**F.1.2 The existence of the following components, especially in connection with the financial reporting process:**

- **The departments and/or mechanisms in charge of: (i) designing and reviewing the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

The BME Group is a group of companies under coordinated management divided into six Business Units (Equities, Derivatives, Clearing, Fixed Income, Settlement and Registration, Information & Added-Value Services) and seven Corporate Areas (Human Resources, Technology, Finance, Corporate Communication, International Relations, General Secretary and the Secretary of the Board of Directors and Legal Consultancy).

By virtue of the provisions of article 7.4 of Board Regulations, the Board of Directors is responsible for approving the financial information that must periodically be disclosed because it is a listed company, and the process of drawing up and presenting this information is supervised by the Audit Committee, as stipulated in article 19.2 of the aforementioned Regulations.

As noted above, the Board of Directors shall entrust the management of the Company's ordinary business to its delegate bodies, its executive members and the senior management team, focusing its activity on the general responsibility of stimulating, directing and supervising matters of particular significance for the Company, undertaking, among other duties, to stimulate and supervise senior management, establishing the basis of the corporate organisation in order to ensure maximum efficiency.

To this end the BME Group has various procedure manuals which clearly establish the allocation of tasks and levels of responsibility and authority in the preparation of financial information. These manuals have been distributed to all employees involved in preparing relevant financial information, including all companies of the Group. With this framework, the BME Group endeavours to guarantee, among other aspects, that the established organisational structure offers a consistent ICFR model.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

The Company has a Code of Conduct in place for the BME Group and an Internal Code of Conduct, approved by the Board of Directors..

The BME Group Code of Conduct was approved by the Board of Directors on 29 November 2012 as part of the system for the prevention of criminal risks, and comprises the ethical principles and conduct with which all BME Group directors, legal representatives, managers and employees must comply. The Code of Conduct lays down the general guidelines for conduct of all those affected by the Code and describes the guidelines for conduct in specific situations, including the fulfilment of accounting and tax obligations and compliance with internal controls in this regard.

In conjunction with the BME Group Code of Conduct, the Internal Code of Conduct lay down the principles and framework of action for the Company and its Group with respect to the securities markets. Employees have permanent access to the Code of Conduct and the Internal Code of Conduct in internal regulations and on the Group's intranet in the Online Human Resources section under "Code of Conduct", where they are requested to acknowledge that they have read them.

The main points covered in the Code, as well as how training is given, are as follows:

- Individuals included.
- Actions included and securities affected.
- General principles of conduct.
- Conflicts of interests.
- Use of information.
- Transactions.
- Special rules regarding insider information.
- Material information.
- Rules on the management of treasury stock.
- Non-compliance.
- Entry into force and transitional provisions.

The BME Group also has a *Declaration of Ethical Values for the preparation of financial information*, approved by the Risk Committee at a meeting on 13 February 2012, and applicable to all BME Group employees.

The declaration of ethical values establishes the rules of conduct to which all employees must adhere and the ethical principles related to the preparation of financial information, on the following principles:

"[...]

*- Independencia: los empleados adoptarán una permanente actitud de objetividad e independencia en el desempeño de las diferentes actividades que el Grupo desarrolla, no solamente observando todas aquellas normas que resultan de aplicación sino también evitando situaciones en las que, por un posible conflicto de interés o cualquier otra circunstancia, la imparcialidad de criterio y objetividad pudieran verse afectadas.*

- *Independence: employees shall adopt a permanent attitude of objectivity and independence in the performance of their various activities within the Group, not only observing all applicable guidelines but also preventing situations in which, due to a possible conflict of interests or any other circumstance, impartiality and objectivity could be affected.*

- *Completeness: employees shall demonstrate honesty and rigour when carrying out tasks concerning the preparation of financial information and shall not be influenced by external factors which may affect their professional judgment, and shall ensure that the criterion is maintained at all times and that the information is treated impartially and comprehensively.*

- *Responsibility: employees shall use their technical and professional skills when handling and preparing financial information. They shall be responsible for obtaining the necessary capacitation in order to carry out their duties to the best of their ability.*

  *Likewise, they shall be subject to applicable legislation regarding financial reporting and shall respect the procedures established internally. They shall record transactions accurately and maintain the same criteria for all files and records required.*

- *Professionalism and dedication: employees shall comply with the professional standards, laws and the rules and regulations applicable to each case and avoid any situation which might jeopardise the prestige of the Group or its professionals.*

  *Likewise, they shall endeavour to do not only what is lawful, but also what is right and proper.*

- *Confidentiality: employees are bound by professional secrecy and strict confidentiality when handling financial information to which they are privy in the course of their work.*

*[...]"*

- **Whistleblowing channel, to report to the Audit Committee any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Article 19.2.c) of Board Regulations outlines, inter alia, the responsibilities delegated to the Audit Committee concerning the establishment and supervision of: "[...] the instruments to enable Company personnel to anonymously report any irregularities in the internal control and risk management systems. [...]"

In accordance with the abovementioned article, at a meeting on 25 January 2007, with prior approval by the Audit Committee, the Board approved the procedure for notifying deficiencies in the internal control and risk management systems, which is available to all employees on the Group's intranet.

This procedure for notifying deficiencies is a way for all BME Group staff to report possible irregularities detected in the internal control and risk management systems to the Audit Committee, through the Internal Audit Department, anonymously and in writing, via any mail system, in strict confidence at all times.

For practical purposes, for this procedure the Internal Audit Department shall be responsible for (i) keeping a record of all notifications received concerning relevant issues; (ii) analysing all notifications and, if applicable, carrying out the necessary enquiries, verifications and analysis to check the irregularity or deficiency reported; and (iii) informing the Audit Committee of its actions.

In connection with the BME Group's Criminal Risk Prevention System, a Whistleblowing Channel was also set up whereby BME employees and management may report any events that may indicate non-compliances by other employees or management with the policies or procedures operated by the Group, with the Code of Conduct or any other actions which could indicate that an offence has been committed.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which at least address accounting rules, auditing, internal control and risk management.**

The BME Group has a training policy defined by the Human Resources Department aimed at providing a continuous training plan for all staff involved in preparing and reviewing financial information, as well as assessing ICFR.

During 2017, as part of the annual training plan for all BME Group employees, various courses were offered. These courses were internal and external, onsite (offered at the company's various work centres) and online (based on an e-learning/ blended learning methodology for courses which could be offered in this format). The following areas were covered:

- User applications: Training in the software facilitator for task automation.
- Development of skills: Training aimed at developing competences and skills in the workplace.
- Markets and financial assets: Training in the BME Group's markets, assets and business areas.
- IT: Training in the development and perfection of new technologies.
- Specific annual refresher course in accounting regulations for the Finance Department.

