



*CONSOLIDATED  
MANAGEMENT  
REPORT  
2005*

## CONSOLIDATED MANAGEMENT REPORT 2005

### 2005 MARKET ENVIRONMENT

Despite an environment marked by sharp oil price rises, the world economy managed to keep inflationary pressures in check and maintain a fast growth pace in 2005. The sustained expansion of the United States -driven by the strength of consumer spending and an upturn in investment-, the dynamism of some of the larger developing economies such as China or India, the recovery in Japan, and the good performance from the countries that benefitted from the high commodity prices were the main factors behind the growth in international economic activity. The European Union, with a marked disparity among its different members, grew less than in 2004, although certain signs of improvement point to the likelihood of its economy picking up significantly in the future.

Other economic highlights of the year were year the favourable financial conditions that businesses enjoyed, long-term interest rates having stayed low; the gradual rise in reference interest rates, both in the United States and finally in the Euro Zone; the dollar's strong gains against the Euro and yen; the fact that volatility fell to all-time lows; an environment of fewer tensions in the international geopolitical situation; and a bad year in terms of natural catastrophes, both in human and economic losses.

In this context, the year ended on a highly satisfactory note in the areas where SISTEMA MAPFRE has a stronger presence (Spain and Latin America). The Spanish economy ended 2005 with GDP growth of almost 3.5%, the pace having picked up with respect to the two previous years and the growth differential vis-à-vis the Euro Zone having widened. This healthy performance was mainly due to domestic demand, driven by consumer spending and sustained investment at high levels. On a negative note, the foreign sector was hit by the lack of dynamism of our principal trading partners and by the loss of competitiveness prompted by high price indices and higher household borrowing.

2005 was Latin America's third year running of economic expansion: GDP growth approached 4.3%, adding to the excellent figure of almost 6% recorded the previous year. The dynamic domestic demand in the region's countries, the favourable development of exports driven by a benign international context and boosted by high commodity prices, and the low interest rates all contributed positively towards this result. The region's governments seized the opportunity offered by such a favourable environment to improve their national accounts and pay off some of their debts. Another highlight of 2005 was the growing surplus of the current account balance. The financial markets put on a very strong performance, capitalising on the rating upgrades by



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rating agencies, and the rate cuts in Brazil and Mexico. Exchange rates and risk premiums, at record lows, also performed satisfactorily.

Due to the high level of liquidity within the international financial system and lack of investment alternatives, the stock markets ended the year on a very positive note, thus consolidating three consecutive years of gains on the equity markets. The healthy overall tone of the economy, low interest rates, sound corporate earnings that exceeded forecasts once again, together with the strong financial position of listed companies, a faster pace of corporate transactions and reasonable valuations were the keys for the stock market's financial year. The high rates of growth in corporate earnings led to market multipliers remaining below average and comparing very favourably with those of other assets. Furthermore, the dividend yield ended the year higher than money market yields. Worth noting are the gains recorded by the European and Japanese stock markets, which outperformed US indices.

The markets' healthy performance had a knock-on effect on collective investment. Mutual fund assets reached a new record high (more than € 245 billion, up 10%), albeit slightly less than the growth reported by pension funds. The number of participants of both products was close to 17.5 million.

### DEVELOPMENT OF THE INSURANCE MARKETS

#### SPANISH MARKET (\*)

- According to preliminary estimates, the total volume of written premiums for the Spanish insurance market in fiscal year 2005 amounted to €48,687 million with the following breakdown by line of business:

Line of Business	2005	2004	% Var. 05/04
Life	20,522	18,972	8.2
Non-Life	28,165	26,245	7.3
<b>Total Insurance</b>	<b>48,687</b>	<b>45,217</b>	<b>7.7</b>

Figures in million euros

The increase with respect to the previous year once again exceeded the GDP growth rate of the Spanish economy.

