EXCUTIVE SUMMARY

1. Analysis of the situation of the City of Madrid

1.1. Economic environment and prospects

In the second quarter of 2010, the group of developed economies has confirmed their recovery, except USA and Japan, which have seen some slowdown in their growth.

As regards the Euro area, GDP presented a 1% quarterly growth rate, which has meant a rebound to 1.9% in year-on-year terms, the highest rate since the first quarter of 2008. This growth momentum has been driven by domestic demand, although to more extent to the rebuilding of inventories than to an increase in consumption, which remains weak. The external sector recorded a decline of two tenths in its growth, as recovery in foreign trade has pushed up imports (12.8%) more strongly than exports (12%).

In the second half of the year, possibilities of an economic stagnation in the Euro area may be anticipated due to the impact of fiscal consolidation plans in some countries. In addition, the rebuilding of inventories would be coming to an end in most countries, while domestic consumption has not taken off. With respect to external demand, the slower pace of growth in USA and Japan may have a negative impact in European exports, which would also result in a slowdown in growth.

In Spain, GDP registered slight growth for the second consecutive quarter (0.2%), which has made it possible to make the year-on-year rate stand at -0.1%. The key to recovery has been the contention of the drop in domestic demand (-0.5% year-on-year), led by household consumption and investment in equipment, both back to growth. With regard to the external sector, it has reduced its positive contribution to 0.4% year-on-year.

According to the latest data, GDP for the region of Madrid has grown by 0.6% in year-on-year terms in the second quarter, thanks to the good performance of industry (0.3%) and services (1%) and the moderation of the decline in GVA in the construction sector (-3.1%).

Spanish macroeconomic variables (year-on-year rate)	2Q09	3Q09	4Q09	1Q10	2Q10
GDP	**-4.4**	**-3.9**	**-3.0**	**-1.3**	**-0.1**
Consumption	-3.0	-2.3	-1.8	-0.3	1.5
Private	-5.5	-4.2	-2.6	-0.3	2.0
Public	4.3	2.7	0.2	-0.2	0.4
GFCF	-18.0	-16.4	-14.0	-10.5	-7.0
Equipment	-31.5	-25.5	-16.9	-4.8	8.7
Construction	-12.0	-11.7	-11.9	-11.4	-11.4
Residential	-24.4	-25.0	-24.8	-21.1	-19.3
Other construction	0.3	0.5	-0.9	-4.1	-5.7
Other	-16.9	-18.7	-17.2	-15.4	-12.4
Domestic demand [1]	**-7.6**	**-6.4**	**-5.2**	**-2.9**	**-0.5**
Exports	-15.8	-11.0	-2.1	8.8	10.5
Imports	-22.2	-17.2	-9.2	2.0	8.1
Foreign demand [1]	**3.2**	**2.5**	**2.2**	**1.6**	**0.4**

(1) Contribution to GDP growth
Source: INE (National Statistics Office)

Economic forecasts are still applicable for both the City of Madrid and the whole of Spain. The Spanish economy would fall by 0.3% this year to grow by 0.9% in 2011, while the forecasts for Madrid predict a drop of 0.6% in 2010 and an increase of 1% in 2011 and also a rise of 1.8% in 2012.

Macroeconomic variables for the City of Madrid (year-on-year rate)	2010	2011	2012
GDP (supply)	**-0.6%**	**1.0%**	**1.8%**
GAV energy	1.9%	2,4%	3.6%
GAV industry (other)	-0.3%	1.5%	2.7%
GAV construction	-3.2%	-4.3%	1.8%
GAV services	-0.3%	1.3%	1.4%

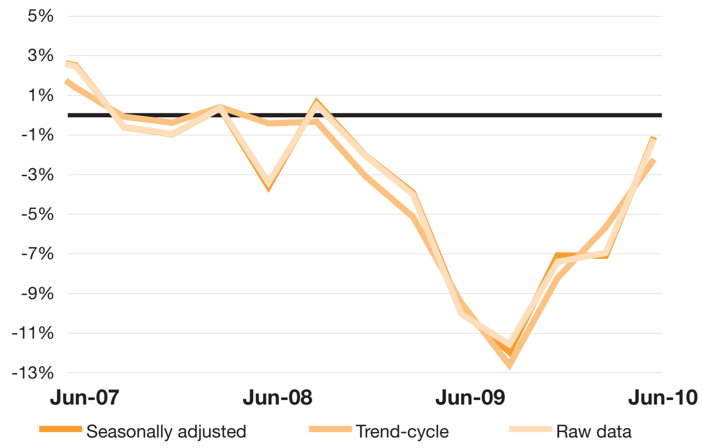
Source: L.R.Klein Institute-Centro Stone, June 2010.

1.2. Production activities

INDUSTRY

The Industrial Production Index (IPI) for the region of Madrid maintains the upward trend that began earlier this year, but it remains in negative values (-5.9% on annual average). This is reflected in the second quarter's industrial GAV, which, while continuing to record falls (-2.2% on a trend-cycle) shows a clear recovery in relation to the same period in 2009. Similarly, the decline of industrial employment continues, although the rate of decline is gradually shrinking, registering a drop of 5.5% in Social Security enrolment in industry in the second quarter compared to a fall of 7.3% for the previous quarter.

Industrial GVA for the region of Madrid (year-on-year change rate)

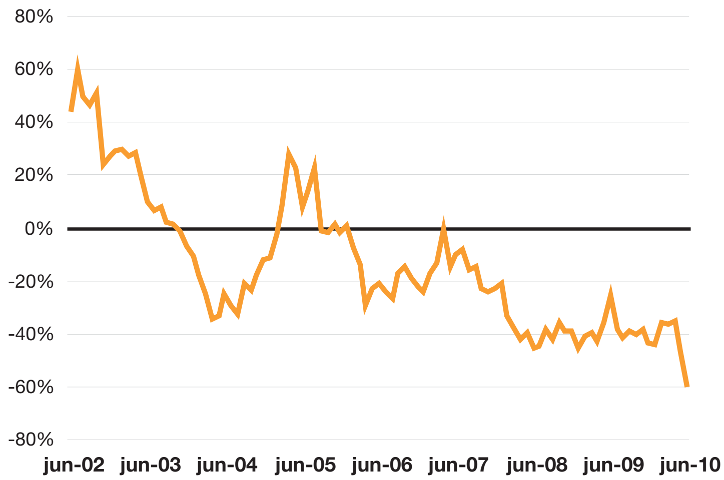


Source: Madrid Statistics Office (Regional Quarterly Accounts)

CONSTRUCTION AND THE REAL ESTATE MARKET

For the first time since early 2009, the number of Social Security enrolments in the construction sector in Madrid recorded a slight increase over the previous quarter (0.8%). However, in year-on-year terms, the decline continues to be significant (-12.3%). Considering economic activities, civil works, specialized construction and residential building, there were sharp year-on-year rates of decline (-20.9%, -12.6%, -9.6%, respectively). The slump in construction activity is confirmed by the number of new housing permits granted by Madrid City Council, which fell by 40% (annual average) for subsidized housing and 75% for non-subsidized housing.

