

I. Analysis of the situation of the City of Madrid

1. Economic environment

Attention will remain focused in coming months on the European and Japanese economies' ability to withstand the gradual and increasingly evident deceleration in the U.S. Signs of a slowdown have been especially pronounced in the real estate market, and there is a risk that these will be reflected in other areas of the American economy, both in industrial and consumer activity. In this context, the Fed will not raise interest rates over 5.25% and the ECB will probably top out at 3.5% in the last quarter of the fiscal year, in a scenario of lower inflationary pressure; this is due to the moderation in crude oil prices (which could persist) and to the weakness of private consumption, which has not been robust even in the strongest quarter of the cycle, especially in Germany.

In Spain, we were able to see the imbalances affecting the Spanish economy improve to some degree during the second quarter. Specifically, inflation eased in August, reaching 3.7%, and the month of September promises to be a turning point for 2007, as a drop of eight-tenths of a point has been seen in the harmonized CPI, a leading indicator, which would reflect an anticipated let-up from this point onwards for this year and next. Even though it does not involve a large drop in the average annual rate for 2006, because of the poor evolution of the first eight months of the year, it would be for 2007. The growth in the GDP continues to be higher than in the EMU as a whole, but the difference has lessened since the first quarter of 2005, reaching 1.1% in this second quarter of 2006.

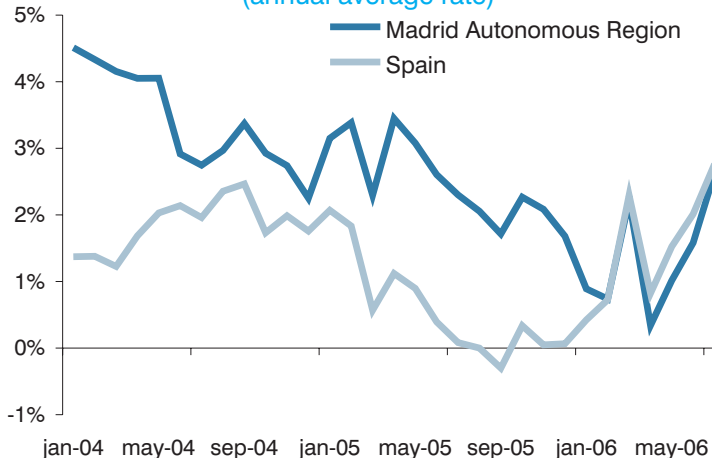
Despite the fact that its growth has moderated compared to the last two quarters, the economy of the Autonomous Region of Madrid continued to grow in the second quarter of the year, above the rate for Spain as a whole and for the EMU, reaching a year-on-year increase of 4.2%. The growth outlook for the city of Madrid points to a year-on-year increase of 4.0% in 2006.

2. Production

INDUSTRY

The Industrial Production Index (IPI) in the Autonomous Region of Madrid has increased to a year-on-year average of nearly 7% in the months of May-July, which has meant that the annual average rate has grown steadily in the last three months to a figure of 2.6% in the month of July, from April's low of 0.3%. This figure had not been reached in a year, which seems to indicate that the deceleration trend that had been observed in industrial activity in previous months, although with ups and downs, may have come to an end. The region's industrial GVA (Gross Value Added) also reflected this effect, showing an increase of seven-tenths of a point over the previous quarter to reach a growth rate of 1.7% in the second quarter of 2006. With regard to the labour market, a definite improvement was seen in Social Security registrations in industry in the City of Madrid, with the downturn continuing to ease.

