EXECUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

After the quarterly decline of 1.6% recorded for Spanish GDP in the first quarter, the contraction in the second quarter was -1.1%. When compared with the same period in the previous year, the figure clearly shows the intensity of the total decline since the contraction began in the third quarter of 2008: GDP is 4.1% below the level of activity in the same quarter of last year.

Meanwhile, the pace of decline in GDP growth in the Madrid Autonomous Region also increased to -2.9% in the second quarter of 2009 (measured in cycle and trend terms). This rate is the sharpest decline recorded for the Autonomous Region since the Spanish and international recession began. Furthermore, forecasts for the City of Madrid suggest that economic activity will continue to contract this year and next year, with no positive results being recorded until 2011. As a result, the change in GDP in 2009 will be around -2.3%, with this fall easing by around -0.2% in the following year. Growth of 1% is forecast for 2011.

1.2. Production activities

INDUSTRY

Industrial activity fell significantly in the Madrid Autonomous Region, continuing the trend which began in the first quarter of 2007. The latest figures available for the Industrial Production Index (IPI) showed an average annual change of -12.8% in July, a sharper rate of decline than in May and June, when variations of -10.1% and -11.1% respectively were recorded. Meanwhile, IPI for Spain as a whole presented a more emphatically negative profile, with a rate of -18.0% in May.

The total number of registered employed workers in industrial areas in the City of Madrid was 92,181, a fall of 4.5% compared to the previous quarter. Practically all areas presented declines in the number of employed workers, with particularly sharp falls in the fields of dressmaking, waste treatment and the food industry.

The gross figures for industrial GAV for the Madrid Autonomous Region presented a year-on-year change of -6.9% in the first quarter, which was a slight decline compared to the previous quarter.

CONSTRUCTION AND THE REAL ESTATE MARKET

The number of workers registered with the Social Security system in the construction sector was 127,056 on 31 June 2009, a very similar figure to the 127,274 recorded at the end of the first quarter, and a quarterly reduction of less than 0.2%. The influence of construction on the City's economy increased during the second quarter of the year, and those employed in the sector accounted for 7.13% of the total.

The number of new homes built in the City of Madrid has yet to recover. There is a negative average annual growth rate in the number of licences granted by the City Council for the construction of new housing, and despite a change in the trend to appear between April and June, the figures for July and August have dispelled this optimism and the rate has returned to levels of around -40%.

New housing permits (average annual rate)

Source: Town Planning and Housing Goverment Department Madrid City Council

Since 2007, state-subsidised housing has gained in importance compared to the private sector, and 52.7% of the licences granted in August were for the construction of state-subsidised housing.

The performance of non-residential construction has also been affected by the economic situation, and the area for non-residential construction once again recorded negative average annual growth rates.

SERVICES

The Financial System

There was a slight moderation in the increase in deposits by clients in the Madrid Autonomous Region in the second quarter of 2009, which shows that at present, there is no change in the series trend, despite the first quarter figures suggesting the opposite. Meanwhile, the rate of increase in credit investment in the Madrid Autonomous Region slowed for another quarter.

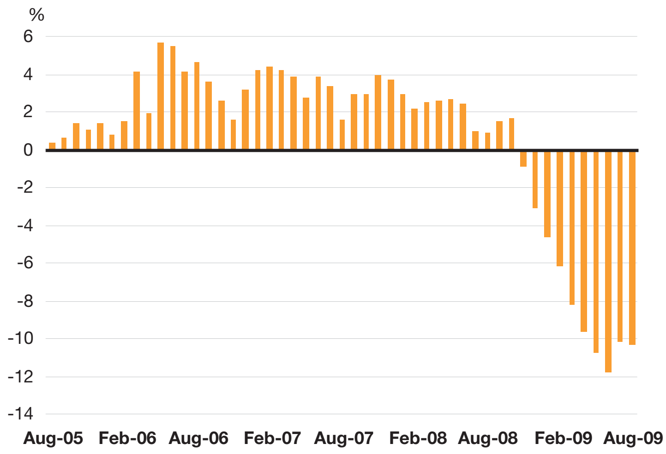
The latest figures for the mortgage market, for the months of May and June 2009, show a slower rate of year-on-year decline in both the number of mortgages and the capital involved in the Madrid Autonomous Region.

