

Executive summary

I. Analysis of the situation of the City of Madrid

1. Economic environment

In 2007, the world economy maintained the dynamism shown in previous years by posting an increase in GDP of around 5% for the second consecutive year. However, the present crisis unleashed in the American financial system, the effects of which have been passed to on the other developed markets, determines the future developments in international GDP. The American economy ended the last financial year with the lowest growth rate (2.2%) of the last five years. On the other hand, taking into account that the cyclical position of the EMU is not as bleak, the ECB has continued to maintain that the anticipated gradual moderation in the growth of GDP forces it to watch prices closely.

In Spain, the decreased dynamism of domestic demand, together with a negative contribution by the more contained foreign sector, could mean that the increase in GDP is around 2.4% in 2008.

The developments in the main figures for the current situation in the Madrid Autonomous Region show some moderation in growth as compared to previous quarters. However, the region maintains the economic dynamism that typifies it, with growth of 4.0% for the year as a whole. NSI places the increase in the GDP of the Madrid Autonomous Region at 3.9%, a tenth of a point above the figure for Spain as a whole. The number of employed grew 1.4% and the unemployment rate was 6.4%. The forecasts available for the City of Madrid show solid foundations for growth, with a rise in GDP of 3.9% for 2007, although this will be somewhat more moderate in the two subsequent years.

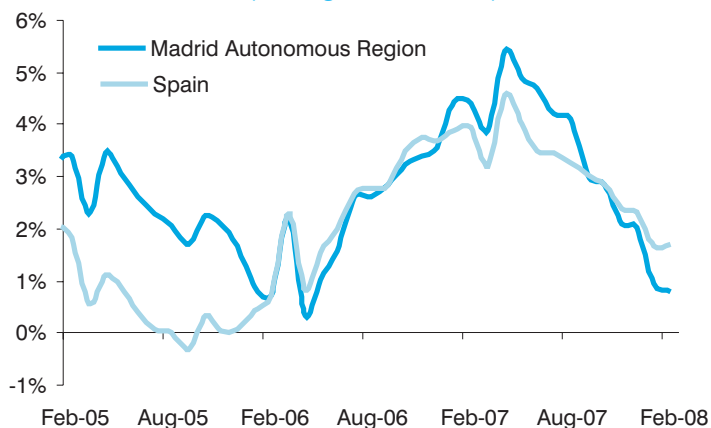
2. Production

INDUSTRY

The Industrial Production Index (IPI) in the Madrid Autonomous Region recorded an average annual growth of 0.8% in February 2008, almost a point below the average for Spain as a whole. With this figure, there have now been ten months of a sustained downturn in the rate of growth of this Index. Elsewhere, in the fourth quarter of 2007, a year-on-year rise in the gross figures and seasonal-trend figures for Industrial GAV was observed, which in both cases was 1.3%.

Social Security registration in the industry sector in the City posted a year-on-year growth rate of -2.3% in the fourth quarter of 2007, which is a moderation in its decline of four tenths of a point compared to the previous quarter.

Industrial Production Index (average annual rate)



Source: NSI

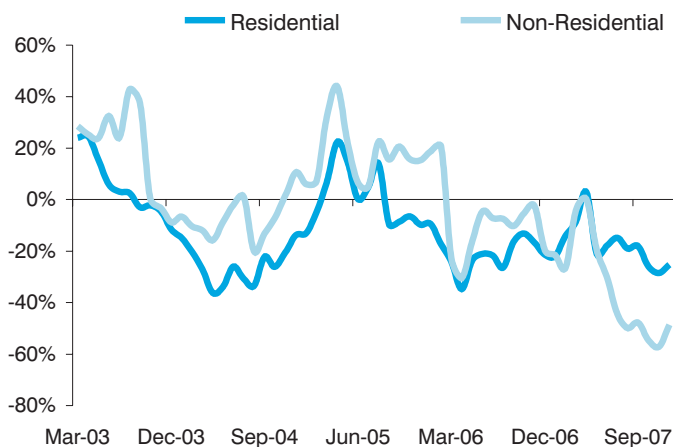
CONSTRUCTION AND THE REAL ESTATE MARKET

The number of workers registered with the Social Security system in the construction sector fell in year-on-year terms in the City of Madrid for the third consecutive quarter. In December 2007, the number of workers in the construction sector registered was 149,374, 6.0% less than the amount recorded in the same month in the previous year.

The decline observed in the labour market is in line with the slowdown that is taking place in activity in the sector. The number of housing construction licences granted fell by 22.4% in 2007.

