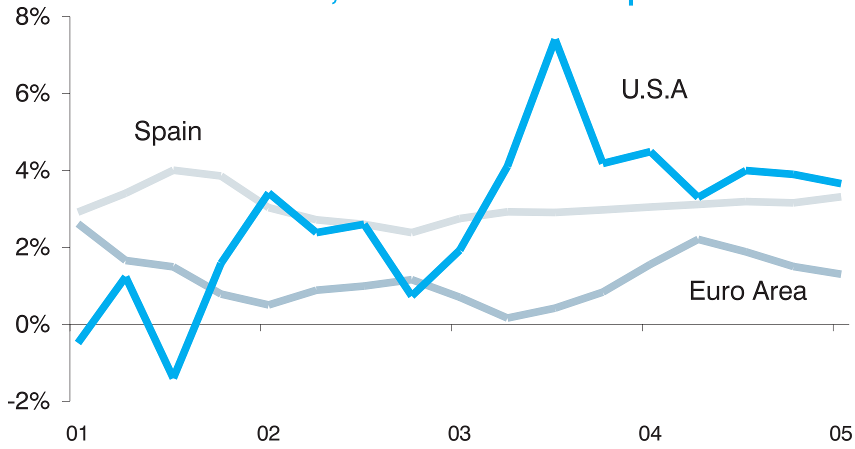
I. Analysis of the situation of the city of Madrid

1. Economic environment

As we approach the second half of 2005, the divergence in growth of the different economic blocs is becoming more evident. Despite the increase in petroleum prices, the economic data for the USA show an elevated resistance to a fall, while in the Euro Area doubts about its reactivation capacity have tended to increase.

Within the Euro Area, the Spanish economy has disassociated itself from the weak growth shown by the majority of its Community neighbours. It has supported itself on strong internal demand, which materialises in growth rates for private consumption and for gross fixed capital formation above the growth of the GDP of 3%.

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



Source: US Department of Commerce, Eurostat, INE

The revision of the information for the 2004 National Accounts in order to include, to a greater extent, work by immigrants, among other factors, gives reason to expect that regional growth has overcome the level presented for Spain of 3.1%.

2. Production

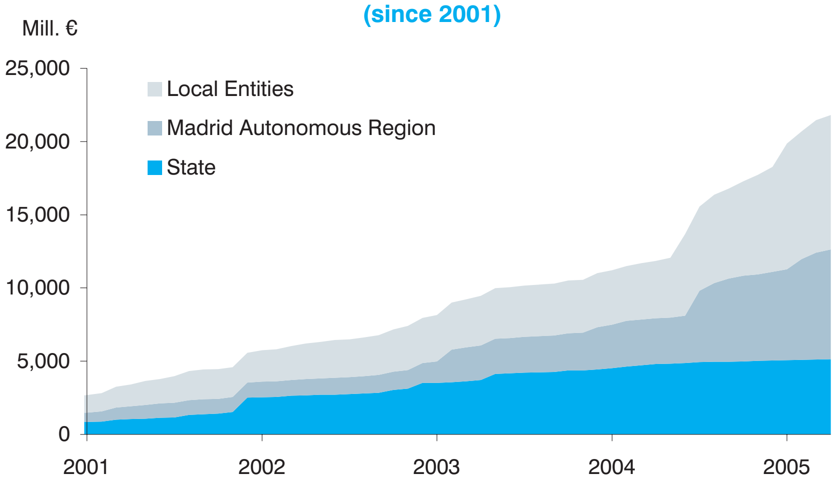
INDUSTRY

According to the Industrial Production Index (IPI), industrial activity in the Madrid Autonomous Region increased by an annual average of 3.1% in May 2005. This growth took place at the same time as a fall in the number of Social Security accounts and national insurance contributions, which could be affecting the productivity of the work of the sector as a whole.

CONSTRUCTION AND THE PROPERTY MARKET

Employment evolution in the construction sector experienced an upturn in the first quarter of the year, reaching the highest level in the past four years. The dynamism in the sector comes from both the public drive for the creation of infrastructures and good behaviour of the building market segment, especially non-residential building. Bidding for the works to reform the M-30 is a significant part of the capital invested to date by Public Administrations in the Madrid region and is implying strong stimulation for the construction sector.