Residential building permits (average annual rate)



Source: Town Planning and Housing Government Department Madrid City Council

However, non-residential construction shows signs to be making headway towards recovery. Thus, after a fall of 25% in the first quarter, the pace of decline slowed to -6.3% in the second quarter. Social infrastructures are especially responsible for boosting activity

(49.2% in annual average in June), while industrial estates continue to record declines (-25%) as well as tertiary use facilities (-25.2%) and parking areas (-24.5%).

SERVICES

The Financial System

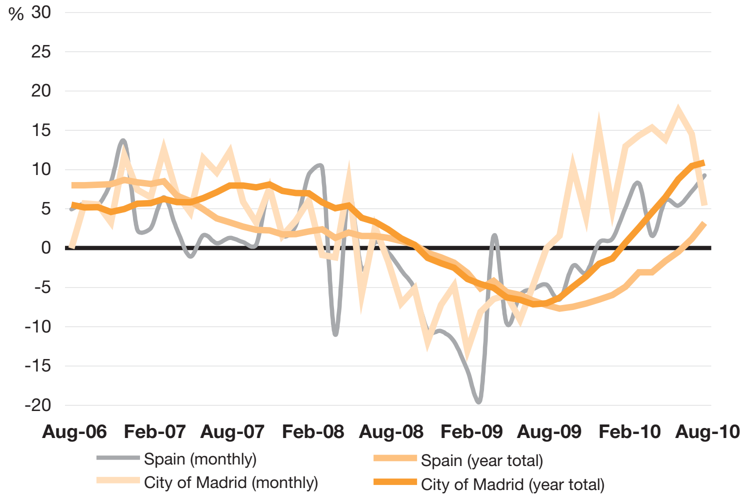
The financial sector continues its adjustment process in Madrid and in the whole of Spain. The second quarter of 2010 ended with a further decline in the number of offices, although less intense in the City of Madrid than in the region and Spain as a whole. Also, both customer deposits (-5.7%) as loans to the private sector (-1.4%) presented further declines. With regard to mortgage lending, the adjustment is being more severe and therefore, the number of mortgages (-4% year-on-year) as well as their total amount has continued to drop in the region of Madrid (-13.7%), although less intensely than in the whole of Spain (-12.3% and -19%, respectively)

Regarding the stock market, both turnover and the number of operations performed have increased on the Spanish stock market between January and September 2010, as compared to the same period in 2009. In the last quarter, the General Index of the Madrid Stock Exchange has reached a yield of 15.2%. However, so far this year, losses amount to 12%, which means a worse performance than the main international indices.

Tourism

The figures for tourist demand show good results in the last three months. The year-on-year change rate of the numbers of tourists stood at 10%, foreign visitors have registered a greater increase (13.4%) than national tourists (6.9%).

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



Source: Hotel Occupancy Survey (EOH) - INE

Overnight stays have proved a better relative performance of the tourist sector in the City of Madrid. Thus, although the figures for August present a slower growth in overnight stays in the City of Madrid than in Spain as a whole, accumulated growth for the last 12 months amounts to 10.9% in the City, while the national rate increases in just 3.2%.

The good performance in tourist arrivals has allowed for an increase in revenue per room since last March, even though the number of places in hotel available has increased by 2.4% over the last three months compared to last year.

Main tourism indicators for the City of Madrid

	2009	2010 Jun	2010 Jul	2010 Aug	Change % 10*/09
Tourists	**7,166,479**	**680,310**	**664,724**	**528,390**	**10.2%**
domestic	3,800,753	337,498	313,680	246,895	6.9%
foreign	3,365,723	342,812	351,044	281,495	13.4%
Overnight stays	**13,653,384**	**1,302,258**	**1,263,656**	**1,051,356**	**12.7%**
domestic	6,450,822	568,663	516,099	427,346	8.5%
foreign	7,202,562	733,595	747,557	624,010	16.0%
Average stay	**1.91**	**1.91**	**1.90**	**1.99**	**2.3%**
domestic	1.70	1.68	1.65	1.73	1.5%
foreign	2.14	2.14	2.13	2.22	2.3%
Occupancy rate per place available	**50.2**	**56.9**	**53.1**	**45.6**	**9.9%**

*** Accumulated June-August 2010**
Source: Hotel Occupancy Survey (EOH) INE

With respect to employment in hotel establishments, after registering falls in recent months, August saw a slightly positive year-on-year rate, which augurs well for stabilization or even a slight increase in employment in the sector in the coming months.

Transport and mobility

The summer period (June, July and August) of 2010 reflects a significant improvement in the figures of passengers and goods for the Madrid-Barajas airport, with a year on year increase of 2.5% and 22.5%, respectively. The increase in the number of passengers transported by air was due to the growth of international travelers (6.1%), as the nationals fell (-3%). Similarly, the increase in international cargo (30%) offset the decline in domestic transport (-10.1%).

Urban transport has registered further drops between May and July (2% compared to the same period of 2009). Metro and Cercanías trains presented the greatest declines.

With respect to employment in the sector, the number of workers registered with the Social Security system in transport activities has continued to decrease in the second quarter at the same rate as the previous quarter (-4.5%).

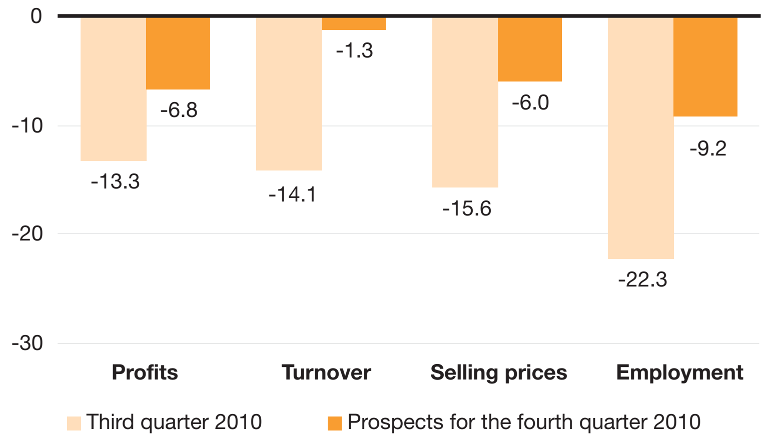
1.3. Business dynamic

The number of company constitution proceedings has still shown an upward trend in the second quarter of 2010, reaching 2,835 new companies, up 12.1% compared to the same period in 2009. However, dissolutions have also increased slightly to 508.

