EXECUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

Spain's GDP confirms the expectations for contraction and fell by a quarterly rate of 1.9% (-3.0% year-on-year) in the first quarter. This economic contraction is due to the drop in domestic demand, which was responsible for the decline of 5.3 percentage points in year-on-year growth, while external demand made a positive contribution of 2.3 percentage points, in a symptom of the intense contraction in imports due to the weakness of internal demand.

The economy of the Madrid Autonomous Region suffered its second consecutive quarter of slowdown, and became further immersed in recession. According to the data for the first quarter of 2009, the region's GDP fell by 2.3% in season/trend terms. The recession has had a major impact on employment, with more than 103 thousand jobs being destroyed in the first quarter. This situation, combined with the strong dynamism in the number of workers joining the market (3.4% year-on-year), means that the unemployment rate increased to 13.5%. In spite of this, the regional economic situation continues to present greater moderation in the rate of decline compared to the figures recorded in Spain as a whole and the EU, which present higher rates of decline in economic activity and employment. In this respect, the forecasts for the increase in GDP in the City of Madrid are somewhat less negative than those for Spain as a whole, with an estimated decline in GDP of 2.3% in 2009 and -0.2% in 2010.

1.2. Production activities

INDUSTRY

The most recent data available on industrial activity in the Madrid Autonomous Region show a continuation of the negative trend that has been apparent since the first quarter of 2007. Indeed, the Industrial Production Index (IPI) showed a year-on-year change of -10.1% in May, which is an acceleration in the decline compared to the previous months, when the figures were-5.8% in March and 8.7% in April.

The figures for Social Security registration, according to the new classification system (CNAE 2009), show a total of 96,488 workers in industrial areas in the City of Madrid. The most important fields are the graphic arts, which is once again in first place, followed by motor vehicle manufacturing, activities related to waste and machinery and equipment manufacturing.

In the first quarter, the gross figures for industrial GAV for the Madrid Autonomous Region presented a year-on-year change of -6.6%, which was a slight acceleration of their decline compared to the previous quarter.

CONSTRUCTION AND THE REAL ESTATE MARKET

The number of workers in construction registered with the Social Security system in the City of Madrid on 31 March 2009 was 127,274, or 7% of the total workers registered with the Social Security in the City. The Madrid labour market is therefore less specialised in the construction sector than in Spain as a whole, where 10.3% of registered workers are employed in the construction sector.

The number of licences for the construction of housing given by the Madrid City Council Town Planning and Housing Government Department continued to fall. The annual average growth rate continued to decline by around 40%.

When non-subsidised homes and subsidised homes are considered separately, it is apparent that the former are falling much more sharply in the City of Madrid, where-state-subsidised housing is resisting the contraction to a greater extent. 52% of the licences granted for the construction of housing in the twelve months up to May 2009 were to build non-subsidised housing, and 48% were for state-subsidised housing.

New housing permits (average year-on-year rate)

Source: Town Planning and Housing Goverment Department Madrid City Council

Non-residential building was more able to withstand the loss of dynamism within the sector. However, there was a substantial decline in this segment in April and May. However, the crisis in construction has so far focused more on its residential segment.

SERVICES

The Financial System

In the first quarter of 2009, deposits by clients in the Madrid Autonomous Region grew at a higher rate than in the previous quarter. Meanwhile, credit investment continued its downward trend seen in previous quarters, making its accumulated growth for the year under 10%, a level which it had not fallen beneath since mid-2004.

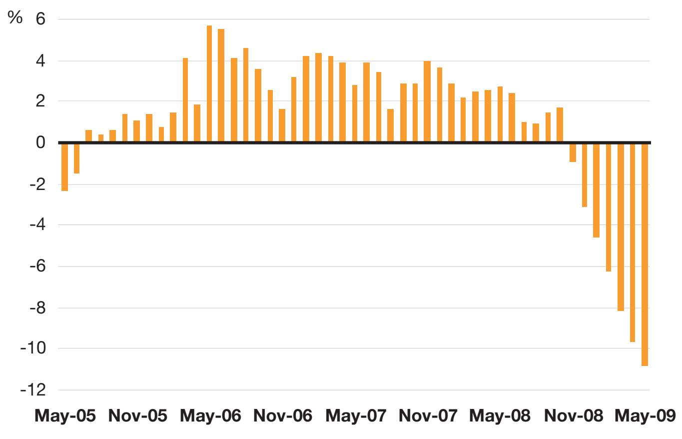
The new figures for the mortgage market for the first four months of 2009 show an increase in the number of mortgages compared to the end-of-year figures for 2008, although in year-on-year terms they continue to present a significant decline (in April this exceeded -34%).