Accumulated Bidding Volume for Public Works in the Region of Madrid (since 2001)



Source: SEOPAN

Meanwhile, the good behaviour observed in the past months in the non-residential market segment allows for very positive expectations for the sector over the middle term. The approval of urban development works in the new Urban Development Intervention Plan (PAU), the resource allocation requests for neighbourhoods currently undergoing works and the strong drive in the past months of building for third-party uses provides a glimpse into the continuity of dynamism of this market segment. Finally, despite a relative loss in weight compared with the non-residential building market segments during the past years, housing construction continues to grow at a good rate.

SERVICES

Financial system

In the first quarter of 2005, the strength of the real estate market continued to encourage the dynamism of credit activities of banks and savings banks when dealing with demand from new clients.

Both credit investment and clients' deposits recovered their dynamism in this period, and both were reinforced by the position of the Madrid Autonomous Region as Spain's leading financial market. The mortgage market in the region maintained its strength of previous periods, despite the average sum of mortgages granted in Madrid being significantly higher than the Spanish average.

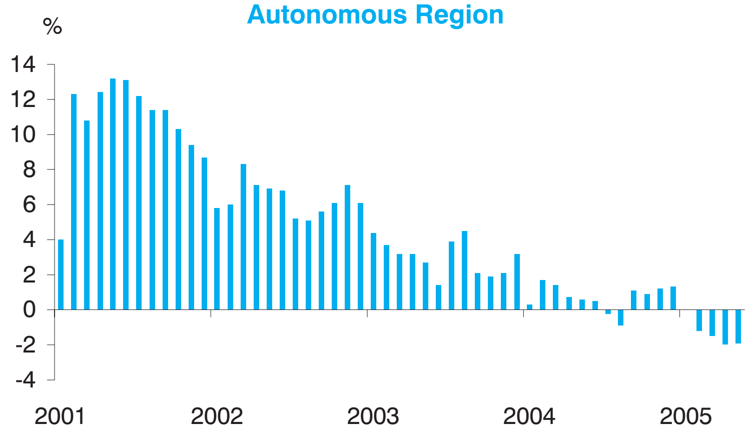
The stock market averages traded on the Madrid Stock Exchange in early 2005 showed a higher profitability than other international markets, continuing the trend set in 2004.

Tourism

In 2005, Spanish tourism continues to be the dynamo for the growth in the demand for hotel spaces in the City of Madrid, with an increase in overnight stays of 13.3% in the first five months of the year. During this period, the sustained increase in the number of passengers and overnight stays in the City of Madrid and the slowdown in the growth of hotel accommodation in the second half of 2004 and early 2005 led to a recovery in the level of occupation, which grew by 4.6%.

The problem facing the sector is the result of stiff competition in terms of prices as a consequence of the increase in the number of hotels. The evolution of the Hotel Price Index was negative in 2005, with a year-on-year variation rate in May of -1.9% .

Evolution of the Hotel Price Index in the Madrid Autonomous Region



Source: Hotel Occupation Survey, National Institute of Statistics

Transport

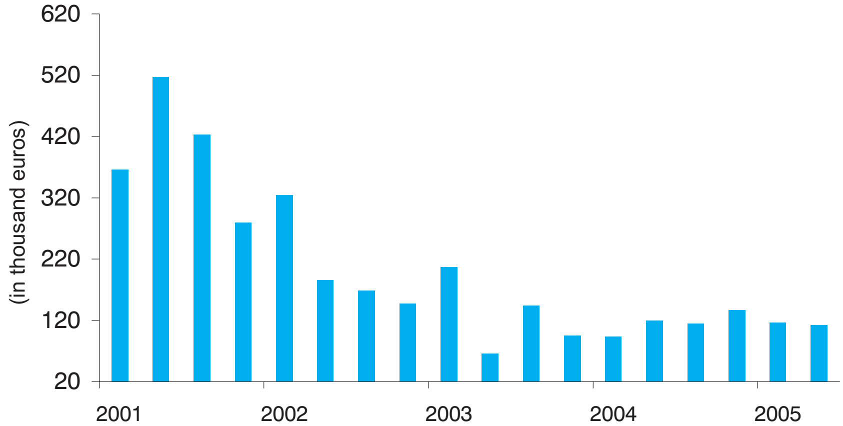
The first figures for 2005 suggest an improvement in the transportation indicators in the City of Madrid. Employment in motorway and air transportation grew by a year-on-year variation rate of 2.3% during the first quarter of 2005, driven by increased dynamism of air traffic of passengers, which grew 8.2% in the first five months of the year, and of railroad transportation, which grew by 6.9% between January and March. The celebration of the Easter Week festivities during the month of March contributed to improving the data for the first quarter.

