

# I. Analysis of the situation of the City of Madrid

## 1. Economic environment

The Central European Bank has intervened in support of the financial markets and has showed its flexibility by leaving its monitoring of inflation on the back burner, despite considering that the risks for price stability continue to increase (inflation in August was 1.7% year-on-year and the underlying rate was 2%).

During the current crisis all eyes are focused on the United States. Despite the most recent economic indicators not showing significant deterioration (in fact, the rates of growth remain very dynamic) and growth in the second quarter showing some degree of recovery, the Fed decided to lower interest rates to increase confidence among agents.

Spain registered growth far above the leading economic blocs (mainly France, Germany and Italy), and is one of the main dynamos in the second quarter of the year. In any event, the current crisis, together with the country's need for financing, could lead to lower rates of growth in the coming quarters.

The Madrid Autonomous Region showed a moderation in economic growth with a year-on-year rate of 4.3% in the second quarter of 2007. However, it continues to show greater dynamism than Spain as a whole. The region's employment figures showed a healthy growth rate, but one which was slightly down on the one recorded for 2006. The latest forecasts for growth in GDP for the City of Madrid suggest a 4.0% year-on-year rate in 2007.

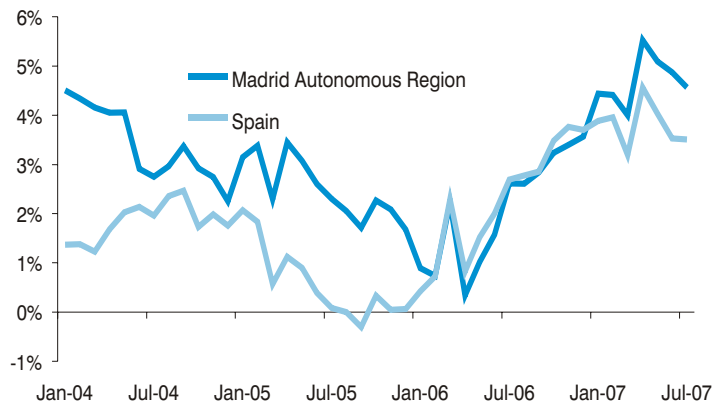
## 2. Production

### INDUSTRY

The Industrial Production Index (IPI) in the Madrid Autonomous Region registered a slight fall in the average annual rate of growth to 4.4% in July. After the fall in March, and the strong upturn in April of almost a point and a half, in May, June and July it experienced a slight downturn which placed it once again at the rates of growth for January and February.

The seasonal-trend figures for industrial GAV and the gross figures for industry presented growth of 2.8% and 0.9%, respectively, which reflected some degree of stagnation in the growth rate compared to the figures posted in the first quarter. Finally, Social Security registration in industry in the City of Madrid recorded a year-on-year growth rate of -2.8%, thereby continuing the falls seen in previous quarters.

### Industrial Production Index (annual average rate)

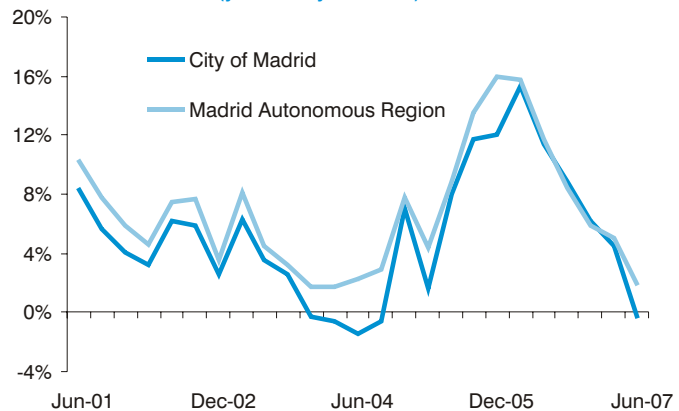


Source: National Institute of Statistics

### CONSTRUCTION AND THE PROPERTY MARKET

In the second quarter of 2007, employment in the construction sector maintained the downward trend which began in the second quarter of last year both in the City of Madrid and in the Autonomous Region. In fact, in the City of Madrid the number of workers in the construction sector registered with the Social Security system in June 2007 (159,946) was lower than the number registered in the same month of last year, a fall in the figure of 0.4%. As a result, the number of registered workers in this sector fell for the first time since September 2004.

### Workers registered with the Social Security system in the construction sector (year-on-year rate)



Source: GMU - Madrid City Council

The decline in the number of registered workers is in accordance with a reduction in the construction sector's activity in recent months. In the first quarter of the year the area of licences for construction amounted to slightly over a million square metres while in the same period in the previous year this figure exceeded 1.6 million square metres. This

reduction affected both residential and non-residential construction. As a result, the area of residential land tendered for fell by an annual average of 17.9% in June this year, a reduction that was more marked in non-residential use, which recorded an average annual decline of 30% in the same month.