In April and May 2009, there was a change in the downward trend in the main international markets that has been apparent for the past year. In those months, the Madrid Stock Exchange returned to its levels at the end of 2008 and ended May with a value of 975 points. This is a yield of 21.4% on the value of February 2009.

Tourism

The deterioration of the economic results of hotel establishments intensified in the second quarter of 2009. The main cause was the low level of occupancy, as a consequence of the decline in domestic and foreign tourist demand and the maintenance of the hotel range on offer.

Hotel Revenue Index in Madrid Autonomous Region



Source: Hotel Occupancy Survey - NSI

This was reflected in the Hotel Revenue Index for the Madrid Autonomous Region produced by the NSI, which showed a reduction in the year-on-year growth rate for the seventh consecutive month, and in May hit a new low of -10.8%. This figure is far below the growth of 2.7% obtained in May in the previous year.

Transport

The transport sector is still in a situation of obvious recession. Air transport continues to suffer most from the current economic situation, with a year-on-year decline of 9% in the volume of passengers in the period March-May 2009. Goods traffic by air underwent a year-on-year decline of 17.3% in the period March-May 2009, which was more acute on flights with a domestic origin or destination.

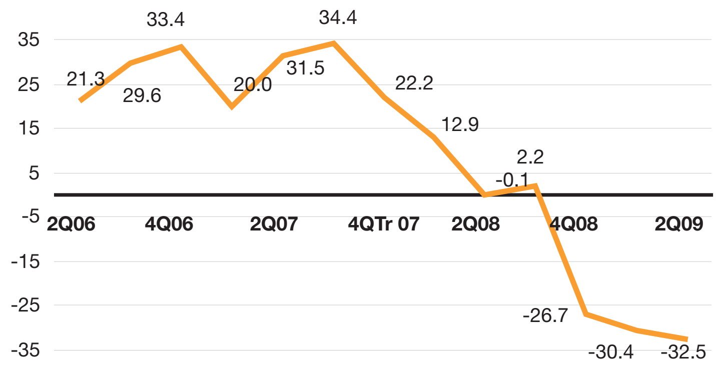
As regards mobility, there was a decline in both the intensity and the daily average speed of urban traffic, which was more intense on the roads beyond the M-40. Rounding off the transport and mobility data, use of public transport (the bus and metro) fell by 2.5% in year-on-year terms between February and April 2009, due to the decline in the number of metro passengers (-8.4%). Meanwhile, the number of Social Security-registered workers in the transport sector continued to fall (-2.8%) during the first quarter of 2009, confirming the delicate situation of the sector in city.

1.3. Business Dynamic

The number of constitution proceedings once again hit a new low for recent years, with an annual average of 969 constitutions. The financial problems that make access to credit difficult, and the profound economic crisis, deter many from establishing new companies. The monthly figures for the number of constitution proceedings have been below 1,000 since October 2008. The annual average number of dissolution proceedings remains above 200. Considering the monthly data for recent months, this figure could increase in the second quarter of the year.

The second quarter of 2009 also saw a new low in the business confidence indicator of the City of Madrid produced by Madrid City Council, at -32.5 points, the lowest figure since the series began. However, the pace of decline has fallen, as the indicator only fell by 2.5 points compared to the figure for the first quarter of the year. It is possible that entrepreneurial confidence in the business climate in the City of Madrid may have hit rock bottom, in line with the signs from other indicators of confidence on a national scale. The figures for the third quarter may provide a clue as to whether we have seen the worst of the economic crisis.

Business Confidence Indicator. City of Madrid



Source: Business Climate Survey - Madrid City Council Economic Office

1.4. Demand

Retail sales in the Madrid Autonomous Region continued to decline, according to the recent developments in the general retail trade index at constant prices published by the NSI.

The figures for Social Security-registered workers based on the monthly employment rate in retail trade fell in the Madrid Autonomous Region in the last three months for which figures are available - March, April and May - by 7.3%, 8.3% and 8.7%, respectively, while the figures for Spain as a whole showed declines of 1.3%, 1.8% and 2.2% in the same months.

