BME Clearing, S.A. –
Sociedad Unipersonal

Annual Accounts and Directors' Report for the year ended 31 December 2017,
and the Auditors' Report

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

BME Clearing, S.A. - Sociedad Unipersonal

BALANCE SHEET AT 31 DECEMBER 2017 AND 2016
(Thousands of euros)

ASSETS	Notes	31-12-2017	31-12-2016 (*)	LIABILITIES	Notes	31-12-2017	31-12-2016 (*)
NON-CURRENT ASSETS:		**5,340**	**6,695**	**EQUITY (**):**	**11**	**45,092**	**44,837**
Intangible assets-	**5**	**4,818**	**6,230**	**CAPITAL AND RESERVES:**		**45,092**	**44,837**
Other intangible assets		4,818	6,230	**Capital-**		**18,030**	**18,030**
Property, plant and equipment	**6**	**127**	**182**	Registered capital		18,030	18,030
Plant and other items of property, plant and equipment		127	182	(Uncalled capital)		-	-
Non-current investments	**7**	**180**	**30**	**Share premium**		**-**	-
Deferred tax assets	**13**	**215**	**253**	**Reserves**		**24,475**	**24,493**
				(Own shares and equity holdings)		**-**	-
				Prior years' profit and loss		-	-
				Other equity holder contributions		**1,437**	**1,200**
				Profit/(loss) for the year		**11,751**	**10,768**
				(Interim dividend)		**(10,601)**	**(9,654)**
				Other equity instruments		**-**	-
				VALUATION ADJUSTMENTS:		-	-
				Available-for-sale financial assets		**-**	-
				Hedging transactions		**-**	**-**
				Translation differences		**-**	**-**
				Other valuation adjustments		**-**	**-**
				GRANTS, DONATIONS AND BEQUESTS RECEIVED		**-**	**-**
CURRENT ASSETS		**22,159,005**	**22,558,296**				
Trade and other receivables		**2,296**	**1,514**				
Trade receivables (members				**NON-CURRENT LIABILITIES:**		**211**	**108**
and participants)	16	1,023	1,111	**Non-current provisions**	**12**	**211**	**108**
Receivables from Group companies and associates	16 and 17	258	294				
Other accounts receivable	14 and 16	862	85				
Current tax assets	13	153	24	**CURRENT LIABILITIES:**		**22,119,042**	**22,520,046**
Current investments in Group companies and associates	**17**	**66**	**18**	**Current financial liabilities from transactions -**	**8**	**22,116,277**	**22,517,315**
Current investments (Group)	**8**	**6,723**	**8,922**	Collateral from participants		3,153,196	2,482,899
Current investments from transactions-	**8**	**22,116,300**	**22,517,315**	Financial instruments in CCP		18,934,329	20,025,172
Posting collateral from participants		3,153,196	2,482,899	Payables for settlement		28,752	9,244
Financial instruments in CCP		18,934,329	20,025,172	Cash payables withheld for settlement		**-**	**-**
Receivables for settlement		28,752	9,244	Cash payables for settlement		**-**	**-**
Posting cash withheld for settlement		-	-	**Current payables to Group companies and associates**		**-**	**-**
Securities withheld for settlement		-	-		**13 and 17**	**539**	**627**
Cash receivables for settlement		23	-	**Trade and other payables-**		**2,226**	**2,104**
Current accruals		**63**	**39**	Trade payables	15 and 17	1,376	1,347
Cash and cash equivalents	**10**	**33,557**	**30,488**	Other payables	13 and 14	850	757
TOTAL ASSETS		**22,164,345**	**22,564,991**	**TOTAL EQUITY AND LIABILITIES**		**22,164,345**	**22,564,991**

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

(**) In accordance with article 35 of Regulation 153/2013 (EU) with regard to regulatory technical standards on requirements for central counterparties, the dedicated own resources included in "Equity" at 31 December 2017 and 31 December 2016 amount to €6,000 thousand as set out in the Company's respective Dedicated Own Resources Circulars.

Notes 1 to 21 are an integral part of the balance sheet at 31 December 2017.

BME Clearing, S.A. - Sociedad Unipersonal

INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2017 AND 2016
(Thousands of euros)

	Notes	Financial Year 2017	Financial Year 2016 (*)
Revenue	**16**	**30,155**	**25,666**
Own work capitalised	**5**	**-**	**580**
Other operating income:		**-**	**-**
Non-trading and other operating income		-	-
Variable direct cost of transactions	**16**	**(3,104)**	**(1,238)**
REVENUE		**27,051**	**25,008**
Staff costs:	**14**	**(5,617)**	**(5,082)**
Wages, salaries and similar expenses		(4,542)	(4,180)
Social welfare expenses		(795)	(690)
Provisions and other personnel expenses		(280)	(212)
Other operating costs:		**(4,251)**	**(4,348)**
External services	15	(4,241)	(4,333)
Taxes other than income tax		(10)	(15)
Losses, impairment and changes in trade provisions	15	-	-
Amortisation and depreciation:		**(1,558)**	**(1,164)**
Amortisation	5	(1,492)	(1,087)
Depreciation	6	(66)	(77)
Impairment and gains/(losses) on disposal of non-current assets		**-**	**-**
OPERATING PROFIT (LOSS)		**15,625**	**14,414**
Financial income:		**1,637**	**(9,438)**
Dividends-		-	-
Group companies and associates		-	-
Marketable securities and other financial instruments		1,637	(9,438)
Third parties	8 and 10	1,637	(9,438)
Finance expenses:		**(1,767)**	**9,349**
Third-party borrowings	8	(128)	(68)
Provision adjustments	12	(4)	(3)
Collateral from participants	8	(1,635)	9,420
Exchange gains/(losses)		**-**	**-**
Impairment and gains/(losses) on disposal of financial instruments:		**-**	**-**
Gains/(losses) on disposals and others		-	-
NET FINANCIAL INCOME		**(130)**	**(89)**
PROFIT/(LOSS) BEFORE TAX		**15,495**	**14,325**
Income tax expenses	**13**	(3,744)	(3,557)
PROFIT FOR THE YEAR FROM CONTINUING TRANSACTIONS		**11,751**	**10,768**
Profit/(loss) from discontinued transactions, net of income tax		-	-
PROFIT (LOSS) FOR THE YEAR		**11,751**	**10,768**

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

Notes 1 to 21 are an integral part of the income statement for the year ended 31 December 2017.

BME Clearing, S.A. - Sociedad Unipersonal

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE
(Thousands of euros)

	Notes	Financial Year 2017	Financial Year 2016 (*)
PROFIT/(LOSS) FOR THE YEAR		**11,751**	**10,768**
Measurement of financial instruments-		**-**	**-**
Available-for-sale financial assets		-	-
Other income/(expenses)		-	-
Cash flow hedges		**-**	**-**
Grants, donations and bequests received		**-**	**-**
Actuarial gains and losses and other adjustments	**11 and 12**	**(18)**	**(9)**
Other income and expenses recognised directly in equity		**-**	**-**
Tax effect		**-**	**-**
TOTAL INCOME AND EXPENSES RECOGNISED DIRECTLY IN EQUITY		**(18)**	**(9)**
Measurement of financial instruments-		**-**	**-**
Available-for-sale financial assets		-	-
Other income/(expenses)		-	-
Cash flow hedges		**-**	**-**
Grants, donations and bequests received		**-**	**-**
Other income and expenses recognised directly in equity		**-**	**-**
Tax effect		**-**	**-**
TOTAL AMOUNTS TRANSFERRED TO INCOME STATEMENT		**-**	**-**
TOTAL RECOGNISED INCOME AND EXPENSES		**11,733**	**10,759**

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

Notes 1 to 21 are an integral part of the statement of recognised income and expense for the year ended 31 December 2017.

BME Clearing, S.A. - Sociedad Unipersonal

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017 AND 2016

B) STATEMENT OF TOTAL CHANGES IN EQUITY
(Thousands of euros)

	Capital and reserves									Other Valuation adjustments	Grants donations and bequests received	Total Equity Net
		Share premium, reserves and other										
	Capital	Share Premium	Reserves	Prior years' profit and loss	Other equity holder contributions	Total dividend/share dividend	Equity shares	Results for the year	Other equity instruments			
BALANCE AT 31 DECEMBER 2015 (*)	**18,030**	**-**	**24,502**	**-**	**967**	**(7,324)**	**-**	**7,901**	**-**	**-**	**-**	**44,076**
Adjustments for changes in accounting criteria	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-	-	-	-	-
ADJUSTED BALANCE AT BEGINNING OF FINANCIAL YEAR 2016 (*)	**18,030**	**-**	**24,502**	**-**	**967**	**(7,324)**	**-**	**7,901**	**-**	**-**	**-**	**44,076**
Total recognised income and expense	**-**	**-**	**(9)**	**-**	**-**	**-**	**-**	**10,768**	**-**	**-**	**-**	**10,759**
Transactions with shareholders-	**-**	**-**	**-**	**(577)**	**233**	**(9,654)**	**-**	**-**	**-**	**-**	**-**	**(9,998)**
Capital increases	-	-	-	-	-	-	-	-	-	-	-	-
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	(577)	-	(9,654)	-	-	-	-	-	(10,231)
Transactions with own shares (net)	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Other transactions with shareholders	-	-	-	-	233	-	-	-	-	-	-	233
Other changes in equity	**-**	**-**	**-**	**577**	**-**	**7,324**	**-**	**(7,901)**	**-**	**-**	**-**	**-**
BALANCE AT 31 DECEMBER 2016 (*)	**18,030**	**-**	**24,493**	**-**	**1,200**	**(9,654)**	**-**	**10,768**	**-**	**-**	**-**	**44,837**
Adjustments for changes in accounting criteria	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments for errors	-	-	-	-	-	-	-	-	-	-	-	-
ADJUSTED BALANCE AT BEGINNING OF FINANCIAL YEAR 2017	**18,030**	**-**	**24,493**	**-**	**1,200**	**(9,654)**	**-**	**10,768**	**-**	**-**	**-**	**44,837**
Total recognised income and expenses	-	-	(18)	-	-	-	-	11,751	-	-	-	11,733
Transactions with shareholders-	-	-	-	(1,114)	237	(10,601)	-	-	-	-	-	(11,478)
Capital increases	-	-	-	-	-	-	-	-	-	-	-	-
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-
Distribution of dividends	-	-	-	(1,114)	-	(10,601)	-	-	-	-	-	(11,715)
Transactions with own shares (net)	-	-	-	-	-	-	-	-	-	-	-	-
Increase (decrease) in equity resulting from business combinations	-	-	-	-	-	-	-	-	-	-	-	-
Other transactions with shareholders	-	-	-	-	237	-	-	-	-	-	-	237
Other changes in equity	**-**	**-**	**-**	**1,114**	**-**	**9,654**	**-**	**(10,768)**	**-**	**-**	**-**	**-**
BALANCE AT THE END OF 2017	**18,030**	**-**	**24,475**	**-**	**1,437**	**(10,601)**	**-**	**11,751**	**-**	**-**	**-**	**45,092**

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

Notes 1 to 21 are an integral part of the statement of changes in equity for the year ended 31 December 2017.

BME Clearing, S.A. - Sociedad Unipersonal

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

	Notes	Financial year 2017	Financial year 2016 (*)
CASH FLOWS FROM OPERATING ACTIVITIES:		**12,826**	**10,624**
Profit for the year before tax		**15,495**	**14,325**
Adjustments to profit (loss)		**1,974**	**938**
Amortisation and depreciation	5 and 6	1,558	1,164
Other adjustments to profit/(loss) (net)		416	(226)
Changes in working capital (1)		**(769)**	**(993)**
Other cash flows from operating activities:		**(3,874)**	**(3,646)**
Interest paid	8 and 12	(1,767)	9,349
Dividends received		-	-
Interest received	8 and 10	1,637	(9,438)
Income tax received (paid)	13	(3,744)	(3,557)
Other amounts received/(paid) in operating activities		-	-
CASH FLOWS FROM INVESTING ACTIVITIES:		**1,958**	**(3,451)**
Payments for investments		**1,958**	**(3,451)**
Group companies, jointly controlled entities and associates		-	-
Property plant and equipment, intangible assets and investment properties	5 and 6	(91)	(646)
Other financial assets	7 and 8	2,049	(2,805)
Other assets		-	-
Proceeds from disposals		**-**	**-**
Group companies, jointly controlled entities and associates		-	-
Property plant and equipment, intangible assets and investment properties		-	-
Other financial assets		-	-
Other assets		-	-
CASH FLOWS FROM FINANCING ACTIVITIES:		**(11,715)**	**(10,231)**
Proceeds from and payments for equity instruments		**-**	**-**
Issue of equity instruments		-	-
Redemption of equity instruments		-	-
Acquisition of own equity instruments		-	-
Disposal of own equity instruments		-	-
Grants, donations and bequests received		-	-
Proceeds from and payments for financial liabilities		**-**	**-**
Issue		-	-
Redemptions and repayment		-	-
Dividends and interest on other equity instruments paid	**11**	**(11,715)**	**(10,231)**
EFFECT OF EXCHANGE RATES FLUCTUATIONS		**-**	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**3,069**	**(3,058)**
Cash and cash equivalents at beginning of year	10	30,488	33,546
Cash and cash equivalents at end of year	10	33,557	30,488

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

Notes 1 to 21 are an integral part of the cash flow statement
for the year ended 31 December 2017.

(1) To more clearly present the changes in working capital, the cash flows generated by other current financial assets and liabilities from transactions (Note 8) are included in the statement of cash flow at their net value.

BME Clearing, S.A. – Sociedad Unipersonal

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

1. Company Background

BME Clearing, S.A. - Sociedad Unipersonal (hereinafter the "Company") was incorporated on 7 December 1988 as OM Ibérica, S.A.

In March 1991, the Company changed its name to Mercado de Opciones Financieras Español, S.A. (MOFEX). On 18 December 1991, the Company changed its name again, to MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Variable, S.A. - Sociedad Unipersonal) ("MEFF Renta Variable").

