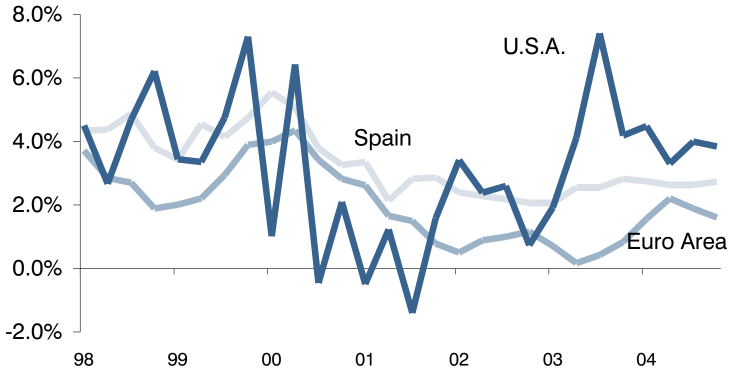
I. Analysis of the situation of the city of Madrid

1. Economic environment

In the three first months of 2005, the price of petrol continued to worry economic operators, as its upward trend became more pronounced and its price reached historic high levels. The potential impact of the recent rise in the price of crude on the various economic blocs has contributed to increasing the cyclical divergence between them. While economic and business indicators in the USA continued to show signs of growth, lethargy remained the predominant trend in the Euro Area. This justifies the upward adjustment in forecasts for the growth of GDP in the USA in 2005, while those for the Euro Area have been lowered.

In the Euro Area, the Spanish economy continued to distance itself from the pattern of slow growth prevailing in most of its EU neighbours. Economic activity in the fourth quarter of 2004 received a quarterly boost of 0.8%, making the year-on-year growth rate 2.7%. Indeed, the robustness shown by the Spanish economy at the end of 2004 has led to forecasts for growth for this financial year to be adjusted upwards.

Year-on-year GDP growth in the USA, the Euro Area and Spain



Source: Ecowin

The first estimations for regional growth in 2004, published by the National Statistics Institute, show that the Madrid Autonomous Region plays a leading role within Spain as a whole, with a growth in GDP of 2.9%, two tenths of a percentage point above the rate for Spain. Its was especially dynamic in the construction sector, which was followed by services. The robust health of Madrid's economy is reflected in the positive figures for the labour market.

2. Production

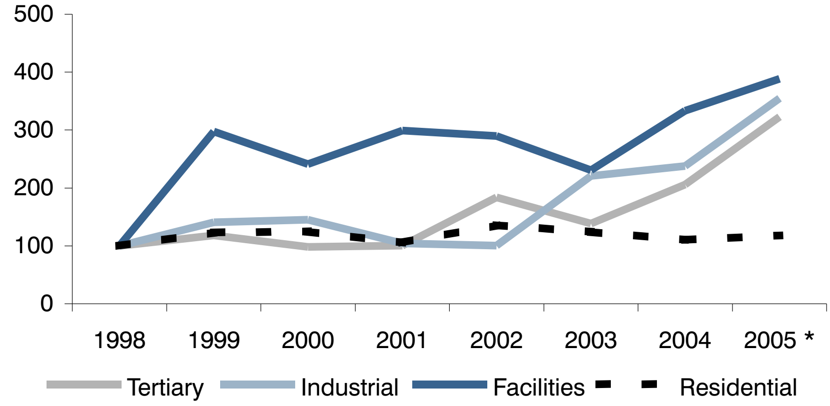
INDUSTRY

According to the Industrial Production Index (IPI), industrial activity in the Madrid region increased in February 2005 to a year-on-year variation rate of 6.0%, thanks to the marked growth in the energy (18.5%) and intermediate goods (15.4%) sectors. However, the sector's business dynamic and employment levels continued to show negative growth rates throughout 2004.

CONSTRUCTION AND THE PROPERTY MARKET

The construction sector in the City of Madrid is experiencing a mild downturn in its growth. However, the non-residential segment and the industrial segment in particular are showing a robust dynamism. This positive trend is a response to the relocation process and the strong demand for industrial infrastructure in the region.

Growth in area suitable for building by use
(Base 100=1998)



Source: Madrid City Council Municipal Town Planning Office
* Data until March

However, the volume of housing built rose slightly in the first months of 2005, mainly as a result of the boost from the city's new neighbourhoods.The state-subsidised housing market is becoming concentrated in the outlying areas, although the Rental Agency is promoting the creation of a range of affordable housing in the central area. The price of new housing is showing a slight deceleration in its rise in the city as a whole, although divergences of level and trends between the various neighbourhoods can be seen.

SERVICES

Financial system

No significant changes in the trends noted during the previous periods were seen in the fourth quarter of 2004. Population growth and the real

Estate market's dynamism continued to favour the opening of bank branches in order to deal with demand from new clients.

