I. Analysis of the situation of the city of Madrid

1. Economic environment

The world economy could present a brisk growth rate in 2006, although this will be based to a greater extent on the Euro Area and Japan, which will partially take over from the United States, which is going through a mild phase of economic downturn. The final recovery of the Euro Area and Japan will synchronise the monetary policies of the major economic blocs, making international financing conditions tighter in 2006.

Spain will continue to show a higher rate of growth than the Euro Area, although it also presents some increasing internal imbalances which will determine its capacity for growth in the medium and long term. There is still a positive inflation differential which has a substantial negative effect on the competitiveness of the Spanish economy and it is accumulating a trade and current account deficit that is increasingly difficult to finance.

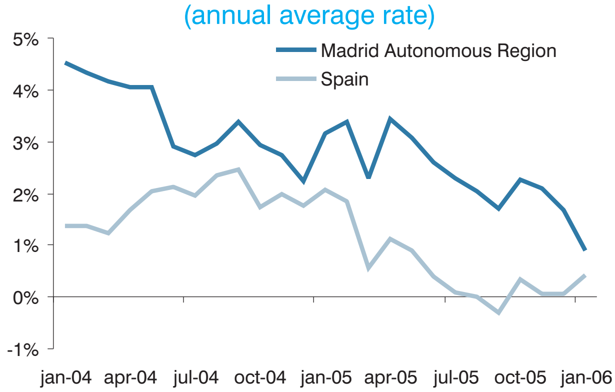
The economy of the Madrid region has maintained its pattern of growth, recording a rate of 3.8% in the fourth quarter, which meant that GDP for the end of 2005 increased by 3.7% compared to the 2004 figure. In the international context, the region continues to be more dynamic than its EU partners and Spain as a whole, and the favourable outlook in the Madrid region is also reflected in the unemployment rate, which fell to 5.9%. However, it will be necessary to await the appearance of data for further quarters to see whether these trends are maintained.

2. Production

INDUSTRY

The Industrial Production Index (IPI) in the Madrid Autonomous Region remained above the Spanish average, with a total growth in the last twelve months of 0.9%, five tenths of a percentage point higher than that of Spain as a whole. Industrial GAV also increased by 2.4% in 2005, compared to 2.0% in 2004.

Industrial Production Index
(annual average rate)



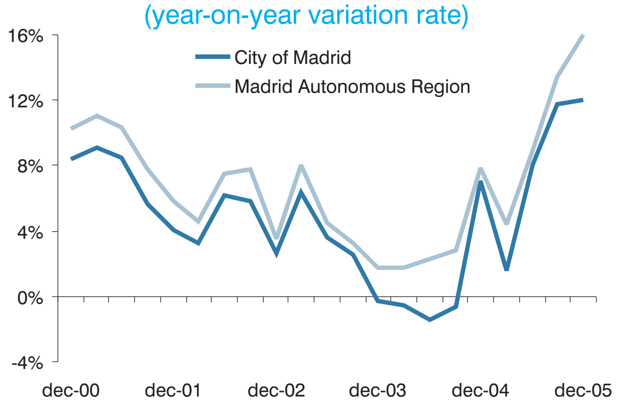
Source: National Institute of Statistics

Despite continued setbacks, both the numbers of workers registered and contribution accounts with the Social Security system showed improvements in the last quarter of 2005. This appears to confirm the beginning of a trend towards recovery in both variables.

CONSTRUCTION AND THE PROPERTY MARKET

Construction is the most dynamic sector in Madrid's economy. According to the latest published data, in 2005 the rate of growth in construction was 8.2% compared to the previous year. Employment in the sector has increased sharply over the last year as a consequence of the regularisation process for immigrants.

Social Security registration in the construction sector
(year-on-year variation rate)



Source: Madrid City Council Statistics Office - General Department of Social Security

However, the indicators for construction for the City of Madrid suggest a change in the basis for growth in the sector. While the residential segment seems to be declining in importance, non-residential building is dynamic. The figures for construction licences show an increase in non-residential area to be built. However, the residential segment has presented negative increases in the last five months. Despite this, the indicators show a significant increase in the relative importance of subsidised housing compared to non-subsidised housing.

