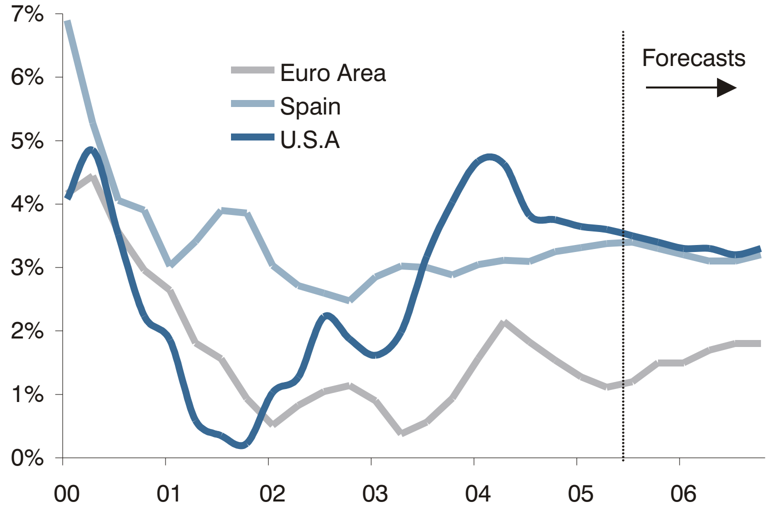
I. Analysis of the situation of the city of Madrid

1. Economic environment

In spite of further rises in oil prices, the international macro-economic situation continues to be sustained by the increased vitality of both the United States and China. There are also signs of reactivation in both the Euro Zone and Japan, particularly as regards internal demand.

Spain continues to distinguish itself from the rest of the Euro Zone, showing a greater business drive but retaining its inflation differential, a situation that has intensifies the country's loss of competitiveness. One indication of its uneven growth model, which is currently sustained on the strength of internal demand, is Spain's growing current account deficit.

Year-on-year real GDP growth



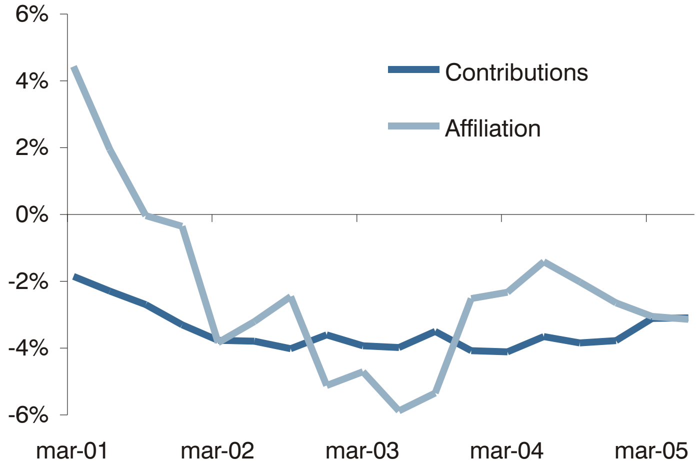
Source: US Department of Commerce, Eurostat, INE, Consensus Forecasts

2. Production

INDUSTRY

Business activity in the Community of Madrid slowed during the period from May to July 2005 according to the Industrial Production Index (IPI). Furthermore, Social Security affiliation and contributions continued to fall in this sector, as they have done since 2001, with the industrial sector accounting for 4.4% in the city, down from a figure of 6.1% in December 1999.

Social Security affiliation and contributions, industrial sector
(Year-on-year variation rate)