The business confidence indicator recovered 4.4 points compared to the results obtained in the previous quarter and 25.7 points compared to those obtained a year ago, but still remains in negative values (-9.8 points). This recovery of business confidence is reflected in all sectors except construction, where the indicator continues to fall, but companies in the industrial sector have shown more optimism and, for the first time in a year, the confidence indicator for the sector is in positive figures.

The forecasts of businesses until the end of the year on benefits, turnover, sales and employment remain negative, although some improvement in the prospects for the current quarter is shown.

Perception of the business climate. City of Madrid (Balance of opinion)



Source: Business Climate Survey -produced by the Economic Observatory of the Employment and Economics Government Department Madrid City Council

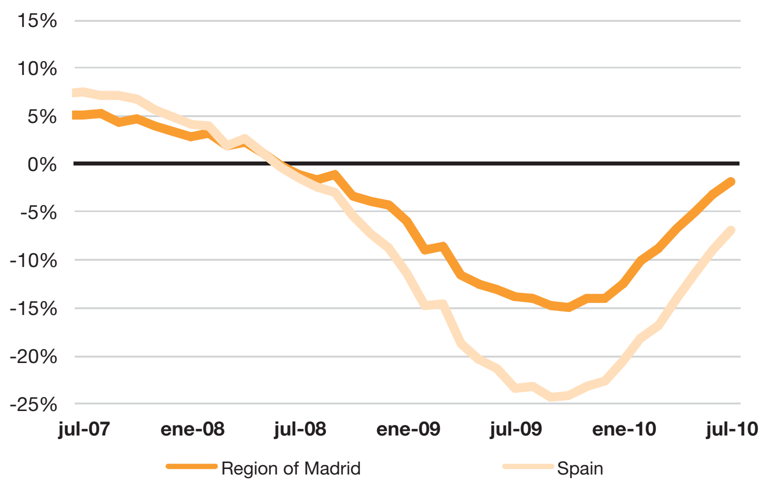
1.4. Demand

The recovery of consumption is going at a faster pace in the region of Madrid than in Spain as a whole, recording increasingly weak falls. Thus, the Retail Index (ICM) for the region in August marked an annual average decline of 1%, compared to -1.8% for Spain. However, the Consumer Confidence Index for the second quarter showed a decline of 4.2 points over the previous quarter, which is consistent with the adjustments and economic reforms undertaken since last May, which marked a change in consumer perceptions about economic climate. In any case, despite the gradual moderation in the fall of retail sales, they remain in negative territory, undermining employment in trade, which continues to fall (-3.7% in August, annual average).

Another key indicator of demand is vehicle registrations. After the end of the stimulus plan "Plan 2000E" and the VAT hike in July, vehicle registrations returned to negative rates (-21.7% year-on-year in September).

As regards investment, the production of goods tends to stabilization in the region of Madrid, registering negative rates, but noticeably smaller than nationally (-1.9% on annual average in July, compared to -6.8% for the whole of Spain).

Investment in equipment (average annual rate)



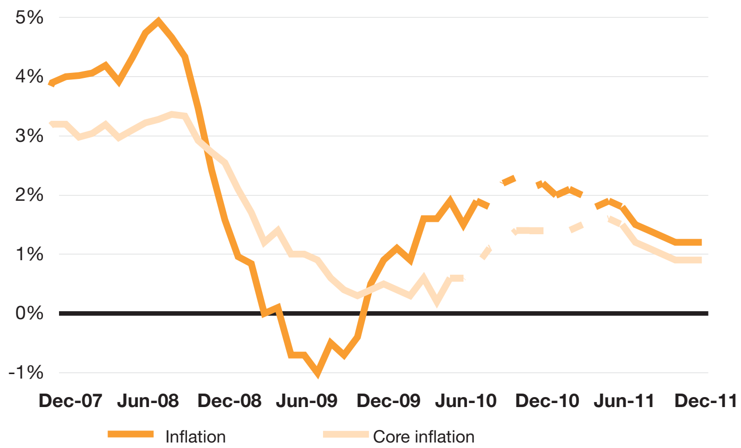
Source: INE Source: INE (National Statistics Office)

As regards foreign trade, both exports and imports are heading towards recovery, but the accumulated figure for the last 12 months still reflects a decrease in July compared to July 2009 (-9% imports and -1.9% in exports). The relatively poorer performance of imports has allowed consolidating the improvement of the trade balance, which, nevertheless, still maintains a deficit of 29 billion euros for the last 12 months.

1.5. Prices and salaries

The August CPI showed a year-on-year increase of 1.8% in the region of Madrid, the same rate as in the whole of Spain, while core inflation reached 1.1% in August. These figures put away the fears of deflation that the indices showed a year ago, thanks to the relative increase in prices of energy products as well as the impact of the rise in CPI in July. The forecasts mark a CPI peak in October (2.3%), subsequently falling to 2.2% in December 2010. The groups with the highest inflation in August were "alcohol and tobacco products" and "housing", while prices fall in "medicine" and "communication."

CPI and core inflation in the region of Madrid (year-on-year rate)



NB: The dotted lines show forecasts
Source: INE (National Statistics Office) and IFL

As regards manufacturing prices, the PPI returned to positive year-on-year rates in July, with a further increase of 1.2% in August, after the sharp declines experienced since mid-2009.

Housing prices in the City of Madrid continue in their downward trend, second-hand housing has registered a greater decline (-7.6%) than new housing (-6.3%), although they seem to be gradually bottoming out.

Finally, labour costs have continued to slowdown, a process started in 2009, showing a slight year-on-year growth of only 0.5% in the Madrid region in the second quarter of 2010, below the increase recorded for the whole of Spain (1, 2%).

