EXECUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

After several quarters of contraction, the world's economy has begun to regain momentum in recent months, thanks to the drive of emerging economies and the positive impact of incentives on all economies, both monetary and fiscal.

The euro area showed a less intense recovery in the fourth quarter of 2009, confirming the need to maintain macroeconomic stimuli and the measures taken by the ECB.

The Spanish economy continued to deteriorate in the fourth quarter of 2009, but at a slower pace than in the first half of the year. GDP contracted by 0.1% in quarterly terms (-3.1% year on year). Domestic demand remained as the factor most significantly affecting GDP, drawing 5.3 points to year on year growth. In 2010, the economic weakness scenario is maintained, the economy could continue to contract by 0.2%. As occurred in previous quarters, especially consumption and investment will hinder the performance of GDP.

In Madrid, the trend-cycle GDP declined by 1.8% in the last quarter of 2009, the second consecutive quarter with a lower rate of decline in activity. A more moderate decrease in employment in the fourth quarter of 2009 with respect to previous quarters should be pointed out, however, the unemployment rate continues to increase standing at 14.7%.

1.2. Production activities

INDUSTRY

Industrial activity in Madrid Autonomous Region showed further declines in December, January and February, although they have been less steep than in previous months. The Industrial Production Index (IPI) showed an average annual change of -11.2% in February after falling in December and January, when rates were -12.7% and -12.3%, respectively. In the whole of Spain, this index has shown a similar trend, although the moderation of the decline has been less noticeable, with rates in December, January and February of 16.3% -14.7% and -12.8%, respectively.

CONSTRUCTION AND THE REAL ESTATE MARKET

At the end of last year, there were 112,522 workers in the construction sector registered to the Social Security system in Madrid, representing a decrease of 8.7% over the previous quarter, contrary to the slight recovery experienced by the total number recorded in the City in the same period (0.13%).

During 2009, there were 5,321 applications for permits for the construction of new houses in the City of Madrid. In the last three months to February, residential activity has focused more intensely in social housing: according to the Town Planning and Housing Department, 84% of housing starts have been subsidized Even so, the annual average of subsidized housing starts remains negative.

Although 2009 was not a good year for the construction industry, in general, the non-residential segment suffered somewhat less than the residential. The area assigned to non-residential construction fell by 28.2%, while the area for residential activity fell by 36.6%.

SERVICES

The Financial System

Deposits by clients in Madrid Autonomous Region reached, in the fourth quarter of 2009, their lowest level since late 1999, with a negative contribution of banks. The number of offices in the City of Madrid continues to fall in the fourth quarter of 2009, though at a slower pace than the regional and the Spanish averages.

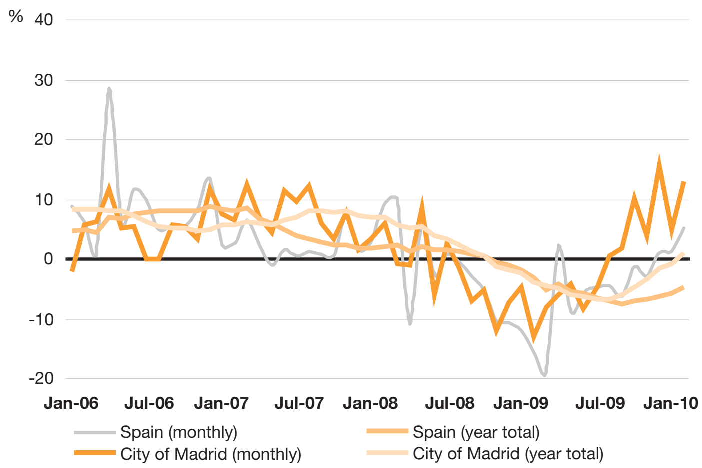
Over 2009, mortgages began to recover in number but were still declining in amount in the region: the number dropped by 15.7% and the amount by 30.2% compared to the previous year. The positive effects that cheaper housing in Madrid and low interest rates should have are diminished by the deterioration of economic activity.

