I. Analysis of the situation of the City of Madrid

1. Economic environment

The EMU continues to present dynamic growth rates, which continues to be a source of concern for the ECB due to its potential effect on inflation. Despite the year-on-year rate of increase in prices not exceeding the objective of 2%, the ECB has placed the repo rate at 4% and will persist with the rises, which could take interest rates to 4.5% before the end of the year.

In the United States, private consumption remains the main engine of economic growth, compensating for the poorer performance of other areas, especially residential investment (which fell by 16%). At present, the market does not anticipate reductions in the Federal Reserve interest rate.

Spain is posting growth rates of around 4%, although the rise in interest rates by the Central Bank will have a moderating effect on consumption and business investment. As a result of all these factors, growth rates of less than 4% are anticipated for the coming quarters, with growth of 3.8% being posted for 2007.

Madrid's economy recorded a year-on-year rate of 4.3% of GDP during the first quarter of 2007, once again exceeding the growth of the Spanish economy as a whole. The labour market in the region has shown some degree of moderation in the pace of job creation and a higher unemployment rate compared to the same quarter in the previous year. The outlook for growth in GDP for the City of Madrid suggests a 4.0% year-on-year rate in 2007.

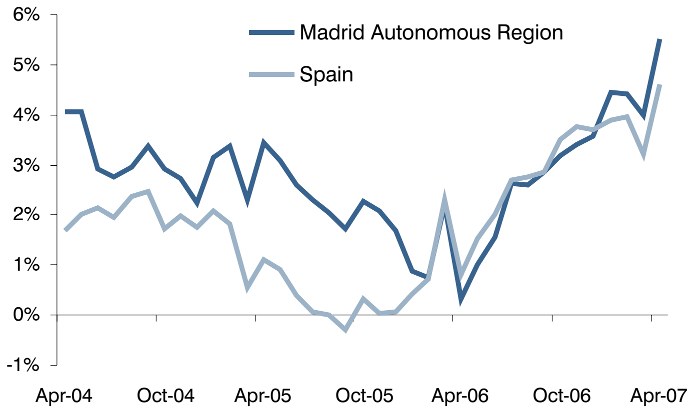
2. Production

INDUSTRY

The Industrial Production Index in the Madrid Autonomous Region showed an upturn to 5.5% in its average annual growth rate in April, increasing the difference with the Spanish national average to almost one percentage point. As a result, after the slight fall in March, when the rate of growth showed a downturn of four tenths of a point, there is a return to the upward trend in Madrid's IPI seen in previous months.

During the first quarter of 2007, the seasonal-trend data for Industrial GAV and the gross figures for industry in the Madrid Autonomous Region showed growth rates of 3.0% and 3.4%, respectively, which reflect the continuation of the rate of growth recorded in the final quarter of last year. Finally, in the first quarter of 2007 Social Security registration in industry in the City of Madrid showed a year-on-year growth rate of -2.4%, thereby resuming the decline observed in previous quarters with the exception of the third and fourth quarter, when practically no variation in industrial Social Security registration in Madrid was observed.

Industrial Production Index
(annual average rate)



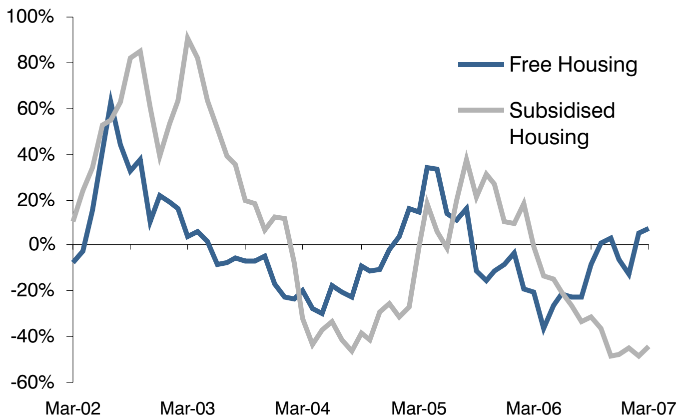
Source: National Institute of Statistics

CONSTRUCTION AND THE PROPERTY MARKET

Employment in the construction sector in the City of Madrid is tending towards normalisation. In March 2007, workers with Social Security registration increased by 4.5% year-on-year, a long way below the rates attained after the legalisation process for foreign workers, and very similar to those recorded before this process began.

