EXECUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment

Although it is anticipated that the measures providing support for the financial system and the economic stimulus package adopted so far will to a certain extent contribute to relieving the cyclical damage and the impact of the financial crisis on the financial system, at present the adjustment in the real economy can clearly be seen in the fall in employment and especially in the increase in unemployment, as shown by the figure of 3 million unemployed in Spain and the high unemployment rate of 13.9% in the fourth quarter of 2008.

The downturn in economic activity which began in 2006 in the Madrid Autonomous Region intensified. The year-on-year growth rate in the third quarter of 2008 was 1.1%, one percentage point below the second quarter. This slowdown in GDP was also observed in Spain as a whole. However, the economic dynamism of the Madrid region remains higher than the Spanish national average.

In the labour market, while jobs are being destroyed in Spain as a whole, the number of those employed in the Madrid Autonomous Region continues to grow, albeit at a lower rate than in previous quarters. According to the Active Population Survey, 15,000 more jobs were created in the third quarter of the year than in the previous year, a year-on-year increase of 0.5%. Furthermore, the unemployment rate remains below that seen in Spain, at 8.4%.

As there are no pointers suggesting a swift recovery by the economy, estimates for the GDP of the City of Madrid in 2008 place growth at 1.7%. A more marked decline of -0.8% year-on-year is anticipated in 2009. Estimates for GDP in 2010 suggest a slight recovery which will alleviate the economic recession.

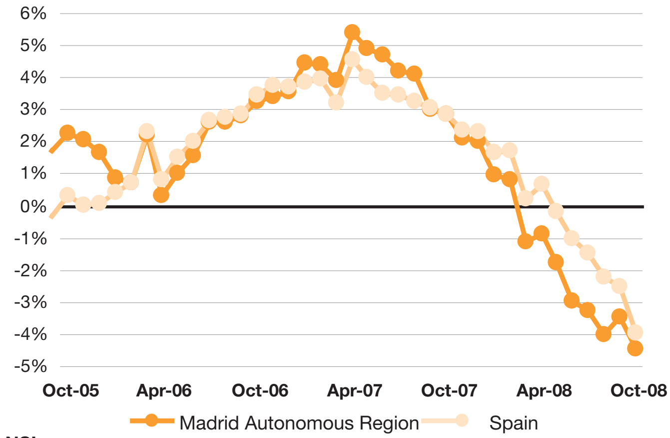
1.2. Production activities

INDUSTRY

The latest indicators for business and employment confirm the complex situation in industry, in both the City of Madrid and in Spain as a whole. The most recent data available for the Industrial Production Index (IPI) for the Madrid Autonomous Region point to a consolidation of the trend towards decline which began to be observed in the first quarter of 2008. The IPI posted a year-on-year rate of change of -4.4% in October, which exceeded the falls of 4.0% and 3.5% seen in August and September.

Further falls in Social Security registration in industry in the City of Madrid were recorded in the third quarter of 2008, with a change of -2.0%, after -0.7% and -0.6% in the previous quarters. These falls mean that the total figure for Social Security registration in industry in the City is 110,294, a loss of 1,777 jobs in this sector since the previous quarter.

Industrial Production Index (IPI) (Average annual rate)