Training targets all BME Group employees. In 2017 Group employees received a total of 10,969.50 hours of training, of which440 hours of training were provided in the Financial and Internal Audit Departments.

## F.2 Risk assessment in financial reporting

**Report at least on:**

**F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:**

- **The process exists and is documented.**

The Risk Committee has developed an integrated risk management system (IRMS) based on the methodological framework specified in the COSO II Report. According to the nature of each specific risk, the following lines of action are carried out in parallel:

- Business risks are managed on a decentralised basis; each business unit or corporate area is autonomous, and all units and areas report to the Risk Committee.

- Corporate risks (concerning strategy, finance, regulations, tax, technology, human resources) are managed on a centralised basis, coordinated among the different areas and addressed at corporate level with uniform reporting to the Risk Committee.

To do this, it regularly reviews the most significant matters relating to the Business Units and Corporate Areas, and receives the results from the activities of BME's control functions (Compliance, IT Security and Internal Audit). The Risk Committee is capable of identifying the existence of risks and proposing the implementation of action plans. These plans are reviewed by BME's control functions..

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), and that it is updated, stating the frequency with which it is updated.**

Within the risk identification process, including tax risks, and formalisation of the ICFR, in order to guarantee the reliability of the relevant financial information based on a criterion of defined materiality, and taking into account all the financial information reported and disclosed, the following global objectives of the BME Group have been considered:

a. Existence and occurrence: Transactions, facts and other events presented in the financial information exist in reality and have been recorded at the right time.

b. Completeness: The information includes all transactions, facts and other events in which the Group is the affected party.

c. Valuation: Transactions, facts and other events are recorded and valued in accordance with applicable standards.

d. Presentation, disclosure, and comparability: Transactions, facts and other events are classified, presented and disclosed in the financial information in accordance with applicable standards.

e. Rights and obligations: Financial information shows, at the corresponding date, rights and obligations through the corresponding assets and liabilities, in accordance with applicable standards.

With regard to the preparation and maintenance of the corporate risk map, which includes those relating to ICFR:

- Information concerning each of the global risks identified (necessary for the purposes of management and control), a periodic update is carried out by each risk officer (concerning ICFR, the Finance Department):

- New events are identified; and

- Action plans are rearranged as necessary

The Internal Audit Department evaluates the controls in place and quantifies residual risk.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special-purpose vehicles, holding companies etc.**

As part of the process of identifying and assessing risks in financial reporting, the Group's Finance Department is responsible for identifying and/or modifying the scope of consolidation and assesses the following:

a. the significant influence, if applicable, the Company, individually or in conjunction with the rest of the BME Group companies, has over the company concerned;

b. the percentage of the effective stake held by the BME Group in the company concerned;

c. the activity and corporate purpose; and

d. the existence of a "decision-making unit" in accordance with applicable legislation.

Therefore, in accordance with the provisions of article 7.3.g) of its Regulations, following a report by the Audit Committee pursuant article 19.2j) of this Regulations, with regard to the management guidelines and establishing the basis for the corporate organisation of senior management, the Board is responsible for: *"Approving the creation or acquisition of stakes in exclusively special-purpose vehicles or entities registered in countries or territories considered to be tax havens, and any other transactions or operations of a comparable nature the complexity of which could impair the transparency of the group".*

No complex corporate structures or special-purpose vehicles were identified in 2017.

- **The process addresses other types of risk (operational, technological, financial, legal, tax, reputational, environmental etc.) insofar as they may affect the financial statements.**

The risk identification process takes into consideration both business and support processes, and applications in the preparation of financial information. For the purpose the BME Group has established a **Structure of corporate** risks which includes the following types of risk:

- Operating risk (fraud, IT and administrative errors)
- Market risk.
- Liquidity and solvency risk.
- Credit or counterparty risk.
- Industry risks (regulatory changes, the Group's reputation, sector competition, relations with stakeholders, the political, economic and legal environment.
- Business risks (specific to each Group company).

The BME Group prioritises each of the identified risks, weighting them according to the probability of occurrence (low, moderate, significant and very high) and the impact on the Group should a detected risk turn into a real event (low, moderate, significant and critical).

- **Which of the company's governing bodies is responsible for overseeing the process.**

The Board is responsible for *"determining the risk management and control policy, including tax risks, and overseeing the internal information and control systems, including the process of preparing and submitting regulated financial information"*. To carry out this duty, the Board of Directors has the support of the Audit Committee, to which it entrusts, among others, the task of *"supervising the efficiency of the Company's internal control and risk control, including any tax risks. To this end, at least once a year it shall supervise the control and risk management systems to ensure that the main risks are adequately identified, managed and reported, and shall discuss with the auditors or audit firms or experts appointed for that purpose, any significant weaknesses detected in the auditing process"*.

Ultimately it is the Internal Audit Department which, in accordance with the provisions of the Statute of the BME Group Internal Audit Service, the most recent version of which was amended by the Audit Committee on 27 July 2017, has the following functions, among others: "[...] cooperate with the BME Audit Committee, and in companies listed in Appendix II –BME Clearing, S.A.U. and Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (Iberclear)-, with their respective Boards, in supervision of the effectiveness of the risk management processes and the control mechanisms applicable, by exercising an independent function in line with regulations and professional standards of quality, which help good Corporate Governance and reduce to acceptable levels the possible impact of the risks on the achievement of the Company's objectives. [...]".

## F.3 Control activities

**Indicate the existence of at least the following components, and specify their main characteristics:**

**F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgments, estimates, valuations and projections.**

The preparation of the financial information which is disclosed to the stock market and its subsequent review is entrusted to a suitably defined human and technical team which ensures that this information is precise, true and comprehensive according to current legislation. The procedures for preparing and reviewing financial information have been defined and documented by the Finance Department. Other departments also assist in ensuring that the necessary level of detail is obtained.

Therefore, the procedures for accounting closure and the preparation of the financial statements occasionally rely on key judgments, estimates and assumptions made by senior management to quantify assets, liabilities, revenue, expenses and commitments, which are described in detail in the corresponding financial statements. These estimates are made according to the best available information at the date on which the financial statements are prepared, using generally accepted methods and techniques and data, and observable and contrasted assumptions. In the current year, the following main issues were addressed:

- the assessment of potential impairment losses on certain assets;
- assumptions used in the actuarial calculation of liabilities and commitments for post-employment benefits;
- the useful life of property, plant and equipment and of intangible assets;
- assessment of possible goodwill impairment losses;
- the fair value of certain financial instruments;
- the calculation of provisions;
- the assumptions used to determine variable remuneration schemes based on BME shares; and
- the recognition of deferred tax assets

In order to guarantee the reliability of this financial information, the Finance Department carries out monthly review and closing procedures, such as analysing the adherence to budgets, preparing business performance indicators and analysing the ratios defined by the BME Group.