1.6. Labour market

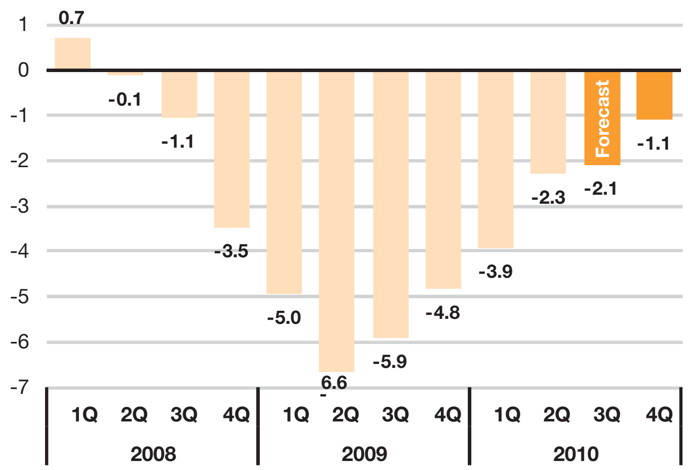
In the second quarter of 2010, according to data from the Labour Force Survey (EPA for its initials in Spanish), job losses have lessened, recording a fall in employment of 1.1%, compared to 2.2% the previous quarter. However, the unemployment rate picked up to 15.7%, 4.1 percentage points in the second quarter of 2009, due to the sharp increase of the labour force, 3.7% year-on-year, reinforcing its upward trend in the previous quarter. The rebound in activity is due to the incorporation of women into the labour market, as the male labour force continues to fall in year on year terms.

Having a look at sectors, employment in manufacturing seems to be recovering at good pace (14.5% year-on-year) and construction has shown certain slowdown in its fall again this quarter (-11.8%). However, there has been a halt in the improvement of services seen in previous quarters, having recorded a deeper fall (-1.7% in the second quarter, compared to -0.6% in the first.)

Administrative employment records inform of a lessening of the fall in Social Security enrolment to 2.3% year-on-year in June compared to a drop of 3.9% in March. The enrolment figures for the second quarter by economic activity show some consistency with previous data from the EPA survey: good performance in industrial employment (2.6%), development of services in line with the overall employment trend (growing 0.9%) and softening of the decline of employment in construction (up to -0.8%).

The forecasts for the end of the year point to a gradual moderation of the decline in Social Security enrolment, to reach a year-on-year rate of -1.1% in the fourth quarter.

Social Security enrolment forecast for the City of Madrid (year-on-year rate)

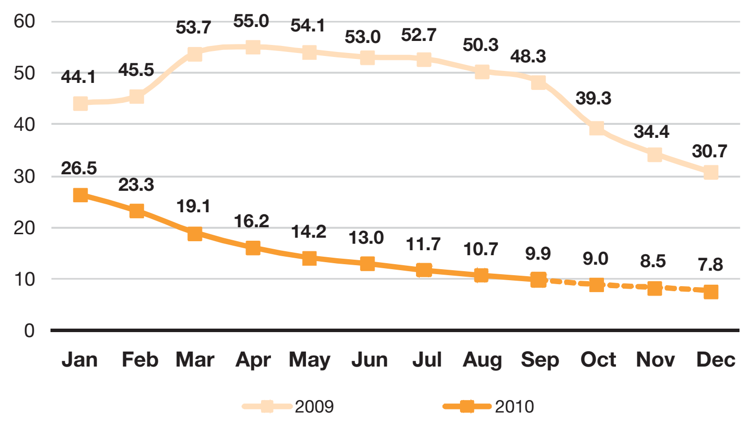


Forecast: third and fourth quarters of 2010
Source: Madrid Council Statistics Office Social Security and Afi

Registered unemployment has softened its growth to 9.9% year-on-year. However, in September, unemployment amounted to 220,182 persons, 110,400 women and 109,800 men. Thus, reversing the trend of the middle months of the crisis, when the group of unemployed men was higher.

The projections indicate a gradual easing of employment recession, but they can not yet anticipate the recovery of the labour market in Madrid. Thus, registered unemployment will continue in its upward trend, although increasingly at a slower rate (7.8% in December).

Registered unemployment monthly forecast for the City of Madrid (year-on-year rate)



Forecast: September - December 2010
Source: Madrid Council Statistics Office SPEE (Regional Employment Service) and Afi

2. Business attraction pole

THE AUDIOVISUAL SECTOR IN THE CITY OF MADRID: DIMENSION AND RELEVANT BUSINESSES

This section deals with the analysis of the audiovisual sector in Madrid, with the aim of providing an approach to a sphere of activity characterized by constant change and the grouping of different activities such as production of cultural content, telecommunications or the media.

The audiovisual sector is increasing its importance in the economic development of big cities

It is also a sector of growing importance in the economic development of big cities, like London, where the so-called creative industries are the second largest industry in the British capital, with a turnover of 21 billion pounds per year, it contributes with 16% to the annual generation of gross added value[1] and undoubtedly, it provides other intangible benefits related to international urban marketing.

In Madrid, the audiovisual sector also has clear strategic relevance due to its particularly innovative and technological intensity, its requirements for skilled human capital and the fact that the headquarters of major companies in the sector are located in the City. Not surprisingly, the audiovisual sector located in the City of Madrid and its metropolitan area employs over 30,000 people, reaching a turnover of nearly 9 billion euros annually and contributes with 4.77% to Madrid's regional GDP.

Creative activities in dynamic urban environments such as these have encouraged the emergence of concepts such as "Creative City", which the United Nations Educational, Scientific and Cultural Organization (UNESCO) identifies with the use creative potential, social and economic development of communities in each city and also, with the promotion of cultural diversity.

Therefore, the audiovisual sector is undoubtedly a strategic sector for the economy of the City of Madrid. This Business Attraction Pole section presents an analysis of the sector's activity in Madrid in terms of business dynamics and employment size and considers the integration of new activities linked to technology products and services (digital convergence between the audiovisual and the ICT sectors). It also provides a description of the positioning of the sector and a selection of media companies in Madrid that have become leaders in the sector because of their contribution to internationalization and innovation as regards new business models for this area of activity in Madrid. Finally, the section includes a description of the environmental factors that drive the sector's production.

[1] London Development Agency and Great London Authority (2010): London Creative Industries.