Industrial Production Index (annual average rate)

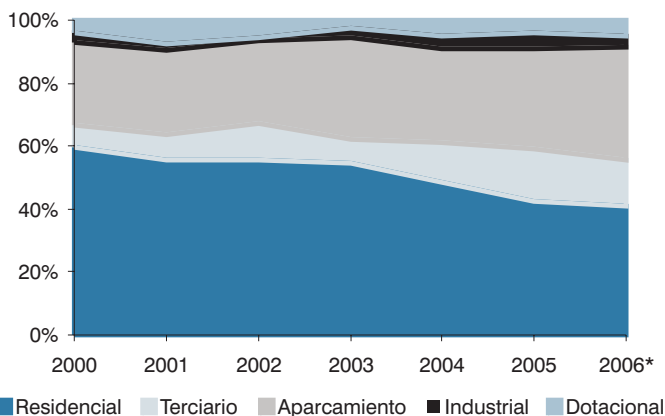


Source: National Institute of Statistics

CONSTRUCTION AND THE PROPERTY MARKET

In this second quarter of the year, the number of workers registered for Social Security in the construction industry showed a year-on-year growth rate of 11.4% in the City of Madrid, four percentage points less than the previous quarter. The residential segment is still losing ground to the non-residential segment. In August 2006, 59.2% of the total ground area involved in new building permits was for non-residential construction. Overall, between August 2005 and August 2006, the total area associated with these permits was down 683,474 m² from the total for the twelve months from August 2004 to August 2005.

Ditribution of land according to building permits



* Data until August
Source: Madrid City Council Statistics Office - Municipal Town Planning Office

SERVICES

Financial system

In the first quarter of 2006, the upward path of customer deposits in the Autonomous Region of Madrid since late 2003 was consolidated. One of the factors that is favouring this trend is the greater offering of deposits with attractive interest rates, which reflect the rises of recent months. The

volume of credit investment has also registered an increase compared to the same period in the previous year, surpassing EUR 275 million. Thus, the upward trend shown since late 2004 continues.

The ratio of deposits to loans continued to decrease in the first quarter of 2006, due to the greater dynamism shown by credit investment compared to deposits, which increases the strain on deposit-taking institutions' liquidity. However, this aspect is not of concern, due to the ease of access to cheap wholesale financing because of the current interest rates.

The IGBM (Madrid Stock Exchange General Index) once again topped the ranking of the most profitable international indexes. In the year to date, it has shown a cumulative profitability of 21.9%, much higher than the rest of the stock exchange indexes analysed.

Tourism

As seen in the previous issue of the Economy Barometer, the tourism industry in the City of Madrid has continued to show strong dynamism throughout 2006. The number of travellers staying in hotels in the first eight months of the year totalled 4,361,623, with a total of 8,486,827 overnight stays. These data represent an increase compared to the same period in 2005, 6.0% and 4.3%, respectively. Despite the strong growth seen throughout the year, the rate has slowed somewhat compared to the data for 2005, when figures of 11.2% for travellers and 9.1% for overnight stays were reached. In the quarter from June-August 2006, there was a year-on-year change of 2.4% in the number of travellers staying at hotels in the City of Madrid, and 2.2% in overnight stays. It is expected that the expansion of Barajas Airport will contribute to maintaining the strong dynamism of demand in years to come, in light of the traffic forecasts for this airport.

Although a new record was set in June 2006 in the number of hotel beds available in the City of Madrid, the year-on-year change with respect to 2005 showed a slight slowdown in the months of June and July; there was some recovery in August, with an increase of 4.8%. This reduced dynamism resulted in two effects. On the one hand, it had an impact on employment in the hotel subsector. The year-on-year change in the number of employees at hotels maintained a downward trend, reaching a rate of 2.3% in July 2006, the lowest figure since early 2004. On the other hand, it contributed to increasing the average occupancy level of the city's hotels. The strong growth in hotel demand, together with a tempering of the increase in supply, meant that the highest occupancy level per hotel room in recent years was reached in June 2006, at 74.6%.

Transport

Between January and August 2006, Madrid-Barajas Airport handled a total of 29.7 million passengers, representing an increase of 7.7% compared to the same period in 2005. This was based on an increased dynamism in domestic flights and, to a greater degree, in international flights. These figures confirm that the City of Madrid has maintained a significant increase in air traffic volume, which will intensify in coming months when all four runways begin simultaneous operation.