The price of housing also shows some degree of cooling in the residential segment. Last year, the rate of increase in the price of new housing was less than in 2004.

SERVICES

Financial system

Since the end of 2004, both credit activity and clients' deposits have maintained their sustained growth. This intensified in the fourth quarter of 2005, with year-on-year rates of 23.4% and 20.4%, respectively. However, the increased volume of credit investment compared to deposits in recent quarters has created tensions in the structural liquidity position of deposit institutions in the Madrid Autonomous Region.

As far as the distribution of credits and deposits between Banks and Savings Banks is concerned, the former predominate over the latter in both deposits and credits in Madrid, unlike in Spain as a whole.

In the fourth quarter of 2005, the number of branches of deposit institutions in the City of Madrid increased by 1.8% compared to the previous quarter, which reinforces the strategy of growth adopted by the institutions based on opening branches.

In the first three months of 2006, the General Index of the Madrid Stock Exchange showed a profitability of 11.3%, and was one of the world's most profitable financial markets.

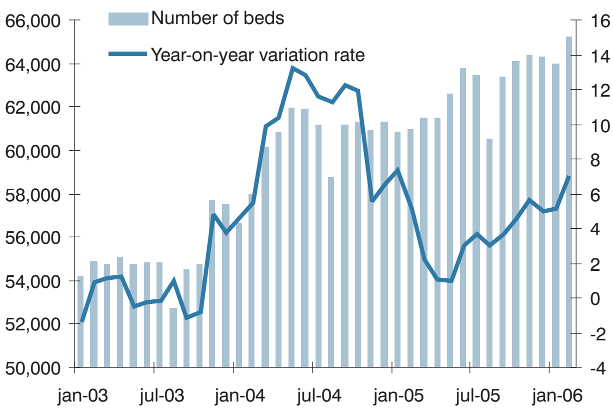
Tourism

In January 2006, significant methodological changes took place in the Hotel Occupancy Survey (HOS) by the National Institute of Statistics, which make analysis of the City of Madrid's tourism sector difficult. These changes involve the system for gathering information, with the directories used for the survey and the time scale of the survey being updated. This means that there are significant problems involved in making year-on-year comparisons. This is particularly true in the City, for which the Institute has not published the linking coefficients. As a result, the rates of year-on-year change should be viewed with caution.

The outlook for 2006 is very bright, although the figures for the first two months are not particularly high, with an increase in overnight stays of 2.6%. The intensification of trends noted in recent years, with high rates of growth in intra-European tourism and in short duration cultural and leisure tourism, will continue to be a positive factor for tourism in the City. The expansion of Barajas airport will undoubtedly contribute to strengthening these improved results, and make an enhanced transport range and an improvement in competitiveness in trems of the prices of our destination possible. This will encourage tourists to visit us this year or in the next few years, when the expansion takes full effect.

February 2006 ended with a new record figure in the City's hotel accommodation range, with a total of 65,231 beds offered. This included the opening in January and February of four new four-star hotels. The year-on-year growth rate increased in the early months of the year, to 7.0% in February, becoming closer to the figures of around 12% for 2004.

Estimated supply of beds in the City of Madrid



Source: Hotel Occupation Survey (HOS. National Institute of Statistics

Transport

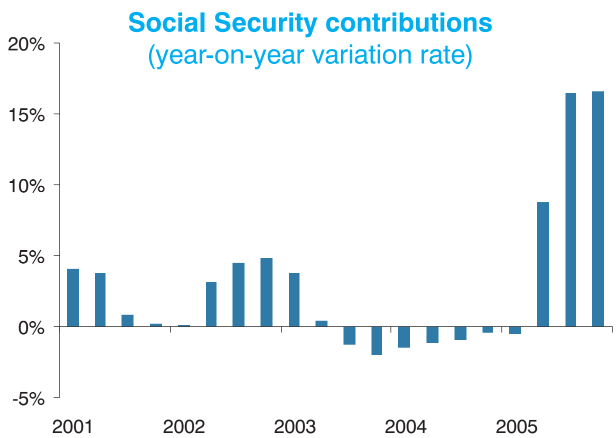
During the first two months of 2006, passenger traffic at Barajas airport was extremely dynamic, with a year-on-year increase of 8.3%. This was due primarily to the strong recovery of domestic flights, which increased by 8.7%, compared to the figure of -0.5% recorded for the same period in the previous year. However, goods traffic fell by 4.2%, continuing the downward trend which began in 2005. The mobility indicators for the average intensity and speed of urban traffic fell in January 2006.