Finally, as for the Spanish stock market, in December, January and February 2010, the worth of equities traded, the number of transactions, the number of commands entered and the average deal size have increased. There has been also a positive trend of the stock market in year on year terms, although compared to the end of 2009, negative returns have been recorded.

Tourism

New improvement in tourist demand in the City of Madrid, which increases its momentum to reach a growth of overnight stays in hotel establishments by 11.3% for the accumulated figure from December 2009 to February 2010. Domestic demand has been particularly influential during that quarter, overnight stays reached a year on year growth of14.2%, more than 11 percentage points higher than the previous quarter. The demand of non-residents has also continued to show high annual growth rates of 8.0% in overnight stays. In monthly terms, taking into account the latest data, February is the seventh consecutive month with positive growth in overnight stays in hotels in the City of Madrid.

Overnight stays in hotel accommodation (year on year rate of the monthly and year figures)



Source: Hotel Occupancy Survey - NSI

Transport

Data from the first two months of the year support the improvement of air transport, mainly due to increased international flights that amounted to 6.41 million passengers. Year on year growth of the number of users of Madrid Barajas was 6.0%, which translates into an increase of almost 600,000 passengers, the highest in recent months. The recovery of freight transport is stronger than that of passengers due to international transport, as domestic goods transport continues to deteriorate.

The number of users of Metro and EMT declined again between November 2009 and January 2010. In year on year terms, passengers decreased by 3.4% and 4.3%, respectively, although with a further rise in the distance travelled by buses, with an annual increase of 0.5%. Also, the number commuters using the regional train network diminished in the first two months of the year, breaking the trend of recovery that started last November. The number of workers of the sector enrolled to Social Security declined by 4.7% in the fourth quarter of 2009. Mobility data show a reduction in the intensity of traffic, 4.3% year on year, and a slight increase in average speed.

1.3. Business dynamic

The number of company constitution proceedings remained at its lowest, fluctuating around 820 as an annual average, although last December monthly data creates certain expectations, having reached 960 new businesses, 17% higher than December 2008. Dissolutions maintained similar levels, slightly higher than 200 companies.

Further improvement in the Business Confidence Indicator of the City of Madrid, reinforcing expectations of a change in the negative trend in business confidence. The indicator has increased by nearly six points to stand at -9.8, although still in negative territory. This recovery takes place in the perception of industry and services companies with a relapse in the construction sector indicator.

Business Confidence Indicator. City of Madrid

Source: Business Climate Survey - Madrid City Council Economic Office

1.4. Demand

Retail sales in Madrid Autonomous region continued to moderate their negative growth during December, January and February.

The Madrid Consumer Confidence Index (ICCM) showed a loss of confidence in the economic situation, standing, in the first quarter of 2010, at 31.7 points, slightly below the two previous periods, with values of 35.9 and 34.2 points, respectively.

Employment in retail trade recorded slightly higher declines than in previous months, with year on year rates, in December, January and February, of -1.0%, -2.7% and -0.8%, respectively.

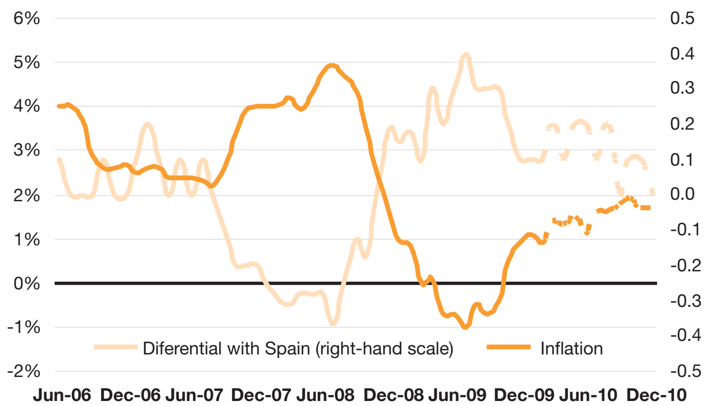
The economic downturn continues to affect the demand for imports, registering year on year drops. Likewise, exports registered declines. The trade balance recorded a deficit decrease of 22.9% year on year, bringing the trade imbalance back to levels not seen since the first quarter of 2004.