Also on 18 December 1991, Mercado de Futuros Financieros, S.A., (MEFFSA) changed its name to MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Fija, S.A. - Sociedad Unipersonal, ("MEFF Renta Fija").

The changes in corporate name came under the framework of an agreement between the two companies to become management companies of the official markets for derivative financial products, which occurred pursuant to Royal Decree 1814/1991, of 20 December, regulating official secondary markets for futures and options.

Its corporate purpose at that time was to govern and manage the market for futures and options and other equity derivatives, assuming responsibility for the internal organisation and transactions of this market, for which it possessed the resources required. This single corporate purpose was understood to include all the activities required to fulfil the corporate purpose in compliance with the law, especially in respect of regulations governing the markets at any particular time. The Company’s principal activity was the management of the Equity Derivatives Market and the clearing and settlement house from transactions in this market.

In 2010, as a result of the publication of Royal Decree 1282/2010, of 16 October, regulating official secondary markets for futures, options and other derivative financial instruments, the Company amended its Articles of Association, *inter alia*, to include the change in its name to MEFF Sociedad Rectora de Productos Derivados, S.A. – Sociedad Unipersonal and to include in its corporate purpose the performance of activities set forth in Article 59 of the Securities Market Act, as well as those provided by Article 44 ter therein relating to the central counterparty activities stipulated in this Royal Decree. Therefore, its corporate purpose was 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. As a result, the regulations of the official secondary market in futures and options were changed, taking effect on 24 January 2011.

On 22 October 2012, an amendment to the Company’s Articles of Association was authorised to include its new activities as a fixed income securities central counterparty clearing house, transferred from the defunct MEFF Sociedad Rectora de Productos Financieros Derivados de Renta Fija, S.A. - Sociedad Unipersonal to the Company as a result of the takeover by the Company during that year.

In 2013, the Company was involved in a corporate transaction as part of the business restructuring process carried out by the Company and by MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A.- Sociedad Unipersonal (previously BME Gestión de Estudios y Proyectos, S.A.U.) to adapt the corporate structure to European regulations regarding European market infrastructures, specifically Regulation (EU) No. 648/2012 of the European Parliament and of the Council of 4 July 2012 (known as “EMIR”), which required trading activities to be separated from clearing activities.

The proposed restructuring was authorised expressly by the Ministry of Economy and Competitiveness, pursuant to a report issued by the National Securities Market Commission, through Order ECC/1556/2013, of 19 July, authorising MEFF Sociedad Rectora de Productos Derivados, S.A.U. (now BME Clearing S.A. - Sociedad Unipersonal) to separate its trading, counterparty, clearing and settlement functions and to act as a Central Counterparty, as provided for in Article 44.ter.3 of the Securities Market Act of 24/1998 of 28 July.

On 27 June 2013, the Boards of Directors of the Company and MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal, respectively, agreed the partial spin-off of the Company to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal entailing the transfer of the business unit, comprising the assets, technical and human resources necessary to manage the regulated market for derivative products of the Company 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 July 2013, Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A., as the Sole Shareholder of both companies, approved the partial spin-off to MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal, amended its corporate purpose to include interposition on a principal basis with regard to the clearing and settlement of securities or financial instruments as set forth in Article 44 ter of the Securities Market Act and the implementing provisions thereof applicable at any given time, and changed its name to the current BME Clearing, S.A. - Sociedad Unipersonal.

The Company was authorised by the Ministry of Economy and Competition, through Ministerial Order ECC/1556/2013, of 19 July, which was published in the Official State Gazette (Boletín Oficial del Estado) on 14 August 2013, to operate as a central counterparty clearing house, as provided for in Article 44.ter.3 of the Securities Market Act of 24/1998 of 28 July.

In addition, on 16 September 2014, BME Clearing received authorisation to operate as a Central Counterparty (CCP) in compliance with EU Regulation No. 648/2012 of the European Parliament and Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (hereinafter “EMIR”), and was recorded in the European Union's CCP registry overseen by the European Stock Market Authority (ESMA).

Furthermore, on 29 July 2015, the Company received authorisation from the Spanish National Securities Market Commission to broaden its clearing activities once the joint review process carried out by the Association of Regulators set forth in the EMIR Regulation has concluded. The new clearing activities refer to the two new segments: OTC interest rate derivatives and purchase/sale transactions for equity instruments. This is a key element in the reform of the securities clearing and settlement system. Activity in the OTC interest rate derivatives segment began on 30 November 2015 and activity in the equity securities segment, which includes clearing of equity spot trades from the electronic trading platform, began on 27 April 2016.

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

Following the entry into force of the Reform, on 27 April 2016, the Company's activities include clearing of equity spot trades from the electronic trading platform (trades on securities admitted to trading on the Spanish Stock Exchanges and on the MAB and Latibex multilateral trading systems).

On 18 September 2017, the second phase of the Reform of the Spanish securities clearing, settlement and registration system ended, with (a) inclusion in the ARCO Settlement System of those fixed income securities which until now were part of the Clearing and Settlement System for transactions in the book-entry public debt market and the AIAF fixed income market and (b) connection of Iberclear to Target2-Securities technical support, managed by the European Central Bank and the group of eurozone Central Banks.

BME CLEARING has tailored its clearing services in the equity securities segment to adapt to regulatory and operational changes arising from the implementation of this second phase of the Reform, such that, thereafter, trades on fixed income securities cleared in the CCP are settled in the Iberclear ARCO system, using Target2 Securities technical support. The Company's rule book has been changed (valid from 18 September 2017) to include its new activities as a CCP for fixed income and equity securities and financial, interest rate (IRS) and energy derivatives.

Lastly, on 1 June 2017, the Company received authorisation to extend its services as a CCP 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.

The Company's activity is subordinated to the interests of the Bolsas y Mercados Españoles Group, the parent of which is Bolsas y Mercados Españoles, with registered office at Plaza de la Lealtad, 1, Madrid. Bolsas y Mercados Españoles is responsible for preparing the consolidated financial statements. This Group combines all the Spanish companies that administer the registration, clearing and settlement of securities systems and secondary markets. The consolidated financial statements of the Bolsas y Mercados Españoles Group for 2017 were authorised for issue by the Board of Directors at a meeting on 27 February 2018. The consolidated financial statements for 2016 were approved at the General Shareholders' Meeting of Bolsas y Mercados Españoles held on 27 April 2017 and filed at the Madrid Companies Registry.

The Company's registered office is at Plaza de la Lealtad, 1, Madrid, although operationally its headquarters are at Calle Tramontana, 2, Las Rozas, Madrid (Note 4.3).

2. Basis for the presentation of the financial statements

2.1 Financial reporting framework applicable to the Company

The accompanying financial statements were prepared by the Directors in accordance with the financial reporting framework applicable to the Company, as set out in:

a. The Code of Commerce and other mercantile legislation.

b. The Spanish General Accounting Plan approved by Royal Decree 1514/2007 (amended by Royal Decree 602/2016, of 2 December), and its sector-specific modifications and, in particular, Circular 9/2008, of 10 December, issued by the National Securities Commission (Comisión Nacional del Mercado de Valores or "CNMV") (amended by Circular 5/2016, of 27 July, of the CNMV) (section 2.2 of this Note).

c. The mandatory standards approved by the Spanish Accounting and Auditing Institute based on the Spanish General Accounting Plan and supplementary standards thereto and those approved by the CNMV applicable to the Company.

d. All other applicable Spanish accounting standards.

2.2 True and fair view

The accompanying financial statements were obtained from the Company's accounting records and are presented in accordance with the applicable financial reporting framework and, in particular, the accounting principles and criteria contained therein, to give true and fair view of the Company's equity and financial position, and the results of its transactions and cash flows in the year then ended. These financial statements, which were approved by the Company's Board of Directors, will be submitted for approval by the Sole Shareholder. It is expected that they will be approved without modification. The financial statements for 2016 were approved by the Sole Shareholder on 25 April 2017.

The accompanying balance sheets, income statements, statements of changes in equity and statements of cash flows are presented in compliance with the formats established in Appendix IV of Circular 5/2016, of 27 July.

2.3 Non-obligatory accounting principles applied

No non-obligatory accounting principles were applied. The Board of Directors prepared these financial statements taking into account all mandatory accounting standards and principles with a material effect on the financial statements. All mandatory accounting principles were applied.

2.4 Critical issues regarding valuation and estimation of uncertainty

The Company's profits and the determination of its equity are sensitive to the accounting policies and rules, measurement bases and estimates applied by the Company's directors in the preparation of the financial statements. The main accounting policies and rules and measurement bases used are disclosed in Note 4.

In the preparation of the accompanying financial statements, the Company's Board of Directors makes estimates in order to measure certain of the assets, liabilities, revenue, expenses and commitments recognised therein. These estimates refer basically to:

- The assessment of potential impairment losses on certain assets (Notes 4.1, 4.2 and 4.4).

- The assumptions used in the actuarial calculation of pension liabilities and other commitments with employees (Note 12).

- The useful life of intangible assets and property, plant and equipment (Notes 4.1 and 4.2).

- The fair value of certain financial instruments (Note 8).

- Equity-based employee benefits (Note 4.13)

- Recognition of deferred tax assets (Notes 4.6 and 13).

Although these estimates have been made on the basis of the best information available at the close of the 2017 financial year, future events may require them to be modified (upwards or downwards) in future reporting periods. Changes to accounting estimates are applied prospectively.

2.5 Changes in accounting policies

In the financial year 2017, there were no significant changes to accounting criteria compared to the criteria applied in financial year 2016.

2.6 Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows have been aggregated with other items for easier understanding. However, where the amounts are material, information is disclosed separately in the notes.

2.7 Correction of errors

No significant errors were uncovered in the preparation of the accompanying financial statements that required the restatement of amounts included in the 2016 financial statements.

2.8 Comparison of information

The 2016 information contained in these notes is presented for comparison with the 2017 information.

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

3. Distribution of profit

The proposed distribution of profit for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016 (*)
Interim dividend	10,601	9,654
Final dividend	1,150	1,114
	11,751	**10,768**

(*) On 25 April 2017, the Sole Shareholder approved the proposed distribution of 2016 profit without modification.

In its meetings of 26 June 2017 and 21 December 2017, the Company's Board of Directors agreed to distribute two dividends from 2017 profit in the amount of €5,137 thousand and €5,464 thousand, respectively. These dividends were paid before the year-end, recognised under "Interim dividend" in "Equity" in the balance sheet at 31 December 2017 (Note 11).

In its meetings of 29 June 2016 and 14 December 2016, the Company's Board of Directors agreed to distribute two dividends from 2016 profit in the amount of €2,982 thousand and €6,672 thousand, respectively. These dividends were paid before the year-end, recognised under "Interim dividend" in "Equity" in the balance sheet at 31 December 2016 (Note 11).

In accordance with the provisions of Article 277 of the Spanish Corporate Enterprises Act, the Company's Board of Directors prepared the financial statements immediately prior to approval of the payment of both interim dividends, confirming the existence of sufficient liquidity to pay the interim dividends, as follows:

	Thousands of euros	
	31-05-2017	30-11-2017
Profit for the year available at the dividend date	5,137	10,601
Interim dividend paid in the year	-	(5,137)
Amount available for distribution	**5,137**	**5,464**
Available liquidity	43,020	44,224
Interim dividend	(5,137)	(5,464)
Retained earnings	**37,883**	**38,760**

	Thousands of euros	
	31-05-2016	30-11-2016
Profit for the year available at the dividend date	2,982	9,654
Interim dividend paid in the year	-	(2,982)
Amount available for distribution	**2,982**	**6,672**
Available liquidity	39,114	43,744
Interim dividend	(2,982)	(6,672)
Retained earnings	**36,132**	**37,072**

4. Accounting policies and measurement standards

The main recognition and measurement standards applied by the Company in the preparation of the financial statements for 2017 (Note 2.1) were as follows:

4.1 Intangible assets

As a general rule, intangible assets are measured initially at acquisition or production cost. After initial recognition, intangible assets are carried at cost, less accumulated amortisation and any accumulated impairment. These assets are amortised over their useful lives.

Other intangible assets

The Company recognises costs incurred to acquire computer software under this heading.

Also recognised under this heading are the expenses required to develop software by the Company itself, with a debit to “Own work capitalised" in the income statement provided the following conditions are met:

- The costs are specifically itemised by project and clearly defined.

- There are sound reasons to foresee the project's technical success and economic and commercial profitability.

- Development expenditures that meets these conditions are capitalised and amortised over the useful life (up to a maximum of five years). Computer software maintenance costs are recognised in the income statement for the period in which they are incurred.

The Company amortised its computer software on a straight-line basis over the estimated useful life of the related assets, as follows:

	Years of estimated useful life
Developed internally	5
Acquired from third parties	3

The annual amortisation charge for intangible assets is recognised in the income statement under “Amortisation and depreciation – Amortisation of intangible assets”.

The Company recognises any impairment losses on intangible assets with a balancing entry against “Impairment and gains/(losses) on disposal of fixed assets” in the income statement. The criteria for recognising impairment losses on these assets and any reversals of impairment losses recognised in previous periods are similar to those applied to property, plant and equipment (Note 4.2).

4.2 Property, plant and equipment

Elements of property, plant and equipment are measured at purchase price or production cost. After initial recognition, property, plant and equipment are carried at purchase price of production cost, less accumulated amortisation and any accumulated impairment.

The Company amortises its property, plant and equipment on a straight-line basis over the estimated useful life of the assets, as follows:

	Years of estimated useful life
Furniture and installations	10
Data processing equipment	4

The annual deprecation charge for property, plant and equipment is recognised in the income statement under “Amortisation and depreciation – Depreciation of property, plant and equipment”.

Upkeep and maintenance expenses on property, plant and equipment are charged to the income statement in the year in which they are incurred. However, costs incurred which increase capacity or productivity or extend the useful life of the asset are capitalised as part of the cost of the related asset.