In the fourth quarter of 2005, employment in the transport sector in the City of Madrid continued the trend towards a recovery which began in the previous quarter, and posted a year-on-year growth rate of 3.2%. During the same period, passenger traffic at the stations on the Cercanías suburban railway network decreased, as it did in the same quarter of the previous year and continued the downturn which began in third quarter of the year.

3. Business Dynamic

In January 2006, the average number of businesses created was 2,140 companies, which is the highest figure in recent years, and is a year-on-year growth rate of 4.4% compared to the average figure in January 2005, and a change in the trend from the negative variation rates recorded in the second half of 2005. The number of limited companies increased by 4.6%, and the negative growth rate for the number of public limited companies of rates fell, from rates of -10% to a rate of -2.5%.

In the period between October and December 2005, there was a record number of Social Security contribution accounts (165,121) for the second consecutive quarter, with a year-on-year growth rate of 16.5%. Services, which grew by 17.7%, and construction with a variation rate of 15.7%, were the main driving forces behind this significant increase in the number of contribution accounts. On the negative side, the number of registered workers in the industrial sector fell by 2.5% compared to 2004. However, these data should be considered with caution, as they are influenced to a certain extent by the process for the legalisation of foreigners in 2005. This increased the number of Social Security contribution accounts in the construction and services sectors.



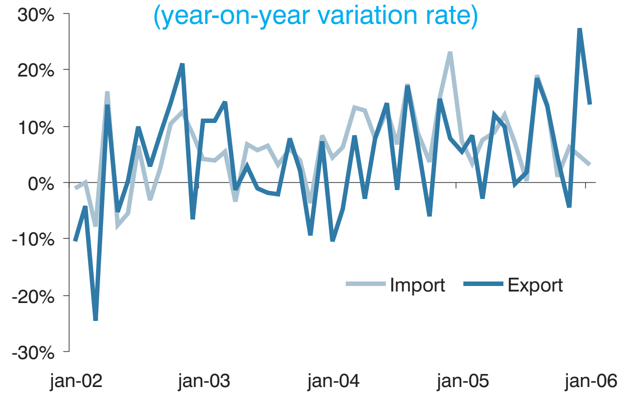
Source: Madrid City Council Statistics Office - General Department of Social Security

4. Demand

Retail sales in the Madrid Autonomous Region fell during the first two months of 2006, reverting to the downward trend prevalent prior to December, when sales increased by 1.7% due to purchases made during the Christmas shopping campaign. As far as the labour market is concerned, the high rates of growth in the number of workers registered with the Social Security system in the trade sector in the Madrid region are a clear sign of the dynamism prevailing in the region. In January 2006, there was a year-on-year increase in the number of registered workers in the wholesale trade sector of over 4.5% - five tenths of a percentage point higher than Spain as a whole.

The historic upturn in exports is undoubtedly one of the most positive factors seen in recent months, which show that Madrid's businesses are adapting to foreign competition that is increasingly strong and globalised. Although the series is highly erratic, the average annual rate has maintained an upward trend since May 2004, and in January 2006 reached its highest figure, with an increase of 8.0%.

