

EXECUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

GDP for the first quarter presented a quarterly increase of 0.2% (0.6% year on year) in the euro area, due to the boost of inventories and public sector support. However, the fiscal adjustment measures implemented can reduce the capacity for sustained recovery in GDP in the coming months.

The Spanish economy grew by 0.1% in the first quarter (-1.3% year on year compared to -3.1% in the last quarter of 2009), the first increase since March 2008. Deterioration of domestic demand still persists (-2.5% year on year), weaker investment (-9.9% year on year) and again, external demand contributes positively to growth (1.2 points), thanks to the largest growth in exports (+8.0% year on year), compared with imports (+2.6% year on year).

GDP of the Madrid Autonomous Region has moderated its pace of decline to a -0.5% year on year in the first quarter of 2010. Quarterly change has been positive for the second consecutive quarter, growing 0.2% since the last months of 2009. The best performance has been recorded in the service sector with a year on year rise of 0.2%.

The latest forecasts for the Spanish economy show a decrease of 0.3% in GDP in 2010 and 0.9% growth in 2011 with a positive contribution from both external and internal demand. The projections for the City of Madrid suggest a moderation in the pace of decline in GDP for 2010 with an annual rate of -0.6% and a positive growth of 1.0% for 2011 and 1.8 % by 2012.

1.2. Production activities

INDUSTRY

The Industrial Production Index (IPI) in the region of Madrid continues to show negative values although it is easing its decline, with an annual average change of -8.3% in April, compared to -9.4% in April 2009. This same pattern was observed in the industrial GAV, which in the first quarter of 2010 has continued to shrink albeit with increasingly moderate falls, only 1.2% in late March. In addition, industrial job loss continues, with a year on year decrease of 7.3% in the number of workers in the Social Security system in the first quarter of 2010.

CONSTRUCTION AND THE REAL ESTATE MARKET

Construction is still the sector worst affected by job losses, with a reduction of 1.7% in the number of workers in the Social Security system in the first quarter of 2010, compared to the end of 2009 and 13% above the first quarter of 2009. By branches of activity, civil works leads in job losses, 3% quarterly and 25% year on year.

Regarding housing starts, performance in the first quarter of 2010 has been slightly better than the last quarter of 2009, although still in negative figures around -32%. Residential activity has focused on social housing, with 76% of total housing starts. However, the annual average change in the initiation of subsidized housing is still negative, standing at -35.5%.

Non-residential construction also continues diminishing with falls around 25%, albeit with a slight improvement, from -32.8% in January to -16.1% in March. Only the area assigned for social infrastructures and industrial estates remains positive, with average annual growth rates of 32.8% and 7.7% respectively.

SERVICES

The Financial System

In the first quarter of 2010, customer deposits and investment credit recorded negative year on year rates for the first time, -3.3% and -1.0% respectively. Positive developments have been due to both the increasing number (9.2%) and amount (5.9%) of mortgages in the first quarter of 2010 compared to the same period last year. This behaviour contrasts with the contraction in the whole of Spain.

The Madrid Stock Exchange finished June with losses of 14.5% from the levels of end-March, accumulating a fall of 22.6% so far this year and has experienced a greater punishment than other international stock markets.

Tourism

Improved performance of tourist demand in the city of Madrid, with a year on year increase of 14.4% in overnight stays in the last quarter, highlighting the dynamism of foreign tourism, which grew by 17.2% year on year, and also the good behaviour of domestic demand growing by 11.1%.

Despite the good data in both number of places in hotels as occupancy rate and revenue per room, employment in the sector has intensified the downward trend observed in previous quarters, falling by 2.9% in the period from March to May as compared to the same quarter of 2009.

Transport

The first months of 2010 point to the recovery of air traffic, thanks to international flights, both passenger and cargo, with increases of 4.7% and 50.5% respectively, offsetting the relatively poor performance of domestic traffic, with rates of -2.5% in passengers and 4.1% in goods.

However, as regards urban transport, metro and buses, there was an annual decline of 2.9% in the number of passengers during the first quarter of 2010. Data from RENFE Cercanías show year on year growth of 5.6% in the period from March to May.

Downturn in the sector's labour market continues, with an annual decrease of 4.5% in the number of workers registered with Social Security in the first quarter of 2010.

1.3. Business dynamic

The first quarter of 2010 confirms the recovery in the number of company constitution proceedings from its lowest reached in November last year, highlighting, in monthly terms 1,112 constitutions of new companies in March, an increase of 14% as compared to the same month of 2009. The figures for dissolutions are very similar to those seen at the end of 2009, standing at around 200 per month.

In the second quarter of 2010, there has been a slowdown in the upward trend showed by the business confidence indicator since the end of 2009, with a fall of 4.5 points compared to the first quarter of 2010. The sharpest fall has been that of industry, going from -1.7 to -21.8 points. The construction sector is the only one moving upwards, but still in negative territory, from -31.2 to -21.8 points. For the third quarter, estimates remain negative in terms of benefits, turnover, prices and employment, although certain tendency to improvement is expected.