In the second quarter of 2006, employment in the City of Madrid's transport sector maintained the upward trend that began in the third quarter of 2005, reaching a year-on-year growth rate of 4.3%. On the other hand, both the average daily traffic in the City of Madrid and its average daily speed decreased during this period. Finally, the number of public transport (bus and Metro) users registered a year-on-year increase of 3.2% in the period from January-July 2006.

3. Business Dynamic

In the months of May and June, more than 1,600 companies were set up in the City of Madrid. This growth was primarily spurred by the evolution of the number of limited companies, which were created at a rate of over 1,500 in both months. The good results reported in the second quarter of 2006 mean that the growth trend in the average yearly number of companies that began in late 2005 was maintained, with a yearly average of 1,387 companies reached in June. This represents an increase of 8.0% in the year-on-year average number of new companies.

The current positive situation in the Autonomous Region and City of Madrid has a favourable effect on the low number of dissolutions. The good results in establishments and dissolutions meant that the business turnover rate was held to its lowest level in recent years, with a historic low of 6.6% in May and 7.3% in June.

The City of Madrid's Business Confidence Index, prepared by the Department of the Economy and Citizen Participation, rose to 29.6 in the third quarter, an increase of more than eight percentage points compared to the second quarter of 2006, representing the highest levels of the last two years. This result means that the fourth quarter is starting out with the best outlook for the evolution of business activity in the City of Madrid in the last two years.

4. Demand

The publication of the Madrid Consumer Confidence Index (ICCM) in September showed that the spirits of the citizens of Madrid are at a particularly high level after the summer holiday period. Specifically, the ICCM is the highest in the waves corresponding to the month of September in the last three years, and represents the lowest negative rate between July and September (-0.12%) in the last five fiscal years.

Secondly, the growth in the number of Social Security registrations in the wholesale trade sector recovered slightly in August, reaching a year-on-year rate of 2.6% after the deceleration seen between June and July, compared to the figures from the same period in the previous year.

Finally, the Autonomous Region of Madrid's foreign sector is once again in an outstanding position, thanks to the significant growth in sales abroad by companies in Madrid. This dynamism is contributing to a moderation in the increase in the trade balance deficit, which is showing a trend towards stabilisation, unlike what is taking place on a national level, where the external imbalance continues to worsen.

Foreign trade in Madrid Autonomous Region (year-on-year variation rate of accumulated data)

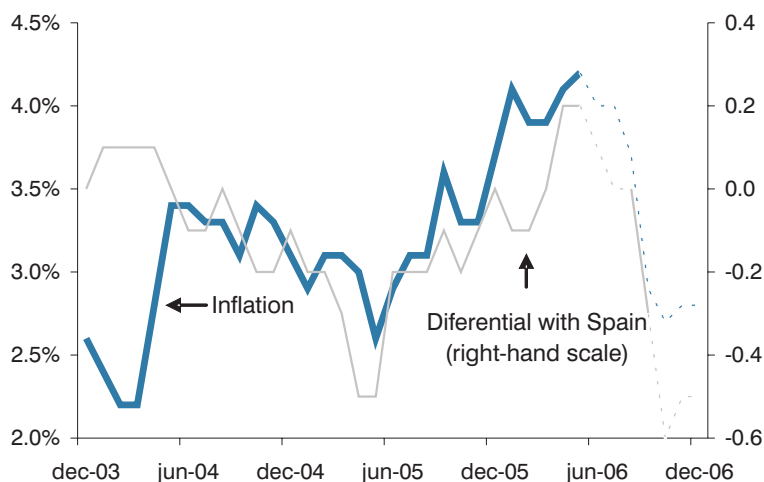


Source: ICEX

5. Prices and salaries

The new data available for this issue of the Economy Barometer, corresponding to the months of June-August 2006, show a trend change in the evolution of prices, with significant easing in the growth of all series except in the price of new housing, which rose slightly. In particular, the increase in consumer prices (CPI) has dropped by five-tenths of a point since May to the 3.7% recorded in August. In addition, the forecasts indicate that inflation could reach 2.7% in the month of October, a decrease that has already been observed in the advance HCPI indicator for Spain, developed by the Spanish Statistical Institute (INE), which situates the annual rate at 3.0% in the month of September. This would represent a decrease of eight-tenths of a point compared to the previous month.