With respect to mobility, despite increased use of public transportation during the month of April (underground and suburban trains), the circulation conditions in the whole of the City of Madrid worsened in relation to previous months.

3. Business Dynamic

There was a slight upturn in the number of companies established in the Madrid Autonomous Region in April and May 2005. As well as this anticipated improvement in the data for the second quarter of the year, there was a fall in the number of liquidations, giving a business turnover rate of 7.1% for May 2005. The average subscribed capital for companies established remains at a low level, still a long way from the high of 2001.

Average capitalisation of Trading Companies established*



Source: Register of Companies
* The data for the second quarter of 2005 contains the figures for April and May

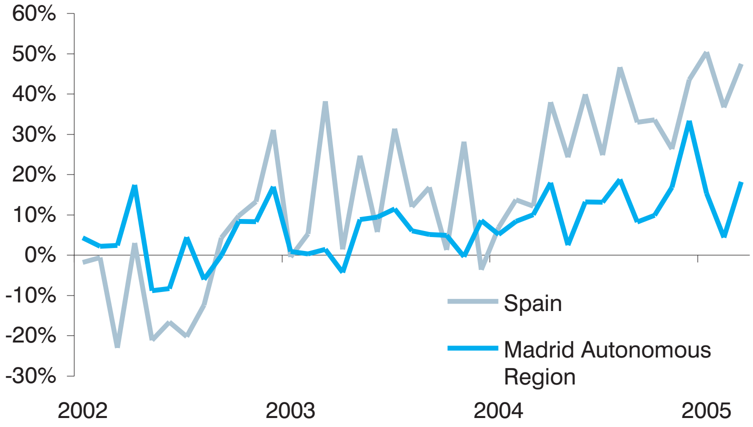
Analysis of the number of contributions to National Insurance accounts shows the lethargy of the services sector and the problems of the industrial sector. These trends are only compensated for by the continued growth in the construction industry. The Business Climate Survey suggests that the business climate in the City of Madrid is positive, although the outlook for the third quarter of 2005 is for a slight downturn as a result of the continuing uncertainty of retail prices and a decline in positive expectations for turnover.

4. Demand

The data for changes in consumption continue to show positive growth in the Madrid Autonomous Region, although lower than that recorded for Spain. The rate of growth in the number of employees covered by Social Security insurance in retail and wholesale sales sectors increased in the second quarter of 2005, ending the downturn observed since before 2001, even so these rates were lower than those for Spain as a whole. Other variables, such as the percentage of households considering the present to be a good time to make significant purchases or to save money, both of which are taken from the Continuous Family Budget Survey, or the number of vehicles registered with the State Traffic Office, create some doubts over the sector's future evolution.

As far as the foreign sector is concerned, the trade deficit of the Madrid Autonomous Region increased in 2004 and over the first few months of 2005, with a higher growth in imports (9.8% in 2004) than in exports (3.2%). The accumulated deficit in 2004 was 33 thousand million Euros, the equivalent to 24% of the estimated regional GDP. The data from the first quarter of 2005 suggests an acceleration in the worsening of the trade balance for the Autonomous Region and Spain, with Madrid's imports increasing by 10.9%.