In 2017, through the Audit Committee, according to the provisions of article 7.4.b) of Board Regulations, the functions of the Board included *“approving the financial information that, due to it being a listed company, must periodically be made public”*, the preparation and presentation of which are supervised by the Audit Committee, as per article 19.2 of said Regulations.

The Finance Department is responsible for determining the relevant financial information, based on quantitative criteria of materiality, and qualitative criteria, taking into consideration all the financial information reported and published in the financial markets. Later, the processes linked to this information are analysed, distinguishing between business processes, support processes and the applications used in preparing the financial information. To this end, the BME Group has descriptive documentation of the activity flow charts relating to the processes, sub-processes and activities linked to this financial information, as well as the main risks and controls associated with these. These are reviewed and updated periodically.

The Internal Audit Department shall *“[...] Revise the reliability and completeness of the financial and operating information, as well as of the means used to identify, evaluate, classify and disseminate this information [...]”, as stipulated in the Statute of the BME Group’s Internal Audit Service.*

### F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The IT systems which support the processes on which the financial information is based are subject to internal control policies and procedures to guarantee the completeness of the preparation and publication of the financial information.

Specifically, policies have been established in relation to:

**Secure access to information:** the process systems which contain the BME Group’s financial information can only be accessed by univocal user IDs which are password-protected in each of the environments. Likewise, permission to access the different environments, applications or operating systems is granted according to types of user and their authorisations. The process of managing users in these systems is based on established procedures using formally established channels.

**Operating and business continuity:** the BME Group has a comprehensive IT Contingency Plan in place (capable of dealing with the most complex situations) to guarantee the continuity of its IT services. There is a back-up centre where copies are automatically generated to guarantee the availability of all information in the event of an emergency. The Company carries out tests to guarantee the correct functioning of its contingency plan.

**Segregation of duties:** the development and operation of the financial IT systems is carried out by a large group of professionals with clearly differentiated and segregated functions. The staff of the business unit in question are responsible for defining the requirements and final validation tests before any system is rolled out. The rest of the duties fall to different persons within the IT area:

- The project leaders carry out functional analyses and manage the development projects, developmental and operational management and integration tests.
- The development teams are in charge of technological design, construction and tests, adhering at all times to the development methodologies defined by the Group. Access to information to resolve incidences must be formally requested and authorised internally.

The IT systems contain user profiles based on the roles of each of the people that require access to them. Staff competent in every application or environment manage these requests and permissions and verify that incompatible permission is not assigned.

**Management of changes:** the BME Group has established mechanisms and policies to ensure that possible failures in the service caused by updates or changes to the IT systems are avoided. There are change and monitoring committees which ensure that the established management procedures for changes are complied with. These include security measures aimed at mitigating risks. All changes to the systems are carried out by controlled staff, and the changes identified and upgrades indexed to production environments.

**Incident management:** the policies and procedures in this matter are in place to resolve incidents in the shortest time possible. There are incident communication channels and registration tools in place. Efficient incident management is achieved by correctly prioritising and following up incidents according to importance, reducing communication times and, finally, determining problems and identifying suggestions for improvement.

Incident monitoring and improvement plans are reported periodically to the pertinent committees and are aimed at monitoring the service provided.

### F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned to independent experts, when these may materially affect the financial statements:

BME has a **Procedure for managing outsourced activities** which stipulates that the need to outsource activities must be based on the existence of sufficient reasons or legal provisions which justify this need in order for the BME Group to attain its goals or meet legal arrangements. To proceed with the subcontracting/outsourcing, a minimum of two and a maximum of three suppliers shall be considered, whenever possible.

In all cases, the outsourcing of activities and subcontracting to third parties shall be carried out through service contracts between the supplier and the relevant BME Group company, clearly indicating the service to be provided and the means to be used to provide these services. According to the nature or an assessment of the risks identified, the department responsible for subcontracting/outsourcing shall notify suppliers that the service provision contract shall include clauses stating that the staff at the contracted company must comply with BME Group regulations.

Before services can be subcontracted/outsourced, the department responsible for the subcontracting/outsourcing must send the offer and the conclusions of the preliminary risk study to the Legal Department.

The list of BME Group suppliers is revised and, if applicable, updated each year. Likewise, controls implemented by suppliers are monitored.

In order to appraise, calculate or value the services commissioned from independent experts when these may materially affect the financial statements, the Group has a system in place to assess the competence, ability, credentials and independence of independent experts, prior to their selection. When monitoring this appraisal, BME verifies the reasonableness of the assumptions used by the expert, as well as the completeness of the data and the methods used.

## F.4 Information and communication

**Indicate the existence of at least the following components, and specify their main characteristics:**

**F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.**

Responsibility for defining, interpreting and settling doubts or disputes regarding the accounting criteria and policies of the BME Group, among other functions, falls to the Finance Department.

To this end, the BME Group has a Procedures manual which describes the accounting treatment of the different types of transactions which may materially affect financial information. This Procedures manual is updated periodically to include any legislative amendments as well as new transaction types which may require new criteria and accounting policies to be established. Once updated, this procedures manual is made available to all BME Group employees.

Application of accounting policies is established on the basis of the legislative framework applicable to the Company and BME Group companies, set out in the Code of Commerce and other mercantile legislation, in the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and its sector adaptations, in CNMV Circular 9/2008 of 10 December (amended by Circular 6/2011 of 12 December and Circular 5/2016 of 27 July), and in the International Financial Reporting Standards adopted by the European Union, in relation to the BME Group's consolidated financial statements.

**F.4.2. Mechanisms in standard format to capture and prepare financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes, as well as disclosures concerning ICFR.**

The BME Group has mechanisms for the capture and preparation of financial information based on tools of renowned prestige. All BME Group companies use the same tools, guaranteeing completeness, uniformity and correct functioning, as well as the correct preparation of the required financial information and the applicable disclosures.

These tools are segregated into different interconnected layers and are equipped with applications into which data on the operations which take place each day via the different channels (internet, in-house services etc.) are entered. This information is then processed and prepared before being treated by specific back-office systems and segregated according to market and transaction category. This provides reliable and exact information on accounting and the generation of results. The results and calculation of data once the operations have been carried out on the market are automatically transferred to management, reporting and financial consolidation tools which have quality controls to ensure they are reconciled.

## F.5 Oversight of the system's functioning

**Indicate the existence of at least the following components, describing their main characteristics:**

**F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function the competences of which include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge of communicating its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information:**

The internal audit function is carried out by the Internal Audit Department, which is a staff body within BME. It has no executive responsibilities in managing the Group's ordinary businesses and reports directly to the Audit Committee, a BME Board committee.