At the end of reach reporting period and whenever there is any indication that the carrying amount of an item of property, plant and equipment exceeds its recoverable amount, the Company recognises impairment losses on the asset, with a balancing entry against “Impairment and gains/(losses) on disposal of fixed assets” in the income statement.

The recoverable amount is the greater of fair value less costs to sell and value in use.

When an impairment loss is reversed, the carrying amount of the asset is increased up to the limit of the carrying amount of the property, plant and equipment that would have been determined had impairment not been recognised in previous reporting periods. Reversals of impairment losses are recognised as income, with a credit to "Impairment and gains/(losses) on disposal of fixed assets" in the income statement.

4.3 Operating leases

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

The Company only acts as the lessee of the building used as the Company's operating headquarters, which is owned by Bolsas y Mercados Españoles Servicios Corporativos, S.A. Operating lease expenses are charged on a straight-line basis to "Other operating expenses – External Services" in the income statement for this year in which they are accrued (Notes 7 and 15).

Any payment received or made on entering into an operating lease is considered as revenue received in advance or a prepayment and taken to the income statement over the lease term in accordance with the pattern of economic benefits transferred or received.

4.4 Financial instruments

4.4.1 Financial assets

i. Classification

The Company classifies its financial assets into the following categories:

1. Loans and receivables: financial assets arising on the rendering of services in the course of the Company's trade transactions, or those that are neither equity instruments nor derivatives, not arising on trading transactions, with fixed or determinable payments, and which are not traded in an active market. Specifically, this category includes long-term collateral extended, the amounts of which are recognised under "Non-current investments" in the balance sheet (Note 7), the reverse repurchase agreements in which the Company invests its surplus cash, recognised under "Cash and cash equivalents" (Note 10), the balances included in "Trade and other receivables" (Notes 13, 14, 16 and 17) and "Current investments (Group)" (Note 8), the reverse repurchase agreements, deposits given and, as appropriate, other cash equivalents in which the Company invests the funds temporarily obtained as a result of transactions involving the margin deposits that the Company's members are required to make to guarantee the open positions held in the market (see 4.4.2 of this Note), recognised under "Current investments from transactions - Posting collateral from participants" (Note 8) and debit balances for settlement, recognised under "Current investments from transactions – Debit balances for settlement" (Note 8) which includes outstanding balances receivable (for next day settlement) on the daily settlement of losses and gains of futures and daily option trades, presented at the position held by each member (sections 4.4.2 and 4.4.4 of this Note) and the cash debit balances for settlement posted in "Other current financial assets - Debit balances for settlement" (Note 8), which includes the Company's collection right for the financing provided to the system for the cash differences of the failed instructions pending settlement in which the Company is involved.

2. Financial assets held for trading: includes all purchases of derivative instruments (options), equity instruments and fixed income securities (BME Clearing Repo transactions) for which the Company acts as central counterparty clearing house (CCP) and that are recognised under "Current investments from transactions" - Financial instruments in CCP" (Note 8). The positions held in these financial assets are matched by equivalent positions in financial liabilities (sales of derivative instruments, equity securities and fixed income securities) (sections 4.4.2 and 4.4.5 of this Note). As indicated in Note 1, as part of the reform of the securities clearing, settlement and registration system, since 2016 the heading "Financial instruments in CCP – Equity securities" (Note 8) has included the fair value of the securities in the stock market spot segment where the Company acts as CCP, acting for its proprietary account between the buyers and sellers in the trades made.

In the accompanying balance sheets, financial assets and 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".

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

Initial measurement

Financial assets are initially measured at the fair value of the consideration given plus directly attributable trade costs. For equity investments in Group companies granting control over the subsidiary, any fees paid to legal advisors or other professionals involved in the acquisition of the investment are recognised directly in the income statement.

Subsequent measurement

Loans and receivables are measured at amortised cost. Accrued interest is recognised in the income statement using the effective interest rate method. However, receivables falling due within one year are measured at the nominal amount, provided that the effect of not discounting the cash flows is immaterial.

Financial assets held for trading are measured using the criteria contained in section 4.4.5 below.

At least at the end of the reporting the period, the Company tests its financial assets not measured at fair value for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount.

Specifically, regarding valuation allowances for trade and other receivables, the process of assessing these assets for potential impairment losses is performed individually for the vast majority of financial assets measured at amortised cost.

Impairment losses are recognised under "Impairment and gains/(losses) on disposal of financial instruments" in the income statement. For trade and other receivables, impairment losses are recognised under "Other operating costs – Losses, impairment and changes in trade provisions" in the income statement. If the impairment loss reverses subsequently, the carrying amount is increased, up to the limit of the carrying amount that would have been recorded had the impairment loss not been recognised in prior reporting periods, with a credit to "Other operating costs – losses, impairment and changes in trade provisions" in the case of trade and other receivables and "Impairment and gains/(losses) on disposal of financial instruments" in the case of all other financial assets in the income statement.

iii. Derecognition of financial assets

The Company derecognises a financial asset when the rights to the cash flows from the asset expire or have been transferred, provided that substantially all the risks and rewards of ownership have been transferred (such as binding agreements for sales of assets).

4.4.2 Financial liabilities

Financial liabilities classified for measurement purposes as “Financial liabilities held for trading” are transactions involving sales of derivative financial instruments (options), equity securities and fixed income securities (transactions in BME Clearing Repo), for which the Company acts as central counterparty clearing house (CCP), which are recognised under “Current financial liabilities from transactions – Financial instruments in CCP”” (Note 8) and whose positions are matched by equivalent positions in financial assets (sections 4.4.1 and 4.4.5 of this Note). Therefore, the criteria applied to these assets are also used to measure these liabilities (previous section).

The Company’s remaining financial liabilities are classified as “Debts and payables”, arising on the purchase of goods and services in the course of the Company’s trade transactions and financial liabilities that are not derivatives and do not arise on trade transactions. Specifically, this category includes the balances of “Trade and other payables” (Notes 13, 14, 15 and 17), “Current payables to Group companies and associates” (Notes 13 and 17), collateral from market participants recognised under “Current financial liabilities from transactions – Collateral from participants” (section 4.4.1 of this Note and Note 8) and payables for settlement recognised under “Current financial liabilities from transactions - Payables for settlement” and which include outstanding balances (for next day settlement) on the daily settlement of gains and losses on futures and daily options trades, presented at the position held by each clearing member (sections 4.4.1 and 4.4.4 of this Note).

Accounts payable are initially recognised at the fair value of the consideration received, adjusted by the directly attributable trade costs. These liabilities are subsequently measured at amortised cost. Nonetheless, payables falling due within one year are measured at the nominal amount, provided that the effect of not discounting the cash flows is immaterial.

The Company derecognises a financial liability when the obligation is extinguished.

4.4.3 Equity instruments

An equity instrument represents a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity at the amount received, net of direct issuance costs.

Any own equity instruments acquired by the Company during the year are recognised at the amount of consideration paid and deducted directly from equity under “Own shares and equity holdings”. Any gains and losses on the purchase, sale, issuance or redemption of own equity instruments are recognised directly in equity. No profit or loss may be recognised in the income statement.

The Company did not carry out any transactions with own equity instruments in 2017 and 2016 and did not hold any own equity instruments at 31 December 2017 and 2016.

4.4.4 Balances pending next day settlement for option trades and daily settlement of gains and losses on futures

The Company recognises balances pending next day settlement to each member from daily option trades and daily settlement of gains and losses on futures at the position held by each clearing member and at the same amount in current assets and current liabilities in the balance sheet under "Current investments from transactions – Receivables for settlement" and "Current financial liabilities from transactions - Payables for settlement", respectively (sections 4.4.1 and 4.4.2 of this Note and Note 8).

4.4.5 Clearing transactions with financial instruments: the Company acts as central counterparty clearing house (CCP)

Positions by holder and/or member resulting from the Company's operation as CCP in purchases and sales of derivative instruments, equity and public debt securities give rise to a financial asset and, simultaneously, for the same amount a financial liability, classified for measurement purposes as "Financial assets held for trading" and "Financial liabilities held for trading", respectively (sections 4.4.1 and 4.4.2 of this Note). Therefore, according to mercantile law, the Company recognises the financial asset and the corresponding financial liability at its fair value at both initial and subsequent measurement.

Changes in the fair value of derivative instruments for which the Company acts as CCP are recognised as a balancing entry in the corresponding financial asset or financial liability account when the instruments are fully transferred to the members. Therefore, the net effect on the income statement is nil (Note 8).

4.4.6. Processing cash or securities balances over which the Company can retain control during the settlement process.

i. Cash balances:

Once each settlement cycle is completed and until all of the transactions have been settled completely, the settled buy and sell instructions that have different cash generate a cash settlement for the Company as a result of being interposed in all of the instructions. If the cash for the settled purchases is less than that of the settled sales, the Company will have to provide cash in the settlement cycle. Otherwise, if the cash for the unsettled purchases is greater than that of the unsettled sales, the Company would temporarily retain control over the resulting cash.

When the Company temporarily takes or retains control over cash from the settlement (to decide how to apply it later), a financial asset is recognised for the cash amounts thus retained under "Current investments from transactions – Posting cash withheld for settlement" (included under "Current investments from transactions – Posting collateral from participants" (Note 8) classified for measurement purposes as "Loans and receivables" and its counterparty is a financial liability recognised under "Current financial liabilities from transactions – Cash payables withheld for settlement", classified for measurement purposes as "Debts and payables".

As a result of this classification, the financial assets and liabilities are initially recorded at fair value. These assets are later measured at amortised cost, applying the effective interest rate method for the deposit in which the retained cash has been invested.

ii. Securities:

When the Company also temporarily takes control and retains securities designated for settlement, or part of them, the Company recognises a financial asset for the amount of the securities thus retained under "Current investments from transactions – Securities withheld for settlement" (included under "Current investments from transactions – Posting collateral from participant” (Note 8), classified for measurement purposes as “Held for trading”, and its counterparty can be the Company's cash, collateral from the clearing member or a financial liability. The financial asset is recognised at fair value, both initially and thereafter.

The financial liability is classified as “Debts and payables”, such that it is initially recorded at fair value and thereafter measured at amortised cost, applying the effective interest rate method.

Any changes in the fair value of the securities that the Company has retained are included, insofar as the Company sends them to the clearing members at the time of the sale, against the corresponding financial asset under “Cash receivables for settlement”, if they generate losses, or with credit to the corresponding financial asset under “Cash payables for settlement” if they generate gains, and in this case they would have no impact on the income statement.

4.4.7. Criteria applied to settlement fails due to insufficient securities mitigated by securities borrowing

When during the standard settlement process a default arises due to failed securities delivery and the Company has borrowed securities to assign them to the short-selling member so that said member delivers them and settles the short sale (execution of the loan), the Company must remove the financial asset and the corresponding financial liability generated as a result of the withheld cash or under “Cash receivables for settlement” if the cash differences have been covered.

Insofar as the Company does not assume the risks and rewards involved in owning loaned securities, it does not have to recognise any assets or liabilities for those securities. However, the Company submits information on the market value of the borrowed and loaned securities that are in progress at year-end (Note 8 a) iii).

Since the migration on 18 September 2017 to the Target2Securities (T2S) settlement platform of the Eurosystem (Note 1), the Company no longer applies this incident management system.

4.4.8. Accounting treatment applied to defaults due to failed securities delivery. Buy-ins

When a member who short sells securities, at the end of the standard settlement period, has not provided the securities to be delivered and a securities loan could not be set up, and the Company orders a buy-in to obtain the securities not provided by that short-selling member, the Company, once the buy-in has taken place, settles that buy-in by debiting the short-selling member the amount of the buy-in, thereupon releasing the complete settlement of the transactions involved.

4.4.9. Malfunctions in the standard settlement system. Cash settlement.

When the securities buy-in could not take place due to unavailable securities within the legally-established period, the Company performs the cash settlement of the settlement instructions for the affected sell and buy positions. Cash settlement involves a clearing debit from the failed seller and a credit to the affected buyer. The Company does not record any impact in the income statement, and only recognises the financial assets and liabilities debited from or credited to the members under "Cash receivables for settlement" or "Cash payables for settlement".

4.4.10. Default due to failed cash delivery. Selling securities.

When a buying member does not provide the cash to pay for securities purchases to be settled, the Company can stand in for the member in its cash payment obligations and, if necessary, receive the securities that should have been delivered to the buyer.

Once the final standard settlement period to receive the cash that a buying member has not provided, if the Company has had to order a sale, using the securities provided by selling members that were retained and not delivered to that buying member, once the sale has taken place, the Company removes the security in the financial asset books. The Company applies the cash gained through that sale to either reimburse the cash that the Company provided or to cancel the financial liabilities recorded with the lender.

4.5 Foreign currency trades

The Company's functional currency is the euro. Therefore, transactions in currencies other than the euro are considered to be denominated in foreign currency and are recognised applying the exchange rates in force on the corresponding transaction dates.

At the end of the reporting period, monetary items denominated in foreign currency are translated applying the exchange rate at the balance sheet date. Exchange gains and losses are recognised directly in the income statement for the reporting period in which they occur under "Exchange gains/(losses)".

The Company did not carry out any significant foreign currency trades in 2017 and 2016 and did not have any significant balances in foreign currency at 31 December 2017 and 2016.

4.6 Income tax

Tax expense (tax income) comprises current tax expense (income) and deferred tax expense (income).

Current tax is the amount of taxes payable by the Company as a result of income tax or other tax settlements for a period. Tax credits and other tax benefits, excluding tax withholdings and prepayments, and tax loss carryforwards from prior years and effectively applied in the current year, reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as unused tax losses and tax credits. These amounts are measured by applying to the corresponding temporary difference or tax asset the tax rate at which the asset is expected to be realised or the liability is expected to be settled.