As for the stock market, 237,262 million euros worth of equities were traded on the Spanish Stock Exchange Interconnection System (SSEIC) in June and August 2009, a fall of 18.5% compared to the same period in the previous year.

Tourism

There was a slight improvement in the results for tourism in the City of Madrid in the summer months from June to August, although the year-on-year figures remained very negative. The total number of travellers for these three months fell by 4.1%, and overnight stays by 4.5%. However, these results should be considered with some caution before any final result is inferred for 2009, as the City receives the fewest tourists at this time of year due to seasonal reasons, meaning that it is not as significant within the total result for the year. The level of occupancy per hotel bed continued to fall very sharply, at -8.0%.

Hotel Revenue Index in Madrid Autonomous Region



Source: Hotel Occupancy Survey - NSI

Transport

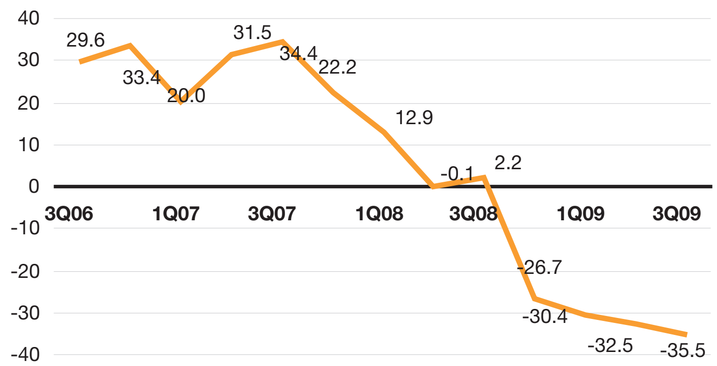
The figures for transport for the summer months show some relief in the decline noted in recent months in terms of the numbers of passengers transported, although all means of transport posted negative rates in year-on-year terms. Between June and August 2009, the number of passengers arriving at or departing from Madrid-Barajas airport fell by 2.7% compared to the same quarter of the previous year. This figure is a considerable improvement on the 9% decline in the March-May period and the 15.8% fall in the quarter between December and February. Once again, the fall was more pronounced in air traffic in goods than in passengers, due to the deterioration in the international trade of goods. As regards mobility, there were declines in both intensity and in the average speed of urban traffic, as in previous months.

1.3. Business Dynamic

The economic crisis continues to be reflected in the number of company constitution proceedings in the City of Madrid. The negative perception among businesspeople of the current and future situation is especially apparent in the decision whether to establish new businesses, with the average annual number of proceedings hitting a new low of 879 in June 2009. As well as the negative perception, which peaked in the second quarter, when growth rates in GDP terms were at their most negative since the crisis began, there are also problems in obtaining financing, which limits the acceptance of new projects that would attain acceptable profitability thresholds in other more positive economic situations. The annual average number of dissolutions also remained stable at over 200.

Likewise, the third quarter of the year saw a further decline in the Business Confidence Indicator of the City of Madrid, produced by Madrid City Council, to -35.5 points. This was a record low for the series, which reflects the negative economic situation, which has yet to begin its recovery.

Business Confidence Indicator. City of Madrid



Source: Business Climate Survey - Madrid City Council Economic Office

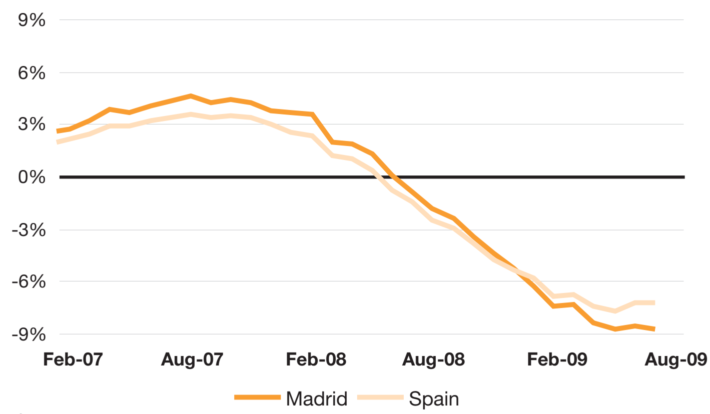
1.4. Demand

Further falls in retail sales were recorded in the Madrid Autonomous Region, according to the recent figures for the general retail trade index at constant prices published by the NSI.