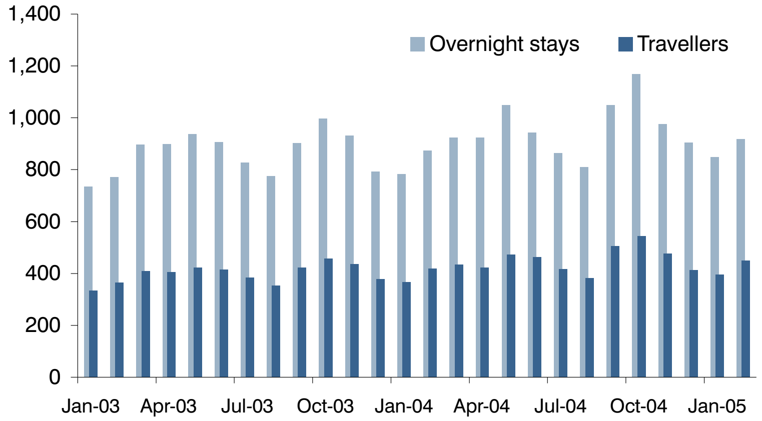
Both credit investment and clients' deposits recovered their dynamism in this period, and both these factors reinforced the Madrid Autonomous Region's position as Spain's main financial market.

The stock market averages traded on the Madrid Stock Exchange in the first months of 2005 show a higher profitability than international other markets, continuing the trend of 2004.

Tourism

In accordance with the evolution of tourism both regionally and nationally, for another quarter domestic tourism was once again the dynamo for growth in the demand for hotel accommodation in the City of Madrid at the end of 2004 and the beginning of 2005. In January and February this year, the total number of overnight stays by residents increased by 11.2% compared to the same months in 2004, in line with the greater influx of Spaniards in Madrid's hotels, while non-residents accounted for only 1.4% of overnight stays. A slight upturn in the average stay by foreign tourists in these months compensated for the fact that in reality somewhat less of them arrived than last year.

Travellers and overnight stays in hotels in the City of Madrid (in thousands)



Source: Hotel Occupation Survey (HOS), NSI.

In this context of growth in the tourism industry, both hotel accommodation and employment in hotels continued to show sustained growth, although with some degree of moderation in January and February when compared to the end of 2004.

Transport

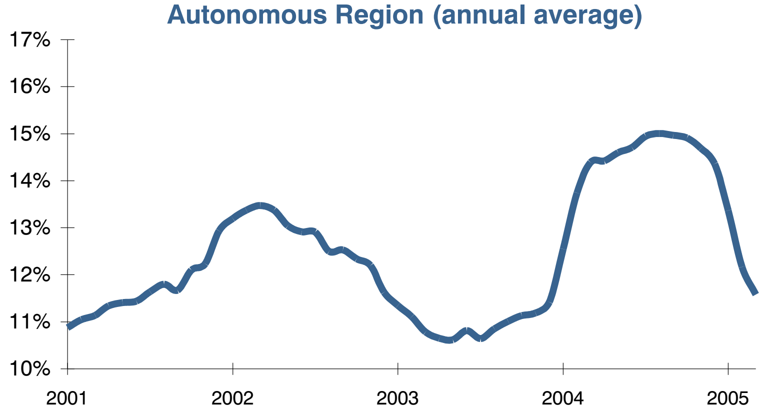
Based on the partial statistics for 2005, the transport sector in the City of Madrid has shown no significant changes compared to the final months of 2004. Employment has evolved favourably over the last year – a year-on-year average of 1.6%, not including the maritime transport sector– thanks in particular to the consolidation of demand, which is reflected in the results for air and rail transport. In accordance with 2004, air transport of passengers and goods at Madrid-Barajas airport was boosted by international traffic at the beginning of 2005, which grew by 10% until February. There were 9.8% more rail transport travellers in 2004.

As regards mobility, the traffic conditions in the City of Madrid as a whole, and inside the inner ring road in particular, improved considerably in the last quarter of 2004 thanks to lower traffic intensity. Despite this, the use of public transport fell slightly in these months, although initial data for 2005 suggests that the volume of travellers has returned to former levels.

3. Business Dynamic

The rate of establishment of new companies in Madrid slowed down in the fourth quarter of 2004 and the first of 2005. However, the reduction in the number of new companies being established was accompanied by a significant decline in the number of liquidations, the final effect of which has been a fall in the turnover rate, which has led to increased stability.

Business turnover rate* in the Madrid Autonomous Region (annual average)



Source: Companies Register. * Ratio of the number of companies dissolved to the number of those established.

The average subscribed capital for companies in the Madrid Autonomous Region increased compared to the end of 2003 and the beginning of 2004, but is still a long way from the capital figures for 2000 and 2001. The number of National Insurance accounts improved its growth rate, thanks to the increase in the number of companies in the construction sector and the slight improvement in the negative results of the services sector.