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 policy followed by the Bolsas y Mercados Españolas Group with regard to the distribution of consolidated income tax is to allocate the consolidated income tax payable on a proportional basis to the taxable profit of each company in the tax group. Therefore, the Resolution has not had a material impact on the Company. The consolidated tax payable attributable to the Company, net of prepaid taxes and withholdings, which represents a debt with Bolsas y Mercados Españoles, is recognised under "Current payables to Group companies and associates" in the balance sheet (Notes 13 and 17).

Royal Decree-Law 3/2016 of 2 December was published in the Official State Gazette 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 tax 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 clearing, 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, at a minimum annual amount.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of other assets and liabilities in a transaction that is not a business combination and affects neither accounting nor taxable profit/(loss).

Deferred tax assets are only recognised to the extent that it is probable that the Company will have future taxable income available to enable their application.

Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised with a balancing entry in equity.

At the end of each reporting period, the Company reassesses the deferred tax assets recognised, making appropriate adjustments where there are doubts as to their future recoverability. Likewise, at each reporting date, unrecognised deferred tax assets are reassessed and recognised to the extent that it has become probable that taxable profit will be available against which the asset can be utilised.

On 23 December 2002, Bolsas y Mercados Españoles submitted a request to file taxes under the consolidated tax regime for the group of which Bolsas y Mercados Españoles has been the parent company since 1 January 2003, whereby such group also includes the Company.

4.7 Income and expenses

Income and expenses are recognised on an accrual basis, i.e. when the actual flow of the goods and services they represent occurs, regardless of when the resulting monetary or financial flow arises. Income is measured at the fair value of the consideration received, less any discounts and taxes.

Income from the rendering of services is recognised in the income statement for the period on an accrual basis in accordance with the tariffs established by the Company (Note 16). Specifically:

- Income from “Access charges for infrastructures and other facilities” includes the general membership fee and the fees for membership to the various contract groups, as well as fees for inclusion as clearing member, where appropriate. This heading also includes revenue from the Company's appointment as CCP for clearing and central counterparty for buying and selling securities listed for trading in official secondary markets and multilateral trading and financial derivatives systems, in accordance with signed agreements (Note 16).

- Income from "Clearing, and central counterparty" includes income accrued from the fees received by the Company for settlement and clearing of equity futures and options and IBEX 35® index and other index futures and options, and settlement and clearing of fixed income security transactions and clearing equity security transactions in the central counterparty, OTC interest-rate derivatives, energy derivatives and the maintenance of positions in all segments. This item also includes income from transfers and the creation and release of pledges on securities. The costs and expenses that the Company has incurred arising from the fails management described in section 4.4.7 to 4.4.10 above, together with the related default penalties, will be charged to the clearing member responsible for the position with respect to which the settlement fail arose. The costs and expenses are not recognised in the income statement insofar as the Company is entitled to pass them on. However, the penalties to which the Company is entitled are recorded as income in the relevant heading of the income statement. This income is accrued and recognised in the income statement when settlement takes place (Note 16).

- Income from “IT and Consulting”, which is accrued and recognised in the income statement as the services and rendered (Note 16).

The company earns financial income from its clearing house activities and interest income on the funds held in guarantee for market members (Note 8) recognised with a credit (charge in the case of a negative return) to “Financial expenses – From marketable securities and other financial instruments” and a charge (credit in the case of a negative return) to “Financial expenses – Collateral from participants”, respectively, on the income statements (Note 8). Similarly, when the funds provided are deposited with Banco de España, the penalty corresponding to the negative interest rate of the deposit facility that Banco de España charges to the Company is recognised as a charge to "Financial expenses – Collateral from participants" and the transfer of this cost to the members with a credit to “Financial income – From marketable securities and other financial instruments” on the income statements (Note 8).

Interest received on financial assets is recognised using the effective interest rate method. In any event, interest accrued on financial assets after acquisition is recognised as income in the income statement.

4.8 Provisions and contingencies

In preparing the financial statements, the Company’s Directors distinguish, where appropriate, between:

a. Provisions: amounts payable for present obligations arising from past events, the settlement of which is expected to result in an outflow of resources, but which are uncertain as to their amount and/or timing.

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

c. 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 Company. Contingent assets are not recognised in either the balance sheet or the income statement, but are disclosed in the accompanying notes when an inflow of resources embodying economic benefits is probable.

The financial statements include all the provisions with respect to which it is considered more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, but rather are disclosed in the notes, unless the possibility of an outflow of economic benefits is considered remote.

Provisions are recognised at the present value of the best possible estimate of the consideration required to settle or transfer the obligation, taking into account the information available concerning the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as a financial expense on an accrual basis.

The compensation to be received from a third party on settlement of the obligation is recognised as an asset, provided that there are no doubts that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised as a result of which the Company is not liable; in this situation, the compensation will be taken into account for the purpose of estimating the amount of the related provision that should be recognised.

At 31 December 2017 and 2016, there were no provisions or contingent assets other than those described in Note 12.

4.9 Termination benefits

Under current legislation, the Company is required to pay termination benefits to employees terminated under certain conditions. Therefore, termination benefits that can be reasonably quantified are recognised as an expense in the year in which the decision to terminate the employment relationship is taken, under “Staff costs – Wages, salaries and similar expenses” in the income statement (Note 14). There was no detailed redundancy plan warranting recognition of a provision in this connection at 31 December 2017.

4.10 Environmental assets

Environmental assets are deemed to be assets used on a lasting basis in the Company's transactions with the main purpose of minimising environmental impact and protecting and improving the environment, including the reduction or elimination of future pollution.

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

4.11 Pension obligations

i. Post-employment obligations

Post-employment obligations are classified as "defined contribution obligations" when the Company pays fixed contributions into a separate entity (recognised under "Staff costs" in the 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 obligations".

Defined-benefit plans

Under "Non-current provisions" on the liabilities side of the balance sheet the Company recognises the present value of any defined-benefit post-employment obligations, net of the fair value of the plan assets and the past service cost deferred, as explained below.

If the treatment described in the previous paragraph gives rise to an asset, it is recognised under "Non-current investments" of the balance sheet assets up to the present value of any economic benefits that could return to the Company in the form of direct refunds from the plan or reductions in future payments to the plan, plus, where applicable, any unrecognised past service costs. 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 Company, but by a legally separate entity that is not a related party of the Bolsas y Mercados Españoles Group.

- They are only available to pay or fund post-employment benefits and cannot be returned to the Company 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 Company to reimburse it for employee benefits already paid.

"Past service cost" arising on amendments to existing post-employment benefits or on the introduction of new benefits are recognised in the income statement on a straight-line basis over the period from the time the new benefits arise to the time when the employee has an irrevocable right to receive the new benefits.

Post-employment benefits are recognised in the income statement as follows:

- Current service cost (understood to be the increase in the present value of the obligations resulting from employee service in the current period), including the amortisation of unrecognised past service cost, under "Staff costs – Provisions and other personnel expenses" on the income statement.

- Interest expense (understood to be the increase during the period in the present value of the obligations resulting from the passage of time), under "Financial expenses – Provision adjustments" in the income statement.

- The expected return on assets allocated to the obligations and the gains and losses therein, less any cost for administering the plan and related taxes, under "Financial expenses – Provision adjustments" in the income statement.

Actuarial gains and losses are recognised directly in equity as reserves.

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

- Retirement bonus commitments in connection with the obligation undertaken by the Company to pay a bonus to employees who leave the company upon reaching the age of 65.

  The Company has externalised the retirement bonus commitments, using as the vehicle 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 Company 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 came 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

The Company, under the terms of the extra-statutory collective bargaining agreement, has undertaken to pay a bonus to certain employees for good conduct and outstanding qualities, demonstrated by loyalty as reflected in the number of years of ongoing service, after 25, 35 and 45 years of effective service (Note 12).

The accounting treatment of "Other long-term employee benefits" is as described above for defined-benefit post-employment plans, except that the actuarial gains and losses are recognised in the income statement under "Staff costs – Wages, salaries and similar expenses".

4.12 Related party trades

The Company performs all its transactions with related parties on an arm's length basis. In addition, the transfer prices are adequately supported and, therefore, the Company's Directors consider that there are no material risks in this connection that might give rise to significant liabilities in the future (Note 17).

4.13 Share-based payment arrangements

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.

The Plan consists of the promise to deliver ordinary shares of BME to Executive Directors, Senior Management and Junior Management of Group companies who have been designated as beneficiaries of the 2011-2016 Plan. The Plan entails allocating 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 allocated, 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	1.0
3	0.8
4	0.6
5	0
6	0

The maximum number of BME shares included in the 2011 – 2016 Pluri-Annual Variable Remuneration Plan in Shares is 428,801 shares. 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 allocated in 2011, 2012 and 2013. The total units allocated 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. Of the total units allocated at the BME Group level, the number of units attributable to employees of the Company corresponding to the first, second and third three-years periods of the Plan was established at 6,829, 8,702 and 7,938, respectively, corresponding to a theoretical number of shares deliverable of 10,244, 13,053 and 11,907, 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 regard, with the exception of market based performance features, 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 the start of each three-year period. 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

On 31 December 2015, the third three-year period of the 2011-2016 Plan expired. BME's Appointments and Remuneration Committee, in its 27 April 2016 meeting, validated the coefficients applicable to the theoretical units convertible into shares allocated 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., 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. Of all shares delivered at BME Group level, the number of shares delivered to Company employees, once the withholdings set forth in tax legislation had been applied, amounted to 5,661 shares, equivalent to €158 thousand.

2014-2019 Plan

On 30 April 2014, for the purposes of article 219 of the revised text of the Spanish Corporate Enterprises Act and other applicable legislation, the ordinary General Shareholders' Meeting of BME approved a medium-term variable remuneration programme ("the 2014-2019 Plan") to be applied by the Company and its subsidiaries and intended for members of the management team, including the executive Directors.

The 2014-2019 Plan consists of the promise to deliver ordinary shares of BME to Executive Directors, Senior Management and Junior Management of Group companies who have been designated as beneficiaries of this plan. The 2014-2019 Plan entails allocating 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 allocated, 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 maximum number of BME shares included in the 2014-2019 Pluri-Annual Variable Remuneration Plan is 555,048 shares. 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 allocated in 2014, 2015 and 2016. The total units allocated were 118,768, 112,422 and 124,142 respectively, which correspond to a maximum number of theoretical shares of 178,152, 168,633 and 186,213, respectively. Of the total units allocated at the BME Group level, the number of units attributable to employees of the Company corresponding to the first, second and third three-years periods of the Plan was established at 6,847, 8,141 and 8,812, respectively, corresponding to a theoretical number of shares deliverable of 10,271, 12,212 and 13,218, 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 regard, 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 the start of each three-year period. 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

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 allocated 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. until its full integration with 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. Of all shares delivered at BME Group level, the number of shares delivered to Company employees, once the withholdings set forth in tax legislation had been applied, amounted to 3,177 shares, equivalent to €100 thousand.

Medium Term Variable Remuneration Plan in Shares

2017-2020 Plan

On 27 April 2017, for the purposes of article 219 of the revised text of the Spanish Corporate Enterprises Act and other applicable legislation, the ordinary General Shareholders' Meeting of BME approved a medium-term variable remuneration programme ("the 2017-2020 Plan") to be applied by the Company and its subsidiaries and intended for members of the management team, including the 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 allocating 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 allocated, 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 maximum number of BME shares included in the 2017-2020 Medium Term Variable Remuneration Plan is 190,263 shares. The number of units, convertible in shares, attributable to the designated beneficiaries of the 2017-2020 Plan were allocated in 2017. The total number of units allocated was 103,566 which correspond to a maximum number of theoretical shares of 155,349. Of the total units allocated at the BME Group level, the number of units convertible into shares attributable to employees of the Company corresponding to the first third three-year periods of the Plan was established at 7,337, corresponding to a theoretical maximum number of shares deliverable of 11,006.

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 regard, 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 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, a personnel expense for the Pluri-Annual Variable Remuneration Plans in Shares (the 2011-2016 Plan and the 2014-2019 Plan) and the Medium-Term Variable Remuneration Plans in Shares (2017-2020 Plan) is recognised in accordance with the services provided by Company employees who are beneficiaries with a credit to equity (under "Other equity holder contributions"), calculated based on the fair value of the equity instruments transferred (shares of Bolsas y Mercados Españoles) at the date when the grant of shares was approved. The services provided were recognised in profit and loss over the specific period during which the employees rendered services to the Company.

4.14 Statement of cash flows

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

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

- Operating activities: the principal revenue-producing activities of the Company 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 Company.

To prepare the statements of cash flow, the operating activities cash flows generated by current financial assets and liabilities from transactions (Notes 4.4. and 8) are included in the statement of cash flow at their net value.

Also, for the purposes of preparing the statements of cash flows, "Cash and cash equivalents" are understood to be current highly liquid investments that are subject to an insignificant risk of changes in value, and which do not constitute current investments from transactions (Notes 4.4. and 8).

4.15 Statements of changes in equity

The statements of changes in equity presented in these financial statements show all changes in net equity during the year. This information is presented in two statements: the statement of recognised income and expense, and the statement of total changes in equity. The main features of the information contained in each is explained below:

Statements of recognised income and expense

The statement of recognised income and expenses presents the income and expenses generated by the Company as a result of its activity during the year, distinguishing between items of income and expenses that are recognised in profit and loss for the year and other income and expenses that, as required under current regulations, are recognised directly in equity.

This financial statement therefore presents, as appropriate:

a. Profit or loss for the period.

b. Income and expenses that, as required by the measurement standards, must be recognised directly in the Company's equity.

c. Amounts transferred to the income statement in accordance with the measurement standards adopted.

d. The related tax effect, if any, to letters b) and c) above.

e. Total recognised income and expense, calculated as the sum of all the letters above.

Statement of total changes in equity

This part of the statement of changes in equity reflects all changes in equity, including any due to changes in accounting policies and corrections of errors. This statement accordingly presents a reconciliation between the carrying amount of each component of 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 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 equity.