The rate of monthly employment in the retail trade presented further falls in the Madrid Autonomous Region in the last three months for which figures are available - May, June and July - with changes of -8.7%, -7.8% and -7.8%, respectively, while the figures for Spain as a whole showed variations of -2.2%, -2.6% and -3.0% during those months.

As for developments in the foreign sector, imports performed negatively, with declines of over two digits in the last three months. Meanwhile, exports seem to have halted their decline and are showing a slight upturn.

Retail sales at constant prices (Average annual rate)



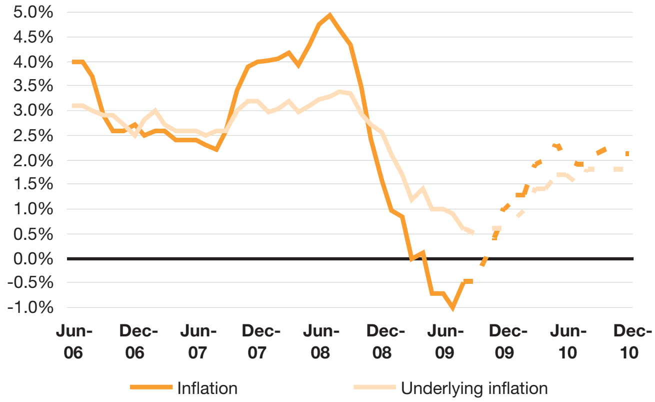
Source: NSI

1.5. Prices and salaries

August saw a partial halt to the acute downward trend in prices that had been prevalent in recent months. After the -1% year-on-year rate for the CPI in July (a record low for the figure in Madrid), the price indicator moved in the opposite direction by half a percentage point, to -0.5%. This upturn was due to the culmination of the downward inertia caused by food energy and prices, which are not falling at the same rate as in previous months in terms of year-on-year comparison. In any event, this rate of change in prices is 5.2 percentage points lower than that of August 2008 (4.7%), highlighting the sharp fall in the price index over the last year.

The figures for house prices produced by the real estate valuation company TINSA clearly show the ongoing correction of prices, which is more acute for second-hand housing than newly built housing.

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 economic situation continued to worsen in the second quarter of 2009, which had a negative effect on developments in the labour market, although the rates of job destruction were slightly lower than in previous months. However, although the rate of deterioration of the labour market is no longer extremely acute, the outlook remains negative. Indeed, the discouragement effect on potential workers is starting to become more widespread. This has led to a year-on-year fall in the number of workers, which is being noted among both men and women, but with a greater impact among men and in terms of age groups, as it is affecting young people more severely.

The employment trends of previous months also continued to worsen, with an intensification of the decline in employment among temporary wage earners and the self-employed, although this was more moderate in the first quarter among the latter, while the most heavily affected sector in relative terms was industry. Unemployment trends are completely consistent with these figures, with less marked increases than in the previous quarter, although with profound effects among young people and in the industrial sector.

2. Sustainability

Floating population in the City of Madrid

Because of its size, economic and functional diversity, Madrid is a pole of attraction for a large population from beyond its boundaries, which despite travelling in the city and therefore using its public services and facilities and generating economic activity - is not considered part of the city's resident population. The concept of a floating population is multi-faceted, as it covers various flows of socio-economic relations, such as those related to work, leisure, tourism and education. Any study of the subject requires the use of many sources and methodologies in order to be able to calculate the volume of the City's floating population.

The estimated total volume of the City of Madrid's floating population is 1.4 million people, who come to the City for different reasons every day. The most numerous group consists of non-resident workers registered in companies in Madrid, which amounts to 743,533 people. This is followed by the group of 156,000 people that come to the City every day for educational purposes.

From the point of view of their impact on the economy and public expenditure, estimates suggest that the floating population in Madrid contributes 39,819 million euros to the municipal GAV and to employment with 38.7%. It can also be assumed that it accounts for a level of consumption of 8,306 million euros. However, the people visiting the City every day also put some pressure on the high levels of municipal expenditure, which can be estimated at 802 million euros.

3. Territorial balance

Social and demographic dynamism in the City of Madrid: the process of rejuvenation

The intense appeal of Madrid in social and employment terms in Spain and internationally makes it a young and cosmopolitan City, at the forefront of the major European capitals. This appeal to young workers and the creation of new homes has led to the rejuvenation of the age structure of the population.