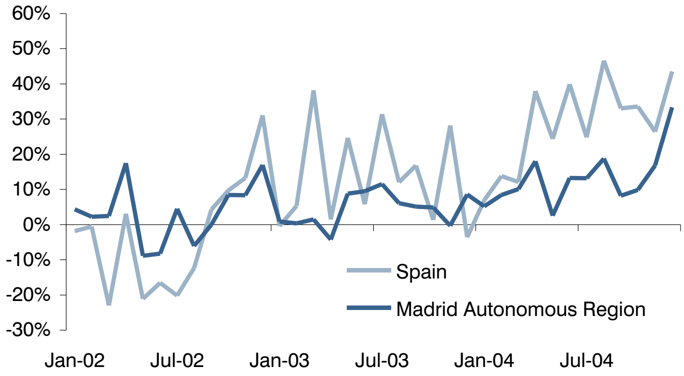
However, there was once again a fall in Madrid businessmen expectations - for the fourth consecutive quarter - as a consequence of the worsening in the climate in the services sector. The improvement in the results of the construction sector has only slightly mitigated the worsening in the outlook for the services sector.

4. Demand

After a strong upturn at the end of last year, the volume of retail sales in the region fell heavily in February, in line with the registration of cars in the capital, which fell by 1.9% in the first quarter. The main indicators of confidence among Madrid consumers also reinforce this moderation of optimism compared to previous months.

As far as the foreign sector is concerned, the trade deficit of the Madrid Autonomous Region rose in 2004, with increased growth in imports (a 25.6% year-on-year increase in 2004) and in exports (8.3%). Furthermore, the credit balance of the region's foreign investments increased as a consequence of a strong rise in investment abroad in the banking and telecommunications sectors.

Trade deficit
(Year-on-year variation rate)

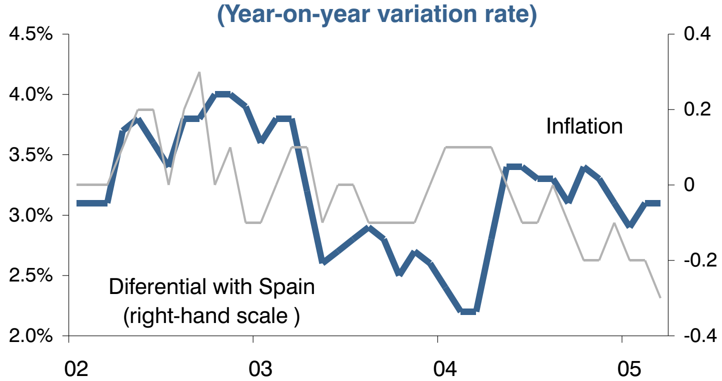


Source: ICEX

5. Prices and salaries

The rise in the price of crude was the main factor in the region's inflation rate remaining at 3.1% in February and March, but the effect was not particularly strongly felt in industry. Price rises were moderated and the differential with Spain as a whole increased, which has given the Autonomous Region relative advantages compared to the country as a whole. The perspective is completed with a slowing in the rate of the rise in housing prices in the City of Madrid and labour costs that grew at their slowest rate in the last four years.

RPI in the Madrid Autonomous Region
(Year-on-year variation rate)



Source: INE

6. Labour market

With the new revised data from the Active Population Survey, the fourth quarter has revealed a decline in the dynamism of the labour market in the City of Madrid. The employment rate has fallen as the number of unemployed has increased. A more in-depth analysis has shown a worsening in the quality of employment due to the fall in permanent employment and the significant increase in temporary employment. In sectorial terms, construction remains the dynamo for creating employment, while industry has fallen back considerably.

Employed population resident in the City of Madrid

		2004			
Year-on-year variations	2004	I Q	II Q	III Q	IV Q
Employed	**3.9%**	4.0%	4.7%	4.4%	2.7%
Wage earners	**3.9%**	4.7%	4.9%	3.6%	2.3%
Permanent	**2.5%**	2.7%	5.8%	2.0%	-0.6%
Temporary	**8.4%**	11.7%	1.8%	8.3%	11.6%
Non-wage earners	**2.7%**	4.9%	3.3%	1.5%	1.0%
Employed by sector of activity					
Industry	**1.7%**	2.8%	8.1%	0.5%	-4.5%
Construction	**20.4%**	10.3%	10.6%	24.7%	36.1%
Services	**2.8%**	3.7%	3.9%	3.1%	0.6%
Employed (in thousands)	**36.8**	52.3	62.7	59.2	36.8
Proportion of wage earners	**88.8%**	88.7%	88.7%	88.9%	88.8%
Temp. employment proportion	**24.8%**	23.8%	23.3%	25.9%	26.1%

Source: Madrid City Council Statistics Office APS (NSI)

II. Sustainability

The sustainability of the City of Madrid's industrial system

In this section, this review of industry in the City of Madrid looks at the diagnostic dimension, which perhaps is not an area which has been studied a great deal to date, but is one of growing interest at the beginning of the XXI century. The sustainability approach, from both the environmental and economic perspectives, contributes arguments to what is already an extensive debate on the future of urban industry.