1.4. Demand

Decline in consumption continues to ease, with an average annual rate of change of -2.9% in May, though it does to a lesser extent than in the rest of Spain (-2.7%). The Madrid Consumer Confidence Index (ICCM) shows an additional decline of 4.2 points, so a recovery in consumption is not expected in the short term. Retail trade in Madrid continues to lose jobs at a faster pace than the national average, with an average annual rate of -4.4% in May compared to -3.2% of Spain a whole.

Investment declines also continue to accumulate (by 6.6% in April), but smaller than in previous months, and lower than the Spanish average, diminishing at an annual average rate of 14%.

Foreign trade presents more moderate drops, and a greater relative fall in imports has reduced the trade deficit below 28.7 billion euros, figures that were not seen since June 2003.

1.5. Prices and salaries

The Consumer Price Index of Madrid Autonomous Region has recorded a growth rate of 1.9% in May, maintaining the upward trend observed since September 2009 and a positive differential with Spain, around 0.1 percentage points. According to the latest estimates from the Flores de Lemus Institute, inflation in the region of Madrid will peak at 2.2% in October, falling to 2.0% in December 2010 and 1.5% in June 2011.

Housing prices in the City of Madrid have confirmed the decline registered the previous quarter, with a growth rate of -3.3% and -10.7% on new and second-hand housing, respectively. This trend is consistent with the evolution of prices in the region of Madrid, where new homes have also experienced slower decline (-4.1% new, -9.9% second-hand), in contrast with the fall above 9% recorded by new housing in the whole of Spain.

Labour cost in the region of Madrid has continued in the downward trend showed since 2009, registering a year on year rate of 3.0% in the fourth quarter of 2009 and 1.1% in the first quarter of 2010. The pace of growth has been slightly lower for the whole of Spain, which increased by 1%, placing the labour cost differential between Madrid and the rest of Spain at 426.2 euros compared to 378.3 euros the previous quarter.

1.6. Labour market

In the first quarter of 2010, the labour force has increased by 1.8% year on year, especially due to the contribution of inactive population when the household's main breadwinners lose their job. Female participation rate continues to increase while it descends for men. By age groups, the participation rate of people under 20 has recorded sharp declines, 6.3 points from the first quarter of 2009.

Employment has suffered a year on year decrease of 2.2% in the first quarter of 2010, a substantial improvement from the 6.1% fall of the previous quarter. Employment picks up for the self-employed (+3.4%), but falls among salaried workers (-3%), especially permanent ones (-3.2%), which had hitherto been the least affected by the labour recession. By sector, employment in services has diminished at a slower pace (-0.6% in year on year terms) and is experiencing a strong recovery in industry (+10.1%), while job losses intensify in construction (33.1%).

According to EPA (Labour Force Survey) data, the unemployment rate was 14.9% in Madrid in the first quarter of 2010, affecting 252,000 people, mostly men, presenting a rate of 16.8%, four points higher than the female rate. Registered unemployment shows a moderation in the second quarter, reducing its year on year growth rate to 13% in June, the lowest since March 2008.

Social Security enrolment forecasts point that the pace of decline will be diminishing to a year on year rate of -2.9% in the third quarter. It is also expected that the increase of registered unemployed continues its slowdown in September, reaching an annual rate of 8.9%.

2. Monographic report

Madrid, biotech

Madrid, along with Catalonia, has become the largest biotechnology cluster in Spain, leaders in number of companies, turnover and private investment in R & D at national level, and fifth in the European ranking of patent applications, only preceded by leading biotechnology regions like Berlin, Munich and Zuid-Hollands, and ahead of the Paris region or Copenhagen.

Madrid's Bio Region comprises about 400 companies (60 biotechnology companies and more than 300 including pharmaceutical, biomedical and manufacturers of medical devices), providing direct employment for 24,000 people and an annual turnover of 4,000 million euros. Madrid's Bio Region also has a public R&D&I system which consists of 13 research centres recognised at international level, five universities with more than 5,000 researchers employed and investing more than EUR 500 million a year. Based on the activity of purely biotechnical companies and public institutions, the sector contributes 1.26% to GDP and 0.60% to employment in Madrid Autonomous Region. Contribution well above the national average of around 0.8% to GDP and 0.36% to employment.

Both the central and the regional government and the City of Madrid offer support for the development of the sector through infrastructure, financing, international promotion, and technical assistance and training. The most recent efforts to boost the biotechnology sector include the creation, in 2007, of Madrid Biocluster with partners such as Madrid Development Institute (IMADE), PromoMadrid, Madrid City Council, through its department Madrid Emprende, Madrid Science Park, the National Centre for Biotechnology, and also, more than 20 companies among which there are some of the largest and most active in the sector as PharmaMar Biotolls or Cellierix.