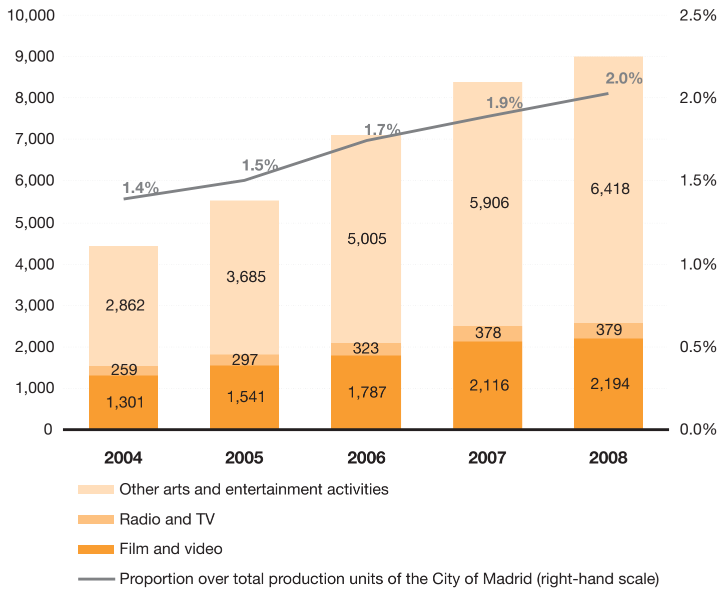
Economic relevance of the audiovisual sector in Madrid

When making an initial approach to the economic importance of the audiovisual sector, it is important to highlight its remarkable dynamism in terms of business activity and employment in the last few years. Thus, in the period from 2004 to 2008, the number of production units[2] related to the audiovisual sector has registered a cumulative growth of 103.3%, reaching nearly 9,000 units in 2008 (latest available period). It should also be noted that this favorable trend has occurred in a context where the economic crisis began to be felt on the whole business community in Madrid that registered a growth rate of 39.3% in the same period, as shown by the figures from Madrid's Statistics Office Business Community for the municipality of Madrid.

Between 2004 and 2008, the number of production units in the audiovisual sector has registered a cumulative growth of 103.3%

From the point of view of the economic structure of the City, the proportion of audiovisual production units over the total in Madrid has seen a steady increase between 2004 and 2008, from 1.4% to 2.0%, respectively.

Companies in the audiovisual sector in the City of Madrid



Source: Madrid Regional Statistics Office - Business Community

The strategic nature of this sector is also notable from the point of view of employment. In fact, employment in these activities has also seen an increase, reaching a cumulative rate of 15.2% between 2004 and 2008, which has placed the employment figure for this sector in the city of Madrid in 24,582 persons in 2008 . This performance exceeds that observed for total employment in the City of Madrid, with a cumulative growth of 10.4% in the same period. Regarding the

The sector employed 24,582 persons in the City of Madrid in 2008

[2] Business unit generating economic activity, largely coinciding with the concepts of establishment or local unit, but also includes other mobile activities and self-employed units.
Source: Madrid Regional Statistics Office. On-line Tabulation System.

proportion of employment in the audiovisual sector over total employment, as occurred with production units, there was an increase from 1.25% in 2004 to 1.30% in 2008.

Madrid's audiovisual production

Film and Video Production

The City of Madrid is home to 12 of the 25 major film producers in Spain (48% of the total)

In the field of film production, the latest data collected by the Institute of Cinematography and Audiovisual Arts (ICAA in Spanish) for 2009 highlight the relevance of the City of Madrid as headquarters of the Spanish audiovisual producers with higher revenues in the sector. The City of Madrid is home to 12 of the 25 major film production companies in Spain (48% of the total).

It is also worth mentioning variables such as number of viewers in 2009, companies based in Madrid amounted for 49% of the total of viewers and around 50% of total turnover. Also, the number of films produced by Madrid-based companies also increased their percentage, reaching 41.2% of the total.

If we consider the metropolitan area of the city in relation to the above variables, Madrid and its metropolitan area have consolidated their leadership in audiovisual production in Spain, improving its records both in viewers and in turnover and also in feature films, the figures for 2009 stood at 75.6%, 75.7% and 64.7% respectively.

Film and video distribution

Madrid concentrates 14 of the 25 major distributors by revenue volume

With respect to the film distribution business, led mostly by subsidiaries of foreign multinationals, it should be noted that 14 out of the 25 major distribution companies by revenue volume in Spain are located in Madrid. Specifically, the activity of these companies based in Madrid represents 68.6% of the sector's revenue and 69.0% of viewers and 59.0% of films on screen.

Also, including the municipalities of the metropolitan area of Madrid, the number of audiovisual firms located in Madrid rises to 16, while the share of viewers, revenue and feature films is at 71.8%, 71.4% and 66 3%, respectively.

Moreover, recent technological developments, particularly large-scale access to the Internet, have encouraged the emergence of virtual platforms for the distribution of audiovisual content.

Television and radio

The leading international television and radio groups producing contents in Spanish are located in Madrid

Madrid is also the location of the leading international television and radio business groups producing contents in Spanish, among them TVE, Antena 3, Telecinco, la Sexta-Mediapro, or Grupo Prisa, the only Spanish audiovisual company among the 12 major European TV groups in terms of EBITDA, as shown in the table next page.

Ranking of the main European television groups by EBITDA (2009)

	Grupo empresarial	Million €	%
1	British Sky Broadcasting Ltd	6,257	19.3%
2	RTL Group	5,410	16.7%
3	Vivendi (Grupo Canal Plus)	4,553	14.0%
4	Gruppo Pediaset	3,883	12.0%
5	ProSiebenSat. 1 Media AG	2,761	8.5%
6	Groupe TF1	2,365	7.3%
7	ITV	2,112	6.5%
8	Prisa (Unidad Audiovisual)	1,771	5.5%
9	Modern Times Group	1,382	4.3%
10	Sky Deutschland AG	902	2.8%
11	TVN	517	1.6%
12	Central European Media Enterp.	498	1.5%
	Total	**32,411**	**100.0%**

Source: European Audiovisual Observatory
http://www.obs.coe.int/about/oea/pr/index.html

In addition, Madrid has a network of independent producers of television contents to distribute their productions (series, telefilms, advertising, etc.) to both Spanish general channels and to regional or local groups. This is not a small market as the top 6 national channels broadcast over 30,000 hours of content (1/3 domestic production, 1/3 independent productions and 1/3 external content), while in the case of regional channels, this figure rises to more than 65,000 hours.

Madrid has a network of independent producers that distribute their productions to both Spanish general channels and to regional or local groups

The implementation of Digital Terrestrial Television increases business opportunities for the subsector of television contents, which now has new media available (interactive TV, the further development of High Definition TV-HD or 3D contents) for the distribution and marketing of new audiovisual content, thus, expanding the market for the companies in the sector in Madrid.