## SERVICES

### Financial system

The trend towards moderation in the volume of deposits by clients continued in the Madrid Autonomous Region in the first quarter of 2007, although it is too soon to suggest that the trend is changing, as deposits continued to increase in Spain as a whole. Despite this moderation, deposits increased by 25.1% in first three months of the year, compared to the Spanish aggregate figure of 17.7%.

Deposit institutions continued to open branches in the City of Madrid in the first quarter of 2007 with 25 new offices, making a total of 3,111. However, the rate of increase in the number of offices has stabilised at around 3.0%, which has prevented the reduction of the negative differential with the Madrid Autonomous Region and Spain as a whole, where the number of branches increased by 5.2% and 4.2%, respectively.

There was a further fall in the number of mortgages in the second quarter of 2007, with the year-on-year rate at -4.7%. In this context, the mortgage amount continues to fall, although there are still high growth rates (3.9% between April and June, and 4.2% between January and June). The trends observed in mortgage loans in recent months are undoubtedly influenced by the continuous rises in the EURIBOR rate, the benchmark rate for the mortgage market. The yields from the main international stock market indexes, including the General Madrid Stock Market Index, have fallen from the highs reached at the beginning of June over the last three months, due to the uncertainty generated by the crisis in subprime mortgages in the United States. The interventions by the Fed, the ECB and the Bank of Japan, injecting liquidity into the market, have prevented a greater collapse in the markets.

### Tourism

The figures from the Hotel Occupancy Survey of the NSI show an excellent summer for tourism in the City of Madrid. In the period between June and August 2007, the number of travellers was 1,784,868, with over 3.4 million overnight stays. These figures represent a year-on-year growth rate of 12.1% in passengers and 11.0% in the number of overnight stays.

Thanks to the good results in the last quarter, the differences in the tourist dynamic between the City of Madrid and Spain have increased. Compared to the year-on-year increase in overnight stays in Madrid in the period between June and August 2007 of 11.0%, the Spanish result was 1.5%. The increase in cultural tourism is making a decisive contribution to this gap in the relative dynamics of both areas.

The end result of the increased growth in the demand for hotel accommodation has been a significant increase in the level of occupancy per hotel bed, which increased by 7.1% year-on-year for the period June-August 2007. In year-on-year terms, the number of hotel beds maintained its year-on-year growth rate of 4%.

### Transport

Madrid-Barajas airport achieved a new record in its number of passengers handled in July, exceeding the figure of 5 million. Furthermore, in the months between June and August, passenger traffic at the airport increased by 17.3% year-on-year.

However, a further downturn in employment in the transport sector in the second quarter of the year was observed, with the year-on-year rate at -3.5%, five tenths of a point less than in the previous quarter.

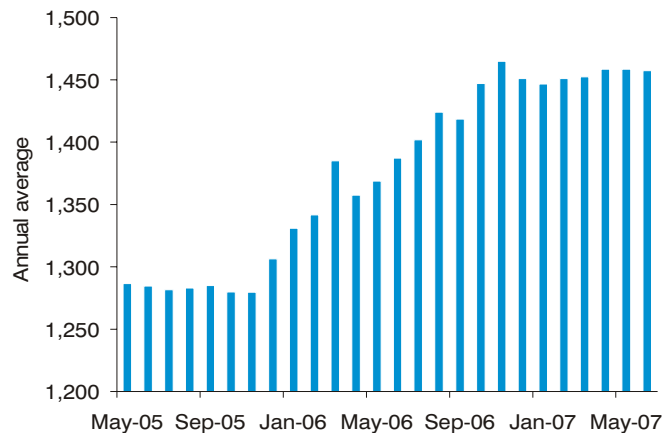
As regards mobility, further falls in the average daily intensity of urban traffic in the City of Madrid were recorded between May and July, which improved urban mobility. There was also an increase in the average speed, especially on the M-30 ring road, due to the lower congestion levels as a result of the opening of the new tunnels in recent months.

Finally, the heavy increase in the volume of passengers transported on the Metro since May is the outstanding feature of developments on public transport in recent months. This increase is at least partly due to the expansion of the Metro network with new stations.

### 3. Business Dynamic

The dynamic of the number of constitution proceedings has remained positive throughout 2007, with the annual average number remaining at the highs recorded in recent years. In May and June, the average remained above 1,450 constitutions, close to the 1,465 which took place in February and March of this year. In monthly terms, the figures available for May and June are particularly noteworthy, as over 1,600 constitutions took place. These monthly levels are contributing to maintaining the annual average at the high levels of the last 2 years.