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



Discontinuous line corresponds to forecasts

Source: National Institute of Statistics

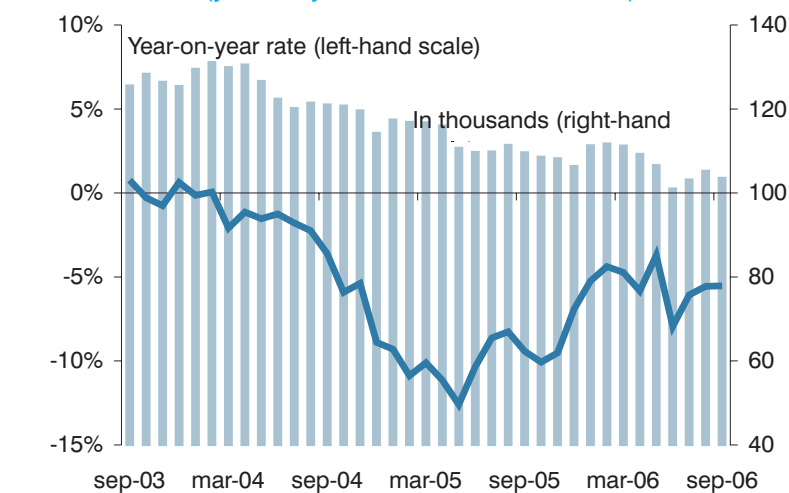
Differential calculated with forecasts from IFL (region) and CAP (Spain)

Industrial prices rose in August by 4.0%, 0.8 percentage points less than in May, and maintain a negative differential compared to Spain as a whole. The increase in used housing prices has also maintained a downward trend, with a year-on-year growth in the second quarter of the year reaching 8.8%, a level that had not been seen since the third quarter of 2001. Conversely, the price of new housing registered another increase as it did in the previous quarter, although it stayed below the levels reached in 2005. Finally, the reduced increase in labour costs must also be mentioned, an event that is not observed on a national level, where costs increased in the second quarter of the year.

6. Labour market

In the second quarter of 2006, the economically active population increased by a year-on-year rate of 3.7%, bringing the activity rate to a high of 61.3%. Growth was even higher in the case of the employed, who increased by 4.1% in the same period to a total of 1,525,800, the highest figure ever reached in the City of Madrid. The unemployment rate dropped four-tenths of a point compared to the same period in the previous year, reaching a figure of 6.5%.

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



In the period from April-June, a decrease in the rate of Social Security registrations had begun to be seen, from the 6.8% in the previous quarter to 5.1%. This was primarily due to the deceleration in the growth of construction and services. The year-on-year effect of the legalisation process for foreign workers could give rise to a greater reduction in the rate in the next quarter. The year-on-year rate of decrease in unemployment also slowed, from -7.9% in June to -5.5% in September, to a figure of 103,593 unemployed.

II. Sustainability

Analysis of sustainability and mobility of the City

Madrid's great demographic and economic dynamism translates into an increase in mobility. Urban spread in the region has caused an

increase in commuting, because residents still have close ties to the City (work, services, etc.). On the other hand, improved economic well-being has meant that population can own vehicles, as well as an increase in travel to satisfy new leisure and consumer needs. Other factors that influence the population's greater mobility are: the high numbers of women joining the labour market, the relative importance of the working and young population (with greater mobility), the changes in the distribution of shops (proliferation of large retail outlets), the segregation of land uses, the spread of activities and services and the development of neo-downtown zones in the municipal area.