4.16 Current/non-current classification

Assets classified as current assets are all those related to the company's normal operating cycle, generally one year, and other assets expected to mature, or to be sold or realised in the short term from the end of the reporting period, and cash and cash equivalents. Any assets that do not fulfil these criteria are classified as non-current.

Similarly, liabilities associated with the normal operating cycle and, in general, all liabilities expected to fall due or be extinguished in the short term are classified as current liabilities. Any other liabilities are classified as non-current.

5. Intangible assets

The changes in “Property, plant and equipment” in 2017 and 2016 were as follows:

Item	Thousands of euros			
	Computer software		Industrial property	Total
	Developed internally	Purchased		
Cost:				
Balances at 1 January 2016	4,999	5,258	29	10,286
Additions	580	538	-	1,118
Disposals	-	-	-	-
Balances at 31 December 2016	**5,579**	**5,796**	**29**	**11,404**
Additions	-	80	-	80
Disposals	-	-	-	-
Balances at 31 December 2017	**5,579**	**5,876**	**29**	**11,484**
Accumulated amortisation:				
Balances at 1 January 2016	-	(4,058)	(29)	(4,087)
Charge for the year	(744)	(343)	-	(1,087)
Disposals	-	-	-	-
Balances at 31 December 2016	**(744)**	**(4,401)**	**(29)**	**(5,174)**
Charge for the year	(1,116)	(376)	-	(1,492)
Disposals	-	-	-	-
Balances at 31 December 2017	**(1,860)**	**(4,777)**	**(29)**	**(6,666)**
Intangible assets, net				
Net balances at 31 December 2016	4,835	1,395	-	6,230
Net balances at 31 December 2017	3,719	1,099	-	4,818

Additions due to internally developed software in 2016 was recognised with a credit to “Own work capitalised” in the income statement. Most of these additions relate to developments associated with the reform to the securities clearing and settlement system (equity transaction clearing segment) until it entered into force (Note 1).

Fully amortised items of intangible assets still in use amounted to €4,098 thousand at 31 December 2017 (€4,080 thousand at 31 December 2016).

No impairment losses were identified in either 2017 or 2016 that affect these items on the balance sheet.

6. Property, plant and equipment

The changes in “Property, plant and equipment” in 2017 and 2016 were as follows:

	Thousands of euros		
	Furniture and installations	Data processing equipment	Total
Cost:			
Balances at 1 January 2016	943	2,632	3,575
Additions	22	86	108
Disposals	-	(4)	(4)
Balances at 31 December 2016	**965**	**2,714**	**3,679**
Additions	-	11	11
Disposals	(62)	(9)	(71)
Balances at 31 December 2017	**903**	**2,716**	**3,619**
Accumulated amortisation:			
Balances at 1 January 2016	(930)	(2,494)	(3,424)
Charge for the year	(7)	(70)	(77)
Disposals	-	4	4
Balances at 31 December 2016	**(937)**	**(2,560)**	**(3,497)**
Charge for the year	(3)	(63)	(66)
Disposals	62	9	71
Balances at 31 December 2017	**(878)**	**(2,614)**	**(3,492)**
Property, plant and equipment, net:			
Net balances at 31 December 2016	28	154	182
Net balances at 31 December 2017	25	102	127

Fully depreciated items of property, plant and equipment amounted to €3,333 thousand at 31 December 2017 (€3,337 thousand at 31 December 2016).

No impairment losses were identified in either 2017 or 2016 that affect these items on the balance sheet.

In 2017, data processing equipment in the amount of €9 thousand (€4 thousand for this item in 2016) and installations and furniture in the amount of €62 thousand (no amount for this item in 2016) were withdrawn, consisting of fully depreciated items that had ceased to be useful for the Group's activities.

The Company has arranged insurance policies to cover the possible risks to which the various components of property, plant and equipment are exposed.

7. Non-current investments

The breakdown of “Non-current investments” at 31 December 2017 and 2016 is as follows:

Class / Category	Thousands of euros	
	Other financial assets	
	2017	2016
Loans and receivables	180	30
	180	**30**

At 31 December 2017, “Loans and receivables” included the amounts of cash delivered by the Company as collateral for the Organised GAS Market (Mercado Ibérico del Gas) (Note 1) and deposits on leases (Notes 4.3 and 17). At 31 December 2016, all of the balance for this item related to deposits on leases (Notes 4.3 and 17).

8. Current investments (Group and from transactions) and current financial liabilities from transactions

a) *Current investments (Group and from transactions)*

i. Breakdown

The breakdown of these balance sheet headings at 31 December 2017 and 2016 by classification by measurement purposes, origin, currency and class is as follows:

	Thousands of euros			
	2017		2016	
	Group	From transactions	Group	From transactions
Classification for measurement purposes:				
Financial assets held for trading	-	18,934,329	-	20,025,172
Loans and receivables	6,723	3,181,971	8,922	2,492,143
	6,723	**22,116,300**	**8,922**	**22,517,315**
Source and classification for presentation:				
Current investments (Group)	6,723	-	8,922	-
Current investments from transactions-				
Posting collateral from participants	-	3,153,196	-	2,482,899
Financial instruments in CCP	-	18,934,329	-	20,025,172
Receivables for settlement	-	28,752	-	9,244
Cash receivables for settlement	-	23	-	-
	6,723	**22,116,300**	**8,922**	**22,517,315**
Currency:				
Euro	6,723	22,116,300	8,922	22,517,315
Other currencies	-	-	-	-
	6,723	**22,116,300**	**8,922**	**22,517,315**
Nature:				
Financial instruments in CCP-				
Options in CCP	-	151,783	-	179,331
Fixed income securities in CCP (BME Clearing Repo)	-	17,868,540	-	18,896,416
Equity securities in CCP	-	914,006	-	949,425
Other financial assets				
Reverse repurchase agreements	-	-	-	1,056,688
Bank deposits	6,723	3,153,196	8,922	1,426,211
Receivables for settlement of daily options and futures trades	-	28,752	-	9,244
Cash receivables for settlement	-	23	-	-
	6,723	22,116,300	8,922	22,517,315
Less - Impairment losses	-	-	-	-
Total financial assets	**6,723**	**22,116,300**	**8,922**	**22,517,315**

ii. Current investments (Group)

Loans and receivables

The total balance of this category at 31 December 2017 and 2016 related to the collateral amount required by Banco de España from the Company made in a blocked current account with Banco de España to guarantee that payments are immediately made in the event a cash settlement fails. Banco de España calculates this collateral quarterly, adjusting the blocked amount in the current account with the same frequency.

The penalty for the negative interest rate of the deposit facility that Banco de España charged to the Company in 2017 was €128 thousand (€68 thousand in 2016) which was recognised under "Financial expenses - Third-party borrowings" in the income statement.

iii. Current investments from transactions

a) *Financial instruments in CCP*

Details at each month end of all fixed income securities (cleared through BME Clearing Repo), equity securities and option trades in which the Company 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:

	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 the Company acts simultaneously as buyer and seller, these are presented in the balance sheet at their net amount (Note 4.4.5). Only receivables and payables corresponding to the daily settlements of gains and losses pending settlement at 31 December 2017 and 2016 are recognised in the balance sheet under “Current investments from transactions - Receivables for settlement” and “Current financial liabilities from transactions - Payables for settlement”, respectively. The balances of these items and the total amount of daily settlements of futures settled during 2017 and 2016 are discussed in “Receivables from settlement” below.

The equity securities in CCP position at 31 December 2016 included the securities borrowed by the Company, as part of the fails management system in the event of a failure to deliver securities, for the amount of €11,081 thousand, the counterparty of which is included under “Current financial liabilities from transactions - Financial instruments in CCP – Equity securities” (no amount for this item at 31 December 2017). Since the migration on 18 September 2017 to the Target2Securities (T2S) settlement platform of the Eurosystem (Note 1), the Company no longer applies this incident management system.

b) *Receivables for settlement*

This item includes the balances receivable for the settlement (next day settlement with each clearing member) of daily options trades in the amount of €140 thousand at 31 December 2017 and €476 thousand at 31 December 2016, respectively, and of the daily settlement of gains and losses on futures in the amount of €28,612 thousand and €8,768 thousand at 31 December 2017 and 2016, respectively. The amounts settled in the daily settlement of gains and losses (debtor balance) on futures traded, together with the daily settlement of gains and losses on futures trade pending settlement at 31 December 2017 and 2016 stood at €10,847,975 thousand and €11,827,915 thousand, respectively. The amount settled for daily settlement of gains and losses under assets (debtor balance) matches the amount settled for daily settlement of gains and losses under liabilities (creditor balance) and therefore, neither are recognised with a balancing entry in the income statement (Note 4.4.4).

c) *Posting collateral from participants*

The maturities and average returns on the assets included under “Posting collateral from participants” in the balance sheet at 31 December 2017 and 2016 are as follows:

	Thousands of euros				Average interest rate
	Up to 1 month	Between 1 and 3 Months	Between 3 and 12 Months	Total	
31 December 2017:					
Current accounts in Banco de España	3,153,196	-	-	3,153,196	-0.40%
	3,153,196	**-**	**-**	**3,153,196**	
31 December 2016:					
Reverse repurchase agreements	1,056,688	-	-	1,056,688	-0.43%
Current accounts in Banco de España	1,426,211	-	-	1,426,211	-0.40%
	2,482,899	**-**	**-**	**2,482,899**	

Movements in “Reverse repurchase agreements” in 2017 and 2016 were as follows:

	Thousands of euros
	Reverse repurchase agreements
Balance at 1 January 2016	**2,538,656**
Purchases	718,850,036
Sales	(720,332,004)
Balance at 31 December 2016	**1,056,688**
Purchases	345,316,675
Sales	(346,373,363)
Balance at 31 December 2017	**-**

The posting of collateral from members in Reverse repurchase agreements in 2017 generated a negative return amounting to €5,881 thousand (€10,416 thousand in 2016), debited to “Financial income – Marketable securities and other financial instruments - Other” in the income statement. The negative return passed on to members has been credited to “Financial expenses – Collateral from participants” in the income statement. The posting of collateral from members in the Banco de España current account in 2017 generated penalties charged by Banco de España amounting to €7,516 thousand (€996 thousand in 2016), corresponding to the negative interest rate of the deposit facility, which were debited to “Financial expenses – Collateral from participants” in the income statement. These penalties passed on to members were credited to “Financial income – Marketable securities and other financial instruments - Other” in the income statement (Note 4.7).

d) Cash receivables for settlement

Cash receivables for settlement of €23 thousand at 31 December 2017 includes the collection right of the Group for the financing provided that the Company provided to the system for the cash differences of the failed instructions pending settlement in which the CCP is involved.

b) Current financial liabilities from transactions

The breakdown of this balance sheet heading by classification for measurement purposes, origin, currency and class is as follows:

	Thousands of euros	
	2017	2016
Classification for measurement purposes:		
Financial liabilities held for trading	18,934,329	20,025,172
Accounts payable	3,181,948	2,492,143
	22,116,277	**22,517,315**
Source and classification for presentation:		
Current financial liabilities from transactions -		
Collateral from participants	3,153,196	2,482,899
Financial instruments in CCP	18,934,329	20,025,172
Payables for settlement	28,752	9,244
	22,116,277	**22,517,315**
Currency:		
Euro	22,116,277	22,517,315
Other currencies	-	-
	22,116,277	**22,517,315**
Nature:		
Derivatives		
Options in CCP	151,783	179,331
Fixed income securities in CCP (BME Clearing Repo)	17,868,540	18,896,416
Equity securities in CCP	914,006	949,425
Other financial liabilities		
Collateral	3,153,196	2,482,899
Payables for settlement of daily options and futures trades	28,752	9,244
Total financial liabilities	**22,116,277**	**22,517,315**

The Directors consider that the carrying amounts of the balances under “Current financial liabilities from transactions” in the balance sheet are equivalent to their fair value.
The residual maturity of “Current financial liabilities from transactions”, with the exception of fixed income securities, equity and options held in CCP, changes daily depending on the market positions held by the owners of these instruments.

9. Nature and extent of risks arising from financial instruments

i. Information on the nature and level of risk of financial instruments

A detailed explanation of the degree of exposure of the Company to the main business risks and how it manages these risks in compliance with Regulation (EU) 648/2012 (hereinafter, “EMIR”) and its implementing provisions (Delegated Regulations (EU) 152/2013 and 153/2013) is provided in the Directors’ Report contained in these annual accounts.

The main financial risks to which the Company is exposed are discussed below:

a. Exposure to credit risk:

   The Company’s main financial assets are reverse repurchase agreements and banks deposits (or deposits at central banks), cash balances and trade and other receivables, which represent the Company's maximum exposure to credit risk in relation to financial assets.

   The credit risk associated with reverse repurchase agreement, bank deposits and liquid funds is minimal, since the counterparties are banks allocated adequate ratings by international credit rating agencies. Investment risk, as detailed in the Directors’ Report included herein, or the risk that the CCP’s counterparty in the investment of the CCP’s cash margins or capital defaults, is mitigated by executing a highly conservative investment policy in accordance with Article 47 of the EMIR, which places priority on security of the investment at all times over profitability.

   The Company operates as the CCP for derivative instruments, equity transactions and public debt repos; therefore, it incurs counterparty risk. It hedges this risk by managing the collateral required of all market participants based on a sophisticated system of measurement and control of open positions that enables it to request additional collateral depending on the day-to-day activity of members in real time, under the terms set out in its Regulation and Circulars, and in prevailing legislation.

   The Company does not a significant concentration of credit risk.

b. Exposure to liquidity risk:

   The risk that the Company will not have sufficient funds available to meet the payment obligations of a member that has defaulted. In accordance with Article 44 of the EMIR, the Company has a liquidity plan approved by the Board of Directors that sets out the mechanisms to ensure that the CCP has access to adequate financial resources to cover its liquidity needs in any circumstances.
   Moreover, to ensure its liquidity and ability to meet the payment obligations arising from its activity, the Company has the cash balances sheet in the balance sheet (Note 10).

c. Exposure to market risk (including interest rate risk, currency risk and other price risk):

As indicated previously, given that the portfolio of financial assets is mainly made up of reverse repos (with public debt as the underlying asset), exposure to interest rate risk is minimal as maturities are very short-term and returns adapt quickly to changes in interest rates. Meanwhile, the lack of borrowings or financial liabilities implying a finance charge means the Company is not exposed to risks in interest rates that could erode its margins or require a specific hedging policy.