In this regard, the report by Price Waterhouse Coopers Global Entertainment and Media Outlook 2010-2014 indicates that pay TV (including the revenue generated from subscriptions, pay on demand and PPV) will show an average annual growth rate of 7.9% between 2010 and 2014. It also anticipates an outstanding growth for IPTV (Internet Protocol Television)platforms in Europe, following the market's drive for "video on demand."

Production and distribution of entertainment software (videogames)

The Spanish Association of Distributors and Publishers, of Entertainment Software (ADESE in Spanish) provides in its yearbook for 2009[3] data about how the videogame industry has reached 53% of market share in the audiovisual and interactive entertainment sector in 2009, with sales amounting to 1.2 billion euros (of which 53% -638 million euros- come from software sales, while the remaining 47% -562 million euros, are hardware sales). These figures represent more than half of the Spanish audiovisual entertainment industry, exceeding the total figures of films, DVD and

In Spain, the videogame industry has reached 53% of market share in the audiovisual and interactive entertainment sector in 2009

[3] http://www.adese.es/pdf/Anuario2009aDeSe.pdf

music altogether, and represent, therefore, the preferred choice for audiovisual leisure among Spaniards, an indicator of the robust economic potential of this sector.

Indeed, in recent years, this booming demand has turned Spain into one of the most important international markets for the production and distribution of entertainment software, in the fourth position of the European ranking, behind the United Kingdom, Germany and France and the sixth worldwide.

Not surprisingly, 22.5% of the Spanish population uses videogames, about 10.4 million people, and the numbers are constantly increasing. The latest figures show that there are about 1.53 million more video gamers in Spain than in 2006. In this regard, Madrid is one of the regions with the highest percentage of gamers (over 24% of the population)

9 out of the 27 main game developers are located in Madrid

Regarding supply, while Spanish production is still limited, there are leading companies that have also located their headquarters in the City of Madrid. Specifically, 9 of the 27 main game developers in Spain are in Madrid.

Media, Arts and Entertaiment in Spain 2010-14 by related industries (in million dolars)

	2009	2010	2011	2012	2013	2014	10-14 CAGR
TV advertising	3,150	2,985	2,975	2,972	3,110	3,275	0.8
Pay TV (1)	3,047	3,190	3,420	3,697	4,072	4,461	7.9
Internet access	6,037	6,713	8,001	9,233	10,634	12,017	14.8
Internet advertising	922	995	1,050	1,178	1,316	1,521	10.5
Press	3,360	3,236	3,162	3,176	3,198	3,273	-0.5
Magazines	1,341	1,283	1,253	1,264	1,290	1,335	-0.1
Publishing	4,293	4,223	4,244	4,288	4,360	4,453	0.7
Film	1,688	1,599	1,656	1,741	1,837	1,935	2.8
Video games	1,387	1,493	1,578	1,682	1,800	1,935	6.9
Music	314	306	313	341	379	434	6.7
Outdoor advertising	535	531	519	527	537	562	1
Radio	737	716	726	740	758	779	1.1
Corporate information	2,119	1,981	1,939	1,926	1,956	1,990	-1.2
TOTAL Spain	**28,632**	**28,925**	**30,461**	**32,336**	**34,749**	**37,395**	**5.5**

(1) (subscription VoD, PPV and Mobile TV)

Source: Global Entertainment & Media Outlook 2010-2014. PWC.

Environmental factors to drive the sector's activity

The greatest challenges for the audiovisual sector in Madrid are credit restrictions and the need to penetrate new markets

In terms of supporting factors, the greatest challenges for the audiovisual sector in Madrid are credit restrictions and the need to penetrate new markets:

Financing

With regard to financing, the mutual guarantee firm Audiovisual SGR is a reference for the audiovisual sector as the first Spanish financial institution specifically designed to meet the needs of companies engaged in cultural activities. 90% are SMEs that usually encounter great difficulties to access to adequate funding, both in terms of cost and credit conditions. This company was created with a commitment to support the audiovisual industry as a strategic economic sector. The Ministry of Culture through the Institute of Cinematography and Audiovisual Arts and the Audiovisual Producers Rights Institution have granted their support as well,.

Regarding its recent performance, it is worth pointing out the establishment, through agreements with Spanish banks, of specific funding streams for the sector, with the best credit conditions in terms of repayment and interest rates. Thanks to these agreements, a greater number of banks is collaborating with companies engaged in cultural activities.

Internationalization

Madrid City Council, through the Government Department of Arts, participates as the patron of the Madrid Film Commission, established as a nonprofit organization to support audiovisual production in Madrid.

Madrid City Council participates as the patron of the Madrid Film Commission

Their work to promote internationally Madrid's audiovisual sector involves diverse actions such as their participation in the 25th edition of the Locations Trade Show, organized annually by the International Association of Film Commissions (AFCI), held last April in Los Angeles (USA). The Show is an important international event where Madrid has an opportunity to promote its locations as the fair brings together the major global audiovisual companies and large production studios around the world.

3. Monografic report

MADRID, A DECADE CONSOLIDATING A NEW PRODUCTIVE MODEL

The region of Madrid as a whole, and particularly the City of Madrid, had the highest level of wealth in Spain and were at the same level than Europe's most advanced regions in 2007. To maintain this position over time, the City needs a diversified productive network that focuses in the sectors generating greater added value and greater potential for future growth.

The aim of this paper is to identify these strategic productive sectors, and how the productive structure of Madrid has been evolving in recent years. This analysis will allow finding out whether the City is establishing a competitive production model that enables to achieve sustainable and increasing levels of wealth and welfare.

Changes in the productive structure of the City of Madrid

Madrid, as other big European cities, is undergoing a consolidation of an advanced servindustrial economy

In recent years there have been some changes in the productive structure of the city characterized by a sharp drop in the proportion of gross value added (GVA) and employment in the industrial sector and an increase of employment and GVA in the services sector. Thus, according to the latest available data corresponding to 2009, industrial GVA has fallen by 3.4 percentage points in the period 2000-2009 (from 10.8% to 7.4%) while real estate and renting activities and business and financial services companies have increased their contribution to GVA by 3.5 percentage points (from 35.1% to 38.6%). The growth of the so-called advanced business services has been accompanied by a decrease in the relative importance of trade and transportation related services, also, hotels and catering have dropped by 0.2 percentage points (from 28.2% to 28.0%), as well as those linked to education, health, recreational activities and public administration, whose contribution to the GVA of the City in that period fell 1.2 percentage points (from 19.1% to 18.0%).