The residential segment of the construction sector recorded lower levels of activity than in previous periods, as shown in the figures for new homes built, which decreased by 13% year-on-year in March 2007. When free and protected homes are considered separately, a slight increase in the licences granted to build free homes can be seen, while state-subsidised housing maintained its marked decline of over 40%, accentuating the gap which opened in August 2005.

Tendering of homes. Free and Subsidised
(year-on-year rate)



Source: GMU - Madrid City Council

SERVICES

Financial system

The volumes of credit investment and deposits by clients in financial institutions in the Madrid Autonomous Region in the fourth quarter of 2006 once again presented high levels of growth, exceeding the increases recorded in Spain as a whole. This means that the Madrid Autonomous Region continues to account for the highest volume of both financial products in the Spanish national total, with 28.3% and 24.2%, respectively. The thirty new branches of deposit institutions opened in the City of Madrid in the fourth quarter of 2006 make a total of 3,089, a quarterly increase of 1.0%.

The trend towards moderation in mortgage credit at the end of 2006 continued in the first quarter of 2007. On one hand, the number of mortgages fell by 2.2%, something which had not happened since the same quarter in 2005. This fall is also important considering that a year previously, mortgages increased by 13.2%. On the other hand, the growth in mortgaged capital was also restrained, at levels of 4.9%, with a total fall of more than 25 percentage points compared to the same period in the previous year. The continuous rises in the EURIBOR rate, the official benchmark rate in the mortgage market, are undoubtedly the main explanatory factor in these trends, which have also been observed in Spain as a whole.

New monthly records were achieved in March in both the assets traded through the Spanish Stock Exchange Interconnection System (SIBE) and in the number of operations, with 161,496 million variable income Euros and 3.25 million, respectively. So far this year, the Madrid Stock Exchange remains one of the most profitable stock markets, exceeding the main international exchanges.

Tourism

The first 5 months of 2007 showed an increase in the dynamism of tourism demand in the City of Madrid. The number of travellers accommodated increased by 7.9% year-on-year, compared to the 5.2% obtained in 2006, and the number of overnight stays increased by 8.0%, compared to the figure of 5.1% in 2006. The most recent figures therefore show an acceleration in the trend observed in the last two years, as the result of a strong boost in foreign demand.

The number of hotel beds remained at above 68,000 in the period between March and May 2007, meaning that the year-on-year rate of growth remained over 4%. The improvement in the quality of facilities is once again one of the features of this process of growth in the range on offer, with the number of places offered by four-star hotels as the engine of its dynamism, thereby continuing the trend observed in 2006.

Despite the current good performance of the hotel sector, with its high growth rates, the excellent performance of tourist demand continues to contribute to the good results by the sector in hotel income. The rate of year-on-year change in the Hotel Income Index of the Madrid Autonomous Region remained above 4% in March and April 2007, although it fell to 2.4% in May.

Transport

A year-on-year increase of 12.1% in passenger traffic was noted at Madrid-Barajas airport in May. This increase rises to 14.6% if the last three months available (March-May 2007) are taken as the benchmark. A new record number of passengers was recorded in April, when the figure of 4,313 million users was exceeded.

After the record figures posted in the previous two quarters, Social Security registration in the transport sector in the City of Madrid fell in the first three months of the year. As a result, there were 76,771 workers with Social Security registration at the end of this period.

As regards mobility, further falls in the average daily intensity of urban traffic in the City were recorded in January-February 2007, making a total of 2.5 million vehicles (6.1% less than the previous year). During the period January-April 2007, there were fluctuations in the total volume of passengers using public transport (buses and the Metro), although it should be pointed out that a high of 108,647 users was reached in March.