#### Number of company constitution proceedings in the City



Source: Statistics Office, Madrid City Council Registrars' College

The initial data available for the month of July for the Madrid Autonomous Region reveal that July and August showed an upturn in the number of dissolution proceedings in the City, and therefore in the business turnover rate. The weakening of the business dynamic in the City in the summer months will have occurred not so much because of a reduction in constitution proceedings of new companies, but rather an increase in the loss of companies. In spite of this, there are not sufficient figures to be able to conclude that these data for July show a change in trend or are isolated figures.

The data for the third quarter of the City of Madrid Business Confidence Index continue to suggest a positive environment for business confidence in the City. The Index rose from 31.5 points in the second quarter to 34.4 points in this third quarter, continuing the long-term upward trend that has been observed since early 2005.

#### 4. Demand

According to the retail price index at constant prices, retail sales in the Madrid Autonomous Region showed a year-on-year increase of 7.4% in August. This increase is an acceleration of the growth rate compared to June and July, when rates of 6% and 5.2% respectively were recorded.

The most recent publication of the Madrid Consumer Confidence Index (MCCI) in September 2007 reflects a marked decline in optimism. The Index reached the figure of 76.1, a fall of around fifteen points compared to July, and by more than ten in terms of a year-on-year comparison.

The MCCI fell to its lowest level since November 2005 (75.9), when the "valley period" of the last decade took place. A seasonal downward trend in the historical series is frequently seen in September. However, the impact of the poor financial news of recent weeks should be stressed.

Social Security registration in the retail trade in the City of Madrid increased year-on-year by 0.4% in the second quarter, slowing down by almost one percentage point compared to the previous quarter. This trend was also observed in the figures for the Madrid Autonomous Region and the national aggregate figures.

The region's trade deficit recorded a downturn in the average annual rate of growth in June to 7.2%, after showing increases of 9.4% and 10.0% in April and May, respectively. With these latter results, the accumulated balance for the last twelve months has increased to 39,216 million Euros, below the high posted in May of over 39,800 million Euros.

#### 5. Prices and salaries

The rate of inflation in the Madrid Autonomous Region continued its downward path. The General Consumer Price Index recorded a year-on-year change of 2.2% in August, a low level not reached since March 2004. According to the forecast by the Flores de Lemus Institute, the scenario for the coming months is a slight upward trend in the RPI. An inflation rate of 3.1% is anticipated in December 2007, which could slow until the middle of next year. However, the Industrial Price Index of the

region has shown a slight upturn in recent months, with a year-on-year rate of 2.4%. However, this growth is less rapid than the increase registered in the same period in the previous year.

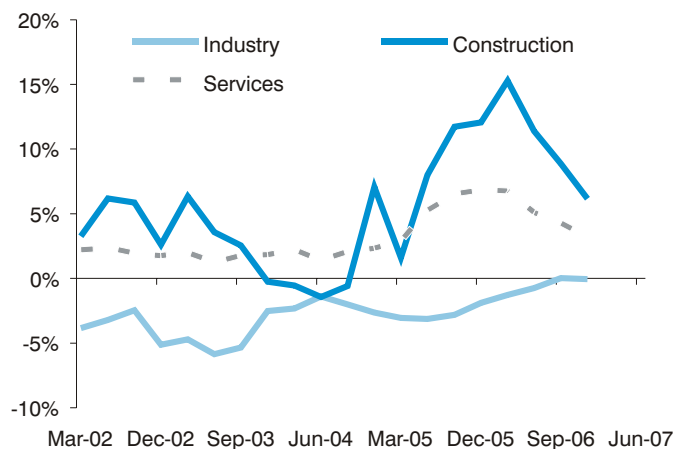
As regards prices of new and used housing in the City of Madrid, there has been a downturn in growth compared to 2006, with this being even more marked in new housing. Finally, the increase in labour costs presented a slight slowdown compared to the previous quarter, and is at 3.9%, at the same level as the national aggregate figure.

## 6. Labour market

The employment figures from the Active Population Survey for the second quarter of 2007 show a slowdown in the labour market in the City of Madrid. The number of employed increased less significantly than in the same period in the previous year, by 1.4%. The services sector showed sustained growth in job creation, while a downturn in growth was noted in industry and construction. On the other hand, the unemployment rate presented decreased slightly, to 5.8%. The reduction of the unemployment rate among women compensated for the slight increase in the male unemployment rate.