However, the non-residential segment of construction is what has fallen away most in recent months. While the area of construction licences for residential use fell by 25.2% in 2007, the decline in the area for non-residential uses was even more striking, at -48.6%.

Changes in the area of construction permits per land use (average annual rate)



Source: Town Planning and Housing Government Department Madrid City Council

SERVICES

Financial system

For the fifth consecutive quarter, the growth in the volume of deposits by clients in the Madrid Autonomous Region fell in the last three months of 2007, placing average growth in the year as a whole at 18.1%, 7.7 percentage points beneath the figure recorded in the previous year. The intensity in the decline in deposits is greater than that observed in Spain as a whole, and this is reducing the positive differential that the region still maintains. The liquidity problems of the financial system are making the conditions for gaining access to the mortgage market harder, as can be seen in the number and value of mortgages, in both the region and in Spain as a whole.

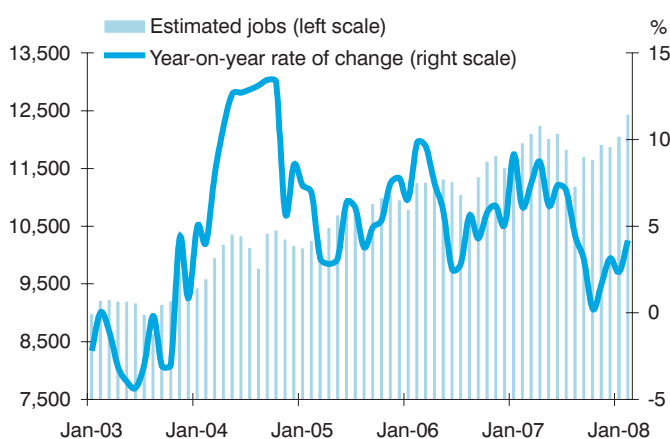
As regards the stock market, the yields of the main indexes, including the Madrid Stock Exchange index, have been negative since January, with total losses of over 10% in the first three months of 2008. As regards the yields of these indexes, the Madrid Stock Exchange has the best performance and has a higher yield than the other main international indexes, with signs of recovery observed in the second half of March.

Tourism

The international economic slowdown is affecting the Madrid tourist sector, reducing the rates of growth of tourist demand. According to the NSI Hotel Occupancy Survey, the year-on-year growth in the number of overnight stays was 3.8% for the total quarterly period of December 2007 - February 2008, compared to a rate of 7.4% obtained by comparing overnight stays in 2007 with those in 2006. Despite the slowdown in the sector, the City remains one of the most dynamic Spanish destinations, with the number of travellers increasing by 4.2% in year-on-year terms in the December 2007 - February 2008 total.

Employment is also at record high levels. In February 2008, 12,440 workers were working in this sector. Employment has been increasing its dynamism in recent months, after presenting the lowest year-on-year growth rate of the last 3 years in October 2007. In February 2008, employment increased by 4.2% in year-on-year terms.

Employment in hotels in the City of Madrid



Source: Town Planning and Housing Government Department Madrid City Council

Transport

Passenger traffic at Madrid-Barajas airport in 2007 reached a record high of 51.8 million passengers, 14.7% more than in 2006. This dynamism continued in the first two months of 2008.

Employment in the transport sector in the City of Madrid posted a heavy fall in the final quarter of 2007, when its volume fell below 75,000 workers, a level that had not been recorded since the first quarter of 2002.

Between December 2007 and February 2008, the average daily intensity of urban traffic in the City of Madrid recorded a further decline, mainly due to the lower intensity recorded on the second ring road and between this road and the M-30, and the fall in traffic beyond the M-40.

3. Business Dynamic

The slowdown in the economies of Spain and Madrid in the fourth quarter of 2007 could also be seen in the business dynamic of the City of Madrid. The annual average number of company constitution proceedings in the City fell from a high of 1,464 businesses on average in September 2007 to 1,403 in December of the same year. Despite the size of the decline not being alarming, it is worth stressing that there is an important change of trend reflected by these figures for the constitution of businesses.

The Business Confidence Index produced for the City of Madrid shows a further decline in this first quarter of 2008 to 12.9 points. This figure is a record low for this series, which has been produced since the fourth quarter of 2004, thus ending a medium-term trend of rises in the climate indicator. All the economic sectors are suffering from this decline in the perception of the business climate of the sector, especially the construction sector which posted negative figures, indicating that there is a larger number of businesspeople in the sector who have seen their business climate worsen than the number who have seen it improve.

4. Demand

The General Retail Trade Index of the Madrid Autonomous Region recorded a year-on-year increase of 0.3% in constant terms in February. This figure shows some stabilisation after the negative year-on-year growth rates observed during the two preceding months.