From a strictly economic point of view, everything suggests that Madrid's industrial sector, with its increasing productive efficiency, is starting to show signs of stability in its contribution to the local economy. This participation is essential to ensure economic diversification in the productive framework, employment in local society and a balanced growth in the region.

From the environmental point of view, the sustainability of the City of Madrid's industrial model is fundamental, not only to ensure the quality of life of its citizens, but also for the sector's competitiveness. The urban and environmental quality of the productive area is today considered a significant business asset, which may help to improve competitive advantages.

III. Territorial balance in the City of Madrid

Spatial behaviour of Madrid's industry on a municipal and metropolitan scale

Today's industry location patterns in the Madrid metropolitan area are the result of a long process of industrialisation, linked to a complex production system and many strategies in response to an in-depth restructuring.

The main explicit keys to this spatial logic are as follows:

- The City of Madrid accounts for almost 50% of the region's industrial activities (employment and establishments). This top-heaviness is being reduced thanks to industry diffusion processes, the main propagation vectors of which are in the radial axes.
- In regional terms, the capital is the home of most high technology companies, although areas like the Metropolitan North and the Henares corridor are increasingly attracting this type of company due to factors including status, urban-environmental quality and airport accessibility.
- 60% of companies in the region with a low level of technological intensity are concentrated in the town of Madrid, mainly in the Centre, Carabanchel, San Blas and Salamanca districts. These companies manufacturing end-consumer goods need to be close to their clients, which is why they need a central location.
- In recent years (1990-2003), the town's most dynamic areas in attracting new industrial companies, in relative terms, taking new companies as a percentage of the total companies, have been the districts of Villaverde (56.1 %), Vicálvaro (43.8 %) and Hortaleza (37.2 %).

By means of its main proposals (relocation parks, business development centres, scientific-technological Park, etc.) the new promotion strategy of the Industrial Map contributes to the City of Madrid's territorial rebalancing, affecting the traditional concentration of activity in the city's south-southeastern arc, as well as the existing contrasts in terms of functions and activities, technological intensity, etc.

IV. Madrid as a business attraction pole

Factors attracting industrial investments in the City of Madrid

The average age of five years of all the industrial premises in the City of Madrid in 2002 and the city's ability to attract a third of the new industries established in the region show its continuing appeal to a significant proportion of industrial companies.

In a context of marked spatial division of work which reassigns industrial activities depending on territories' comparative advantages, the strategic relocation process of activities that have matured in terms of the life cycle of products intensive in labour and in natural resources makes sense. The other side of this process is that although the City of Madrid continues to appeal to companies in general for their headquarters and as a production centre for innovative industries in their initial phases, a study of investment flows confirms that the sectors with the highest added value and technological intensity prefer the north of the metropolitan area.

In the current climate of growing inter-territorial competition in the region, it is necessary to review spatial establishment conditions for companies in the City of Madrid, in an attempt to discourage those already established from leaving the city, and also to attract new investments. A review of the experience of other major European cities, such as Brussels, Paris, Lyons, London and Lisbon, confirms the timeliness of preparing an integrated strategy for local economic development. This would have four main areas of action:

- Direct promotion of land and real estate,
- Support and advice services for companies,
- Production of technological innovations and technology transfer
- Spreading of information.

V. Monographic report: The Industrial Map and Promotion Strategy for the industrial sector in the City of Madrid

Large cities have undergone a major transformation in their economies and labour markets, which has changed their internal structure and external relations, creating new challenges for their promotion and town planning policies. After a period in which theories of post-industrial society and the evidence of a crisis in manufacturing led to this type of activities being forgotten to some extent, interest in their recent transformations has revived in recent years, as awareness of their effective contribution to balanced urban development has increased.

This change of perspective, which acknowledges the need to renew the business fabric, reinforce the competitive advantages of a large city and make progress in a town planning framework that reduces its possible negative impact in the urban environment, has led to new promotion strategies based on an improved knowledge of new urban industry, its potentialities and demands.

In this context, in 2004 the Madrid City Council Department of the Economy and Public Participation suggested the production of an Industrial Map and a Promotion Strategy for the Industrial Sector of the City of Madrid, by a team including researchers from the CSIC Institute of Economics and Geography and the company Consultores de las Administraciones Públicas. This section includes a summary of the project, dealing with its objectives, methodology, the main results obtained and the proposals for action arising from it.