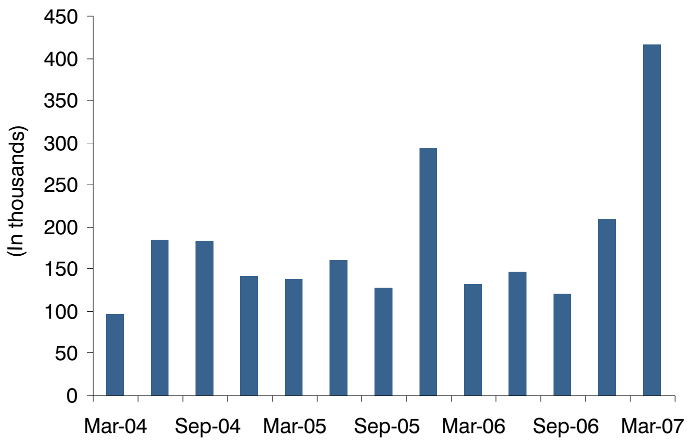
3. Business Dynamic

The number of company constitution proceedings in the City of Madrid remains at the record high levels of the last two years, with the annual average remaining above 1,450 in February and March of this year, very close to the figure of 1,465 constitution proceedings for November 2006, the highest number in recent years.

Apart from the positive figures for constitution proceedings, the average subscribed capitalisation figure reinforces the idea of a good business outlook in the City of Madrid. An average capitalisation of 415,447 Euros was reached in the first quarter of the year - the highest figure in recent years. This figure is an increase of 214% compared to the figure for the same quarter in 2006.

The reduction in the number of dissolution proceedings in February and March and the ongoing good results in constitutions led to the business turnover rate in the City of Madrid falling to 8.9% in March.

Average capitalisation of Trading Companies established
(City of Madrid)



Source: Statistics Office, Madrid City Council Registrars' College

4. Demand

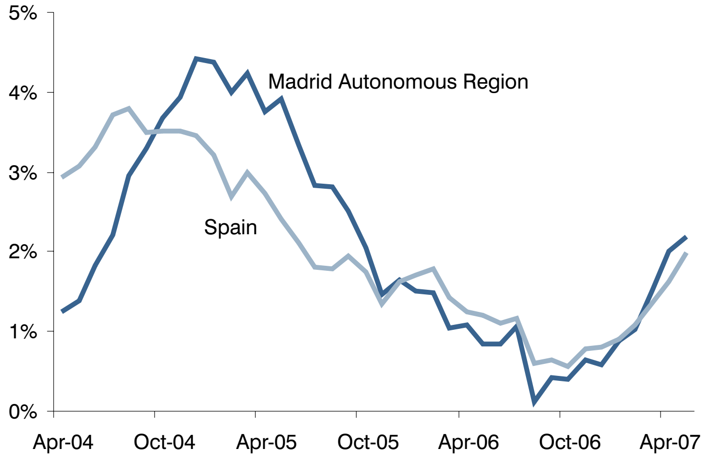
According to the index of retail sales at constant prices, retail sales in the Madrid Autonomous Region increased in April by a year-on-year rate of 1.7%, which is a downturn compared to the significant increase of 7.8% obtained in March, or the figure of 2.7% for February.

In May, the Madrid Consumer Confidence Index (MCCI) presented the largest increase in the last four years (10 points compared to the same month of last year and almost 8 points compared to March of this year), its highest value since July 2004. Although the Madrid Autonomous Region Chamber of Commerce Survey of Consumption usually shows positive values for May, on this occasion observers have noticed a particular increase in consumer optimism, with the benchmark rate at its closest to the level of 100 (the "normal" value) in the last six years.

After the high obtained at the end of 2006, in the first quarter of 2007 Social Security registration in the retail trade in the City of Madrid returned to levels similar to those recorded in previous quarters, with a year-on-year growth rate of 1.5%.

The most recent figure for the region's foreign trade shows a downturn in the average annual rate of growth in the trade balance deficit, which in March was 8.5%, after significant increases in January and February.