Despite the uncertainty regarding the general development of the economy, the Madrid Consumer Confidence Index (MCCI) recorded a slight increase to 66.5 points which nonetheless can be explained by seasonal reasons, as in January there is usually an upturn compared to the previous wave in November. It should also be borne in mind that the MCCI is at more than twenty points below the value recorded in the same period last year.

Workers registered with the Social Security in wholesale shops fell by -1.9% in year-on-year terms in the fourth quarter of 2007. This makes a total of four consecutive quarters of year-on-year falls. In the retail trade registered workers posted a slight increase in the fourth quarter, of 0.1% compared to -0.3% in the previous quarter.

As far as the foreign sector is concerned, the total trade deficit for the last twelve months for the Madrid Autonomous Region showed a year-on-year growth of 2.6% in January 2008, at a level of 40,844 million Euros. This is a new high after several months of sustained increases.

Retail sales at constant prices
(average annual rate)

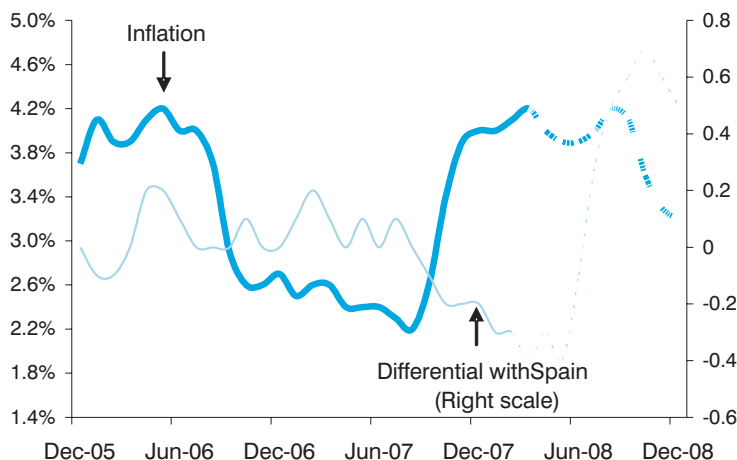


Source: NSI

5. Prices and salaries

The upward trend in the inflation rate continues in the Madrid Autonomous Region. Unfavourable developments, mainly in the prices of energy and food, pushed the Consumer Price Index upwards by 4.1% in February. However, the outlook suggests a gradual moderation which could place the CPI at around in December 2008. Developments in industrial prices in the Madrid Autonomous Region were quite positive, with an increase of 2.8% in February, reaching a price differential with Spain of almost four percentage points.

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



N.B.: The dotted lines show predictions.
Differential calculated using forecasts by the Flores de Lemus Institute and AFI (Spain).
Source: NSI, AFI and IFL

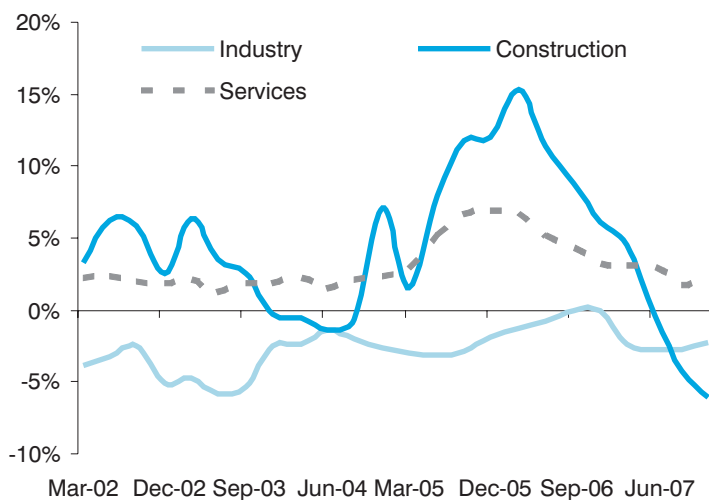
Regarding housing prices, the performance of both new and used housing in the City of Madrid continued their downward trend in line with the phenomena observed at regional and national level. Finally, labour costs in the Madrid Autonomous Region continued their moderate trend throughout 2007, recording growth of 3.1% in the final quarter of the year, compared to a Spanish national aggregate figure of 4.1%.

6. Labour market

The new moderation seen in the number of workers in the fourth quarter of 2007 (0.1%) placed average growth in 2007 as a whole at 0.8% in year-on-year terms, a much lower increase than that recorded in 2006, when it was 4.7%. Due to this slowdown, the employment rate was 61.4%, four tenths of a point below the level reached in the same quarter of 2006.