GAV by sectors in the City of Madrid

	2000	2009
Agriculture	0.1%	0.1%
Industry	10.8%	7.4%
Construcción	6.6%	7.9%
Trade, Hotels and catering, Transport and communications.	28.2%	28.0%
Real estate and renting, Business and financial services	35.1%	38.6%
Other services	19.1%	18.0%
Total		

Source: Municipal Accounts. Base 2002. Madrid City Council Statistics Office and Economic Observatory

Employment trends, according to data available for the period 2000-2010, confirm the tertiarization of economy in the City of Madrid. Thus, while in 2000 the service sector amounted to 83.5% of workers in the Social Security system (a total of 1,258,849), this figure rises to

88.4% in the first half of 2010, with a total of 1,545,813 workers in the system[1]. This phenomenon has been accompanied by job losses in construction and in industry. In construction, job losses are mainly due to the drastic drop in activity, especially since 2007. In the case of industry, there has been a steady decline in Social Security enrolment over the last decade, from 8.8% of total employment in the City in 2000 to 5.0% in the first half of 2010.

Specialization of employment in the City of Madrid

	2000		2010	
	Social Security enrolment			
Agriculture	3,059	0.2%	3,601	0.2%
Industry	133,323	8.8%	88,283	5.0%
Construction	112,701	7.5%	111,047	6.4%
Trade, Hotels and catering, Transport and communications	462,835	30.7%	538,871	30.8%
Real estate and renting, Business and financial services	422,829	28.0%	525,397	30.0%
Other services	373,186	24.7%	481,546	27.5%
Total	**1,507,932**		**1,748,744**	

NB. Average enrolment from January to June in 2000 and 2010
Fuente: Madrid Council Statistics Office

These data show the underlying trend experienced by the City of Madrid, shared with the rest of advanced metropolitan economies, towards the consolidation of servindustrial economy, which is increasingly blurring boundaries between industrial and service activities and characterized by :

1. Tertiarization of manufacturing functions and lower proportion of activities with less added value in favour of less-intensive industrial activities in terms of labour but more intensive in terms of technology and knowledge, thus, generating greater added value.
2. Outsourcing or externalization of research and analysis tasks, previously done within the industry sector, which are now carried out by specialized service companies.
3. Greater importance of the so-called circulation functions, responsible for articulating and boosting tangible and intangible flows of capital, information, goods and people, performed by both transport and communications services and financial services, and also "advanced business services" (R & D, IT services, technical advice, etc.).
4. Maintaining the relative importance of "distribution functions", i.e., services related to social welfare grouped under the heading "Other services.

[1] The revision of NACE 1993 moves publishing and printing activities, in the industrial sector in 2000, to the services sector in 2010. In the first half of 2010, publishing and printing had a total of 23,012 workers in the Social Security system.

In this sense, comparing the structure of GVA by sectors of the City of Madrid in relation to other leading European metropolitan regions such as Île de France or Inner London, Madrid also presents a high specialization in services, albeit with some differences regarding their relative importance. Thus, while real estate and renting, business and financial services generated 38.6% of GVA in the City of Madrid, the proportion in Inner London and the Île de France was 58% and 44.1% respectively. In contrast, the proportion of GVA of trade-related services, hotels and catering, transport and communication was substantially higher in the City of Madrid (28.0%) than in Inner London (15.1%) and Île de France (19.6%), while other services related to education, health, recreational activities or public administration presented a slightly lower proportion in Madrid (18%) than in Inner London (19.9% or Île de France (22, 2%)[2].

Structure of GAV by sectors at current prices

NB: the figures for Madrid correspond to 2009. The figures for Inner London and Île de France correspond to 2007
Source: Afi from Eurostat and Madrid Council Economic Observatory

Considering the above data, a preliminary conclusion regarding Madrid's production structure could be inferred: the desirability of further progress in business services in line with its European counterparts.

[2] Data for Madrid correspond to 2009 Madrid City Council Economic Observatory. Data for Île de France and Inner London correspond to 2007. Eurostat.

Productive sectors for the future: characteristics and level of expertise in the City of Madrid

There is some consensus in establishing the characteristics that define these "strategic sectors": (1) strong current and future demand, (2) knowledge-intensive and high-skilled labour, (3) generation of high added value, and (4) ability to induce multiplier effects on other sectors. Thus, considering the strategic plans of major cities as well as the specific analysis carried out by Madrid City Council, the following areas are identified as strategic[3]:

Publishing and printing activities, pharmaceuticals, aerospace, audiovisual, advanced business services, financial services, telecommunications and tourism are identified as strategic servindustrial sectors

- Publishing and printing, especially the creation of new products and services related to multimedia and digital media.
- Pharmaceuticals especially that related to biotechnology.
- Aerospace.
- Telecommunications, key services as they allow information and knowledge flows.
- Advanced business services: IT activities, R & D and technical advice and engineering.
- Audiovisual sector, as a component of the “cultural and creative industry”.
- Financial sector, because of their role to produce capital flows, direct and skilled employment and induce demand of advanced services.
- Tourism, its strategic value is beyond the creation of employment and economic activity, as it enhances Madrid's international visibility in terms of attraction of talent and investment.

In order to evaluate the future competitive position of Madrid, the level of expertise within these particularly strategic sectors should be considered, both in absolute terms and in relation to the whole of the Spanish economy, as well as their development over time.

Publishing and printing

The publishing and printing industry is the main activity of the City in terms of employment, accounting for 29.8% of industrial employment in 2008 with over 28,000 workers in the Social Security system, a rise of 1.2% over total enrolment in industry in the period 2004 - 2008. Madrid, together with Barcelona are the two main centres for publishing activities in Spain, representing 32% of the national total in terms of turnover and 27% in terms of employment[4]. This can be seen in the higher specialization of Madrid compared to the Spanish economy as a whole, with a relative specialization index of 4.73 in 2010.

Publishing and printing accounts for 29.8% of industrial employment in the City of Madrid

[3] Madrid City Council Industrial Observatory (2008): “Strategic Servindustrial Sectors”; London Plan (http://www.london.gov.uk/thelondonplan/index.jsp).
[4] Economic Development Department Madrid City Council (2009): “The Publishing and Printing Sector in Madrid”.