1.5. Prices and salaries

The Consumer Price Index of Madrid Autonomous Region reached a year on year rate of 0.9% in February 2010, two tenths less than the rise seen in January. As in Madrid, average inflation in Spain reversed the rise of the previous month, standing at 0.8%. Thus, the price differential with Spain remains positive, being the third consecutive month, by 0.1 percentage points. The latest forecasts suggest that inflation will peak to 1.9% in October, estimating some restraint for the end of the year (1.7% year on year).

Considering the Quarterly Labour Cost Survey, in the region of Madrid, growth continued moderating compared to previous quarters. In the fourth quarter of 2009, the total cost increased by 3.0% reversing in seven tenths the progress of the previous quarter.

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 fourth quarter of 2009 could be a turnaround in the labour market: labour force and employment increased. At the same time, unemployment continues to rise, but at a slower pace. A slight increase in the labour force was seen in the City of Madrid, after falling for three consecutive quarters. Labour force amounted to 1,682,800 persons, a rise of 1.9% from the third quarter. There is also an increase of the activity rate among the population aged 16 to 25 and between 25 to 54 compared to the third quarter of 2009. The employment figures also picked up. Thus, 2009 ended with 1,444,700 employed, 0.4% more than in the third quarter. Nevertheless, the year on year rate (-6.1%) continues falling, though at a slower pace.

The number of workers in the Social Security system increased by 2,315 people in the last quarter of 2009. Nevertheless, the growth rate remains negative, with a fall of 4.8% year on year. According to the Labour Force Survey, the number of unemployed at the end of the year was 238,000 persons, 14.1% of the labour force in the City, reflecting some slowdown in the pace of growth of the unemployment rate. Registered unemployment also shows an increase in the number of unemployed, although more moderate. In March 2010, the growth rate was 19.1% year on year.

2. Sustainability

Public policies to discourage private car use

Congestion caused by traffic is one of the biggest problems faced by large cities. The consequences are manifold: levels of high air and noise pollution that may be damaging to human health and environmental quality; high risk to people who live and move around the City because of accidents and lack of road safety; increased social tension because of traffic, high economic costs derived from too long travelling times; and a continuous degradation of the urban image.

Currently, there are various formulas used by local governments to reduce traffic in congested areas, basically: the "static model", regulating the use of private vehicles operating on internal traffic within a defined area; and the "dynamic model " acting on passing traffic. The City of Madrid applies the first model, but cities like London or Berlin apply systems that combine both models.

The application of the "static model" to discourage private car use in Madrid has resulted in a reduction of 5.7% of the volume of traffic accessing to areas of application and 2.65% of the Average Daily Intensity (ADI) of traffic throughout the City. This has led to an increase in average speed between 10%, within the first and second road rings, and 24% in the M-30.

Specific actions are being carried out to implement more sustainable mobility in the City: improving the quality and supply of public transport, specially in Metro and Cercanias trains in recent years, and implementation of transport interchanges to enhance intermodality; the Controlled Parking Service (SER) that is applied within the M-30 area (central districts) and in some outer boroughs; actions to reduce flows and road capacity; the creation of Residence Priority Areas (APR) and pedestrian streets; the development of the Cycling Master Plan that establishes, for the first time, a policy for the use bicycles in Madrid, increasing bike paths by 123% in recent years and the launch of a public bicycle sharing program called Mybici, to be operational in March 2011; and the replacement of the fleet of municipal vehicles with ones that are energy efficient and environmentally friendly, as well as the introduction of electric vehicles in the City (MOVELE Madrid project).

3. Territorial balance

Map of the territorial distribution of production activities in the City of Madrid

The productive fabric of the city of Madrid is characterized by being heavily tertiarized. The resulting economic activity tends to concentrate on the central districts, an area known as " Almendra Central ", with Salamanca, Centro, Chamberí and Chamartin with the highest employment rate in the City with 35%, while in terms of population, they only account for 18% of residents. These four districts are the only ones, together with Barajas, where production is the priority over residential purposes.