Retail sales in constant prices
(annual average rate)



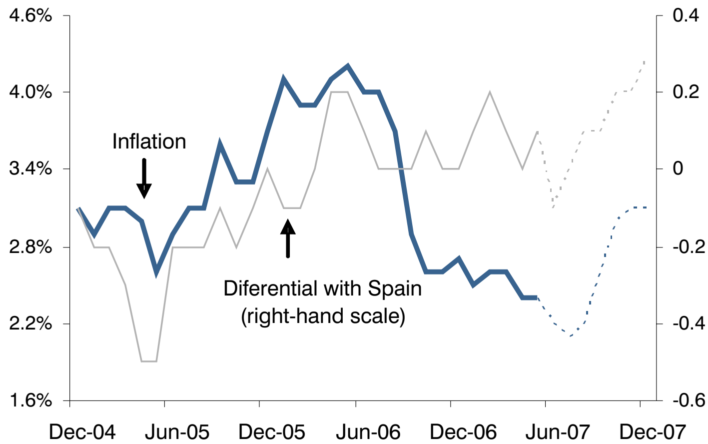
Source: National Institute of Statistics

5. Prices and salaries

The Consumer Price Index of the Madrid Autonomous Region continued on a moderate path in the first months of the year. The year-on-year change in the CPI in May was 2.4%, a tenth of a point higher than the figure recorded for Spain as a whole. The forecast by the Flores de Lemus Institute for the General Office of the Economy of the Madrid Autonomous Region points to a continued moderation in prices until September, when a slight upturn is anticipated, with the year ending with a year-on-year growth of 3.1%. The Industrial Price Index has also shown a downward trend, falling to 1.7%, its lowest rate since 2004, mainly as a result of the fall in energy prices.

However, the rise of new housing in the City of Madrid was higher than that recorded for the province and Spain as a whole, while prices for non-new homes showed a gradual downturn in growth compared to 2006. Finally, labour costs showed a slight upturn to 4.5% in the first quarter, five tenths of a point above the Spanish average.

CPI in the Autonomous Region of Madrid
(Rate of year-on-year change)



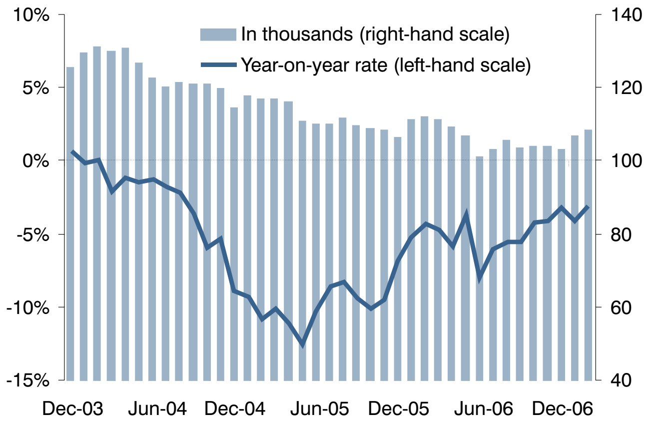
N.B: The dotted lines show forecasts.
Differential calculated using forecasts by the FLI (region) and SECT (Spain).
Source: NSI, SECT and FLI

6. Labour market

The results of the Active Population Survey for the first quarter of 2007 show a slowdown in job creation in the City of Madrid which was especially intense in the group of wage earners and those employed in the industrial sector, where jobs have been shed. The growth of the active population has also eased, with an increase of 2.1%. The female proportion of the active population continues to increase due to its greater dynamism and accounts for 46.3% of the total. Finally, the rate of unemployment is at the same level as the previous quarter due to the increase in the male unemployment rate being compensated for by the decrease in female unemployment.