Article 19.2.c) of Board Regulations assigns responsibility to the Audit Committee to *"supervise the Company's internal audit services, which shall depend on the Audit Committee, reporting to the Board of Directors. To this end, the Committee shall monitor the independence and efficiency of the internal audit functions, proposing the selection, appointment, re-election and termination of the head of the internal audit service, as well as the budget for the service, receiving periodical information in regard to its activities and verifying that senior management takes into consideration the conclusions and recommendations of its reports. It shall also establish and supervise the arrangements whereby Company personnel may anonymously report any irregularities in the internal control and risk management systems."*

The Internal Audit Department compiles, at least, the following reports for the Audit Committee:

- Internal Audit reports: consequences of execution of the department's activities plan. Also, when requested to do so by the Audit Committee and managers of BME Group companies.
- Review of Internal Control over Financial Reporting: assessment of the effective functioning of the Internal Control over Financial Reporting System.
- Annual report on the activities of the Internal Audit service: including information on execution of the review activities carried out and incidents relating to the risks identified in the department's processes.

Also, in accordance with BME's IRMS Methodology, the Risk Committee receives information regarding any risk events, assessment of these events and action plans relating to ICFR that may have materialised.

In turn, the Director of the Internal Audit Department, who attends Risk Committee meetings at which he may speak but not vote, proposes recommendations and suggests the most relevant points of reflection on the IRMS, based on the information provided.

In 2017, the Internal Audit Department undertook annual assessment of ICFR and followed up the extent of response to the recommendations given after the previous year's review. With this assessment, the Internal Audit Department validates the effectiveness of the controls in place, through the performance of various audit tests. These tests basically consist of testing compliance in processes and/or risks classified as having a critical impact, and self-assessment questionnaires or specific tests of the existence thereof and their application for the controls in place for risks that have not been deemed to have a critical impact, or controls of a general nature.

Lastly, in 2017 the Internal Audit Department presented the BME Internal Audit Department's 2018 Activities Plan to the Audit Committee. The Plan focuses on ongoing improvement to the IRMS through suggestions and proposals by the Risk Committee and, mainly, on reviewing those business processes for which ICFR assessment is mandatory under specifically applicable regulations, to assess its functioning and validate its effectiveness.

**F.5.2. State whether a discussion procedure exists whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its Audit Committee or Board of Directors; State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

Article 19 of Board of Directors Regulations stipulates, inter alia, the responsibilities delegated to the Audit Committee in relation to: *"supervising the efficiency of the Company's internal control and risk control system, including tax risks. To this end, at least once a year it shall supervise the internal control and risk management systems to ensure that the main risks are adequately identified, managed and reported, and shall discuss with the auditors or audit firms or experts appointed for that purpose any significant weaknesses detected in the auditing process. To this end it may submit recommendations or proposals to the Board."*

Among its functions, the Audit Committee shall also *"continue to liaise with the external auditors in order to receive information on any issues that might jeopardise their independence for examination by the Committee and any others connected with the auditing procedure, and, where applicable, authorise services other than those prohibited in the terms stipulated in regulations, and any other communications envisaged in audit legislation and in the technical auditing regulations. The Committee shall also receive information from the external auditors on a regular basis regarding the audit plan and the results of its execution, ensuring that the auditors' recommendations are taken into consideration by senior management. The Committee shall also monitor compliance with the regulations in force concerning the provision of services other than auditing, the limits in regard to business concentration of the auditor and, in general, any other rules aimed at ensuring the auditors' independence. In this regard, each year the external auditors shall issue written confirmation of their independence vis-à-vis the Company, as well as detailed individual information on any other type of service provided and the related fees received by the external auditors or persons or entities related thereto."*

In this regard, the Audit Committee met on 8 occasions in 2017. The external auditors were called to meetings of the Audit Committee at which the financial information of both BME and its Group companies was reviewed.

## F.6 Other relevant information

## F.7 External audit report

**State whether:**

**F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case, the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

Pursuant to the recommendation in the *Guidelines for Action on the report by the auditor concerning the Internal Control over Financial Reporting on listed companies*, as published on the CNMV's website, the Company submitted the contents of information on the system for Internal Control over Financial Reporting for review by the auditors. This report shall be included as an Appendix to this Annual Corporate Governance Report.

## G) DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the company's degree of compliance with the recommendations of the Good Governance Code of listed companies:

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable

**1. The articles of association of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

X **Complies** ◯ **Explain**

**2. When a parent and a subsidiary are both listed, they should provide detailed disclosures on:**

**a) The activity they engage in, and any business dealings between them, as well as between the listed subsidiary and other group companies.**

**b) The mechanisms in place to resolve possible conflicts of interest.**

◯ **Complies** ◯ **Partially complies** ◯ **Explain** X **Not applicable**

**3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

**a) Changes that have arisen since the previous general meeting.**

**b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

X **Complies** ◯ **Partially complies** ◯ **Explain**

**4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

X **Complies** ◯ **Partially complies** ◯ **Explain**

5. **The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without preferential subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**When a board approves the issuance of shares or convertible securities without preferential subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

X Complies | Partially complies | Explain

6. **Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

a) **Report on auditor independence.**

b) **Reviews of the operation of the audit committee and the appointments and remuneration committee.**

c) **Audit committee report on related-party transactions.**

d) **Report on corporate social responsibility policy.**

X Complies | Partially complies | Explain

7. **The company should broadcast its general meetings live on the corporate website**

X Complies | Explain

8. **The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

X Complies | Partially complies | Explain

9. **The company should disclose its conditions and procedures for accrediting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

**Such conditions and procedures should encourage shareholders to attend and exercise their rights, and should be applied in a non-discriminatory manner.**

X Complies | Partially complies | Explain

**10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

**a) Immediately circulate the supplementary items and new proposals.**

**b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.**

**c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions concerning the direction of votes.**

**d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Complies | Partially complies | Explain | X Not applicable

**11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this regard.**

Complies | Partially complies | Explain | X Not applicable

**12. The board of directors should perform its duties with unity of purpose and independent judgment, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interests, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

**In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.**

X Complies | Partially complies | Explain

**13. Que el consejo de administración posea la dimensión precisa para lograr un funcionamiento eficaz y participativo, lo que hace aconsejable que tenga entre cinco y quince miembros.**

X Complies | Explain

**14. The board should approve a director selection policy that:**

**a) Is concrete and verifiable;**

**b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**

**c) Favours a diversity of knowledge, experience and gender.**

**The results of the prior analysis of board needs should be written up in the appointments committee's explanatory report, to be published when the general meeting is convened to ratify the appointment and re-election of each director.**

**The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.**

**The appointments committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.**

X **Complies** **Partially complies** **Explain**

**15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

X **Complies** **Partially complies** **Explain**

**16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

**a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

**b) In companies with a plurality of shareholders represented on the Board but not otherwise related.**

**Complies** X **Explain**

In 2017, the resignation of Mr. Ramiro Mato García-Ansorena, qualified as proprietary Director since he was appointed to represent the major shareholder BNP PARIBAS, boosted the independence of the Board of Directors.

