Executive summary

I. Analysis of the situation of the City of Madrid

1. Economic environment

The tensions in financial markets in recent months have intensified due to the lack of progress made in solving the crisis which began in August 2007. The episode of systemic risk unleashed due to the liquidity and solvency problems in some banks has led various governments to take action to safeguard the stability of their financial systems.

We are in a difficult situation, in which the signs of deterioration in the Spanish economy are becoming increasingly evident. Growth in the second quarter already showed signs of clear exhaustion.

Economic activity in the Madrid Autonomous Region in the second quarter of the year reflected an increase in GDP of 2.1%, eight tenths of a point lower than the previous quarter. However, this it remains above the figure recorded for Spain as a whole.

Despite the loss of dynamism, employment continued to be created in the Madrid Autonomous Region, with growth of 0.8% in year-on-year terms in the second quarter. However, an increase of 3.6% in the active population led to a higher number of unemployed, making the unemployment rate 8.8%. In spite of this, the unemployment rate in the Madrid Autonomous Region was almost two percentage points lower than that of Spain (10.4%). The forecasts for growth in the City of Madrid have been revised downwards. Year-on-year GDP growth of 2.1% is anticipated for 2008, and a figure of 1.4% for the following year.

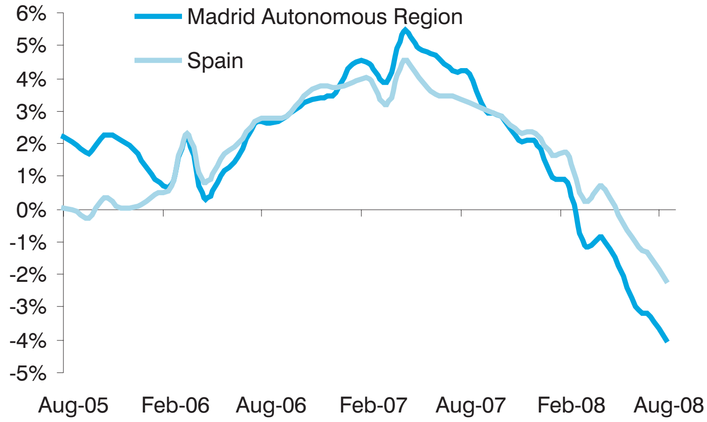
2. Production

INDUSTRY

The Industrial Production Index (IPI) of the Madrid Autonomous Region presented a year-on-year change of -4.1% in August. This is another negative shift in the performance of this index, which has recorded continuous declines since mid-2007, with the exception of the occasional isolated upturn like that seen in April.

Industry in the City of Madrid recorded further declines in Social Security registration figures, with a year-on-year change of -0.7% in the second quarter, following on from the rate of -0.6% in the previous quarter. After this new fall, a total of 12,071 industrial workers were registered with the Social Security system.

Industrial Production Index
(average annual rate)



Source: NSI

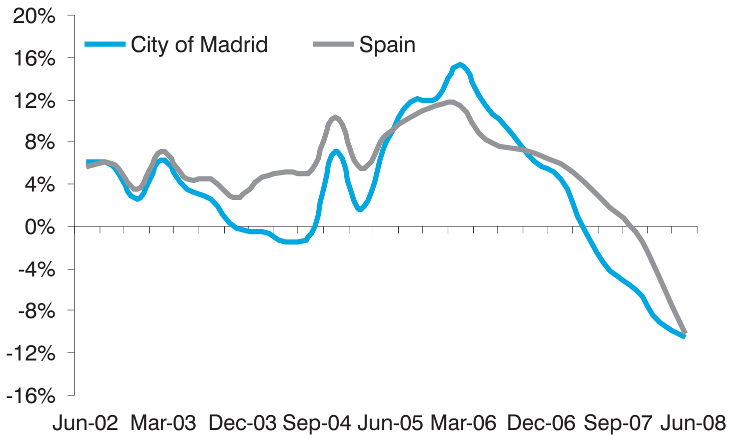
CONSTRUCTION AND THE REAL ESTATE MARKET

The construction sector in the City of Madrid continued in a downward direction. This can be seen by the figures for workers in the sector registered with the Social Security system, who fell by 10.6% in year-on-year terms in the second quarter of 2008.

The data for activity show the same trend. Between January and August 2008, 4,807 licences to build new homes were issued by the Town Planning and Housing Government Department, 38.5% fewer than those issued in the first eight months of 2007. Furthermore, the figures for the first six months show that the non-residential segment (66.4%) is now considerably more influential than the residential sector (33.6%).