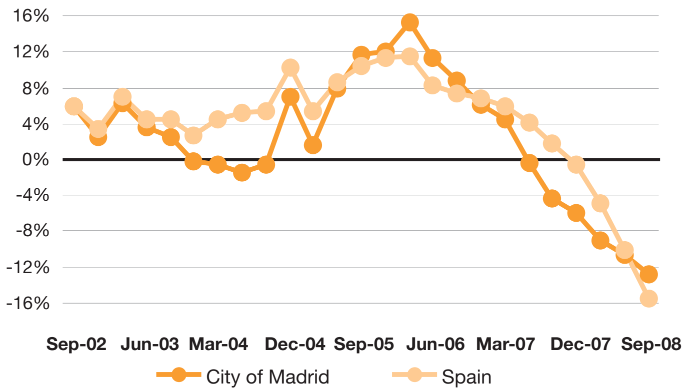


Source: NSI

CONSTRUCTION AND THE REAL ESTATE MARKET

The lower rate of activity that has been recorded in the construction sector in the City of Madrid is directly reflected in the labour market. As a result, the number of workers in the sector registered with the Social Security system fell year-on-year by 12.8% at the end of third quarter of 2008, leading to a reduction of this sector's importance in the City's labour market. However, the deterioration in the labour market in construction is much more marked in Spain, where the number of workers registered with the Social Security in the sector fell by almost 16% in year-on-year terms.

Workers in the Social Security, construction sector (Year-on-year rate)



Fuente: D. G. de Estadística del Ayto. de Madrid Tesorería Gral. de la Seguridad Social

The number of home construction licences continues to be subject to negative growth rates, although there has been a slight recovery since August, which has been supported especially by the upturn in construction of state-subsidised housing in recent months.

The performance of the non-residential segment in construction is also improving. The area allocated to the construction of non-residential buildings recovered significantly between July and September, with positive annual growth rates being recorded after fifteen months of decline. This improvement is due particularly to the increase in the area allocated to new buildings for industrial and tertiary use.

SERVICES

The Financial System

The downward trend noted in credit investment and deposits by clients in the Madrid Autonomous Region and the rest of Spain since mid-2007 continued in the third quarter of 2008, although it is more intense in the former, which is leading to a reduction in the positive growth differential compared to the Spanish average. However, this trend may have changed in the fourth quarter of the year thanks to the 9,339 million euros that were injected in the two auctions by the Financial Assets Acquisition Fund (FAAF) that have been held so far.

Elsewhere, the fall in the Euribor rate has started to affect the mortgage market: in October, the average amount in the mortgages established in the Madrid Autonomous Region increased by 49.5%, due to the strong increase in mortgaged capital (30.5% in year-on-year terms) as the number of mortgages continued to decrease. Changes are to be anticipated in the mortgage market that are not only linked to the Euribor rate, but also to the fall in house prices and to increased supply.

Finally, the Madrid Stock Exchange and the other leading international markets closed the year with significant losses compared to the previous year, although in December all the indexes increased in value compared to the lows reached in October and November.

Tourism

In the period between September and November 2008, demand in tourism as shown by the number of overnight stays in hotel accommodation in the City of Madrid fell significantly, with a total year-on-year decline of 7.4% due to the current economic crisis. Despite the good results in the first half of the year, the figures for recent months mean that the figures for the first eleven months of the year are negative, with total overnight stays falling by 1.1%, compared to growth of 7.3% in 2007.

Despite the decline in demand in tourism, new establishments continue to open in the City of Madrid, which is contributing to increasing its range of tourist facilities. 880 establishments were operating in Madrid in November last year, a figure that had not been reached since 2002. This can be seen in the new record number of beds on offer of 71,732, a year-on-year increase of 5.1% compared to November 2007. The increase in the supply, in a situation in which demand is falling, has led to a reduction in the average level of occupancy per hotel bed. The average for the months between September and November 2008 fell by 12.5% compared to the same period in 2007.

The fall in the level of occupancy as a consequence of the lower level of tourist demand affected the financial results of the hotel establishments. The Hotel Income Index for the Madrid Autonomous Region was in negative figures in November, with a year-on-year fall of 1.5%. This figure is even worse if converted to real terms, taking developments in the inflation rate into account.

The number of those employed in hotel accommodation in the City of Madrid in November 2008 rose to 12,605, which is almost 700 employees more than the same month in the previous year, or a year-on-year growth rate of 5.9%. October saw a new high in the number of jobs in the sector, of 12,762 jobs.

Transport

A reduction in the volume of passengers on all means of transport was noted in the transport sector. The volume of passengers using Madrid-Barajas airport continued to fall in recent months, and this decline was particularly intense in flights within Spain. International goods traffic by air also fell in year-on-year terms, albeit with less marked rates of decline in goods transported with a Spanish origin or destination.

