

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.



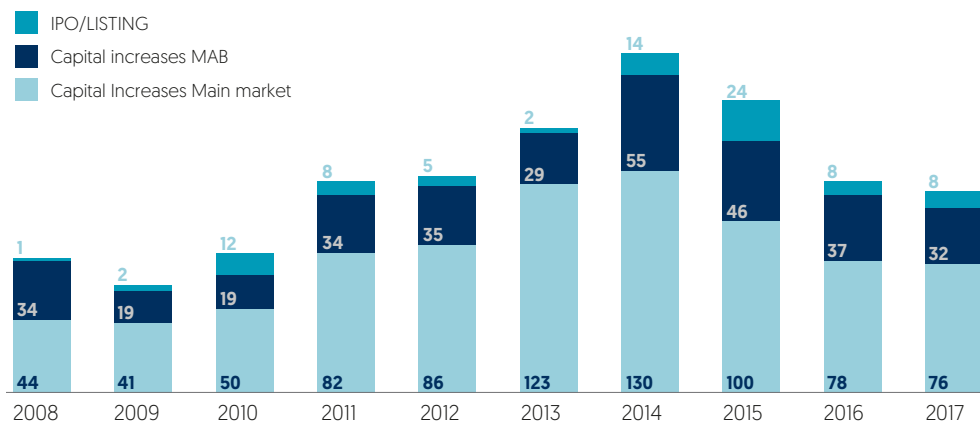
€ 40 billion
in new funding
to listed companies in 2017



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.

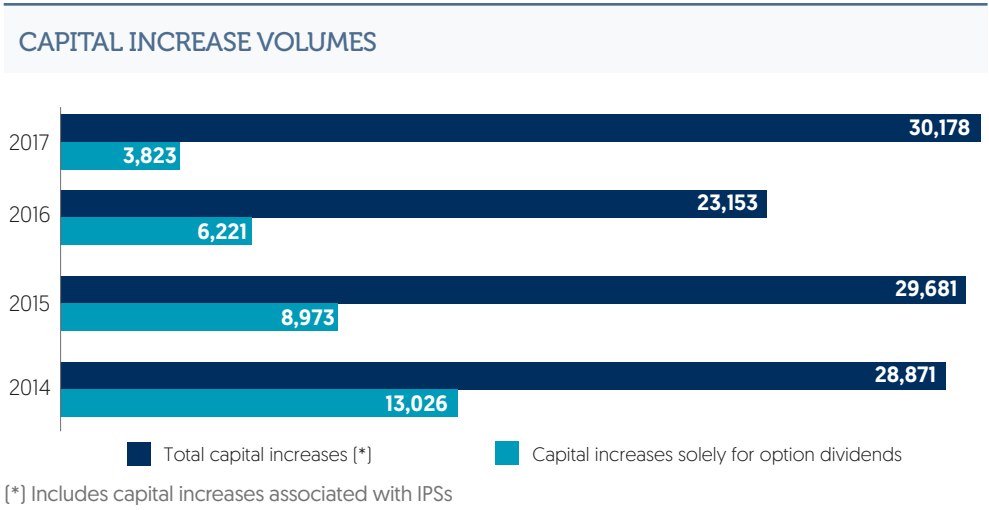
During the year, four companies listed in Spain carried out capital increase transactions with the aim of financing an acquisition. The total amount of these transactions was €8.12 billion, the highest in the last nine years. If we add to this amount the €7.07 billion capital increase of Banco Santander 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.



IPO of elZinc



IPO of Unicaja



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

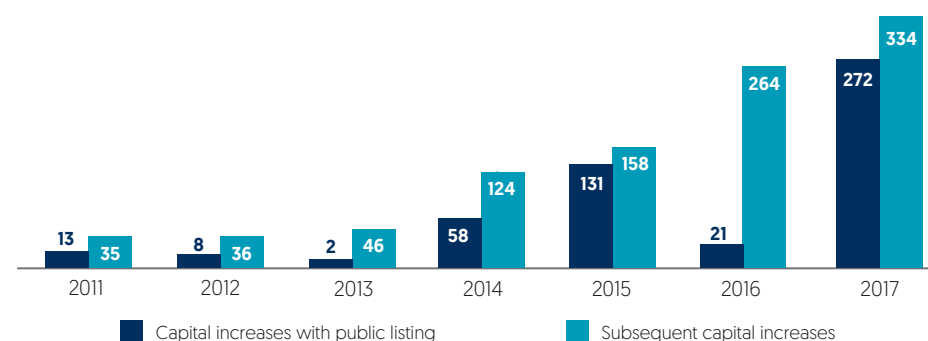
The number of companies in the MAB that continue looking to finance their growth and expansion continues to increase. In 2017, 37 capital increase transactions took place, with proceeds totalling €1 billion.

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).

27 companies listed on the BME markets in 2017



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%

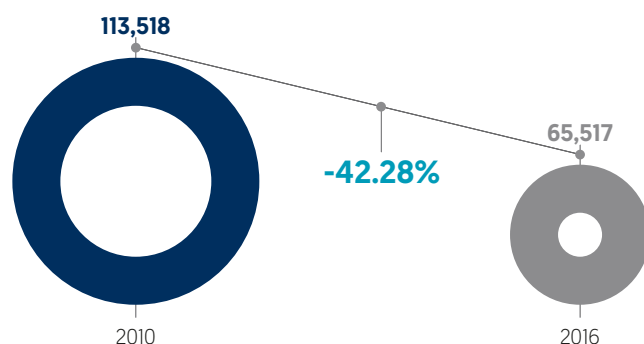
The diversification process of business financing in Spain continues advancing significantly and as such is recognised from the most prestigious levels. In its most recent Annual Report in 2017, the Bank of Spain stated that “there is a process of disintermediation underway in the financing of Spanish 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

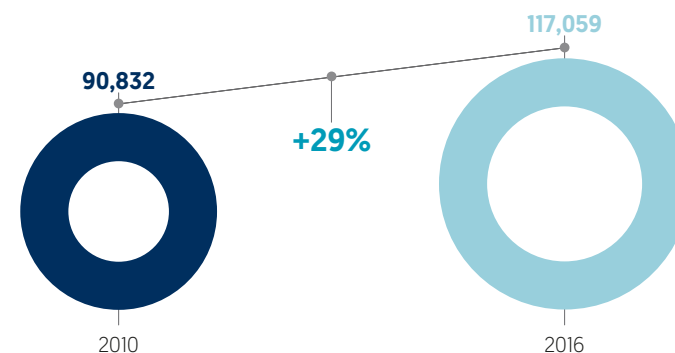
Payables to Credit Institutions of Non-Financial Companies of IBEX 35
(2010 - 2016) Millions of euros at end of 2010-2016 Source: BME Research Department*



[*] 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