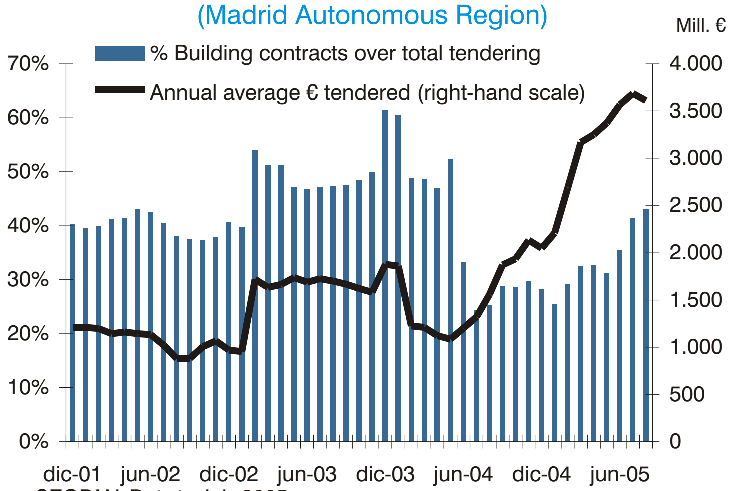


Source: General Department of Social Security. MTAS

CONSTRUCTION AND THE PROPERTY MARKET

The accelerating growth in the number of jobs in construction is an indicator of the current health of this sector in the City of Madrid. The rise in the number of people newly affiliated to the Social Security system during the second quarter of this year points to the net creation of more than 8,000 jobs in this sector in the city. Both the issue of public contracts and favourable trends in the residential sector are the main factors driving this boom. The volume of public contracts continued to grow during the first half of the year, driven chiefly by the increased level of building development. In addition, the increased development of protected housing under the PAU scheme has been an important factor in speeding up the residential sector.

Evolution and volume of tendering processes for public building contracts
(Madrid Autonomous Region)



Source: SEOPAN. Data to July 2005

A stable financial environment and undertakings to provide the necessary infrastructure for new developments indicate that growth trends in the construction sector will continue over the next few months.

SERVICES

Financial system

The growing population figures and the strength of the real estate market in the City of Madrid are the main reasons behind the growing number of branches being opened to attend to the needs of new customers, with greater activity among the savings banks ("cajas") than among the ordinary banks ("bancos"). This has led to a rise of 2.5% in the number of branches during the second quarter of 2005.

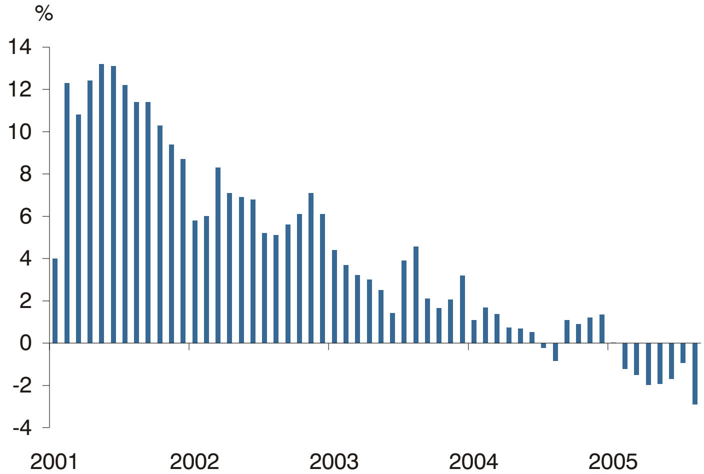
Mortgage loans in the Community of Madrid remain strong, though at more moderate levels than recorded across the country as a whole. The savings banks currently hold a higher number of mortgages than the ordinary banks, though the total amount loaned is lower.

The Madrid Stock Market General Index (IGBM) is showing an accumulated annual return of 20.8%, much higher than that of other international centres. During the last 10 years, the Spanish stock market has risen by 241% and occupies the number one position worldwide (according to The Economist).

Tourism

A new record was reached for the number of guests staying at hotels in the City of Madrid during the first eight months of the year. This figure totalled 3.8 million, a year-on-year rise of 11.4%. Once again, this rise was based on a strong increase in domestic demand, which rose by 18.0%. The rapid rate of growth in demand for hotel accommodation, combined with a certain slowdown in the creation of new rooms (about 5% year-on-year), have led to an increase in occupancy levels, though this has been accompanied by strong price competition that has effected real income in the hotel sector.