The number of travellers using public transport in the City of Madrid (bus and metro) between August and October 2008 fell by 2% in year-on-year terms. Less traffic congestion was also observed in the City of Madrid, as there was a slight decline in the average daily intensity of urban traffic between August and October, accompanied by an increase in its average speed. Finally, the number of workers registered with the Social Security system in the transport sector in the City of Madrid fell by 6.5% in the third quarter of 2008.

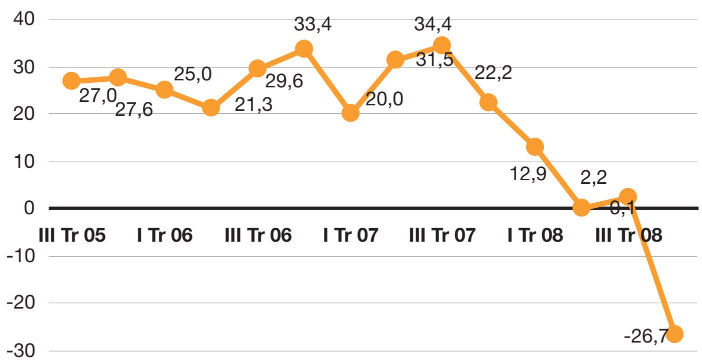
1.3. Business Dynamic

The business dynamic of the City of Madrid is still marked by a continuous decline in the number of constitution proceedings as a consequence of the gradual deterioration in the economy. The third quarter of 2008 saw another new low in the figures for constitution proceedings, with an annual average of 1,164 constitutions last September. The trend remains negative, although this is becoming less and less marked. However, further declines are anticipated in the coming quarters.

Although a slight decline was noted in comparison to previous months, the number of dissolution proceedings remained above the figures for recent years, with an annual average of 283 dissolution proceedings in September 2008. In year-on-year terms, the number of dissolutions increased by almost 40% compared to September 2007. Interestingly, the figures for the third quarter of the year were slightly more positive than those obtained in the first and second quarter. However, the forecasts for the coming months suggest that the negative trend will continue.

The economic situation of Madrid can clearly be seen in the opinion of companies doing business in the City. As can be seen in the Business Confidence Indicator, this perception remains very negative, with the indicator falling to -26.7 points in the fourth quarter of the year. The negative figure is a clear indicator that the City's economy was in negative growth rates during the final quarter of the year. It is to be anticipated that the deterioration will become more marked in the coming quarters as the economic recession worsens, and the negative effects will only start to decrease gradually from the third quarter of 2009 onwards.

Business Confidence Indicator. City of Madrid



Fuente: Business Climate Survey - Madrid City Council Economic Office

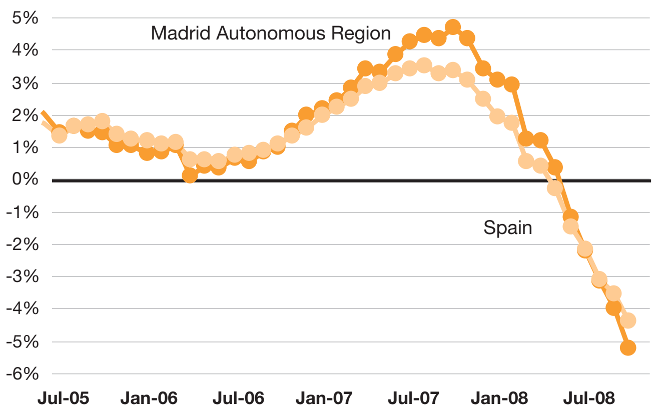
1.4. Demand

The figures for the last three months available show further falls in retail sales in the Madrid Autonomous Region. A year-on-year growth in sales of -7.4, -9.3 and -9.5% was observed in September, October and November respectively, which consistent with the figures recorded in the rest of 2008.