BME considered that with this increased independence, which was still in place at 31 December 2017, the interests of non-controlling shareholders were perhaps better represented on the Board of Directors, and that the reduction of the percentage of proprietary Directors out of the total number of Board members to 22.22% boosted the level of compliance with this recommendation, since it was gradually moving closer to the equity represented by them, 12.06%.

Additionally, at 31 December 2017 the characteristics of the Board indicating proper representation of the interests of non-controlling shareholders were as follows:

- The considerable number of independent Directors, accounting for 50% of the Board, thereby attaining the degree of independence which Recommendation 17 of the Good Governance Code of Listed Companies considers appropriate for large cap companies, and 66.66% of external Directors.
- A Director qualifying as "other external", bringing the percentage of "non-proprietary" external Directors to 58.33% of total Board members and 75% of external Directors.

- The non-existence on the Board of any major shareholders with disproportionate representation, since a single significant shareholder was represented by two members as the holder of the largest percentage of the Company's equity, 12.06%, and it cannot be understood that this representation gives it a position of control or a majority on the Board

Following the death of Mr. Manuel Olivencia Ruiz in 2018, the level of independence of the Board of Directors was reduced to 45.45% of the total number of Board members, and 62.5% of external Directors.

BME considers that, despite this reduction of the level of independence, the composition of the Board of Directors at the date of approval of this Report ensures that independent Directors have sufficient weight in this body and properly represent the interests of non-controlling shareholders.

**17. Independent directors should be at least half of all board members.**

**However, when the company is not a large cap, or when a large cap company has shareholders individually or concertedly controlling over 30% of capital, independent directors should occupy, at least, a third of board places.**

X **Complies** **Explain**

**18. Companies should disclose the following director particulars on their websites and keep them regularly updated:**

**a) Background and professional experience.**

**b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**

**c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**

**d) Dates of their first appointment as a board member and subsequent re-elections.**

**e) Shares held in the company, and any options on shares.**

X **Complies** **Partially complies** **Explain**

**19. Following verification by the appointments committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the behest of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.**

**Complies** **Partially complies** **Explain** X **Not applicable**

**20. Proprietary directors should resign when the shareholders they represent dispose of their entire ownership interest. They should also resign if the shareholder reduces its stake to a level which requires a reduction in the number of proprietary directors.**

Complies | Partially complies | Explain | X Not applicable

**21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the articles of association, except where they find just cause, based on a proposal by the appointments committee.**

**In particular, just cause shall be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.**

**The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.**

X Complies | Explain

**22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.**

**When a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in the light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.**

X Complies | Partially complies | Explain

**23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.**

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.**

**The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.**

Complies | Partially complies | Explain | X Not applicable

**24.** **Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the reasons should be explained in the annual corporate governance report.**

X Complies | Partially complies | Explain | Not applicable

**25.** **The appointments committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The board regulations should lay down the maximum number of company boards on which directors can serve**

X Complies | Partially complies | Explain

**26.** **The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

X Complies | Partially complies | Explain

**27.** **Directors' absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

X Complies | Partially complies | Explain

**28.** **When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minutes book if the person expressing them so requests.**

Complies | Partially complies | Explain | X Not applicable

**29.** **The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

X Complies | Partially complies | Explain

**30.** **Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

X Complies | Partially complies | Explain

**31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

**For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion shall require the express prior consent, duly minuted, of the majority of directors present.**

X Complies | Partially complies | Explain

**32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

X Complies | Partially complies | Explain

**33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the articles of association, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's CEO; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.**

X Complies | Partially complies | Explain

**34. When a lead independent director has been appointed, the articles of association or board regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those concerning the company's corporate governance; and coordinate the chairman's succession plan.**

Complies | X Partially complies | Explain | Not applicable

The Lead Director has been assigned the powers referred to in the recommendation, except those relating to maintaining relationships with investors and shareholders. These powers of the Lead Director have been enhanced by the Company through the establishment of a Working Group of non-executive Directors, which has approved its own rules of organisation and operation.

The Company considers that the eminently independent nature of the Lead Director, required for the role as leader of the Company's external Directors, and consequent lack of involvement in the effective management of the Company, justifies the role of maintaining contact with investors and shareholders not being assigned to this Director.

In this regard, the Company considers that its structure for communicating with investors and shareholders, with an Investor Relations Department staffed by people with a deep, detailed and well-founded knowledge of the economic and financial position of the Company, the Company's projects, its day-to-day activity etc., is adequate and allows the Company to be aware of the opinions and concerns of shareholders and investors regarding any aspect of the running of the Company, including any aspects concerning corporate governance.

Thus, the Investor Relations Department, which reports to the CEO, is entrusted with, among other duties, reporting to management the concerns, queries and suggestions of the shareholders and investors with whom it maintains permanent contact. Should these concerns affect matters of corporate governance, the Investor Relations Department can rely on the General Secretary and the Secretary of the Board of Directors, and is assigned the task of ensuring that the decisions of the Board of Directors take into account the recommendations in matters of corporate governance and, where appropriate, actively participates in meetings with investors and shareholders to explain the Company's corporate governance structure.

All of the above is irrespective of whether, when considered appropriate, the Lead Director maintains contact with investors and shareholders in matters which are deemed beneficial for the Company.

**35. The board secretary should strive to ensure that the board's actions and decisions are informed by the recommendations of the Good Governance Code applicable to the company.**

X **Complies** **Explain**

**36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

**a) The quality and efficiency of the board's operation.**

**b) The performance and membership of its committees.**

**c) The diversity of board membership and competences.**

**d) The performance of the chairman of the board of directors and the company's chief executive.**

**e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

**The evaluation of board committees should be based on the reports they send to the board of directors, while that of the board itself should be based on the report by the appointments committee.**

**Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.**

**Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.**

**The process followed and areas evaluated should be detailed in the annual corporate governance report.**

**Complies** X **Partially complies** **Explain**

The Board conducts an annual assessment of the efficient functioning and quality of the work carried out by the Board and its Committees, and also of the performances of the Board Chairman and the Company's CEO, as laid down in article 10 of its Regulations.

Additionally, in 2015 BME implemented this recommendation ahead of time by engaging an independent expert to assess the structure, composition and functioning of the Board of Directors and its Committees.