Evolution of the Hotel Price Index in Madrid Autonomous Region



Source: Hotel Occupation Survey, National Institute of Statistics

Transport

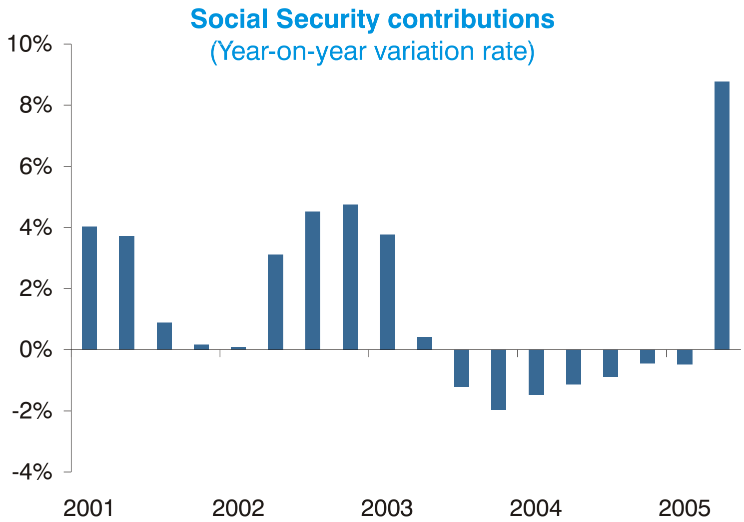
The number of passengers passing through Madrid-Barajas airport and the city's railway stations increased during the second quarter of the year as a result of the beginning of the holiday period and the celebration of a number of festivals, including the April Fair in Seville. The number of jobs in the air and road transport sector has grown by 2.5%. However, the goods transport sector is still not showing any signs of recovery.

Mobility indicators relating to the intensity and average speed of urban traffic have slowed since May. On the other hand, the number of people using the underground and local rail services rose during the second quarter, while bus passenger numbers continued to fall.

3. Business Dynamic

The average total amount of subscribed share capital for companies being formed in the Community of Madrid showed a significant increase during the months of July and August as a result of strong growth in the number of newly formed limited companies. This positive development has occurred at a time when the number of businesses being wound up in the Community is falling sharply, a trend that has been observed since the beginning of 2005.

Elsewhere, the number of new Social Security accounts has increased during the second quarter, showing a year-on-year growth of 8.8%, due in part to the legalisation of foreign nationals, which has in turn led to growth in the services sector (9.5% year-on-year) and the construction sector (8,2% year-on-year).



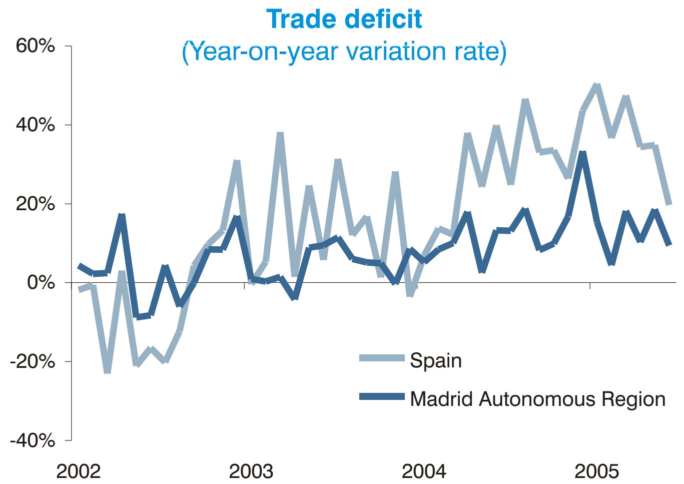
Source: General Department of Social Security. MTAS

The evolution of the business index prepared by the Government Department for the Economy and Citizen Participation points to improved results in the services and construction sectors during the third quarter and good prospects for the final quarter of this year.

4. Demand

The retail sales figures for August 2005 indicate a reversal of the trend towards a slowdown seen during previous months, with a figure of -2% year-on-year growth in July. Job creation in the trading sector recovered during the second quarter of 2005, and there would seem to be good medium-term prospects for the sector.