As far as employment in the wholesale trade sector is concerned, Social Security registrations presented a year-on-year growth rate of 1.3% in the third quarter of 2008, which was a further increase after the figure of 0.9% recorded in the previous quarter.

The total trade deficit in the last 12 months posted a year-on-year change of 0.3% in September, at 41,579 million euros, below the record highs seen in the second quarter of 2008. The gradual decline in the total deficit is thus continuing, mainly as a result of the downturn in the demand for imports in the Madrid Autonomous Region, unlike exports, which have continued to increase in recent months.

Retail sales at constant prices (Average annual rate)



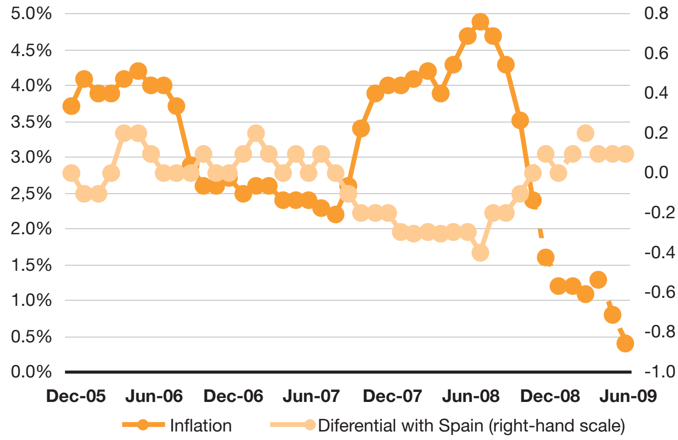
Source: NSI

1.5. Prices and salaries

Inflation in the Madrid Autonomous Region continued to fall to 2.4% in November, a total decline of 2.5 percentage points from the high point seen in July. The year-on-year variation rate in the CPI is the same as that observed in Spain, with the negative difference in prices between the Madrid region and the Spanish average no longer applying. Meanwhile, growth in the underlying index fell by more than two points compared to the previous year, to 2.7%. However, it is higher than the general index rate for the first time since August 2007. Due to the anticipated change in the price of crude and foodstuffs, the general inflation rate in the region will continue to fall in the first half of 2009, with a low of 0.3% forecast for July. As regards industrial prices, the Madrid Autonomous Region showed more inflationary behaviour than Spain as a whole in November, with a rate of 3.2% compared to 2.5%.

Prices for new homes in the Madrid region and in the City increased by lower rates than the previous year, although the year-on-year rates of change remain higher than those seen in Spain as a whole. Prices of second-hand housing fell compared to last year by 1.9% in the region as a whole and 0.4% in the city of Madrid. Finally, the increase in the labour cost per worker in the Madrid Autonomous Region in the third quarter accelerated compared to the previous year, to 4.4%.

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



N.B: The dotted lines show predictions
Differential calculated using forecasts by the Flores de Lemus Institute
Source: NSI and FLI

1.6. Labour market

The labour market indicators in the City of Madrid in the third quarter of 2008 continued to show signs of deterioration, albeit less intense than those seen in the second quarter, a result which is explained by seasonal summer employment, especially in the services sector. This did not prevent either Social Security registration or the employed population presenting negative year-on-year growth rates in the Active Population Survey (APS). However, the unemployment rate fell by eight tenths of a point compared to the previous quarter to 7.4%, a level which remains lower than that of the Madrid Autonomous Region and the Spanish average (8.4% and 11.3%, respectively).

Construction continues to be the business sector presenting the sharpest declines, with a fall in Social Security registration of around 13%, although the performance of the other sectors also worsened in the third quarter of the year: industry recorded a decline of 2.0% and services made no contribution to the growth in Social Security registration, despite the sector accounting for 86.4% of those registered in the City and which is also showing the effects of the lower growth rate of Madrid's economy.