The only part of the recommendation which the Company does not follow is that relating to the Board's assessment, once a year and individually, of the performance and contribution of each Director, on the grounds that, during the period for which they form part of the Board, individual assessments of the Directors are carried out with sufficient frequency, as detailed below:

Thus, it should be taken into account that the extensive professional experience offered by the members of the Board of Directors, analysed in detail by the Appointments and Remuneration Committee prior to the proposal for their appointment to the Board of Directors in the case of independent or "other external" Directors, or to the issuance of the corresponding report for the other types of Director, is a sufficient initial guarantee of the quality of the services that the Director shall provide.

Following this initial assessment, and as established in article 22, section 2, of the Board of Directors' Regulations, the quality of the services provided and the dedication of each of the Directors is assessed by the Appointments and Remuneration Committee and by the Board of Directors, in the corresponding re-election or ratification proposals, and also in any cases where a proposal is submitted for their appointment to a position on the Board or one of its Committees.

In this regard, the proposal of the Appointments and Remuneration Committee in the case of independent Directors and Directors classified as "other external" or, in all other cases, the report individually assesses the services provided by the Directors during their previous term and their dedication both on the Board and, where appropriate, on the Committees of which they form part.

Following the proposal or report by the Appointments and Remuneration Committee, the Board of Directors, in the justifying report that must be approved in accordance with that established in article 529 decies, section 5 of the Companies Act, and article 22, section 1 of Board Regulations, also assesses the performance of the duties of the Director whose re-election is proposed to the General Shareholders' Meeting.

**37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

X **Complies** | **Partially complies** | **Explain** | **Not applicable**

**38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

X **Complies** | **Partially complies** | **Explain** | **Not applicable**

**39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management. A majority of committee places should be held by independent directors.**

X **Complies** | **Partially complies** | **Explain**

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

**Complies** | X **Partially complies** | **Explain**

Article 19, section 2.c) of Board Regulations makes the Audit Committee responsible for "supervising the Company's internal audit services, which shall report to the Audit Committee", and lists the main supervisory tasks in relation to internal audit.

The purpose, authority and responsibility of the Internal Audit function in the Company is defined in the "Regulations for the BME Group Internal Audit", which states that the Internal Audit Department is a staff body within BME, without executive responsibilities in managing the group's ordinary businesses and reporting directly to the Audit Committee.

BME considers that what is established in the aforementioned regulation with regard to the authority of the Internal Audit Department is a sufficient guarantee of the independence with which it can act, and that the fact that this Department reports functionally to the Chairman of the Audit Committee does not grant it a higher degree of autonomy to carry out its duties.

**41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation, and submit an activities report at the end of each year.**

X **Complies** | **Partially complies** | **Explain** | **Not applicable**

**42. The audit committee should have the following functions over and above those legally assigned:**

**1. With respect to internal control and reporting systems:**

**a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate boundaries of the scope of consolidation, and the proper application of accounting principles.**

**b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular reports on its activities; and verify that senior management is acting on the findings and recommendations of its reports.**

**c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.**

**2. With regard to the external auditor:**

**a) Investigate the issues giving rise to the resignation of the external auditor, should this occur.**

**b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.**

**c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.**

**d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.**

**e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.**

X **Complies** | **Partially complies** | **Explain**

**43. The Audit Committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.**

X **Complies** | **Partially complies** | **Explain**

**44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the swap ratio proposed.**

X **Complies** | **Partially complies** | **Explain** | **Not applicable**

**45. Risk control and management policy should identify at least:**

**a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.**

**b) The determination of the risk level the company sees as acceptable.**

**c) The measures in place to mitigate the impact of identified risk events, should they occur.**

**d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.**

X **Complies** | **Partially complies** | **Explain**

**46. Companies should establish a risk control and management function entrusted to one of the company's internal departments or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:**

**a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**

**b) Participate actively in the preparation of risk strategies and in key decisions about their management.**

**c) Ensure that risk control and management systems are mitigating risks effectively in accordance with the policy drawn up by the board of directors.**

**Complies** | **Partially complies** | X **Explain**

BME considers that operation of the control and risk management systems and the preparation of the risk strategy are matters that must correspond to the Company's senior management and to the people who form part of its workforce and are experts in the management of the risks to which its activity is subject, without the direct monitoring of this duty being assigned to the Audit Committee or any other specialised Committee of the Board.

BME considers that the Audit Committee must monitor the effectiveness of the defined internal control and risk control systems, implemented and processed by the Company's executive team, and in the scope of this supervision shall be aware of any weaknesses that may be detected by the internal and external auditors in these systems and, in these cases, shall discuss and propose the adoption of the measures deemed appropriate to solve them.

Moreover, with regard to the structure of BME as a holding company and the high specialisation of the activities carried out in each of the companies forming part of the Group, BME has considered it more appropriate that the internal control and risk management function be undertaken in a decentralised manner, as described below.

In this regard, BME has implemented a risk control system in accordance with international standards and adopted the COSO II Report as the methodological reference framework, with which the Company's risks are managed in an efficient and prudent manner. To define this risk control system, which is detailed in section E of this Report, the strong specialisation of activities performed in the Group has been considered, which has made it advisable that, given the different nature of the risks, the decentralised management of the business risks, which are managed by each Business Unit, coexists with the centralised management of corporate risks (strategic, financial, regulatory, technological, and human resources), risks that are all coordinated by the Risk Committee, reporting to the Management Committee.

The Risk Committee keeps the Board of Directors informed, through the Audit Committee, of all actions carried out when implementing the control and risk management policy, in order for these bodies to be able to undertake the duties attributed to them by law for supervising the effectiveness of the Company's internal control and the internal control systems implemented within the Group.

BME considers that this structure ensures that the Company's risks are suitably identified, managed and quantified, and allows the Audit Committee and the Board to successfully carry out their functions of monitoring the internal control and risk management systems.

**47. Members of the appointments and remuneration committee or of the appointments committee and remuneration committee, if these are separate committees, should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.**

Complies | X Partially complies | Explain

BME complies with the first part of the recommendation, since all members of this Committee were appointed with the knowledge, aptitudes and experience suited to the duties they carry out.

At 31 December 2017 the Appointments and Remuneration Committee was composed of four (4) members, of which two (2) qualified as independent external Directors, one (1) as "other external Director" and one (1) as external proprietary Director. This composition is maintained in 2018 following the death of Mr. Manuel Olivencia Ruiz and the appointment of a new member qualifying as an independent Director.

This composition of the Appointments and Remuneration Committee meets the requirements of current regulations, and independent Directors do not constitute a majority.