The Company does not hold financial instruments in any currency other than the euro.

d. Exposure to other market risks:

The main risks and uncertainties faced by the Company 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.

ii. Quantitative data

a. Credit risk:

The concentration of credit risk is not significant as the Company's exposure is distributed amongst a large number of customers.

The Company had no customer balances subject to impairment adjustments at 31 December 2017 and 2016 (Note 15).

b. Interest rate risk:

Details of the carrying amounts of financial assets grouped by maturity from shortest to longest, as well as the effective interest rates for assets that accrue a determinable effective interest rate, are provided in Notes 8 and 10.

c. Currency risk:

The Company did not have any receivable or payable balances related to transactions in currencies other than the euro at 31 December 2017 and 2016.

10. Cash and cash equivalents

"Cash and cash equivalents" includes demand deposits at banks (recognised under "Cash") and financial instruments that are convertible to cash and have a maturity of three months or less from the date of acquisition, provided that there is no significant risk of changes in value and that they form part of the Company's usual cash management policy. The latter assets are included under "Cash equivalents":

	Thousands of euros	
	2017	2016
Classification:		
Cash-		
Current accounts	32,522	25,087
	32,522	**25,087**
Cash equivalents:		
Reverse repurchase agreements	1,035	5,401
	1,035	**5,401**
Less - Impairment losses	-	-
Net balance	**33,557**	**30,488**

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 balance sheet, excluding cash, at 31 December 2017 and 2016 and whose counterparty was Bankinter, S.A. at 31 December 2017 and 2016, are shown below:

	Thousands of euros	Average interest rate
	Up to 1 month	
31 December 2017:		
Reverse repurchase agreements	1,035	0.00%
	1,035	
31 December 2016:		
Reverse repurchase agreements	5,401	0.00%
	5,401	

Movements in “Reverse repurchase agreements” in 2017 and 2016 were as follows:

	Thousands of euros
Balances at 1 January 2016	33,200
Purchases	2,017,362
Sales	(2,045,161)
Balances at 31 December 2016	**5,401**
Purchases	63,499
Sales	(67,865)
Balances at 31 December 2017	**1,035**

No impairment losses were recognised for these financial assets in 2017 and 2016.

The positive returns generated on cash and cash equivalents in 2017 amounted to €2 thousand (negative returns of €18 thousand in 2016), recognised under “Financial income – Marketable securities and other financial instruments - Other” in the income statement.

11. Equity

The breakdown of the various items included in equity and changes in 2017 and 2016 were as follows:

	Thousands of euros							
	Capital	Legal and statutory reserves	Other reserves	Other equity holder contributions	Profit/(loss) for the year	Interim dividend	Total (*)	Final dividend
Balances at 1 January 2016	**18,030**	**3,606**	**20,896**	**967**	**7,901**	**(7,324)**	**44,076**	**-**
Distribution of 2015 profit	-	-	-	-	(7,901)	7,324	(577)	(577)
Profit/(loss) for 2016	-	-	-	-	10,768	-	10,768	-
Interim dividend from profit in 2016 (Note 3)	-	-	-	-	-	(9,654)	(9,654)	-
Actuarial gains and losses (Note 12)	-	-	(9)	-	-	-	(9)	-
Other equity holder contributions (Note 14)	-	-	-	233	-	-	233	-
Balances at 31 December 2016	**18,030**	**3,606**	**20,887**	**1,200**	**10,768**	**(9,654)**	**44,837**	**-**
Distribution of 2016 profit	-	-	-	-	(10,768)	9,654	(1,114)	(1,114)
Profit/(loss) for 2017	-	-	-	-	11,751	-	11,751	-
Interim dividend from profit in 2017 (Note 3)	-	-	-	-	-	(10,601)	(10,601)	-
Actuarial gains and losses (Note 12)	-	-	(18)	-	-	-	(18)	-
Other equity holder contributions (Note 14)	-	-	-	237	-	-	237	-
Balances at 31 December 2017	**18,030**	**3,606**	**20,869**	**1,437**	**11,751**	**(10,601)**	**45,092**	**-**

(*) In accordance with article 35 of Regulation 153/2013 (EU) with regard to regulatory technical standards on requirements for central counterparties, the dedicated own resources included in "Equity" at 31 December 2017 and 31 December 2016 amount to €6,000 thousand as set out in the Company's respective Dedicated Own Resources Circulars.

Registered capital

At 31 December 2017 and 2016, the Company's share capital amounted to €18,030 thousand and consisted of 3,000,000 fully subscribed and paid in ordinary registered shares with a par value of €6.01 each. All shares representing share capital have the same rights and are not listed on the stock exchange.

The sole shareholder of the Company at 31 December 2017 and 2016 was Bolsas y Mercados Españoles Sociedad Holding de Mercados y Sistemas Financieros, S.A. The Company is, therefore, subject to the regime governing single member companies. It has disclosed its single member status to the Companies Registry. Under this regime, the Company must, *inter alia*, disclose agreements with its Sole Shareholder in the notes to the financial statement. In this respect, in early 2014, the Company entered into an agreement with BME to oversee the handling of personal data pursuant to the startup of the whistleblowing channel of the Crime Prevention System. In 2016 the Company also signed an agreement with BME to provide management and administration support services for the Company (Note 15), and a contract for personal data processing in relation to human resource management.

Article 16 of the EMIR, along with its implementing Delegated Regulation (EU) 152/2013 and article 35 of Delegated Regulation (EU) 153/2013, sets out minimum capital requirements (i.e. capital plus retained earnings and reserves) of a CCP. These requirements set a minimum initial capital requirement equal to €7,500 thousand and a capital requirement at all times based on gross annual operating expenses, average revenue of the last three years, the calculation of credit, counterparty and market risks not covered by dedicated resources and a 10% buffer. Article 35 of Delegated Regulation (EU) 153/2013 also requires the CCP to keep at least 25% of dedicated own resources for use in applying the default waterfall.

At 31 December 2017 and 2016, the Company comfortably complied with the aforementioned requirements.

Legal reserve

Under the consolidated text 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 year-end 2017 and 2016, this reserve was fully provisioned.

Other reserves and other equity holder contributions

Other reserves and other equity holder contributions are unrestricted.

12. Non-current provisions

The breakdown of this balance sheet item at 31 December 2017 and 2016 and the main changes therein in those years are as follows:

	Thousands of euros		
	Pension obligations (Note 4.11)		
	Retirement bonuses	Health benefits (1)	Total
Balances at 1 January 2016	**62**	**20**	**82**
Net provision recognised in income (Note 13)	30	2	32
Net provision recognised in equity (Note 11)	-	9	9
Amounts used	(15)	-	(15)
Balances at 31 December 2016	**77**	**31**	**108**
Net provision recognised in income (Note 13)	41	8	49
Net provision (reversal) with a charge (credit) to Equity (Note 11)	19	(1)	18
Transfers (Note 17)	4	50	54
Amounts used	(18)	-	(18)
Balances at 31 December 2017	**123**	**88**	**211**

(1) Net provisions recognised in income for provision of health benefits in 2017 and 2016 reflect the current service cost for the amount of €6 thousand and €1 thousand, respectively (Note 14) and interest cost amounting to €2 thousand and €1 thousand, respectively, in 2017 and 2016.

Long-term employee benefit obligations

The Company measured the present value of pension obligations (Note 4.11) 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:

	Retirement bonuses		Health benefits	
	2017	2016	2017	2016
Discount rate	1.52%	1.53%	1.83%	1.83%
Mortality tables	PER2000-P	PER2000-P	PER2000-P	PER2000-P
Retirement age	65 years	65 years	65 years	65 years
Expected return on plan assets	1.52%	1.53%	-	-
Benefit growth rate	1.0%	1.0%	3.5%	3.5%

- Discount rate: The Company 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 Company used the market yields of the Markit iBoxx € Corporates AA index.

Long-term employee benefit obligations (retirement bonuses)

The amounts recognised in the income statement for long-term defined benefit obligations in respect of retirement bonuses were as follows:

Long-term employee benefit obligations – Retirement bonuses	Thousands of euros	
	2017	2016
Current service cost (Note 14)	38	27
Interest costs	8	9
Expected return on insurance policies	(6)	(7)
Past service cost (Note 14)	1	1
	41	**30**

The change in the fair value of the long-term defined benefit obligations is as follows:

Long-term employee benefit obligations – Retirement bonuses	Thousands of euros	
	2017	2016
Present value of obligations at 1 January	453	373
Current service cost	38	27
Interest costs	8	9
Transfers	41	-
Actuarial (gains)/losses	(4)	44
Present value of obligations at 31 December	**536**	**453**

The change in the fair value of insurance policies linked to long-term defined benefit obligations was as follows:

Long-term employee benefit obligations – Retirement bonuses	Thousands of euros	
	2017	2016
Fair value of insurance policies linked to pensions at 1 January	356	290
Expected return on insurance policies	6	7
Actuarial gains/(losses)	(23)	44
Transfers	37	-
Premiums paid	18	15
Fair value of insurance policies linked to pensions at 31 December	**394**	**356**

The situation of long-term defined benefit obligations at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Present value of obligations	536	453
Less-		
Fair value of plan assets	(394)	(356)
Unrecognised past service cost	(19)	(20)
Liability in the balance sheet	**123**	**77**

13. Tax matters

a) Consolidated tax group

The Company files consolidated tax returns. 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.

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, acting as the parent company and the following as subsidiaries: the Company, Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, 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.).

Under the Special System, the Company recognised credit balance with Bolsas y Mercados Españoles for the settlement of VAT under "Current payables to Group companies and associates", amounting to €52 thousand at 31 December 2017 (€70 thousand at 31 December 2016) (Note 17).

b) Balances with public bodies

Receivables from and payable to public bodies at 31 December 2017 and 2016 are as follows:

	Thousands of euros	
	2017	2016
Non-current assets:		
Deferred tax assets	215	253
	215	**253**
Current assets:		
Current tax assets	153	24
	153	**24**
Current liabilities:		
Trade and other payables – Other payables-		
Social Security, payables	81	64
Taxation authorities, withholding tax	157	141
	238	**205**

c) Reconciliation of accounting profit to taxable income

The reconciliation of accounting profit to taxable income is as follows:

	Thousands of euros	
	2017	2016
Accounting profit before tax	15,495	14,325
Permanent differences:		
Other non-deductible costs	12	2
Temporary differences:		
Arising in the year-		
Long-term employee benefit obligations (Notes 12 and 14)	286	265
Other	-	279
Arising in prior years-		
Long-term employee benefit obligations	(180)	(135)
Other	(257)	(501)
Taxable profit	**15,356**	**14,235**

d) Taxes recognised in equity

No taxes were recognised in equity in 2017 and 2016.

e) Reconciliation of taxable income to income tax expense

The reconciliation between taxable income and income tax expense in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Taxable profit	**15,356**	**14,235**
At tax rate of 25%	3,839	3,559
Impact of temporary differences	38	23
Tax credits-		
Other	(4)	(2)
Negative adjustments to corporate income tax	-	1
Positive adjustments to corporate income tax	(129)	(24)
Total tax expense recognised in the income statement	**3,744**	**3,557**

The tax payable attributable to the Company, amounting to €3,835 thousand (€3,557 thousand at 31 December 2016), net of payments on account made by the Company in 2017 of €3,348 thousand (€3,000 thousand in 2016) is recognised under "Current payables to Group companies and associates" for €487 thousand (€557 thousand in 2016) (Note 17).

The positive adjustment to gains in 2017 reflects positive adjustments arising from deductions for investment in Research and Development in 2014 (positive adjustment to gains in 2016 arising from deductions for investment in Research and Development in 2013).

f) Income tax expense

The breakdown of income tax expense is as follows:

	Thousands of euros	
	2017	2016
Current tax:		
From continuing transactions	3,835	3,557
	3,835	**3,557**
Deferred tax:		
From continuing transactions	(91)	-
	(91)	**-**
Total tax expense	**3,744**	**3,557**

g) Recognised deferred tax assets

The breakdown of recognised deferred tax assets and liabilities in 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Temporary differences:		
Long-term employee benefit obligations	228	201
Other	(13)	52
Total deferred tax assets	**215**	**253**

The deferred tax assets indicated above were recognised in the balance sheet as the Board of Directors considered that, based on the best estimate of the Company's future earnings, it is probable that these assets will be recovered.

At 31 December 2017 and 2016, there were no other tax losses or deferred tax assets that had not been recognised.

h) Years open for inspection and tax audits

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute of limitations has expired. At 31 December 2017, the Company had all transactions carried out over the last four years open for review by the tax authorities in respect of the applicable taxes.

Due to the different possible interpretations of tax regulations applicable to the Company's transactions, any tax audits carried out by the tax authorities for the years in question could result in contingent tax liabilities, the amount of which cannot be objectively quantified at present. Nevertheless, the Company's Directors consider the possibility of significant contingent liabilities arising from future inspections to be remote and, in any event, that the resulting tax liability would not have a material impact on the Company's annual accounts.

14. Staff costs

The breakdown of this income statement heading is as follows:

	Thousands of euros	
	2017	2016
Wages, salaries and similar expenses	4,542	4,180
Social welfare expenses	795	690
Provisions and other personnel expenses (*)	280	212
	5,617	**5,082**

(*) The balance includes provisions for employee benefits made in 2017 and 2016 of €45 thousand and €29 thousand, respectively (Note 12).