Motorised mobility is the main cause of the most troublesome aspects of the urban environment: pollution, noise, excessive consumption of resources and extensive use of space. If mobility does not change, it does not seem possible to rationalise or make our cities and their surroundings more habitable. Sustainable mobility is a new concept, endorsed by the City of Madrid, whose aim is to achieve a rational use of means of transport that will reduce the amount of pollution they cause, both on a local and worldwide level, and to increase energy savings, essential requirements for compliance with the Kyoto Protocol. Sustainability also entails taking social aspects and equal opportunities into consideration.

III. Territorial balance in the City of Madrid

Mobility in the urban system of Madrid

Investment efforts and progress have been more than significant recently, placing Madrid at the vanguard of world cities in infrastructures. This advantage, together with mobility policies, promotes cohesion and restoration of spatial balance to urban areas.

Public transport is the main factor in territorial cohesion, and also the leading means of mobility, because it accounts for most of the internal travel and relations with the outside world (travellers departing from or arriving in the City of Madrid). The expansion and improvement of the public transport system has meant increased permeability and greater integration of the City's neighbourhoods and districts, enhancing social relations, commercial and economic dynamism and the safety of streets and public areas.

The City of Madrid and its surrounding area have built a grid system made up of motorways, trunk roads and conventional roads with advanced design characteristics and even coverage throughout the region. The advantages of the independence and accessibility afforded by private vehicles and the cultural inertia of their use, together with the segregation of functional areas and urban expansion in increasingly extensive spheres of influence, are factors that will continue to have decisive weight in the spatial balances and imbalances of the City of Madrid.

In short, the City of Madrid must take on the challenge of exploring policies that will minimize the negative externalities of the increase in motorised mobility and, at the same time, maintain the dynamism of the commutes that are essential to ensuring economic prosperity.

IV. Madrid as a business attraction pole

Internal connectivity and mobility in the City of Madrid

Madrid's transportation infrastructures explains the strength of the local economy. At this time, Madrid has accesses to fast road transport systems, is the starting point of high-speed rail lines and has an airport with a multitude of domestic and international connections. All of this contributes to shaping an urban region with great economic vitality, which benefits from the presence of numerous corporate headquarters.

Furthermore, Madrid's importance as a magnet for business tourism becomes more significant every fiscal year thanks to its easy connections to different modes of transport, because mobility is now one of Madrid's advantages in competing on an international scale for the location of companies or for holding numerous events and conferences.

Ensuring that this growth in activity, a result of the increase in population and economic activity, does not become a hindrance to the aforementioned strength of the local economy means that it is necessary to continue working towards maintaining transport costs that are not only affordable but also socially and environmentally acceptable, so that the City can become more and more competitive in the international scene.

V. Monographic report

Description of the mobility system

During the last decade, a sustained increase has taken place in the number of public transport users, spearheaded by the rise in passengers using the Metro and suburban railways. The expansion of the Metro has made it possible to increase the number of users without adding to its congestion, while the number of passengers travelling on the suburban railways has risen by 44.6% from 1995 to 2005, despite the fact that the length of this rail system has practically remained the same.

Nevertheless, despite the increase in the use of public transport, the extensive use of private transport remains a fundamental characteristic of the city, as private vehicles are still the primary means of mobility in connections between the City of Madrid and the metropolitan area.

Madrid City Council has implemented the 2003-2007 Mobility Plan in an effort to alleviate some of these problems and improve the infrastructures. Over 50% of the work provided for under this plan has already been completed. Two of the most ambitious plans have been the plan to expand the Metro, which will make this system the third-largest in the world, and the Plan for the Improvement and Integrated Management of the M-30 Ring Road. The latter provides for actions to increase mobility, reduce pollution, boost public transport, improving the quality of its water while eliminating an unquestionable urban barrier.

The City Council aims to correct the environmental and social problems resulting from the city's mobility promoting public transport and discourage the use of private vehicles and reducing the number of motor vehicles through urban planning.