The slowdown in the labour market in the City of Madrid cannot be considered a merely temporary situation, in view of the new figures for the fourth quarter of 2007, when a moderation in the rate of job creation was once again recorded, with an increase of barely 0.1% in year-on-year terms. Workers registered with the Social Security system in the City of Madrid increased by 1.5% in the fourth quarter of 2007, slightly higher than the figure recorded by the Active Population Survey, which placed their numbers at 1.93 million. Social Security registration increased by five tenths of a point compared to the previous quarter. However, growth fell by 1.7 percentage points compared to the same quarter of the previous year. This trend continued in the first two months of the year.

Workers with Social Security in the City of Madrid by sector (year-on-year change)



Source: Statistics Office, Madrid City Council General Treasury of the Social Security

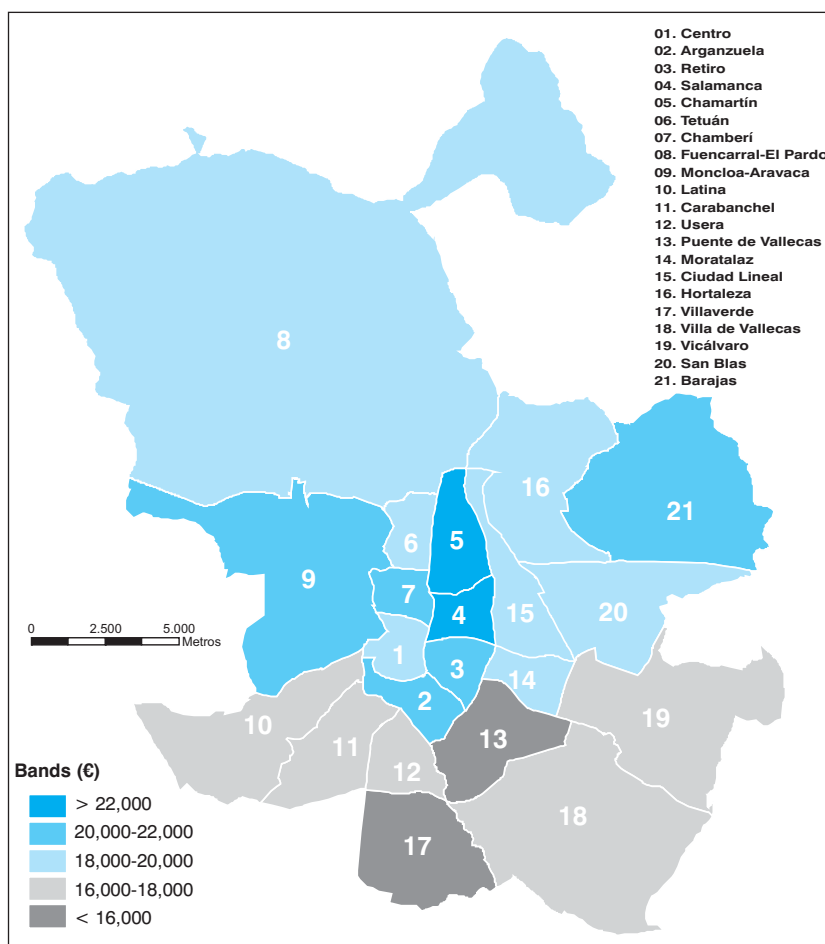
II. Territorial balance in the City of Madrid

Distribution of economic activity and income: implications for territorial cohesion

Analysis of the Gross Added Value of 2005 (hereinafter GAV) and the number of those employed in this period shows a high concentration of economic activity and employment in the central districts. The Central Area, which accounts for a third of the population and only 6.9% of the area, is the focus of 52% of the City's GAV and 51% of its employment. The outlying districts have less relative economic influence, in terms of both activity and employment - 47.8% of GAV and 49.1% of those employed, despite accounting for 93% of the area and 65% of the population. However, the trend in recent years has been to move towards greater territorial balance, as can be seen in the increased GAV in districts with less economic activity.

In terms of per capita income, as of 2005, the differential in favour of the Central Area barely exceeded 3,000 Euros - 21,179 Euros of per capita income compared to 17,927 Euros in the outlying districts. Most importantly, these differences are narrowing. Five levels of income can be seen on the attached map.