Finally, the price of new housing in the City of Madrid fell by 1.6% in year-on-year terms in the first six months of 2008.

Workers with Social Security in the construction sector
(year-on-year rate)



Source: Madrid General Statistics Office General Treasury of the Social Security

SERVICES

Financial system

Developments in credit investment and deposits by clients in the second quarter of 2008 were influenced by increased restrictions on access to credit in the financial system, together with a loss of confidence by the households in the system, which has seen its status disturbed by bankruptcy claims declared by various European and American banks, and which has also affected the main international markets. This situation has forced the Spanish government, individually at first and then interacting with the Eurogroup, to approve financial rescue packages. With this coordinated strategy, countries in the Eurozone are combating credit restrictions that are increasingly posing a threat to real economic activity

Indeed, the persistence of heavy restrictions on credit in the financial system explains the decline in the rate of growth in credit investment in the Madrid Autonomous Region.. In the second quarter of 2008, credit to the private sector increased by 19.3%, 13 percentage points less than in the same quarter of 2007, and although it continues to rise at a higher rate than the rate for Spain as a whole, the differential has been reduced.

Deposits by clients in the Madrid Autonomous Region in the second quarter of 2008 maintained their trend towards moderation in their rate of growth, which was 12.5%.

The variable income assets traded on the Spanish Stock Exchange Interconnection System (SSEIC) between April and June 2008 fell by 30% compared to the same period in the previous year. The index of the Madrid Stock Exchange in mid-October was 36.4%, less than its value at the close of 2007, and returning to the levels of June 2005.

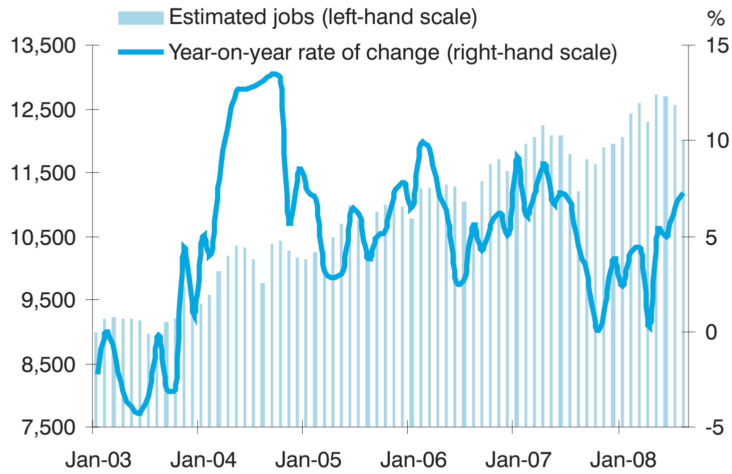
Tourism

Taken quarter by quarter, the figures for year-on-year growth in tourist demand in the City of Madrid are decreasing. Travellers increased in the period between June and August 2008 by 0.5% in year-on-year terms compared to the same period in 2007, while overnight stays fell by 1.0%. The results are a long way off the figures obtained in 2008, when travellers and overnight stays increased by 8.6% and 7.3%, respectively.

The figures for Spanish travellers fell by 4.4% in the period between June and August, and overnight stays by 7.7%, with no significant recovery of this market anticipated in what remains of this year. However, the performance of foreign demand is helping to maintain the total figures. Growth rates in the number of both travellers and overnight stays are falling, although growth is at 5.6% and 4.6%, respectively. The result is that demand in the City of Madrid is still more dynamic than in Spain as a whole.

At a time of economic downturn such as the present, tourism is a sector in which not only is employment in the City not being destroyed, but rather it is being maintained or is even increasing. The year-on-year growth rate in the number of employees reached 7.2% in August.

Employment in hotels in the City of Madrid



Source: Hotel Occupancy Survey (HOS) - NSI

Transport

Between June and August, passenger traffic at Barajas airport fell by 2.0% in year-on-year terms, a significant decline compared with the same period in the previous year. This decline is undoubtedly explained by the new AVE high speed railway connections with Barcelona (since February 2008) and Malaga (since December 2007).

The transport sector in the City of Madrid is also affected by the situation of the labour market as a whole and recorded a year-on-year decline of 4,268 people (5.6%) in the second quarter of the year of 2008.

Between May and July 2008, there was a once again a year-on-year decline in the number of Metro users (1.9%) compared to the same months in the previous year, as the passengers transported by bus increased in year-on-year terms by 1.3%.