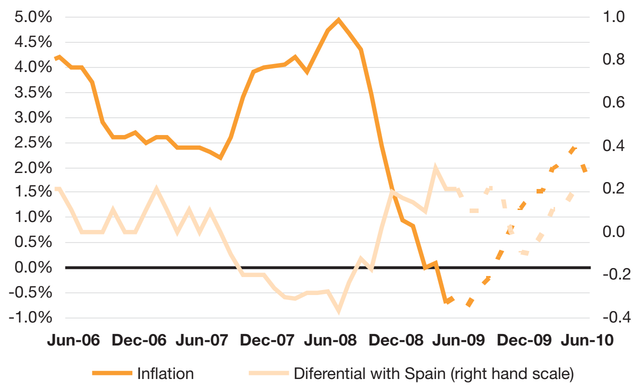
In February, March and April (the last three months for which figures are available) the accumulated trade deficit over the last 12 months in the Madrid Autonomous Region showed year-on-year changes of -9.1%, -17.1% and -18.6%, respectively, and amounted to 35,664 million euros.

1.5. Prices and salaries

The CPI in the Autonomous Region of Madrid continued to fall, and posted a negative year-on-year variation rate for the first time (-0.7% in May 2009). Price moderation will continue during the coming months and reach a fall of 0.8% in July. From that point on, a positive trend is anticipated which will lead to a year-on-year rate of 1.2% in December and around 2% in a year's time. All the groups in the CPI basket presented downturns in the rate of increase in their prices, apart from the basic effect arising from the sharp rise in food and energy prices during the first half of 2008. Underlying inflation also fell sharply, to a 1% year-on-year, 2.1 percentage points less than in the same month in 2008.

Housing prices in the City of Madrid continue to experience correction, which is more intense in used homes (-6% year-on-year in the IT09) than in new homes (which increased by 0.3%). Meanwhile, labour costs continue to rise, but less intensively than in the previous quarter. Of particular note is the heading "Other costs" (7.2%) which includes dismissal costs.

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 decline in the labour market in the City of Madrid continued during the first quarter of 2009. However, the discouragement effect is starting to become widespread among the population, which has led to moderation in the rate of growth of the active population of 0.6% year-on-year. By groups, the largest rates of decline in the rate of employment are being recorded among men and the youngest age group (16-24 years old). In terms of employment, the destruction of employment intensified in the first quarter of 2009, and mainly affected temporary and freelance workers.

By business sector, industry took over from construction as the main area for the destruction of employment in relative terms. The destruction of employment is closely related to the sharp drop in Social Security registration in the first quarter of 2009 (-5% year-on-year), and to the sharp increase in the number of unemployed (73,500 people more than in the same quarter of 2008), which puts the unemployment rate at 11.4%.

The figures for recorded unemployment confirm this trend, with over 193,000 people registered as unemployed in May 2009. Within the current trend of destruction of employment, the figures for recorded unemployment in May show a slightly lower year-on-year growth rate than the previous month, which suggests that the summer campaign will provide some respite for the decline in the labour market. However, this is not indicative of a change in the trend, but rather that seasonality and the State Local Investment Fund are partially offsetting the rise in unemployment.

2. Territorial balance

The housing market in the City of Madrid

Territorial analysis shows the distribution and importance of types of housing in each district. The process of consolidation of urban development in Madrid means that the city's new housing is extremely polarised in the new developments and the urban action programmes on the outskirts. Almost all the licences granted are in four districts: Fuencarral-El Pardo, Hortaleza, Carabanchel and especially in Villa de Vallecas. This district accounted for almost a third of all the new homes begun and 52% of state-subsidised housing. The decline in construction in recent months has affected non-subsidised housing to a greater extent and as a result, the proportion of state-subsidised housing increased to almost 50% of all the homes new begun in the first quarter of 2009.

The distribution of the range of used and rented homes is more balanced, and is more dependent on demographic criteria, location and the dynamism of demand. The districts in the Central Area are prominent, as in the first quarter of 2009, they accounted for 37 % and 43% of the range of used housing for sale and for rent. The key districts for used housing are on the Eastern outskirts East (Ciudad Lineal and San Blas), while for rented housing, the main areas are Tetuán and the Centre. For both types, the lowest percentages are in the outlying districts of Vicálvaro and Barajas, which have lower populations, and which are still awaiting urban development schemes.

Madrid is still an attractive City for professionals from other urban areas and for the establishment of new households. However, restrictions of an economic nature and on access to financing have led to a drop in the demand for housing in City. Demand is focused on cheaper homes - purchases for less than 200,000 € and rentals for less than 600 € a month. The decline in the demand is reflected in the change in the number of transactions: -23% for the City as a whole between 2007 and 2008. With the exception of the districts of Villa de Vallecas and Arganzuela, all the districts recorded a decline. Obviously, new housing transactions predominate in the outlying districts where the main urban development projects are located, while transactions for second-hand homes are more prevalent in the central districts.