"Wages, salaries and similar expenses" included €237 thousand in 2017 (€233 thousand in 2016) relating to the portion of estimated fair value of the equity instruments granted to employees under the "Pluri-Annual Variable Remuneration Plan in Shares" and "Medium-Term Variable Remuneration Plan in Shares" recognised in profit and loss in the specific year the beneficiaries provided their services to the Company with a debit to "Other equity owner contributions" (Notes 4.13, 11 and 13).

At 31 December 2017 wages and salaries payable to employees amounted to €547 thousand (€454 thousand at 31 December 2016), recognised under "Trade and other payables – Other payables" on the liabilities side of the balance sheet at that date.

At 31 December 2017 and 2016, advances and loans had been granted to Company employees for €64 thousand and €29 thousand, respectively, recognised under “Trade and other receivables – Other receivables” in the balance sheet.

The average number of employees in 2017 and 2016 by professional category was as follows:

	Employees	
	2017	2016
Middle management	6	6
Specialist technicians	36	29
Auxiliary staff	23	21
	65	**56**

The breakdown by gender at 31 December 2017 and 2016 by professional category was as follows:

	Employees			
	2017		2016	
	Men	Women	Men	Women
Middle management	5	1	5	1
Specialist technicians	19	18	17	16
Auxiliary staff	19	8	10	7
	43	**27**	**32**	**24**

In 2017, the Company made donations towards job placement and job creation activities for disabled persons, in accordance with RD 27/2000, 14 January, special alternative measures were taken to comply with the 2% level established by Law 13/1982, 7 April, on the Social Inclusion of Disabled Persons, which states that the number of workers with a disability equal to or greater than 33% must not be lower than 2% of the total workforce.

15. Other operating costs

External services

The breakdown, by item, of this income statement heading 31 December 2017 and 2016 was as follows:

Category	Thousands of euros	
	2017	2016
Lease of offices and installations	275	246
Information technology equipment and computer software	587	1,425
Communications network	102	171
Travel, marketing and promotion	187	190
Independent professional services	1,646	987
Information services	173	141
Power and utilities	79	79
Security, cleaning and maintenance	186	194
Other expenses (Note 19):	1,006	900
	4,241	**4,333**

"Information technology equipment and computer software" in 2017 and 2016 includes, inter alia, expenditure for developments required until the reform to the fixed income and equity-clearing segment of the Securities Clearing and Settlement System enters into force (Note 1).

In 2017 and 2016, "Independent professional services" includes, *inter alia*, expenses relating to management and administration services provided to the Company by Bolsas y Mercados Españoles (Notes 11 and 17).

The "Other expenses" heading in the above table for 2017 and 2016, €274 thousand and €304 thousand, respectively, also includes supervision fees charged to the Company by the National Securities Market Commission pursuant to Act 16/2014, of 30 September, which regulates the fees of the National Securities Market Commission, which came into effect on 1 January 2015.

Amounts payable for external services at 31 December 2017 and 2016, including outstanding amounts owed to Bolsas y Mercados Españoles Group companies (Note 17), are recognised under "Trade and other payables" in "Payables" on the liabilities side of the balance sheet.

Fees paid to PricewaterhouseCoopers Auditores, S.L. for the audit of the financial statements in 2017 and 2016 amounted to €22 thousand and €19 thousand respectively. No fees were incurred in 2017 and 2016 by other companies that use the PricewaterhouseCoopers trademark as a result of other services provided.

Losses, impairment and changes in trade provisions

This item includes valuation allowances for trade and other receivables recognised in the year as a result of the impairment testing of these assets (Note 4.4).

There were no balances of trade and other receivables past-due at 31 December 2017 and 2016.

No provisions were recognised during the years ended 31 December 2017 and 2016 for impairment losses on assets in the Trade and other receivables account on the asset side of the balance sheet.

Information on deferred payments to suppliers in commercial transactions

In accordance with the Second Final Provision of Law 31/2014, 3 December, under which the Corporate Enterprises Act is amended to improve corporate governance, which amends the Third Additional Provision of Law 15/2010, 5 July, amending Law 3/2004, 29 December, under which measures against late payments in commercial transactions are established, and considering the Single Additional Provision of the Ruling on 29 January 2016, of the Spanish Accounting and Audit Institute (ICAC) in information to be included in financial statements in relation to the average supplier payment period in commercial transactions, for the purposes of complying with the information obligation established, information on the average supplier payment period in 2017 and 2016 is set out below:

	2017	2016
	Days	Days
Average supplier payment period	46.52	49.28
Ratio of transactions paid	46.54	49.23
Ratio of transactions pending payment	45.83	50.48
	Thousands of euros	Thousands of euros
Total payments made	2,446	3,104
Total payments pending	56	110

Information on leases

Future minimum rentals payable by the Company under operating leases on buildings is as follows:

	Thousands of Euros (*)
Within one year	311
After one year but not more than five years	41
More than five years	-

(*) Amounts not updated for CPI.

Most of the minimum future payments within one year relate to a building under an operating lease, used by the Company as its headquarters. The lease expires in 2018, with automatic annual renewal.

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.

16. Revenue and variable direct costs of transactions

a) Revenue

The breakdown, by item, of this heading in the 2017 and 2016 income statements, was as follows:

	Thousands of euros	
	2017	2016
Access charges for infrastructures and other facilities	2,530	1,374
Clearing and central counterparty-		
Equity	10,434	7,393
Fixed Income	793	860
Financial derivatives	8,427	8,856
Other income from clearing and central counterparty	7,971	7,171
IT and Consulting	-	12
	30,155	**25,666**

The Company generates virtually all of its revenue in Spain.

Outstanding receivables at year-end 2017 and 2016 for all items are recognised under “Trade and trade receivables” on the assets side of the balance sheet at 31 December 2017 and 2016 in “Trade receivables from members and participants”, “Trade receivables from Group companies and associates” (Note 17) and "Other receivables”.

b) Variable direct cost of transactions

“Variable direct cost of transactions” at 31 December 2017 and 2016 includes the variable costs directly attributed to the company's services provided. Specifically, this heading includes variable costs of settlement services (equity segment since the first phase of the Reform entered into force and equity since the second phase of the Reform entered into force) that Iberclear invoiced to the Company, which totalled €1,535 thousand in 2017 (€1,092 thousand in 2016) (Note 17); the variable costs that the stock exchange governing companies and BME Sistemas de Negociación, S.A. invoiced to the Company for transactions involving securities listed for trading in the official secondary markets and multilateral trading systems and of which the Company was informed for the clearing thereof, in accordance with the agreement signed in 4Q 2016, amounting to €511 thousand in 2017 (€131 thousand in 2016) (Note 17); and the variable costs that MEFF Sociedad Rectora del Mercado de Productos Derivados, S.A. - Sociedad Unipersonal invoiced to the Company for the nominal amount traded on financial derivatives of which the Company was informed for the clearing thereof, in accordance with the agreement signed in 2017, amounting to €1,048 thousand in 2017 (Note 17) and agent fees for the OTC segment on interest rates amounting to €10 thousand in 2017 (€15 thousand in 2016).

17. Balances with related parties

At 31 December 2017 and 2016, the Company had the following balances with Bolsas y Mercados Españoles Group companies (Note 1):

	Thousands of euros	
	Bolsas y Mercados Españoles Group	
	2017	2016
Assets:		
Non-current investments (Note 7)	30	30
Trade and other receivables		
Receivables from Group companies and associates	258	294
Current investments in Group companies and associates (*)	66	18
	354	**342**
Liabilities:		
Current payables to Group companies and associates (Note 13)	539	627
Trade and other payables-		
Trade payables (Note 15)	683	556
	1,222	**1,183**
Expenses:		
Other operating costs		
External services (Note 15)	2,114	1,793
Taxes other than income tax	27	26
Wages and salaries-		
Social welfare expenses (Note 19)	-	29
	2,141	**1,848**
Revenue:		
Revenue -		
Access charges for infrastructures and other facilities (Note 16)	1,100	262
Variable direct cost of transactions (Note 16)	(3,094)	(1,223)
	(1,994)	**(961)**

(*) It includes the intercompanies current account balance with Group companies at 31 December 2017 and 2016 amounting to €12 thousand and €18 thousand, respectively, and €54 thousand at 31 December 2017 for the collection right with Group companies for transfers of retirement bonus and healthcare commitments in 2017 pending payment as at 31 December 2017 (Note 12).

18. Other additional financial information

	Thousands of euros	
	2017	2016
Collateral from market:		
Received as pledges and securities as collateral	1,919,611	1,782,032
Total (*)	**1,919,611**	**1,782,032**

(*) Off-balance sheet items not recognised in equity.

Includes collateral received in addition to deposited cash collateral (Note 8) executed by members as collateral for their open positions in their respective segments.

19. Remuneration and other benefits paid to members of the Board of Directors and senior management

Remuneration paid during the year to former and current members of the Board of Directors and the Company's senior management (including within this category the middle manager who sits on the Board of Directors), by item, was as follows:

Financial Year 2017

	Thousands of euros				Equity-settled share-based payments (Maximum number of theoretical shares)						
					2011-2016 Plan			2014-2019 Plan			2017-2020 Plan
	Salaries	Per diems[2]	Other Items[4]	Insurance premiums	First three-year period	Second three-year period	Third three-year period	First Three-year period[4]	Second three-year period	Third three-year period	One-off three-year period
Board of Directors[1]	-	204[3]	-	-	-	-	-	-	-	-	-
Senior Management [1]	339	17	39	-	2,100	2,211	2,196	2,496	2,496	2,496	2,496

(1) The member of management is also a member of the Board of Directors.

(2) This amount includes per diems for attendance at the Board of Directors and Committee meetings, which are recognised under "Other operating costs – External services - Other expenses" in the income statement for 2017 (Note 15).

(3) This amount includes per diems for attendance at the Board of Directors and Committee meetings received by the Secretary of the Board of Directors and Committees, who does not have Company Director status.

(4) On 31 December 2016, the first three-year period of the 2014-2019 Plan expired. BME's Appointments and Remuneration Committee, at its 24 May 2017 meeting, validated the coefficients applicable to the theoretical units convertible into shares allocated to each beneficiary of the second three-year period of the 2014-2019 Plan at 1.5 in the case of the efficiency ratio and 0 in the case of total shareholder return (TSR), and established the number of shares deliverable to the Company's senior management at 1,248 shares, worth €39 thousand. In June 2017, the Plan was settled through the net delivery, once the withholdings set forth in prevailing tax legislation had been applied, of 729 shares (Note 4.13).

Financial Year 2016

	Thousands of euros									
					Equity-settled share-based payments (Maximum number of theoretical shares)					
					2011-2016 Plan			2014-2019 Plan		
	Salaries	Per diems[2]	Other Items[4]	Insurance premiums	First three-year period	Second three-year period	Third three-year period [4]	First three-year period	Second three-year period	Third three-year period
Board of Directors [1]	-	213[3]	-	-	-	-	-	-	-	-
Senior Management [1]	338	17	47	-	2,100	2,211	2,196	2,496	2,496	2,496

(1) The member of management is also a member of the Board of Directors.

(2) This amount includes per diems for attendance at the Board of Directors and Committee meetings, which are recognised under "Other operating costs – External services - Other expenses" in the income statement for 2016 (Note 15).

(3) This amount includes per diems for attendance at the Board of Directors and Committee meetings received by the Secretary of the Board of Directors and Committees, who does not have Company Director status.

(4) On 31 December 2015, the third three-year period of the 2011-2016 Plan expired. BME's Appointments and Remuneration Committee, at its 27 April 2016 meeting, validated the coefficients applicable to the theoretical units convertible into shares allocated to each beneficiary of the third three-year period of the 2011-2016 Plan at 1.5 in the case of the efficiency ratio and 0.8 in the case of total shareholder return (TSR), and established the number of shares deliverable to the Company's senior management at 1,683 shares, worth €47 thousand. In May 2016, the Plan was settled through the net delivery, once the withholdings set forth in prevailing tax legislation had been applied, of 976 shares (Note 4.13).

At 31 December 2017 and 2016, the Company had not extended any loans or advances and had not assumed any collateral or pension or life insurance obligations vis-à-vis current or former members of the Board of Directors or the Company's senior management other than those indicated above.

In compliance with Additional Provision Twenty-six of Organic Law 3/2007, dated 22 March, regarding effective gender equality, the Board of Directors comprises seven members, of which five are men (71.43%) and two are women (28.57%).

Information required under Article 229 of the revised text of the Corporate Enterprises Act

In accordance with Article 229 of the revised text of the Corporate Enterprise Act, to enhance the transparency of corporations, the Company's Directors explicitly state that they have not incurred in the conflicts of interest set forth in Article 229.1 of the consolidated text of the Corporate Enterprises Act, and they are certain that none of the situations mentioned therein apply to the persons related to them.

20. Financial structure

As indicated in Note 1, the Company belongs to the Bolsas y Mercados Españoles Group. Annexe 1 of the Consolidated Financial Statement of the Bolsas y Mercados Españoles Group details the companies that are directly held by Bolsas y Mercados Españoles, the parent company of the Group, and the main companies in which it has indirect interests.

21. Events after the reporting period

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

BME Clearing, S.A. - Sociedad Unipersonal

Directors’ Report for the year ended 31 December 2017

1. Business performance and situation of the Company

The Company is a central counterparty duly authorised by the Spanish Securities Commission (CNMV) pursuant to the Securities Market Act and Regulation (EU) 648/2012 (EMIR).