Gross disposable income per capita by district (2005)



Source: Statistics Office, Madrid City Council

The analysis of the distribution of GAV and per capita income as a whole among the various districts shows the similarities between levels of income and of production, with a clear difference between three types of districts: those which exceed the average in terms of GAV and per capita income, the districts at around the average figure for the city and, finally, those in a position lower than the average, in terms of both economic activity and income levels. The high concentration of economic activity and of a resident population with high incomes is clear in the majority of the districts in the Central Area, and particularly intense in Salamanca and Chamartín. The positions occupied by the Centre, Retiro, Tetuán and Chamberí are also privileged, although their values are somewhat further removed from the districts with greater economic influence.

III. Madrid as a business attraction pole

Foreign multinational companies in the City of Madrid

Madrid has reinforced its position, and is among the most attractive in the world for international investors. According to the annual "Fortune Global 500: Cities" ranking, in 2007 Madrid was the eighth city in the world and the third in Europe, with eight companies with their head office in the capital.

The City of Madrid and its metropolitan area gather 40% of foreign multinational companies operating in Spain, thus, Madrid represents the most attractive location, widely above Barcelona. Considering turnover, they contribute with 40% of the total volume, relatively very superior compared to their number, (28%). Furthermore, they concentrate 33.7% of employment generated by multinationals in the whole of Spain.

Madrid has consolidated itself as the main destination for the FDI received by Spain, increasing its share in the last decade to 60.0% (52.3% in the period 1993-1999). In GDP terms, the FDI received in the last decade accounts for more than 11% a year, and the stock is equivalent to 69% of GDP in 2007, a figure far higher than for Spain as a whole and similar to that for the major countries receiving FDI, such as Luxembourg and Belgium.

The City of Madrid presents its greatest advantages in the area of costs, with lower salary levels and office prices that are also lower. In the areas of general outlook and infrastructures it also has an advantageous position, albeit behind those of London and Paris. The availability of both human and technological resources is also a very important aspect for foreign investors, and here Madrid has an intermediate position in comparison with its main competitors.

Furthermore, Madrid City Council has the *Madrid Emprande Agency of Economic Development* for implementing municipal policies in the area of economic promotion of the City. This agency carries out specific initiatives in three areas - competitiveness of SMEs and promotion of business creation, the improvement of business infrastructures and attraction of foreign investment.

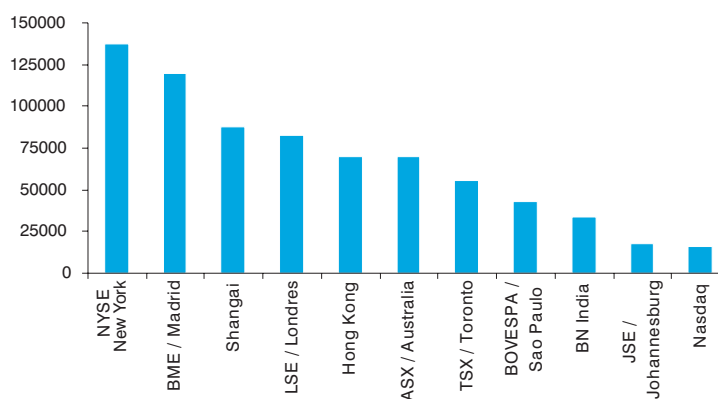
IV. Monographic report

The Madrid Financial Market

The financial market of Madrid plays a key role in the Spanish economy, which has enabled it to reach the levels of competence and globalisation required by the international market. The concentration of financial institutions, collective investment companies and financial markets in the City gives it a leadership in Spain and an international profile. Madrid is the home of the Spanish stock market (BME).

After the market in London, and together with those in Paris and Frankfurt, Madrid is among the leading European financial markets, in terms of both capitalisation (see graph below), and flows of investment (in 2007 the BME generated 119,738 million dollars, in second place behind the NYSE). The intense internationalisation is also reflected in the increased participation of foreign investors in the stock market (BME), which in 2007 accounted for 60% of the total volume of trading.

New Investment Flows channelled by the Stock Markets. 2007 (million dollars)



Source: BME

Madrid is the country's banking centre, as it is the home of the main decision-making centres, treasury bodies and capital markets of the Spanish credit institutions. In the global arena, Madrid occupies the sixth position as a banking centre, only surpassed by New York, London, Paris, Tokyo and Beijing. The Madrid financial market is also better prepared for facing the financial market of 2008, thanks to its ability to attract income, diversification and internationalisation, and risk management of its banking system.

As part of this strategy, Madrid City Council, through its Economic Development Agency Madrid Emprende, has established the platform Madrid Centro Financiero (Madrid Financial Centre) with the Madrid Autonomous Region, the Grupo Santander, BBVA, Caja Madrid and MAPFRE. Its essential purpose is to strengthen Madrid's position as a leading international financial market.