Trade deficit
(Year-on-year variation rate)

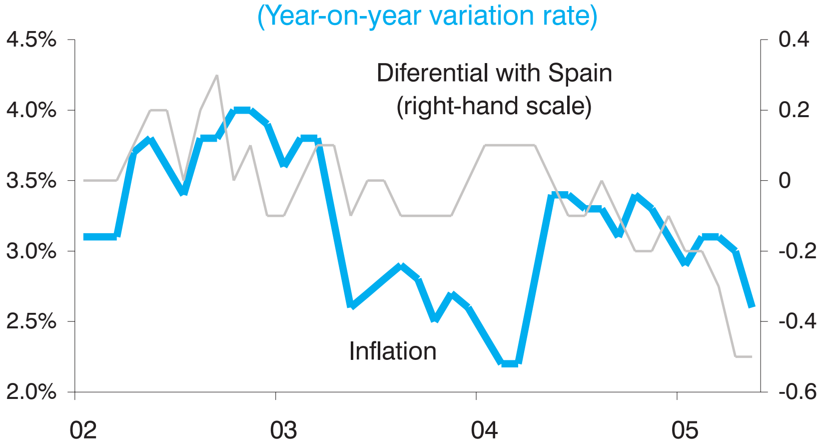


Source: ICEX

5. Prices and salaries

Despite the rise in oil price, the trend in consumer prices in the Madrid Autonomous Region changed direction, and they began to fall in the April-May period, thereby increasing the growth differential with Spain as a whole. However, the rise of petrol led to an increase in industrial prices in May, but despite this, the Madrid Autonomous Region continues to maintain earnings that are competitive with the national aggregate. This scenario is completed with second-hand house prices remaining steady in the City of Madrid and an upturn in labour costs in the region, ending the downward pattern of previous quarters.

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

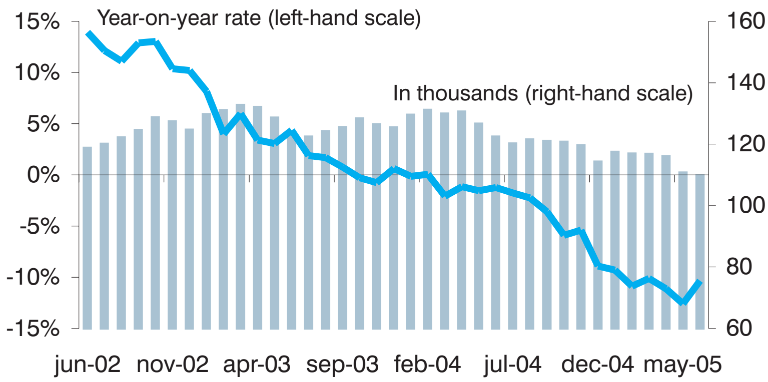


Source: INE

6. Labour market

In the absence of data from the Active Population Survey for the first quarter of 2005 for the City of Madrid, in this issue we have also included information from the Madrid Autonomous Region as an immediate result in the analysis. In subsequent editions of the Barometer, the information for the City will be used as and when it is published. However, the figures for Social Security payments and unemployment recorded in the City of Madrid suggest a healthy employment climate since the beginning of 2005 - the number of those covered by Social Security insurance grew by 2.9% in the first quarter of the year, as unemployment fell to rates lower than 10%.

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



Source: Madrid City Council Statistics Office - INEM Employment Agency

II. Sustainability

Immigration: key features for an urban sustainable model

Immigration is not a new phenomenon for the City of Madrid, but is instead part of its ancient, recent and current history. People from poor and less developed regions have always come to Madrid. The new feature of today's immigration is its origin. The overall sustainability of the process lies not in it stopping sooner or later, as a major city has never adopted that strategy, but rather in its residents perceiving the phenomenon of immigration accurately and being convinced that the public policies used to limit the problems and channel the welfare potential of immigration have the desired effects.

The arrival of significant population groups, with housing, healthcare, educational and employment needs, among others, as can be seen in Madrid, can carry out a major cultural, demographic and economic transformation of the City and society. As well as these needs, there is also an equal capacity for generating resources and the initiative necessary to deal with these needs. One of the first effects in this regard is the rejuvenation of Madrid and the increase in the city's birth rate. There is also a considerable boost to the economy, which we will discuss later.