This process does not affect all areas in the City of Madrid in the same way. Broadly speaking, the most significant contrast is between the rejuvenation of the districts on the outskirts and the ageing of those in the centre. This is a common phenomenon in large cities, and is the result of the trend among young people and new households to move to districts on the outskirts, where there is a wider and more varied range of homes, which are generally available at lower prices.

The City of Madrid plays a demographic supporting role, and its injections of young population have encouraged the expansion of one of Europe's most dynamic metropolitan areas.

Immigration from abroad, and to a lesser extent the population arriving from other Spanish regions, has been the main driving force behind the City's rejuvenation. Migratory flows have mitigated the effects of the demographic transition and the ageing of society, because almost 90% of the immigrants are in young age groups (between 0 and 44 years old), which in quantitative terms has entailed an annual average injection of around 143,000 inhabitants in recent years.

4. Business attraction pole

Business schools and postgrade education

Madrid is considered a leading Spanish and international city in specialised and postgraduate higher education. The numerous business schools which have been established in the City have contributed to the creation of talent, by providing training and skills development solutions for company employees, as well as giving young people and adults the benefit of specialised training, with a view to joining the labour market and to facilitate employment mobility, and to foster and maximise their decision-making ability.

The fact that Madrid is home to many prestigious postgraduate schools is an effective tool for improving the efficiency of the City's production system and increasing the competitiveness of its business fabric.

The national ranking of the leading business schools in terms of level of turnover and employment shows that Madrid is in first place compared to other cities with business schools. This leadership can be seen when considering schools with a campus in several cities, including Madrid, and those present in only one city. Furthermore, the city of Madrid is the home of a large number of postgraduate students, as can be seen in the number of students registered in Madrid's main business schools and those registered on doctorate courses in Spain's top ten public and private universities.

The importance of the business schools sector in Madrid is not limited to Spain, as the City is also home to some of the business schools with the highest international profile. Indeed, the range of MBA, Executive MBA, and Management programmes makes Madrid one of the outstanding cities for European business schools. The European Business School ranking for 2008 published by the Financial Times shows that the best business schools on the continent are located in Madrid, Paris and London. Finally, among European business schools, Madrid is particularly important due to the large number of students attending its programmes, which shows the city's ability to attract talent.

5. Monografic report

Madrid, the decision centre for the renewable energies sector

The renewable energies sector, which until recently was in its infancy in the Madrid and Spanish economies, has recorded significant growth in recent years and despite the uncertainty arising from the present crisis, the outlook for the future remains favourable.

The City of Madrid has also been part of this business development process. Indeed, many of the companies leading the way in the change in our economy towards new activities and sectors have found Madrid to be an optimum platform for developing their international growth strategies to their full extent. This appeal to businesses has promoted job creation, which amounted to an estimated total of 32,104 people employed in the renewable energies sector in 2008, representing 1.7% of total employment in the City during this period, and 30.4% of the workers in this field in Spain as a whole. It is also necessary to stress that this is a young but dynamic sector, as in Madrid over half the companies in this sector (52%) were established after 2000.

The main renewable energy subsectors where Madrid companies work are photovoltaic solar technology and solar thermal energy, followed by wind power and biomass energy. In practically all these technological areas, businesses located in the Madrid Autonomous Region have assumed leading positions in terms of employment in Spain.

Meanwhile, Madrid has a specialised profile in leadership and planning tasks, which is closely related to the presence in the City and its metropolitan area of the headquarters of some of the most important Spanish and foreign companies in the renewable energies sector, in various yardsticks for analysis. For example, Madrid was the home of the corporate and operational headquarters of four of the world's seven leading wind turbine manufacturing companies in 2008. Likewise, in the international ranking of wind power park operators, the offices of the first, fourth and eighth operators in global terms are located in the City of Madrid.

Finally, Madrid also has other significant factors which can boost the development of the sector in the City. These include the availability of highly qualified human capital, a high level of concentration of potential clients' headquarters, and proximity to institutional and administrative decision-making centres, such as the National Energy Commission, the Ministry of Industry (including the State Energy Department), the Institute for Diversification and Saving of Energy, or IDAE and the CIEMAT (the Centre for Energy, Environmental and Technological Research).