Other sources analysed, such as workers registered with the Social Security system and recorded unemployment, confirm the slowdown in the labour market in the City of Madrid. Despite the number of those registered remaining high, the growth rate is increasingly moderate, and in the second quarter was 2.4%. However, the change in the number of registered unemployed maintained the change of trend which began in May, with an increase of 1.4% in August. This result was generated mainly by the increase of unemployed in construction and in the agricultural sector (27.4% and 33.4%, respectively).

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



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

## II. Sustainability

### Environmental Management Systems and CSR in businesses in the City of Madrid

The City of Madrid has no hesitation about including the new strategic requirements of global cities in the framework of sustainability, as shown by the high number of local companies and organisations who have implemented Environmental Management Systems, which form part of the general management system and which include the structure, procedures and resources necessary to implement an environmental policy. The City, with a total of 527 certified companies and organisations, heads the list of Spanish cities in terms of both overall numbers and the two systems analysed, the ISO 14001 Standard, with 451 organisations certified, and the EMAS system, with 76.

Spain has a very high position in the European ranking of the number of companies or organisations with the EMAS certificate, and with regard to the ISO 14001 Standard, above countries such as Sweden, England and France.

Corporate Social Responsibility (CSR) has also become a basic tool to achieve sustainable development. In the City of Madrid there are a total of 179 Global Compact signatory institutions, almost 40% of the Spanish total. This initiative is directed by the United Nations to promote the development of CSR in all types of institutions.

## III. Territorial balance in the City of Madrid

### Geography of Human Capital in the City of Madrid

A study of the geography of human capital leads to some conclusions about the existing human resources, the level of social cohesion and territorial uniformity. Based on the figures from the 2001 Census, it can be concluded that the City has a lower percentage of illiterate population and with only primary education and more people with higher secondary and tertiary education. Madrid also has 24.4% of the total resident population with tertiary education, exceeding Barcelona and Valencia among others.

The analysis shows the predominance of those completing secondary education in all districts, except in Chamartín where the largest group has completed higher education (43.5%). The proportion of the population with a low level of education increases in the southeastern outskirts, while those with the highest level of education live in the Central Area and northern and northeastern outskirts.

The distribution of residents in the City of Madrid by the type of university education completed shows that the predominant disciplines in the districts of the Central Area are the humanities, while technical studies are more frequent in the outlying districts.

However, analysis of the number of students registered during the 2005-2006 academic year shows a general overview of the demand for education in the City of Madrid. The total number of students studying under the General Regime is 441,149 students, 2.1% more than the academic year ending in 2003, with a total of 13.1% from abroad.

## IV. Madrid as a business attraction pole

### Madrid's position in international city rankings

Madrid is in the leading positions in many international city rankings due to its high scores for its openness and attraction capacity for the location of companies, among other factors. Considering the large number of rankings published, it seems wise to perform a critical review to obtain more appropriate view of Madrid's real place in the international arena.

To that end, the main existing sources of information have been reviewed in order to produce a ranking of cities based on a selection of indicators. The methodology applied has enabled these indicators to be used together, and to propose a synthetic index, based on four dimensions of analysis: the economy and labour market; transport and communications; the knowledge society; and quality of life.

As regards Madrid's score as a business attraction pole, economic aspects and the provision of infrastructures are the most highly rated factors. The knowledge society and the quality of life are in second place. By applying weighting to the dimensions analysed, a ranking of the 25 leading European cities has been produced. Madrid obtains the best average score in its economy and labour market, where it is in third place behind London and Paris. However, Madrid obtains excellent scores in indicators such as economic stability and population density and recent improvement, as well as availability of office space and expansion plans. Transport and communications, are also very highly valued.

## V. Monographic report

### Higher education as a factor in competitiveness

University institutions play a key role in the competitiveness of Madrid's economy, not only in their traditional educational task of guaranteeing a diversified range of human resources, but also, and increasingly, as one of the most outstanding media in stimulating the knowledge economy.

Madrid has the largest range of universities in the entire country. This advantage makes Madrid one of the main university centres in Europe (it is the third largest university pole, behind Paris and London).

Madrid's central role as a leading university destination is explained not only by its large and constantly growing population, but also by the excellence of its universities within Spain and the economic dynamism. Madrid's heavy specialisation in universities can be seen clearly in the high proportion of university students compared to the total population between 18 and 25 years old. The very high profile abroad can be seen in the fact that Madrid accounts for around 20% of all Erasmus students who come to Spain.

Finally, Madrid has transcended its Spanish hegemony and attained international leadership in MBA studies. This privileged position arises from the concentration of business headquarters which require a large highly qualified labour force and its status as an international bridge between Europe and Latin America.