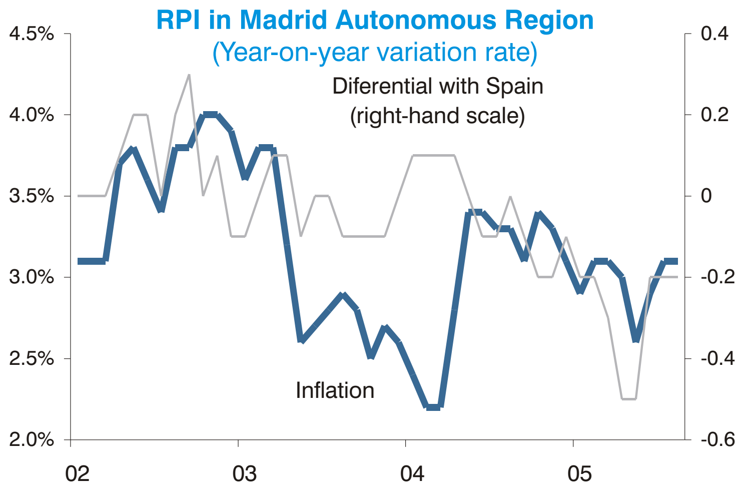
As regards the foreign sector, the rate at which Madrid's trading balance is worsening remains at above 10%. The most recent data from June 2005 showed that the accumulated trading deficit had increased over the last twelve months to 35,227 million euros, representing 25.4% of the region's nominal GDP in 2004 and an increase of 14.6% over the results from the same period last year. The strong euro, higher oil prices, processes of integration and globalisation and the higher levels of growth of the Madrid economy have all had a negative influence on the city's balance of trade.



Source: ICEX

5. Prices and salaries

The pressures that have resulted from the rise in energy prices and services connected with tourism forced the year-on-year inflation rate up to 3.1% in August, following a period of slowdown during the months of April and May. This increase was more moderate for Spain as a whole, which reduced the growth differential by 3 tenths, though the region maintained its competitive advantage. The rise in crude oil prices has also worked its way through to industrial prices in the region, though gains in terms of competitiveness have been maintained in respect of the national average. In this regard, price rises in the new-build and existing housing markets have slowed, while labour costs have continued the upward trend that began at the start of the year.



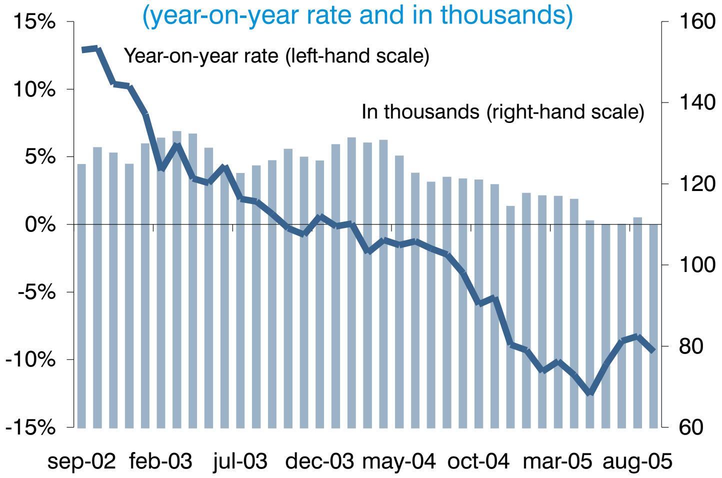
Source: INE

6. Labour market

The number of jobs increased at a greater rate than the number of people coming onto the job market during the second quarter. This is a clear sign that the job market in the City of Madrid is performing well and that businesses have the capacity to incorporate these new workers on their payrolls with the resulting reduction of the number of unemployed. However, the change in unemployment figures over the last two quarters and the fact that unemployment rates among women are lower than they are among men would suggest that it is more sensible to wait for the publication of more figures before venturing to affirm that the redefinition of the survey has led to a change in the trend. The health of the jobs market has been sustained by the fact that both the services and the construction sectors are going well at the moment.

The number of people affiliated to the Social Security system during the second quarter, a period characterised by the regularisation of foreign nationals, confirmed this upward trend with a rise of 4.9% in the total number of people registered in comparison with the same period in 2004 (5,3% in services and 8.0% in construction). The unemployment figures also confirm this, with the number of registered unemployed falling by 9.4% to 109,654 in September.

Unemployment in the City of Madrid
(year-on-year rate and in thousands)



Source: Madrid City Council Statistics Office – INEM Employment Agency

II. Sustainability

Environmental sustainability of business activities and energy consumption levels in the City of Madrid

This section, which could be generally entitled "Sustainability in the City of Madrid", includes certain changes from previous issues. In this and future issues we will be presenting a series of basic environmental indicators, such as gas and electricity consumption in the city, the current state of the reservoirs that supply Madrid, the air quality and noise indices, solid urban waste management, green zones, congestion levels, etc., which will be appropriately updated as the data becomes available.