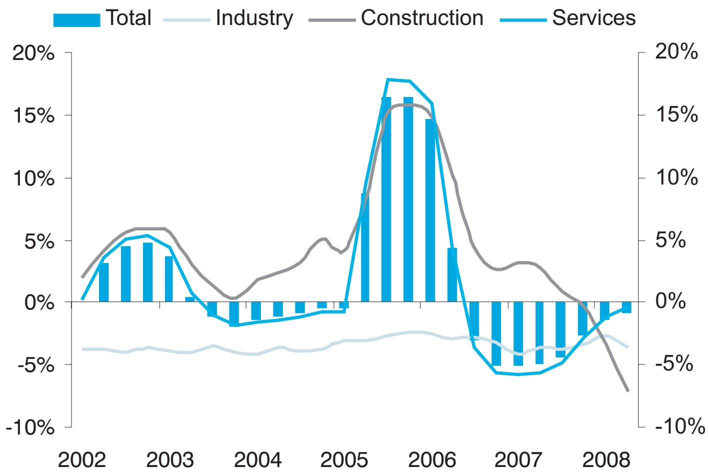
3. Business Dynamic

The decline in the number of constitution proceedings continued in the second quarter of the year, to a low in recent years of an annual average of 1,221 establishments in June. The trend remains markedly negative, which suggests that there will be a further decline in the coming quarters.

During the second quarter of the year, the number of Social Security contribution accounts increased slightly to 152,707 in the City of Madrid, an increase of barely 0.2% compared to the figures for the first quarter, but a fall of 1.0% compared to the second quarter of 2007.

The total number of accounts remained steady thanks to the less negative performance of accounts in the services sector. Elsewhere, the construction sector presented a fall of 7.1% in the second quarter of the year. Industry also failed to recover, and once again posted negative figures, with a decline of 3.6%.

Social Security contribution accounts in the City of Madrid
(year-on-year rate)



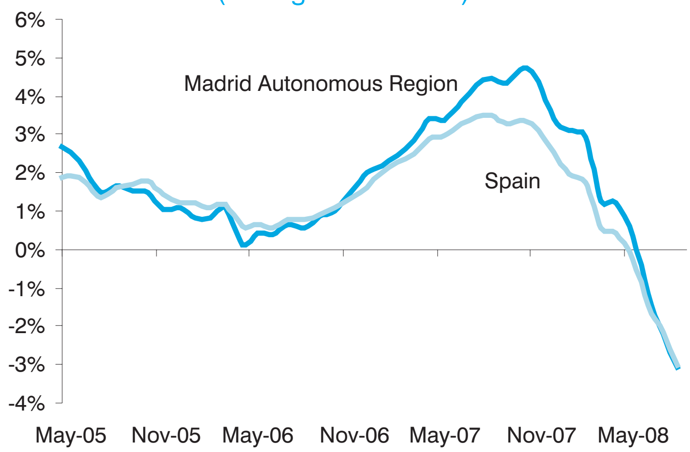
Source: Statistics Office, Madrid City Council General Treasury of the Social Security

The opinion of businesses operating in the City of Madrid remains negative, according to the Business Confidence Indicator of the City of Madrid, which remained at 2.2 in the third quarter of the year. Despite a slight upturn of three points in the indicator, the probable result of the inclusion of the figures for the summer months, the trend remains downward, with falls in intensity anticipated in future quarters.

4. Demand

Retail sales recorded changes in the Madrid Autonomous Region of -1.2% in June, -2.2% in July and -3.1% in August, consistent with the developments seen in Spain as a whole.

Retail sales at constant prices
(average annual rate)



Source: NSI

Unlike the conditions observed in the retail trade in the City of Madrid, where Social Security registration registered a downturn in year-on-year growth in the second quarter, at 0.6% compared to 2.1% in the previous quarter, Social Security registration in wholesale outlets presented another year-on-year increase, with growth of 0.9%.