Pharmaceuticals and biotechnology

Madrid is a leader region in the biotechnological sector, in terms of number of companies located, turnover, private spending on R & D and patent applications

Madrid is highly specialized in the pharmaceutical sector, presenting a specialization index of 4.38 in 2010 compared to the Spanish economy as a whole. This high degree of specialization is confirmed by the location in Madrid of the headquarters of 37 of the 100 largest pharmaceutical in terms of turnover[5], such as MSD, Roche, Novartis and Zeltia Group. Particularly noteworthy is the leadership position of Madrid in the Spanish biotechnology sector in terms of number of companies (22% of total), turnover (30% of total) and private spending on R & D (32% of the Spanish total) being in the top five European regions in biotech patent applications[6].

Aerospace

Madrid has become the most important aerospace centre in Spain

Madrid has become the most important aerospace center in Spain, with 65% of large suppliers or subcontractors and 61.1% of national production (6.666 million euros in 2008), 3.3% of the European total and 1% worldwide[7]. This can be seen in the high specialization index of Madrid (2.23) in relation to the whole Spanish economy.

The airline industry, even with a relatively modest contribution to industrial employment in the City of Madrid, has had an outstanding performance, from 0.3% of total industrial employment in 2004 (300 workers in the Social Security system) to 1.5 % in 2008 (1,377), a growth of 360% in that period. Employment in the sector is characterized by its highly qualified labour. As an example, it is worth pointing out that Madrid employs 74% of aircraft engineers in Spain[8].

Advanced business services: IT services, R & D and other advanced services

Between 2004 and 2008 Social Security enrolment in R & D grew by 35% and by 27% in IT services

Advanced business services amounted to 15% of total employment in the services sector in the City of Madrid in 2008, with a total of 195,813 workers in the Social Security system. Growth experienced by the R & D sector in the period 2004-2008 has been especially remarkable having increased Social Security enrolment by 35%, followed by IT services, with a growth of 27% and other advanced services increasing by 25%.

Compared to the Spanish economy as a whole, Madrid has presented a high specialization index in all advanced business services in 2010, particularly in IT services (2.44), information services (2.43) and advertising and market research (2.28), followed by headquarter services and management consulting (1.85), architecture, engineering, testing and analysis (1.68) and R & D (1.68).

[5] Data from SABI.
[6] For a more detailed analysis of the biotechnological sector, see "Madrid, Biotech". Economic Barometer of the City of Madrid, No 25 .
[7] Id. 6.
[8] Region of Madrid (2010): "Aerospace Cluster 2010".

Telecommunication services

The importance of this sector in the City of Madrid transcends its role as service provider to the City, and derives from the fact that Madrid concentrates the corporate headquarters of major companies, 43% of the 100 largest companies in the sector by turnover have their headquarters in the municipality of Madrid and 67% in its metropolitan area[9]. The leading position of Madrid in the telecommunications sector is confirmed by the greater specialization of Madrid in such services compared to the Spanish economy, with a relative specialization index of 2.72 in 2010. This level of expertise is complemented by the presence in Madrid of some important ICT research centres (CDTI, Fundación Telefónica, Fundación Orange, Vodafone, etc.), consulting firms, universities and business schools (IESE, ESADE and IE) involved in research[10].

Madrid locates 43% of the largest companies' headquarters in the telecommunication sector

Financial services

Madrid ranks third as economic centre in Europe after Paris and London[11]. Its stock market is the first in Europe in terms of fixed income trading and fourth in turnover[12]. It is the host of Latibex, the second largest stock market in Latin America by market value and also of the innovation units or departments of financial institutions such as BBVA, Santander, Caja Madrid, Bankinter and Mapfre[13]. Madrid's position as a financial centre is confirmed by its high specialization index, 1.66 in 2010, compared to the Spanish economy.

Madrid ranks third as economic centre in Europe

Audiovisual[14]

The audiovisual sector in Madrid reaches an annual turnover of 9 billion euros and contributes with 4.77% to the region's GDP. Madrid locates the headquarters of 12 of the 25 major film production companies in Spain, 14 of 25 of the major distributors and 9 of the main Spanish game developers.

The audiovisual sector contributes with 4,7% to the region's GDP

The sector employs over 30,000workers in the region, 24,582 in the City of Madrid, 1.5% of the total in the services sector in the City, an increase of 15% compared to 2004. Between 2004 and 2008, its proportion in the services sector has risen by 3.8%, representing also a positive contribution to the change of productive model in the City of Madrid.

[9] SABI.
[10] Economic Development Department Madrid City Council (2008): "Information Communication Technologies in Madrid" .
[11] Deloitte (2008): "Madrid as a Global Financial Centre, a Comparative Analysis" http://www.madridfinancialcentre.org.
[12] KPMG (2009): "Madrid, a Leader in Financial Management" http://www.madridfinancialcentre.org.
[13] PriceWaterhouse Coopers (2009): "Madrid, as a Center for Efficiency and Innovation in Financial Products and Services" http://www.madridfinancialcentre.org.
[14] For a deeper analysis of the sector, see "The Audiovisual Sector in the City of Madrid: Dimension and Related Businesses". Economic Barometer of the City of Madrid, No 26.

Tourism

Madrid is the only Spanish region with an increase in the number of foreign tourists in 2009, 6.1% compared to 2008

The strength of Madrid as an international tourist destination is confirmed by the fact that it is the only region in Spain that registered some growth in the number of foreign tourists in 2009, a sharp increase of 6.1% compared to 2008[15]. Between 2005 and 2009, the number of tourists visiting the City of Madrid has picked up by 11.7%, 19.2% were foreign tourists and 5.8% Spanish.

Madrid has a varied tourist offer, based fundamentally on two areas. First, leisure tourism, representing 33% of Spanish tourists, 19.4% corresponding to cultural tourism, with a key factor increasing competitiveness: a large and growing endowment of cultural resources (museums, theatre, musical, etc.) complemented by cuisine, shopping and first class leisure. Secondly, business tourism is the main motivation to visit Madrid for 32% of Spanish tourists and 29% of foreigners[16].

In conclusion, and in view of the above analysis, Madrid seems to confirm that progress is being made in building a competitive services sector, which, along with the promotion of industrial and high value-added technology-intensive activities, is establishing a model structured around strategic servindustrial sectors with capacity to generate high added value. The future competitive position of the City its metropolitan area will depend on the development of these sectors, which will be crucial for Madrid to maintain its capacity to attract large companies that boost economic activity, while generating a favourable environment for new innovative business initiatives.

[15] ITE (2009): Frontur .
[16] IET (2009): "Spanish Tourist Flows. Familitur" and IET (2009): "Tourist Flows Through Borders. Frontur".