In relation to the appointment of Mr. Santos Martínez-Conde y Gutiérrez-Barquín as a member of the Appointments and Remuneration Committee, consideration was given to his wide knowledge and professional experience as the CEO of a listed company and member of the Board at the a number of companies, aspects which were seen as beneficial for the proper exercise of the functions with which this Appointments and Remuneration Committee is tasked, and it was also considered that, despite the reduction in the percentage of independent directors which this appointment entailed, from 66.66% to 50%, this would not jeopardise the criteria of independence which must take priority in analysis and discussion of issues within its remit.

Furthermore, although there has never been any need to exercise this, it should be pointed out that article 20, section 3 of Board Regulations grants the Chairman of the Appointments and Remuneration Committee, qualifying as an independent external Director, the casting vote in the event of a tie for the adoption of agreements.

**48. Large cap companies should operate separate appointments and remuneration committees.**

Complies | Explain | X Not applicable

**49. The appointments committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.**

X Complies | Partially complies | Explain

**50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:**

**a) Propose to the board the standard conditions for senior officer contracts.**

**b) Monitor compliance with the remuneration policy set by the company.**

**c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**

**d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**

**e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

X **Complies** **Partially complies** **Explain**

**51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.**

X **Complies** **Partially complies** **Explain**

**52. The terms of reference of supervision and control committees should be set out in the board of directors' regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

**a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**

**b) They should be chaired by independent directors.**

**c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide reports on their activities and work at the first board plenary following each committee meeting.**

**d) They may engage external advice, when they feel it necessary for the discharge of their functions.**

**e) Meeting proceedings should be minuted and a copy made available to all board members.**

**Complies** X **Partially complies** **Explain** **Not applicable**

Article 33 of the Articles of Association establishes the Board's Markets and Systems Operating Procedures Committee, to which article 37 of the Articles of Association assigns the responsibility of monitoring the matters relating to the efficiency and correct operation of the markets and systems managed by the BME Group; the application to BME, the companies of its Group and its main shareholders of the normal market conditions and the principle of equal treatment in its transactions in those markets and systems managed by BME; and the implementation of the Internal Code of Conduct.

The composition and operation rules for this Committee, established in the Board of Directors' Regulations and implemented through its own regulations approved by the Board of Directors at a meeting on 25 January 2007, follow sections c), d) and e) of the recommendation.

The composition requirements established in sections a) and b) of the recommendation are not followed insofar as an executive Director forms part of this Committee and also holds the position of its Chairman.

BME considers that given the specialised duties assigned to this Committee, what must be taken into account as a priority when appointing the members of the Board of Directors to serve on it is knowledge of the operation of the markets and systems managed by BME and the Group companies and professional experience in fields directly related to the operation of the financial and securities markets, given that this knowledge and experience shall enable the Committee to better carry out the functions attributed to it in the interests of the Company.

**53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at least the following functions:**

**a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**

**b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**

**c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, for the legitimate interests of remaining stakeholders.**

**d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**

**e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.**

**f) Monitor and evaluate the company's interaction with its stakeholder groups.**

**g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**

**h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

| | | |
|---|---|---|
| Complies | X Partially complies | Explain |

The Appointments and Remuneration Committee has been assigned responsibility for monitoring compliance with the corporate governance rules, under the terms established in this recommendation.

Supervision of the monitoring of the internal codes of conduct, in particular of the Internal Code of Conduct, has been assigned to the Markets and Systems Operating Procedures Committee, since it is considered that compliance with the standards of conduct in the securities markets must be supervised by a committee with a high level of professionalism and knowledge of the markets and systems within which the Group's companies operate, a degree of knowledge that is the primary factor to be considered in the appointment of the members of the Markets and Systems Operating Procedures Committee.

Notwithstanding the foregoing, the new Internal Code of Conduct of BME and Group companies, which came into force on 1 January 2018, attributed the Audit Committee, with a major of independent members, including its Chairman, competences to process and, where applicable, impose penalties for non-compliance with the Internal Code of Conduct by members of the Board of Directors and persons with managerial responsibilities.

Moreover, the absence of a corporate social responsibility policy referred to in the explanation of Recommendation 54 implies that, in practice, its compliance may not be supervised by any Committee. Notwithstanding the foregoing, the Board of Directors' Regulations assign to the Executive Committee supervision of the monitoring of the corporate social responsibility strategy and practices, including the assessment of the processes relating to the different stakeholders; and the assessment of any matters relating to the non-financial risks of the Company, including operational, technological, legal, social, environmental, political and reputational risks, as well as coordination of the process for disclosing non-financial information.

**54. The corporate social responsibility policy should state the principles or commitments the company shall voluntarily adhere to in its dealings with stakeholder groups, specifying at least:**

**a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**

**b) The corporate strategy with regard to sustainability, the environment and social issues.**

**c) Specific practices in matters concerning: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.**

**d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**

**e) The mechanisms for supervising non-financial risk, ethics and business conduct.**

**f) Channels for stakeholder communication, participation and dialogue.**

**g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

**Complies** | **Partially complies** | X **Explain**

BME considers that corporate social responsibility forms part of its overall strategy and the daily management of the Group, and does not consider it necessary to define a corporate social responsibility policy in the terms of this recommendation.

In this regard, BME and the Group's companies carry out their activity efficiently, manage the financial markets and systems strictly complying with both domestic and national legislation, and in particular, the economic, social and environmental legislation, as well as with the codes which it voluntarily embraces.

BME has also defined its basic principles of action in the Corporate Social Responsibility Report, which is approved and published annually, and has taken into account the needs and priorities of the different market agents, as well as society in general as the ultimate beneficiary when financial markets and, by extension, the economy, operate properly

**55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

X **Complies** | **Partially complies** | **Explain**

**56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgment of non-executive directors.**

X **Complies** | **Explain**

**57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

**The company may consider the share-based remuneration of non-executive directors, provided they retain the shares until the end of their term. This condition, however, shall not apply to shares that the director must dispose of to defray costs related to their acquisition.**

X Complies | Partially complies | Explain

**58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.**

**In particular, variable remuneration items should meet the following conditions:**

**a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**

**b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**

**c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This shall ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

X Complies | Partially complies | Explain | Not applicable

**59. A major portion of variable remuneration components should be deferred for a period which is long enough to ensure that predetermined performance criteria have effectively been met.**

X Complies | Partially complies | Explain | Not applicable

**60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce the amount.**

X Complies | Partially complies | Explain | Not applicable

**61. A major portion of executive directors' variable remuneration should be linked to the award of shares or financial instruments the value of which is linked to the share price.**

X Complies | Partially complies | Explain | Not applicable

**62. Following the award of shares, share options or other rights on shares arising from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition shall not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Complies | Partially complies | X Explain | Not applicable

The Directors' Remuneration Policy includes, among other items in relation to the system of remuneration for executive Directors, medium-term and long-term variable remuneration the purpose of which is to boost their commitment to Company shareholders. This is paid in the medium/long-term Variable Remuneration Plans described in section A.3 of this report.