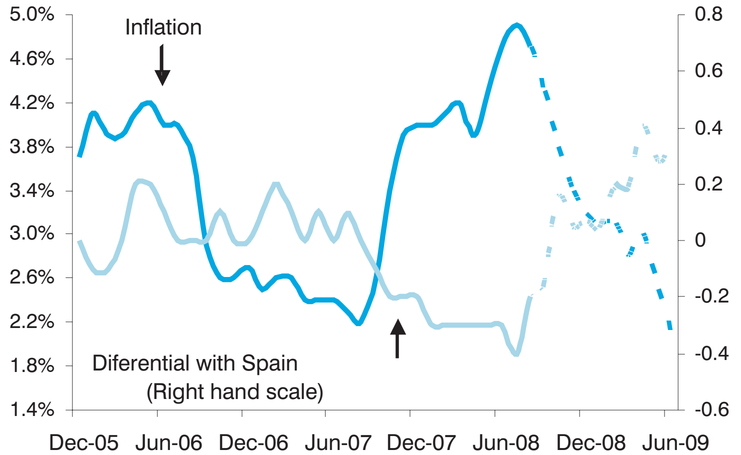
Elsewhere, in the Madrid Autonomous Region, the accumulated trade deficit over the last 12 months presented a year-on-year growth of 4.0%, reaching 41,761 million euros in July. This figure is below that recorded in June, in May and especially in April, when trade imbalances exceeded 42,719 million euros, a new high for this figure. It should be stressed that the accumulated data for the last 12 months show a growth in exports that is higher than that seen in imports.

5. Prices and salaries

The performance of the consumer price index of the Madrid Autonomous Region maintained its upward profile, mainly as a result of the continuous rise in the prices of petrol and prepared foodstuffs. Inflation in July was 4.9%, with its growth 2.6 percentage points higher than the previous year. The slight moderation in the price of crude in mid-July was reflected in the rate of inflation for August, which at 4.7% was two tenths of a point less than the previous month. However, the upturn in inflation in the Madrid region was less intense than in Spain as a whole. The latest predictions suggest an inflation rate of 3.2% at the end of the year, and anticipate that this moderation will continue in 2009.

The prices of new housing in the City of Madrid presented a less emphatic rate of growth than the same period of the previous year, but this was not true of the inter-quarterly comparison. Finally, the total cost per worker in the Madrid Autonomous Region in the second quarter of the year increased by 3.3%, six tenths of a point less than the same period in the previous year.

CPI in the Autonomous Region of Madrid
(rate of year-on-year change)



N.B: The dotted lines show predictions. Differential calculated using forecasts by the Flores de Lemus Institute (region) and AFI (Spain).
Source: NSI, AFI and FLI

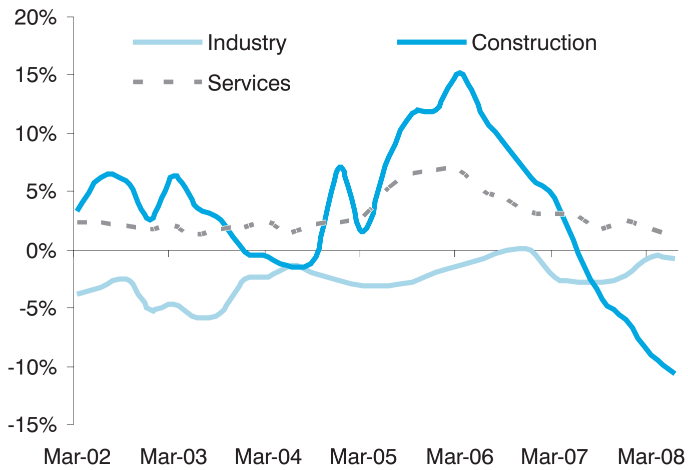
6. Labour market

The deterioration in the labour market in the City of Madrid continued in the second quarter of 2008, according to the latest data published by the Active Population Survey. Despite the worsening outlook for employment, the number of people entering the labour market continues to rise, which has led to a strong increase in the active population. Likewise, there was a slight decrease in the employed population in year-on-year terms for the second consecutive quarter. A minimal decline was also recorded in Social Security registration, in a context in which unemployment increased, with the unemployment rate at 8.3%, a level lower than in the Madrid Autonomous Region and the Spanish average.

All business sectors, except for agriculture, recorded a decline in Social Security registration compared to the previous quarter, especially in services, where Social Security registration fell by more than 10 thousand people, followed by construction, with 5,200 less registered workers. In year-on-year terms, there was still an increase in services (0.8%), although it presented strong moderation (it grew by 2.9% in the second quarter of the year).

In any event, regardless of sectorial differences, there is a continuing increase in the number of unemployed in Madrid registered in the offices of the Public State Employment Service (Spanish Institute of Employment), which recorded 8,382 new unemployed workers between July and September, making the volume of unemployed in September (the most recent data available) above 135 thousand people.