Exports and Imports in Madrid Autonomous Region
(year-on-year variation rate)

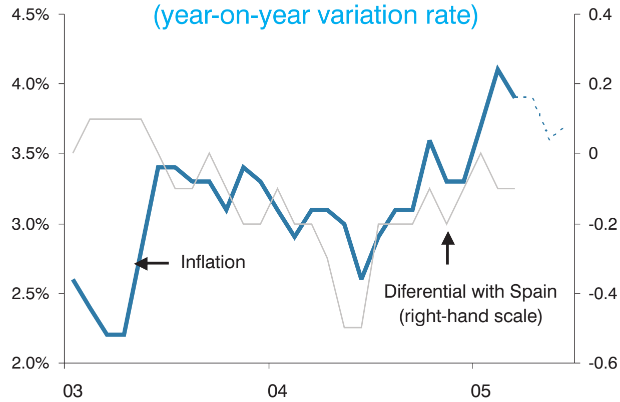


Source: ICEX

5. Prices and salaries

Inflation in the Madrid Autonomous Region ended the year with a year-on-year increase of 3.7%, four percentage points higher than the previous month. Although the upturn in prices continued in January 2006 -4.1%-, in February this rate fell by two tenths of a percentage point to 3.9% and forecasts suggest that it could fall to 3.6% in April.

RPI in Madrid Autonomous Region
(year-on-year variation rate)



Source: National Institute of Statistics and Flores de Lemus Institute

The rise in the price of energy was passed on to industrial prices, which in February 2006 reached a maximum rate of increase of 4.2%, although the competitive advantages compared to Spain as a whole remain firm.

Housing prices maintained their trend towards moderation in both new and second-hand housing. This meant that the year-on-year variation rates in the City of Madrid were below those for the region and for Spain as a whole. In the labour market, tensions in labour costs were again evident in the last quarter of the year.

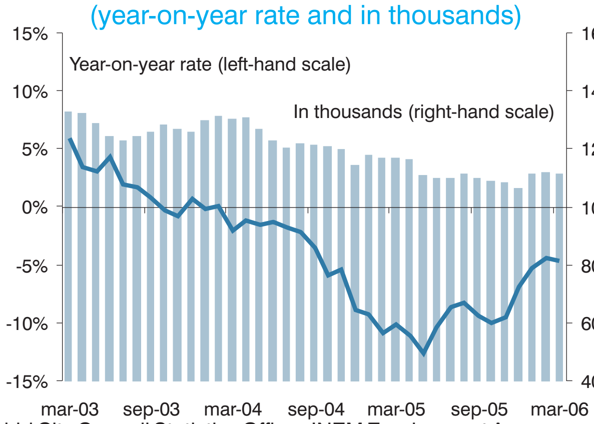
6. Labour market

The Active Population Survey data for the fourth quarter showed a slight decrease in the active population of the City of Madrid for the first time, which led to a reduction in the employment rate to 58.3%. This decline is result of a further decrease in the number of the unemployed, and a fall in the number of employed by 5,600 people. However, the fall in unemployment of 11,900 people means that the rate of unemployment is at a minimum level of 5.2%, seven tenths of a point less than in the previous quarter. Furthermore, the unemployment rate fell by a total of three percentage points compared to the first quarter, which reflects the favourable behaviour of the labour market throughout 2005. These figures should be considered with caution as the methodological change by the Active Population Survey is still recent, and it will be necessary to wait for further quarters in order to confirm these results.

Social Security registration continued to rise in the fourth quarter, with a year-on-year increase of 6.6%. This was concentrated in the construction and services sectors, which are main beneficiaries of the effects of the legalisation process for foreign workers.

Finally, unemployment fell by 4.7% in year-on-year terms in March. Despite the rate of decline in unemployment falling at the end of 2005, the data for March show a slight acceleration, with the number of unemployed people for that month being 111,280 people.

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



Source: Madrid City Council Statistics Office - INEM Employment Agency

II. Sustainability

Energy indicators and bioconstruction. Advantages of an efficient planning in Madrid. Summary of best practices

In this issue, we take a look at the evolution of the main indicators for the environmental sustainability of energy and water consumption in the City of Madrid. We will also look at the figures for gas and electricity consumption and the information on the volume of water stocks. The analysis of the indicators of the state and evolution of the City of Madrid's water stocks will be considered in more detail, due to the importance of this resource and its delicate circumstances as a result of the drought.