These medium/long-term Variable Remuneration Plans entail the allocation of theoretical units in a financial year, and stipulate that any shares to be received if the targets set are achieved shall be awarded by the Company when the three-year measurement period has elapsed.

BME considers that these characteristics of medium-term and long-term remuneration established in the Remuneration Policy and laid down in the current Share-based Variable Remuneration Plans include a clear element of deferral which allows the actual achievement of targets to be verified, and it is unnecessary to establish any additional retention periods.

**63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Complies | X Partially complies | Explain | Not applicable

The Directors' Remuneration Policy approved by the Ordinary General Meeting held on 27 April 2017 includes, among the main conditions of the "Contract for Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, a recovery or "claw-back" clause whereby, in certain circumstances, within a period of two years following payment, BME may demand that the CEO return the amounts paid as annual variable remuneration and shares received pursuant to the medium/long-term remuneration plans.

This recovery or "claw-back" clause was included in the "Contract for Director with executive functions" signed by the Company and the CEO, following unanimous approval by the Board of Directors, with no involvement by the CEO, pursuant to the provisions of article 249 of the Companies Act.

The contractual conditions for the Chairman, including the conditions of remuneration, were established prior to approval of the Good Governance Code of Listed Companies, and do not include clauses for recovery or "claw-back".

Regardless of the foregoing, as stated in the explanation provided for the above recommendation and described in the Directors' Remuneration Policy approved by the Ordinary General Meeting on 27 April 2017, the variable remuneration of Directors qualifying as executives, among whom the Chairman, has a considerable medium/long-term component linked to the delivery of shares.

This remuneration materialises in successive Remuneration Plans with a deferred component to demonstrate effective long-term compliance with the objectives set, and it is unnecessary to establish any clauses to claim repayments.

**64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Complies | X Partially complies | Explain | Not applicable

The conditions for the departure of the Chairman were established through a resolution by the 2006 Ordinary General Shareholders' Meeting, prior to the approval of these recommendations in the Good Governance Code of Listed Companies.

The Directors' Remuneration Policy approved by the Ordinary General Meeting on 27 April 2017 includes, among the main conditions of the "Contract for Director with executive functions" signed by BME and Mr. Javier Hernani Burzako, the severance pay to be received by the CEO, which is limited to the greater of the following two amounts: (i) an amount equivalent to two years' fixed and annual variable remuneration existing at the moment of termination of the employment relationship as CEO or (ii) the legal compensation pursuant to the Employment Statute at that time for any dismissal considered unfair.

This clause was included in the "Contract for Director with executive functions" signed by the Company and the CEO, following unanimous approval by the Board of Directors, with no involvement by Mr. Javier Hernani Burzako, pursuant to the provisions of article 249 of the Companies Act.

## H) OTHER INFORMATION OF INTEREST

1. **If you consider that there is any material corporate governance aspect of your company or group company that has not been addressed in the other sections of this report and which is necessary to provide a more comprehensive and founded view of the corporate governance structure and practices at your company or its group, explain briefly.**

2. **In this section, you may include any other significant information, clarifications or qualifications related to the above sections of this report that have not already been addressed.**

   **Specifically indicate whether the company is subject to the corporate governance legislation of a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.**

3. **Also state whether the company voluntarily subscribes to other international, sectoral or other codes of ethical principles or standard practices. If applicable, identify the code and date of adoption. In particular, state whether the company has complied with the Good Tax Practices Code of 20 July 2010.**

Pursuant to the Code of Best Tax Practices approved by the Large Businesses Forum, which BME embraced on 30 September 2010, the annual corporate governance reports of companies embracing this Code must include reference to the fact that these companies comply with such practices.

In 2017, in order to comply with the commitments undertaken by the Company through its adhesion to the Code of Best Tax Practices to be applied by the Company approved by the Board of Directors at its meeting on 30 July 2015, at a meeting on 27 February 2017 the Audit Committee was informed and took due note of the fiscal policies applied by the Company, before preparing the financial statements.

At a meeting on 19 July 2017 the Audit Committee was informed of the fiscal policies applied by the Company before filing the income tax return.

**This annual corporate governance report was approved by the company's Board of Directors at a meeting on 27 February 2018.**

**State whether any directors voted against or abstained from voting on the approval of this Report.**

Yes X No

# ADDRESSES AND CONTACTS

## Bolsas y Mercados Españoles (BME)

MAIN OFFICE
Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5000

OPERATIONAL HEADQUARTERS
Tramontana 2 bis, 28230 LAS ROZAS,
MADRID, Spain.
TEL: + 34 91 709 5000
www.bolsasymercados.es

### Bolsa de Madrid

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5000
www.bolsamadrid.es

### Bolsa de Barcelona

Paseo de Gracia, 19,
08007 BARCELONA, Spain.
TEL: + 34 93 401 3555
www.borsabcn.es

### Bolsa de Bilbao

José María Olábarri 1,
48001 BILBAO, Spain.
TEL: + 34 94 403 4400
www.bolsabilbao.es

### Bolsa de Valencia

Libreros, 2 y 4,
46002 VALENCIA, Spain.
TEL: + 34 96 387 0100
www.bolsavalencia.es

### MAB

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 589 2102
www.bolsasymercados.es/mab

### Latibex, Mercado de Valores Latinoamericanos

Tel.: + 34 91 589 11 83
infolatibex@grupobme.es
www.latibex.com

### MEFF

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 50 00
www.meff.com

### BME Renta Fija

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 53 21
www.bmerf.es

### BME Clearing

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 50 00
www.bmeclearing.es

### Iberclear

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5000
www.iberclear.es

### Regis-TR

42 Avenue J.F. Kennedy,
L-1855 Luxembourg,
TEL: + 34 91 709 55 90
www.iberclear.es

### BME Market Data

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5000
www.bmemarketdata.es

### BME Inntech

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5600
www.bmeinntech.es

### BME Regulatory Services

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5840
www.bmeregulatoryservices.es

### Openfinance

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 96 045 4600
www.openfinance.es

## Shareholder's Office

BME General Secretary
Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 589 1306
accionista@grupobme.es

## Investor Relations

Finance Department
Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5163/ 61
investorrelations@grupobme.es

## Human Resources

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5148
rrhh@grupobme.es

## Corporate Communications

Palacio de la Bolsa, Plaza de la Lealtad 1
28014 MADRID, Spain.
TEL: + 34 91 589 1407
newsbme@grupobme.es

## International Relations

Palacio de la Bolsa, Plaza de la Lealtad 1,
28014 MADRID, Spain.
TEL: + 34 91 709 5137
internacional@grupobme.es

BME

BOLSAS Y MERCADOS ESPAÑOLES

www.bolsasymercados.es