Workers with Social Security in the City of Madrid by sector
(year-on-year change)



Source: Statistics Office, Madrid City Council General Treasury of the Social Security

II. Sustainability

Noise pollution versus quality of life: traffic noise in Madrid

Quality of life is an increasingly important factor for entrepreneurs and economic agents when they are looking for business locations. However, this is negatively affected by noise pollution, a problem which has become one of the main concerns of government bodies and citizens. Madrid City Council is implementing a comprehensive anti-noise policy, which includes the publication of the city's new Noise Map, among other initiatives.

The noise map shows how 84% of Madrid's people live in silent or mildly noisy areas, and just 3% live in noisy areas. With 15.2% of its population exposed to noise levels higher than 65 dBA, the limit of tolerance or acceptability for background noise stipulated by organisations such as the WHO and the OECD, Madrid is below Spanish cities such as Alicante (42.4%), Málaga (36.9%), Bilbao (30.8%), or Paris (37.4%) in the European context.

The Council's anti-noise policy includes the production of noise maps, initiatives like the use of anti-noise paving and the pedestrianisation of streets and avenues, and raising public awareness of the noise problem and its effect on the quality of life.

II. Territorial balance in the City of Madrid

Territorial differences on the Madrid Noise Map

Transport infrastructures, types of urban development, the level of human occupancy, economic functions and land uses mean that acoustic impact on the urban fabric varies.

An enormous effort was made to achieve the greatest possible coverage in the latest Noise Map. A total of 1,767 acoustic measurement points were used. The map analyses the population by districts and neighbourhoods according to the noise levels to which it is exposed. Most of the population in the districts are in silent areas with less than 60 dB, meaning that 77.4% of the City's population is subject to appropriate noise levels. The most favourable situation is enjoyed by some districts on the outskirts, due to their high level of residential specialisation, their large size or the existence of large empty spaces. This is true of Vicálvaro, San Blas, Barajas, Hortaleza, Moratalaz, Villa de Vallecas, Puente de Vallecas, Fuencarral-El Pardo and Ciudad Lineal, where noise pollution above 65 dB affects a very small part of the population - between 0.6% and 2.7%.

On the other hand, the district with the most problems is the Centre, with 24.6% subject to more than 65 dB, followed by Tetuán, Arganzuela, Carabanchel, Usera and Salamanca, with between 9.8% and 7.3%. The other districts range between 4.1% and 6.5%, meaning that their pollution is not very significant in demographic terms.

IV. Madrid as a business attraction pole

The private health sector: dimension and cluster potencial

The City of Madrid is one of the main international benchmarks in the health field. Its demographic size, income level, climate, and its infrastructures are encouraging the progress of specialised private companies, which find a growing market for health -related services in Madrid.

Among its resources are the 365 public health centres located in the City, including 15 hospitals, with 9,508 beds, which are pioneering centres in medical treatments. With the private sector, in 2006 they accounted for 3.4% of the City's gross added value and 5.6% of those employed there.

Private health is also an increasingly important activity in the City of Madrid, as in 2008 it accounted for a total of 5,210 private health centres. In terms of Spain as a whole, these centres represent 13.2% of the clinics specialising in oncology, 14% of ophthalmological clinics, 14.2% of gynaecology and obstetrics clinics, and 48.8% of cosmetic surgery clinics. The private health sector also represented 1.8% of employment and 1.3% GAV in the City in 2006.

Finally, initiatives that are taking place in Madrid, such as the “Cancer city,” promoted by Madrid City Council and the MD Anderson Cancer Center, and the new Clara Campal Comprehensive Oncological Centre.

V. Monograph

The audiovisual sector: dimension and economic impact

The audiovisual sector of the City of Madrid is a powerful industry which accounts for a significant percentage of the City's economic activity, and which can summarised by the fact that its economic impact accounted for around 2.2% of the City's production and around 1.6% of its employment in 2006.

Madrid and its metropolitan area are the most important production base for film and video work in Spain, due to it being the location of 64% of production companies and 85% of the highest-earning distributors. The audiovisual sector also puts the City in an outstanding position in the international arena, with around 24,000 direct employees, a volume that is similar to that of London and which exceeds those of other European poles, such as Paris and Berlin. Madrid is the centre for a large proportion of the major audiovisual content production companies, and the headquarters of Spanish national television channels are also located in the Madrid metropolitan area, making it an audiovisual pole at the highest level on the European scale.

Finally, a process of business concentration is taking place, with the number of employees in each establishment increasing. This could strengthen the companies and lead to improvements in the efficiency and competitiveness of Madrid's audiovisual industry.