The anticipation and planning of these developments, taking the needs and capabilities mentioned above into account, will guarantee the sustainable growth of everyone's quality of life and the development of a suitable framework for coexistence, as well as promotion of the mechanisms channelling immigrants' tremendous productive and entrepreneurial potential.

III. Territorial balance in the City of Madrid

Distribution and living conditions of the immigrant population in the City of Madrid

Madrid is home to 59% of the foreign population of the Madrid Autonomous Region, which is a population of 481,162 inhabitants. This population is not uniformly distributed in the City, and neither are its living conditions entirely the same as those of the native population. These are some of the most outstanding features:

- The immigrant population is present in all the administrative and statistical units used - district, neighbourhood and census section - although the concentration levels of this population group are varied.
- Latin Americans, and Ecuadorians in particular, are the most numerous group in the city, with 29.3%. This group is the largest in most districts, although they are more commonly to be found in Carabanchel, Ciudad Lineal and Puente de Vallecas.
- Only 35.8% of the homes formed by foreigners in the City of Madrid have a private vehicle, meaning that their dependence on public transport and alternative means of mobility is greater.
- There is a significant percentage of households formed by foreigners which does not meet the traditional criteria for family unit. Immigrants' housing needs and low income levels are the source of these ways of cohabitation.
- The majority of small and medium-small housing units are situated in outlying districts in the south and south-east and in the Central district. This type of home meets the housing requirements of immigrants with low income levels and a greater household size than the native population.
- Most immigrants live in rented accommodation. In some areas of the City of Madrid, foreigners account for a significant share of the rental stock. This places the housing market under some pressure, particularly among lower income groups.

IV. Madrid as a business attraction pole

Self-employment: the path to integration in the labour market for foreign immigrants

The existence of small immigrant-run businesses in the City of Madrid clearly shows immigrants' capacity for savings and wealth creation.

In general terms, self-employment in this group is aimed at specific productive niches that, in some cases, have been abandoned by the native population, such as small-scale retail of food, drink and various articles, or less skilled areas of restaurant work, construction and transport.

They are businesses that despite being established only to meet the requirements of their own communities, are today part of the productive fabric of the City of Madrid dealing with all types of population groups, and aim to be competitive with existing businesses and self-employed workers. The types, development and strategies of foreign businesses are very varied and depend on the nationality of those involved, the opportunities offered by the market and the entrepreneur's motivations.

Self-employment among the immigrant population has ceased to be exceptional in the City of Madrid and has taken on very diverse and varied forms ranging from low profit activities needing little financial capital and training to establishment in sectors with great potential for creating wealth and employment for both immigrants and natives. A recent study published by the Andalucian Self-Employed Workers Association (ATA) concludes that in Spain immigrants will create over 180,000 companies over the next five years, a significant part of which will be located in the City of Madrid.

V. Monographic report: Contribution of the immigrant population to the economy

Madrid has become an important centre of attraction for the arrival of immigrants in search of employment and improvements in their quality of life. The incoming population, of diverse origins, rejuvenates the population as a whole and consolidates the active population segment. Furthermore, the economic contribution of these immigrants is an important part of the economy of the City of Madrid and of the region as a whole. This contribution is made through their specific productivity, Social Security payments and the collection of taxes.

At present, immigrants account for 10.4% of workers making Social Security contributions in the region, and are mostly concentrated in hostelry, trade, construction and domestic service. The contribution of immigrants to the City's GDP in 2004 is estimated at 6,320 million Euros, 7.6% of the City's total GAV (Gross Added Value). Because these immigrants have a stronger presence in less productive activities and their employment rates are lower than the rest of the population, the productivity and per capita income figures for this group are lower than those for the native population. The average Spaniard's salary is also 1.4 times higher than the average foreigner's, with foreign wage-earners accounting for 7.9% of total salaries.

The flourishing of the unofficial sector of the economy and the decline in immigrants in illegal situations ensures that immigrants' aspirations and contributions are realised in a reliable and consistent manner, reducing personal frustration and the conflicts involved in coexistence, and taking the maximum advantage of the new residents' economic potential for their own benefit and that of the Region assimilating them.