Other sources analysed, such as Social Security registration and recorded unemployment, confirm the worsening outlook in the labour market in the City of Madrid. Despite a new high of 1.91 million workers registered being reached in the first quarter of 2007, after an increase of 2.9%, Social Security registration increased by three tenths of a point less than in the previous quarter. However, registered unemployment showed a slight increase in May, breaking the downward trend that had been recorded since February 2004. These results should be treated with caution due to the effects on the variables still caused by the changes in the statistical sources used for measurement (a methodological change in 2005 in the Active Population Survey and the process of legalisation of foreign workers in Social Security registration).

Unemployed in the City of Madrid
(year-on-year rate in thousands)



Source: Madrid City Council Statistics Office - Spanish Institute of Employment

II. Sustainability

The Local 21 Agenda of the City of Madrid

Like other cities in the world, Madrid has a major responsibility for climate change and as such, must form part of a joint commitment by towns, villages and cities to work towards the sustainability of the planet. Madrid made this commitment by signing the Aalborg Charter in 1996, a joint action plan for European towns, cities and villages. Since then, the City of Madrid has been implementing the Local 21 Agenda, an Action Plan for the city and its districts, which has been produced by a new process of mixed participation (Local 21 Agenda Committees plus public consultation among the citizens of Madrid), which has led to documents of consensus to achieve a more sustainable city.

In order to meet its commitments, Madrid City Council is also implementing programmes of initiatives aimed at a more efficient and responsible use of the natural resources of the city and its environment, covering areas including sustainable mobility, water use and management, responsible consumption and environmental dissemination, the results of which can already be seen in the city.

III. Territorial balance in the City of Madrid

General indicators of the labour market and economic activities in the City of Madrid

The objective of this study is to assess the structure and business dynamic of the districts of Madrid, and the employment activity in each one. Analysis of both National Insurance accounts and the labour market shows the specialisation of the City of Madrid in the services sector, with a greater concentration in the majority of districts in the area of business, financial and real estate, followed by retail and hostelry.

Economic centralisation in the Central Area persists, despite districts on the outskirts presenting a more dynamic development generated by job creation, population growth and the urban development, and service industry dispersion processes, which has encouraged territorial cohesion and increased convergence. Foreign workers have increased in practically all the districts, with the Centre having a role as the initial destination for the immigrant population.

IV. Madrid as a business attraction pole

Diversification of the business fabric as an attraction factor in the City of Madrid

The diversification of the business fabric plays a key role in the socio-economic structure of a territory. This section is therefore a description of the business fabric of the City of Madrid, taking into account various aspects such as its size, legal form, sector of activity and density. Based on these factors, the study concludes that Madrid is the main centre of attraction for business in the region, with considerable business density. In the City, the preferred legal structures for businesses are the forms of public limited or limited liability companies, and they specialise in sectors such as business services, financial brokerage, and health and educational activities.

The chapter also includes the results of the recently published *Worldwide Centres of Commerce Index*, which places Madrid in a favourable position among the cities analysed, highlighting its economic stability, for which it is given maximum points.

V. Monographic report

Metropolitan dimensions of the City of Madrid

The metropolitan area of Madrid has become consolidated as a large urban system, in spatial, demographic and economic terms. It is often difficult to delimit a metropolitan area, because its limits are vague and constantly changing, and also assumes different scales of projection (local, regional, national and international). Rather than because of urban continuity, the connectivity and metropolitan integration of the urban region are guaranteed by the existence of an efficient intermodal communications system.

The complexity of the space can also be seen in the unequal way in which metropolisation takes place, which in Madrid has led to several different metropolitan rings radiating from the central city - the Urban Metropolitan Area, the Suburban Metropolitan Area, the Peri-urban Expansion Area and the Peri-urban Dissemination Area.

The Madrid metropolitan area has expanded beyond the limits of the autonomous region, creating a large constantly growing urban region which includes the capital of the provinces of Guadalajara, Segovia and Toledo. The improvement of communications and especially high speed communications in the next few years will undoubtedly make a similar radiation possible in other provinces in the territorial area.

Madrid has become the third largest metropolitan area in the European Union, only exceeded by London and Paris. Madrid is also strongly competing on the global stage, as part of the select club of large cities and metropolitan areas governing the world economy.