In this first issue, prepared from an analysis of a new environmental sustainability index for the City of Madrid, we will explain the energy consumption indicators, the situation in respect of water reserves in the reservoirs that supply the city and the evolution of polluting emissions and air quality. Each topic will be outlined in a way that is accessible and easy to understand and will include a brief description of the ways in which the results shown affect the environmental quality of our urban environment.

We will also be detailing some of the technical measures that could help to improve the environmental quality of the city and thus contribute to the continuing improvement of the quality of life of its inhabitants, as well as setting out the strategies and policies that have been implemented or that are planned in the short term by the different public municipal bodies. We shall be paying particular attention this quarter to Madrid Council's Air Quality Strategy (Consultation document on air quality in the Madrid municipal area).

III. Territorial balance in the City of Madrid

School population by district

The map of the city's schools reflects the spatial distribution of, among other things, various phenomena of a demographic, economic and social nature. The universal right to receive an education is a given. Nevertheless, there are certain obstacles that always mean that the exercise of this right is not enjoyed entirely equally by all citizens. This report allows us to identify certain specific aspects that are important as regards balancing supply and demand.

- The City of Madrid has more pupils aged between 3 months and 16 years than there are citizens registered in this age group. Madrid therefore plays a fundamental educational role within the metropolitan system.
- The majority of Madrid's inhabitants choose to send their children to grant-assisted and state schools during the voluntary infant education period. Only a quarter of pupils in this group attend private schools.
- There is a direct correlation between the income level in the districts and public or private school enrollment, particularly at the first stages of the educational system. Hence, districts with a bigger number of students in the public school system, tend to show lower per capita income ratios. The relation is also direct between higher income level districts and private school enrollment.
- The largest proportion of foreign pupils are currently in primary schools. This proportion is always highest, at all shool ages, in the Central and Tetuán districts.
- There are 1.7 times more secondary school pupils than there are adolescents registered as resident in the City of Madrid. In Chamartín and Moncloa-Aravaca the number of pupils in

secondary schools is more than three times the number of people of this age group registered as resident in these districts.

IV. Madrid as a business attraction pole

Returning to the issues focused on in the first issue of the Economic Barometer of the City of Madrid (July 2004), which listed the key factors to the city's competitiveness, we will here be looking at how these factors manifest themselves in other cities around Europe, and how these figures are assessed by businesses looking to set up in each potential location.

We will firstly look at the most recent available figures for Direct Foreign Investment in the Community of Madrid, which in spite of certain methodological limitations, continues to be the main indicator of the city's capacity to attract foreign capital. We will then look at the latest results from one of the main comparative studies carried out annually in Europe, the 2005 "European Cities Monitor" (Cushman&Wakefield-Healey&Baker). This is prepared from a survey of a sample drawn from the 501 biggest businesses in Europe, in which they are asked about the attractions of a particular location, particularly those of a more physical nature, such as transport, telecommunications, office space, etc. The availability of recent data and the good response received from European businesses are the reason for the separate review at the end of the piece, and successive instalments of "Madrid, Polar Attraction for Businesses" will deal with some of the other factors that make the city so attractive as a business location.

V. Monographic report: Entrepreneurial capacity in the city of Madrid

The Economic Barometer of the City of Madrid examines the entrepreneurial capacity of our city using a model that provides a variety of cross-referenced documentary sources and analytical benchmarks, though we are aware that this is a subject that goes deeper than simply comparing entrepreneurs and employers.

Business demographics for the Community of Madrid confirm that it is attracting some of the highest levels of business creativity in the country. In spite of the large number of businesses established in the region, many of these companies are very small and based around private individuals. They form the kind of dense fabric that is taken to represent the first sign of entrepreneurial capacity. Madrid offers a highly favourable environment in this sense, providing fewer obstacles to company formation and survival and offering many public initiatives that encourage entrepreneurial capacity, evidence of the efforts that the Community has invested in advancing a phenomenon that has been behind the growth of some of the most advanced economies.