After that, we will consider the basic theoretical explanations for the significance of bioconstruction as a modern concept in the creation and planning of cities. Bioconstruction proposes measures for creating more efficient housing which is fuelled by renewable energies, a reduction in construction costs and times, and the design of pleasant and healthy areas for life in the street. It also proposes strategies for improving personal mobility. In short, this way of creating a city, based on an overall perspective, includes the values of sustainability which are a basic environmental consideration. This issue of the Economy Barometer will show the state and development of these issues in the City.

As a reflection of this concern, we will look at the main experiences of bioconstruction that have been undertaken in the City and the work of the Department of Residential Innovation (Government Department of Town Planning, Housing and Infrastructures; General Secretariat for Housing), as the main body responsible for promoting them.

III. Territorial balance in the City of Madrid

Spatial distribution of cultural facilities and indicators in Madrid

The City of Madrid has good infrastructure in terms of both special and local cultural facilities. In order to maintain this favourable starting point, it is necessary to reinforce the role of the special facilities as useful social features and urban icons which reinforce the identity of Madrid in the international context. It is vital to maintain uniform levels of access to the local cultural facilities, with the same degree of coverage for all citizens.

These are the basic aspects which define the spatial distribution of these types of facilities in the capital:

- The majority of the special cultural facilities are located in districts in the Central Area: Centro, Retiro, Salamanca and Chamberí.
- The local cultural facilities are relatively evenly distributed in spatial terms. Related to local libraries, the presence of this type of facility, which are owned by the municipal or regional authorities or the Caja Madrid savings bank, means that all districts have at least one library.
- The General Plan considers the maintenance the symbolic nature of the facilities located in the centre, as well as planning many projects aimed at reinforcing the network of cultural facilities at a local level.

IV. Madrid as a business attraction pole

International connectivity in the City of Madrid

A city's connectivity determines its relative positioning in the international communications networks and is also one of the most highly valued factors when a company decides upon its location. Two indicators which can be used to measure a city's connectivity are its flows of international goods by road and the airport's direct connections with other cities.

While reception and dispatch of international goods by road indicates a city's level of attraction, the airport plays a fundamental role as the catalyst for transport flows abroad. Indeed, sometimes the airport system is not only a centre of attraction, but also has a multiplier effect on production. For example, many companies aim to be located near an airport due to its proximity to communication hubs (logistics companies) or as a means of maximising economies of scale (tertiary services or trade).

Madrid-Barajas airport is one of the main Spanish focal points for air traffic and one of the main European communication hubs. Barajas airport is connected to over 110 international destinations and is Europe's fourth airport in terms of volume of traffic. A significant percentage of the airport's connections are European destinations, although Barajas has extensive American links. With more connections with South America than any other European airport and a significant goods exchange volume, Madrid airport is Europe's gateway to Latin America.

The expansion of the airport is part of a commitment to the development of transport and is a boost to Madrid's connectivity as part of the European Network of Cities. The airport's positioning as a European centre entails maintaining and improving its market share, especially in transatlantic communication links.

V. Monographic report

The new Madrid-Barajas. Economic impact

The expansion of Madrid-Barajas airport is a large-scale operation with important economic and strategic implications for the City and the metropolitan areas around it, and beyond. In terms of mobility and the provision of a range of associated services of high quality and a global reach, this project guarantees the sustainability of the City's transport system and raises its overall profile, which will benefit Spain as a whole. In the economic field, investments made are backing the air transport sector and its services as one of the main engines for growth in the economy of the region and capital city. This will enable it to develop with no problems over the next few years. However, this also involves a substantial reinforcement in employment and the level of business in the City of Madrid and the other towns in its area of influence. This investment promises significant financial returns thanks to the anticipated dynamism of international air traffic, from which the City must not be excluded. This dynamism will be restricted to few other business sectors in the next few years and the expansion of Barajas makes it available to the citizens of Madrid. For this prospect to take shape, the new Barajas airport must have a high level of facilities, comfort, safety and services for the passengers it aims to attract in the future. This requires further investments in permanent maintenance and improvement of the installations and the introduction of the latest methods of airport management. Nothing can be taken for granted - only self-exigence and excellence will make this significant effort bear fruit in the next few years.