The Company provides clearing services as a central counterparty for various financial instruments, grouped into the following segments:

- financial derivatives
- energy derivatives
- OTC interest rate derivatives
- trades involving fixed-income securities
- equity spot trades

A total of 44,576,977 contracts for instruments from the group of contracts with non-financial underlying assets (derivative financial instruments) were cleared in 2017, a decrease of 1.71% from the year before. The breakdown is as follows:

	Jan-Dec 2017 (255 days)	Jan-Dec 2016 (257 days)	Change	Open Position
Equity options	20,316,354	22,900,619	-11.28%	5,904,677
IBEX 35 options	4,303,701	3,222,390	33.56%	655,186
Equity futures	11,671,215	9,467,294	23.28%	1,268,075
IBEX 35 futures	6,268,290	6,836,500	-8.31%	113,848
IBEX 35 Mini futures	1,618,857	2,498,973	-35.22%	11,671
IBEX 35 Div Impact futures	43,372	58,044	-25.28%	16,260
Equity dividend futures	347,435	368,545	-5.73%	97,329
10Y bond future	-	360	-100.00%	-
Sector Futures	7,753	1,619	378.88%	211
	44,576,977	**45,354,344**	**-1.71%**	**8,067,257**

Open interest at year-end 2017 comprised 8.1 million contracts, 5.3% up year-on-year.

The volume cleared for the energy contract group in 2017 amounted to 17,930,085 MWh, broken down as follows:

	Jan-Dec 2017 (255 days)	Jan-Dec 2016 (257 days)	Changes	Open Position
Annual Energy Contracts	9,855,120	8,479,680	16.22%	1,060,080
Quarterly Energy Contracts	5,298,079	8,538,112	-37.95%	4,231,192
Monthly Energy Contracts	1,927,009	5,282,402	-63.52%	2,690,422
Weekly Energy Contracts	164,496	831,551	-80.22%	6,888
Weekend Energy Contracts	57,721	194,112	-70.26%	0
Daily Energy Contracts	612,504	744,204	-17.70%	1,200
Annual Energy Mini Contracts	8,760	8,760	0.00%	0
Quarterly Energy Mini Contracts	5,160	0		13,202
Monthly Energy Mini Contracts	900	0		6,280
Weekly Energy Mini Contracts	336	0		0
Daily Wind Power Contracts	0	4,800	-100.00%	0
	17,930,085	**24,083,621**	**-25.55%**	**8,009,264**

Open interest at year-end 2017 comprised 8 million MWh, 11.62% down year-on-year.

The cash value of the Company's business as central counterparty for fixed-income securities trading stood at €295.26 billion, relating to 4,915 buy/sell-back public debt trades amongst members. These figures represented decreases of 27.99% and 7.65%, respectively, from the year before.

In equity clearing, 102.1 million trades were cleared, including buying and selling, with a cash volume of €1,293,464 million.

2. Financial performance

The Company reported net profit of €11,751 thousand for 2017, compared to €10,768 thousand in 2016, an increase of 9.13%.

In 2017 revenue rose 17.49% to €30,155 thousand (from €25,666 thousand in 2016), broken down as follows:

	Thousands of euros	
	2017	2016
Access charges for infrastructures and other facilities	2,530	1,374
Clearing, settlement and CCP-		
Equity	10,434	7,393
Fixed Income	793	860
Financial derivatives	8,427	8,856
Other income from clearing and central counterparty	7,971	7,171
Other sales and services	-	12
	30,155	**25,666**

"Direct variable costs from transactions" also includes variable costs directly attributed to the provision of services, mainly settlement costs and costs that depend on volumes in the equity and financial derivatives segments.

Operating costs stood at €9,868 thousand, 4.6% up on the previous year (9,430 in 2016).

Operating profit advanced 8.4% compared to 2016 (€15,625 thousand in 2017 vs. €14,414 thousand in 2016).

As a CCP, the Company guarantees the completion of all contracts and positioned entered in the system. Based on the open interest positions of each clearing member, the Company makes a daily calculation of the margins these members must post to comply with their obligations. The cash value of the collateral received in this connection at 31 December 2017 stood at €3,153,196 thousand, This collateral is deposited in the Company's accounts in the Eurosystem-Banco de España. In addition, the Company receives securities as collateral (at 31 December 2017 received securities were worth €1,919,611 thousand.

The Company's own cash, which at 31 December 2017 amounted to €1,035 thousand, is invested in public debt repos.

3. Events after the reporting period

No events have occurred since the end of the reporting period with a material impact on the 2017 annual accounts.

4. Main business risks and risk management in accordance with the EMIR

Following is a detailed explanation of the degree of exposure of the Company to the main risks and how it manages these risks in compliance with Regulation (EU) 648/2012 (hereinafter, "EMIR") and its implementing provisions (Delegated Regulations (EU) 152/2013 and 153/2013).

The Company has a risk management framework comprising policies, procedures and risk management systems that enables it to identify, measure and control the risks to which it is, or could be, exposed. In addition, in accordance with Article 26 of the EMIR, it has a Chief Risk Officer, who applies the risk management framework, including the policies and procedures established in this respect by the Board of Directors.

All risks are first identified by the Chief Risk Officer and Company's management, which periodically review risk management, especially with respect daily operations.

Issues related to changes in the risk model, default procedures, and the requirements for accepting members pursuant to Article 28 of the EMIR are handled by the Risk Committee, which advises the CCP's Board of Directors on related matters. The Risk Committee comprises nine members appointed by the Board of Directors as per the criteria provided for in the EMIR: two independent members, four representatives of clearing members and three representatives of clearing member clients.

As per Article 7 of the Commission Delegated Regulation 153/2013, the CCP's Board of Directors is responsible for the establishment and oversight of the risk management function, and senior management for ensuring that sufficient resources are devoted to risk management and being actively involved in the risk control process.

The risks identified and managed by the Company, in accordance with Article 27 of the EMIR, are as follows:

- Market, depository and settlement platform risk: risk of a participant's performance, a malfunction in the depositories (IBERCLEAR, CLEARSTREAM, EUROCLEAR) or in the connection with the markets (MEFF, AIAF, SIBE), or in the TARGET2 settlement platform affecting all the CCP's participants.

  The Company has an agreement with each market, one with Banco de España and one with IBERCLEAR, and a framework agreement with CLEARSTREAM and another one with EUROCLEAR. These agreements regulate the obligations of each party, with well-defined lines of responsibility, and procedures for coordinating risk management and default. These entities work together to resolve incidents, and continuity mechanisms are set forth in the aforementioned agreements which are triggered if communications links are severed.

- Legal risk: risk of the Spanish Securities Market Act, BME CLEARING's Rule Book, insolvency laws or other legislation regarding cross-border collateral (collateral deposited in the CCP's account in CLEARSTREAM and EUROCLEAR) being applied unexpectedly due to insolvency, which would hinder executing margins or positions. The legal risks are analysed by the Legal Advisory Department, which proposes solutions to mitigate the risk or to deal with the consequences of any defaults.

- Credit risk: risk of default by a clearing member, which is mitigated almost completely with the margins posted with the CCP, which are calculated and required in accordance with Articles 41, 42, 43 and 45 of the EMIR.

The Company operates as the CCP for derivative instruments, equity transactions and public debt repos; therefore, it incurs counterparty risk. It hedges this risk by managing the collateral required of all market participants based on a sophisticated system of measurement and control of open positions that enables it to request additional collateral depending on the day-to-day activity of members in real time, under the terms set out in its Regulation and Circulars, and in prevailing legislation.

To control risk deriving from its positions in financial assets and exposure to counterparties, the Company 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, the Company 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, the Company calculates the amount of the default fund every month. The amount is calculated to cover the maximum 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 collateral fund and own dedicated resources) is also analysed. Non-covered counterparty risk is defined as the expected loss deriving from default by the counterparty as a result of insufficient accredited collateral (specific financial resources) that could arise due to one-off market events that trigger a severe risk of default by clearing members.

The margin calculation model developed by the Company 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.

The Company 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.

The Company 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 collateral through members, the Company applies a prudential haircut.

The Company applies haircuts for the following market risks:

- Interest rate risk,
- Currency risk,
- Credit spread risk (risk premium),
- Price fluctuation risk,
- Concentration risk,

- Liquidity risk: risk that the CCP will not have sufficient funds available to meet the payment obligations of a member that has defaulted. In accordance with Article 44 of the EMIR, the Company has a liquidity plan approved by the Board that sets out the mechanisms to ensure that the CCP has access to adequate financial resources to cover its liquidity needs in any circumstances. This risk is very low given the large amount of cash margins posted. Two elements are identified in the liquidity risk:

  - Liquidity or funding risk is the risk that the Company will encounter difficulties in meeting its payment obligations or, to do so, it is forced to raise funds under onerous conditions.

  - Liquidity/market risk is the risk the Company 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, the Company 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, the Company 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, the Company 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, the Company 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.

- Operational risk: risk deriving from errors in processes and systems or human error that interrupt the service provided by the CCP or lead to losses. Measures in place to mitigate this risk include:

  - Double validation of key processes.

  - Daily reconciliations of the records maintained in the CCP's system and registries of the depositories, markets and settlement platforms.

  - Possibility of alternative communication and data transmission channels.

  - Continuity policy, approved by the Board of Directors, in accordance with Article 34 of the EMIR.

  - Immediate evaluation of any operational incidents to provide a solution, prevent the incident from recurring and improve the procedures.

- Business risk: risk of a deterioration in the CCP's financial position, where expenses outweigh income (e.g. as a result of poor management) leading to the CCP having to draw down on its own resources to cover its expenses. Measures in place to mitigate this risk include:

  - The CCP maintains close contact with its members to ascertain their commercial needs.

  - Management and the CCP monitor and manage the Company's revenue and earnings.

  - The Company is a member of industry associations, such as the European Association of CCP Clearing Housing (EACH) and Futures Industry Association (FIA), and is in regulator contact with members to keep abreast of new industry needs with respect to CCPs.

  - The Company closely monitors all international and domestic legal developments.

- Risk of margins and CCP funds in deposit: risk of fraud or poor interpretation of the records. Securities are deposited directly in accounts of central depositories, whereby this risk is low, and the CCP reconciles records every day.

- Investment risk: risk that the CCP's counterparty in investments of cash collateral or the CCP's own resources goes bankrupt. This risk is low, as the Company's investment strategy is designed in accordance with Article 47 of the EMIR and is highly conservative, placing priority on security of the investment at all times over profitability:

  - Cash is invested in financial instruments with low credit and market risks. Mostly it is invested in overnight Spanish sovereign debt repos, conservative haircuts are applied, and risk is diversified across at least four counterparties with high credit quality. The investments may be liquidated quickly, if required.

  - Part of the funds are deposited in cash in the CCP's cash accounts in TARGET2- Banco de España, one account for own resources (NRBE 9094), the other for third-party collateral or funds (NRBE 9095) and another operating account (NRBE 9088) to collect and pay securities settlements in T2S. The CCP has own funds deposited in commercial banks for operating amounts. There are no third-party funds deposited in commercial banks.

5. Capital management

To comply with EMIR regulations, specifically Article 16, and Commission Delegated Regulation 152/2013, the Company has carried out the obligatory analysis of the risks incurred, which have subsequently been classified, controlled and measured to determine that sufficient coverage is in place, according to the provisions of the regulations.

- Article 16(2) of the EMIR notes that the CCP's capital should be sufficient to ensure an orderly winding-down or restructuring of the activities over an appropriate time span and an adequate protection of the CCP against credit, counterparty, market, operational, legal and business risks which are not already covered by specific financial resources as referred to in Articles 41 to 44 of the EMIR.

- Article 45(4) of the EMIR indicates that the CCP shall use dedicated own resources before using the default fund contributions of non-defaulting clearing members. Article 35.2 of Commission Delegated Regulation (EU) 153/2013, implementing the aforementioned Article 45, indicates that the minimum specific financial resources, known as "skin in the game", are at least 25% of the minimum capital requirement set out in Article 16 of Regulation (EU) No. 648/2012 and Commission Delegated Regulation (EU) 152/2013 of the European Commission.

At the end of 2017, the Company comfortably met the legal minimum capital requirements.

To ensure that these capital requirements are met on a timely basis, the Company has a CCP capital requirements monitoring procedure. The aim of this procedure is to ensure that sufficient capital is permanently available to cover the risks.

The financial resources are invested in accordance with Article 47 of the EMIR, i.e. they are deposited in cash in the CCP's dedicated account in TARGET2-Banco de España, or invested in financial instruments with low credit and market risks.

6. Outlook for the Company

In the first two months of 2018, 5.6 million derivatives contracts were cleared, 0.48% up on the same period in the previous year. The volume of electricity derivatives cleared amounted to 1.8 TWh, 13.62% down on the same period in the previous year. In transactions with fixed income securities, the effective amount recorded was €24.46 billion, 62.15% down on the same period in the previous year.

In the equity segment, in the first two months of 2018 a volume of 17.4 million trades was cleared (+12.3%), with a cash volume of €191.36 billion (-6%).

7. Research and development activities

The Company, as part of the Bolsas y Mercados Españoles Group, develops its model for innovation and technological improvement based on the design and the development of in-house applications. R&D efforts in 2016 focused on the development of the equity segment in line with the Reform of the Securities Clearing and Settlement System, which had commenced in previous years, as explained in Note 5 to the financial statements.

8. Transactions with treasury shares

The Company does not hold any treasury shares and did not carry out any transactions with treasury shares in 2017. All of the Company's share capital is owned by Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A. (BME).

9. Use of financial instruments by the Company

The policy pursued by the Company regarding the investment of cash surpluses in 2017 consisted of investing the surpluses in reverse repos with short-term maturities.

Finally, under the resolution adopted by the Sole Shareholder for the derivative acquisition of the shares of Bolsas y Mercados Españoles, Sociedad Holding de Mercados y Sistemas Financieros, S.A (BME), the parent company of the BME Group, of which the Company forms a part, the Board of Directors adopted a resolution concerning the conditions and limits for purchase of treasury shares, delegating the necessary powers to the executive president and the general manager of BME to enable each or either of them to make the effective purchase of BME shares.

....
Francisco de Oña Navarro
Chairman

....
Ignacio Solloa Mendoza
Director

....
Santiago Carrillo Menéndez
Director

....
Miguel Ángel Tapia Torres
Director

....
Mr. Gregorio Arranz Pumar
Director

....
Mrs. Marta Bartolomé Yllera
Director

....
Mrs. Beatriz Alejandro Balet
Director