2. Sustainability

The electrical system of the City of Madrid

In 2006, Madrid imported a total amount of 13.3 million MWh of electricity, while it generated 807,936 MWh, i.e. 5.72% of total consumption. 42.5% of these imports come from combined natural gas cycles, 18.3% are from nuclear generation, 18.3% from conventional thermal generation and 14.7% are generated by water power. The city's own production (807,936 MWh) came mainly from cogeneration, with a contribution of 52.6% of internal production, followed by titration of Solid Urban Waste, which accounted for 40.2% of the total, the figure for Madrid was very satisfactory, over 335,000 MWh a year. The use of photovoltaic solar power is still very scarce (138 MWh in 2006), although its potential penetration is very high (it grew by 18.3% between 2003 and 2006).

As regards electricity consumption, while there was an increase of 10.8% between 2003 and 2007, GDP increased by 17.3%, i.e. the growth rates of both figures show an increase in the City's energy efficiency. By sector, domestic and tertiary uses consume 81.3%, while industry and transport account for 15%. New consumption habits and the increasing number of household electric and electronic devices contribute to the increase in consumption per person, which was 9.4% between 2003 and 2007.

3. Territorial balance

Functional transformations of the industrial map of the City of Madrid

The distribution of the areas classified for industrial use by the General Urban Plan is very varied in terms of the size of districts, and is extremely concentrated on the outskirts. Among other advantages, the greater availability of land and the quality of infrastructures is encouraging the expansion of industrial activities in some districts of the outskirts. The spatial distribution confirms that there is some industrial continuity, where high densities can be seen in the central areas and the associated areas (Calle Alcalá, the Canillejas industrial area, the area around the airport, etc.), and a gradual decrease in these densities towards the outskirts of the City.

From the functional point of view, two thirds of the premises registered are linked to production activities, although the rise in services can be seen in the proliferation of office buildings. The City's industrial activity is not restricted to areas rated as such and proof of this is that 74.2% of industrial premises are located outside them. In these areas, the ground floor of residential buildings has played a key role supporting industrial activities. The other most common function is office buildings, which proliferate in the City's most valuable space and which are associated with the offices of industrial companies or with managerial work and advanced services.

4. Business attraction pole

Ranking of European cities 2008

From the study of four relevant dimensions of urban analysis, a ranking of European cities is presented. In terms of the economy and labour market, the City of Madrid has improved by one place compared to its 2007 ranking and is now second behind London. Also worthy of note are the cities of Lyons and Dublin, which moved up 6 and 5 places respectively in 2008. Significant changes have taken place in the field of transport and communications, as can be seen in the case of Berlin, which has raised seven places. The City of Madrid has also risen by one place and is just three tenths of a point behind Paris, in first place. In the results for quality of life, Copenhagen is in second place, an improvement of five positions, meaning that it is only behind Munich.

In conclusion, in the overall ranking for 2008 (which includes all the areas analysed), the City of Madrid is in third place and retains its position as compared to the results for 2007, as so London and Paris, which remain in first and second place respectively. Berlin is the city which improved most in the ranking and is now in fourth place.

5. Monografic report

Economic relations between the City of Madrid and the United States of America

From the point of view of business relations, there are a total of 586 companies located in Madrid whose parent company is American. This figure makes the USA one of the main investor countries in Madrid in recent years. Analysis by sector shows that shops, hostelry, other business activities, computer technology and financial brokerage that are the main areas where these businesses work. Also noteworthy is the number of businesses based in Madrid that have chosen the USA as a key destination in their plans for internationalisation.

There have been very intensive economic and commercial exchanges in recent years. In this respect, the USA was in the first positions both in Foreign Direct Investment and commercial flow. Tourism is another important area in the bilateral relations. In the first eleven months of 2008, United States was the City's leading market for tourism in terms of its origin. Furthermore, around 51,145 journeys were made by residents of the City of Madrid to the USA in 2007.

Finally, the institutions in Madrid have specific support tools that have been designed in order to strengthen these links even further. In spite of this support, special attention should be paid to establish a strategy similar to what it is under way for Japan. This strategy should be a greater support for the existing bilateral relationships between the City of Madrid and USA that, as it has been already mentioned in this report, are very intense.