Prices vary depending on the geographic location. The districts on the Central Area are more expensive than those in the outlying districts: prices are 16% higher for used homes and 11% higher for rentals. The higher prices of new homes in the district are less important due to the lack of this type of housing in the central districts. By contrast, the cheaper districts are on the outskirts to the south and east.

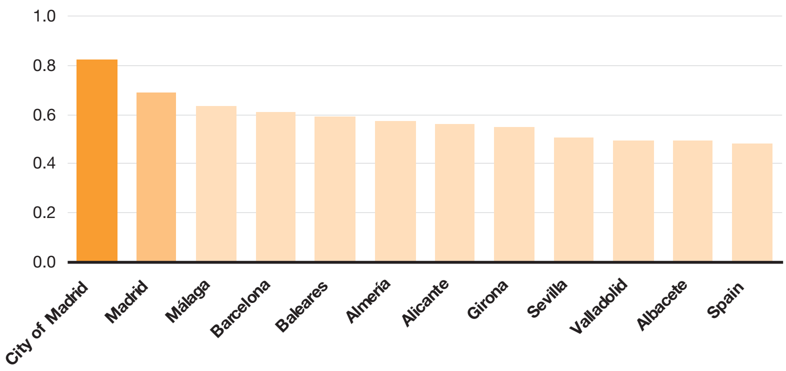
3. Business attraction pole

Entrepreneurial capacity in the City of Madrid

The boost to entrepreneurial activity plays an important role as a driving force for the economy of the City of Madrid. Various indicators have been used to give some idea of the activity in this area, such as the number of trading companies established; new contributors registered with the Social Security; freelance employment and businesses created by the Single-counter Business Service (SBS).

These indicators show that although the economic crisis slowed the rate of creation of companies in 2008, entrepreneurial activity remains intense, taking into account that approximately 35 new businesses are established in Madrid every day.

Ranking of trading companies established per 1,000 inhabitants 1Q09 (‰)



Source: Madrid Statistics Office, Council Registration Office (INS)

Likewise, in terms of the socio-economic characteristics of the entrepreneurs, there is a predominance of men, people aged between 35 and 54 years old, and with secondary and higher education in the City of Madrid.

Finally, we analyse the policies of support for entrepreneurship provided by Madrid City Council. First, support for the creation of businesses is provided by means of tools that make compliance with administrative formalities easier and provide advice services, such as the Single-counter Business Service, the Office for Advice to Entrepreneurs and SMEs, the Social Economy Counter and the PAIT (the Advice and Proceedings Start Point). A network of business incubator centres has also been established, which currently has centres in the districts Villaverde, San Blas, Centre, Vicálvaro and Puente de Vallecas. Another two incubator centres are in different stages of development, and are located in Carabanchel (fourth quarter of 2009) and in Moratalaz (second quarter of 2010).

4. Monografic report

Madrid, a city of design

From a business perspective, design contributes to a change in business culture, as it does not only contribute a factor of differentiation, which makes products more competitive, but also makes a difference due to their contribution to obtaining more innovative and more efficient products, which undoubtedly contribute to improving the company's strategic positioning.

There are three types of businesses that apply design: companies that specialise in design, freelance professionals and companies that do not work specifically in design as their main field but employ professionals from the sector. They all belong to the industrial and services branch of economic activity, and to a large extent they are part of subsectors that are considered to be of medium-high technological intensity or knowledge-based services. In total, the design sector in the City of Madrid includes 3,586 companies, if all three types of businesses are taken into consideration. As regards employment, estimates suggest that the Madrid design sector directly generates 11,303 jobs (0.7% of Madrid's total employment), of which 8,803 are designers (78%).

Employment generated by the design sector in Madrid

Business type	Designers	Non-designers	Total
Design companies	2,500	2,500	5,000
Freelance professionals	1,755	-	1,755
Company with internal design work	4,548	-	4,548
Total	**8,803**	**2,500**	**11,303**

Source: “The Design Sector in the City of Madrid,” Economic Observatory, Madrid City Council and own research based on the 2007 Economic Activity Units Directory.

The location in Madrid of a large proportion of the training-research centres and institutions involved in the sector's development as well as a large number of private associations, makes the City an ideal place for establishing and developing this type of business. The various spaces specialising in promotion, dissemination and creation of design in its various forms, means that Madrid is a focal point for professionals, future designers, businesspeople and academics from all over the world, and increases the knowledge of Madrid's society about design and its products.