By sectors of activity, the low transforming activity still remaining in the City occupies 4.6% of workers, having a marked tendency to centrifugal location. Thus, two districts in the outskirts, San Blas and Villaverde, with greater industrial activity, bring together 27% of total industrial employment.

As already noted, Madrid is an eminently tertiary economy, 88% of those employed in the City work in services. However, by districts, the rate of tertiarization of employment varies between 59.3% in Villaverde and 95.1% in Centro. The distribution by districts of the services sector is more homogeneous than that of industry, but it responds to a pattern of centripetal location. Centro, with 10.3% of total employment in services, Salamanca with 9.5%, Chamberí 9.4% and Chamartin with 8.9% bring together the greatest number of tertiary workers .

Between 2004 and 2008, there has been cumulative employment growth to 10.2% in the city of Madrid, Hortaleza is the district with higher growth (around 30%). But taking into account its specific weight, Centro, Salamanca, Chamartin or Chamberí, have positioned themselves as leaders in employment growth in terms of absolute number of employed in the indicated period.

4. Business attraction pole

Strategic dimension of the Madrid-Barajas Airport

The Barajas Airport represents for the City of Madrid a extremely valuable tool to enhance its strategic projection globally. With 50 million passengers a year, Barajas occupies the fourth and eleventh positions in the ranking of European airports and worldwide, respectively. It presents a higher growth rate than the rest of Europe's leading airports. This evolution reflects, first, the expansion and improvement of its facilities tackled in recent years, which allows a maximum capacity of 120 movements per hour and serve over 70 million passengers per year (figures only behind London airport nodes, Atlanta and Chicago). The growing international importance of Barajas also responds to its position as the main hub for air links between Europe and Latin America, and new routes opened by low cost carriers, whose emergence is introducing substantial changes in the aviation market. Finally, changes in the airport management model that are being undertaken at European and Spanish airports will enhance the efficiency of the Madrid-Barajas airport and improve its integration with the City of Madrid.

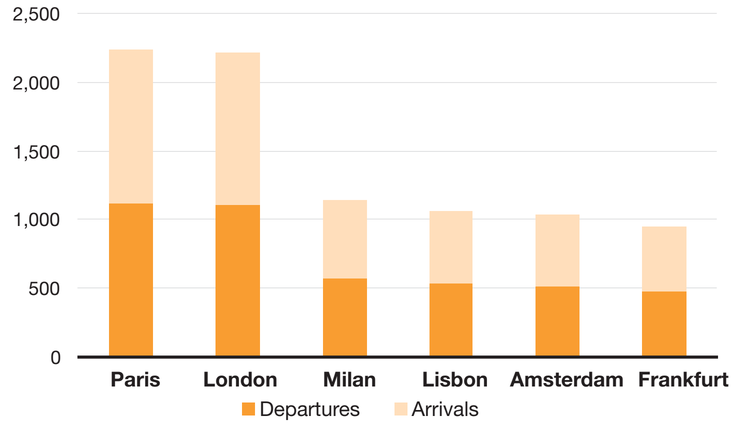
5. Monografic report

Economic relations between the City of Madrid and the main European cities

All dimensions analyzed demonstrate the importance of Europe's major cities for the City of Madrid. This is reflected through the strong bilateral relations that Madrid has with these cities, which have strengthened their links in recent years. It is worth noting the high percentage of foreign companies located in Madrid with headquarters in the major European economies, which amounts to more than 2,100 companies. Also, the number of companies based in Madrid with offices located in major European cities. Such is the case of large business groups like Santander, the second bank in the UK by number of mortgages and the third by deposits.

The analysis of trade relations has highlighted the intense flows between Madrid and major European cities, Paris, London and Lisbon's stand as the main trading partners, with a 10% share of total trade in 2009. Finally, it should be mentioned that the significant tourist flows between Madrid and major European cities have increased in recent years. Together, these cities exceeded 8.64 million passengers in 2009, representing 30% of total international passenger traffic at Madrid-Barajas airport, which has intensified in recent years, registering an average annual growth close to 7.5% between 1999 and 2009.

Air passenger traffic between Madrid and some European cities by departures and arrivals (in thousands). 2009



Source: AENA