- Non-life insurance contributed 58% of the total premiums volume. In absolute terms, Motor insurance continues to be the largest line of business by premiums volume, even though it grew the least due to tariff competition. The following table provides a breakdown by line of business of the estimated total volume of Non-life insurance premiums and its variation with respect to the previous year:

	2005	2004	% Var. 05/04
Motor	11,688	11,237	4.0
Health	4,484	4,097	9.4
Multi-peril	4,600	4,161	10.6
Other Non-Life	7,393	6,750	9.5
<b>Total Non-Life</b>	<b>28,165</b>	<b>26,245</b>	<b>7.3</b>

Figures in million euros

(\*) The figures for the Spanish market have been obtained from ICEA (Association for Cooperative Research between Insurance Companies and Pension Funds)

As in previous years, in 2005 the relative importance of the Motor insurance business continued to decrease, as shown in the following table:

	2005	2004	2003	2002	2001
Motor	41.5%	42.8%	44.5%	45.7%	46.9%
Health	15.9%	15.6%	15.2%	15.1%	15.7%
Multi-peril	16.3%	15.9%	15.7%	15.1%	14.6%
Other Non-Life	26.2%	25.7%	24.6%	24.1%	22.8%

On the basis of the trend observed at close of the month of September, it can be said that the technical result worsened in Non-Life insurance due to the increase in the claims ratio in the Motor line of business, this having been only partially offset by the better performance reported by Multi-peril and Health. The following table shows the development of the combined ratio as a percentage of net premiums earned which measures said technical result:

	Total		Motor		Multi-peril		Health	
	30.09.05	30.09.04	30.09.05	30.09.04	30.09.05	30.09.04	30.09.05	30.09.04
Loss ratio	71.2%	70.7%	74.2%	72.2%	60.4%	61.3%	81.6%	82.2%
Expense ratio	20.4%	20.2%	17.7%	17.3%	30.8%	31.6%	11.4%	11.1%
Combined ratio	91.6%	90.9%	91.9%	89.5%	91.2%	93.0%	93.0%	93.3%

- o The volume of savings managed in Life insurance, represented by technical reserves, was €124,289 million, a 6.9% increase with respect to the previous year.

Despite interest rates at all-time lows, the market reported a faster rate of growth in the volume of funds under management, which came primarily from guaranteed interest rate-type insurance products and, to a lesser extent, from retirement insurance products.

The following table shows the evolution of assets under management in the various savings products and their respective increases compared to the previous year:

	2005	2004	% Var. 05/04
Life Insurance	124,289	116,254	6.9
Mutual Funds	309,003	266,323	16.0
Pension Funds	72,628	62,806	15.6
<b>Total</b>	<b>505,920</b>	<b>445,383</b>	<b>13.6</b>

Figures in million euros



Press conference of the Year 2005 Results

The volume of savings managed in Life insurance, represented by technical reserves, was €124,289 million, a 6.9% increase with respect to the previous year

LATIN AMERICAN MARKETS (\*)

- o According to preliminary estimates at the close of the third quarter of 2005, the main Latin American insurance markets recorded the following increases in their respective volume of written insurance premiums expressed in local currency<sup>(1)</sup>:

	Non-Life	Life	Total
Argentina	5.1%	25.9%	11.7%
Brazil	13.8%	11.0%	12.6%
Colombia	2.3%	14.6%	6.4%
Chile	7.6%	(2.3%)	0.7%
Mexico	3.8%	(6.3%)	(0.5%)
Paraguay	4.9%	18.9%	4.9%
Peru	4.4%	7.5%	5.8%
Puerto Rico	12.8%	(5.7%)	10.6%
El Salvador	3.4%	2.4%	3.1%
Uruguay	(4.9%)	6.9%	(2.7%)
Venezuela <sup>(2)</sup>	-	-	40.8%

(1) The percentage variations have been calculated on the basis of the most recent information available for each country and they appear annualized. The date of annual closing for the markets of Argentina and Paraguay is the month of July.

(2) Life insurance accounts for less than 5% of the Venezuelan market's total premiums. Therefore, its development only has a minor bearing on the sector as a whole.

- o In 2005, these markets performed as follows:
  - In ARGENTINA, according to figures for the first half, most growth came from Life and Accident Insurance, with the volume of retirement insurance having jumped 73.3% after the authorities brought in new regulations regarding the granting of life annuities in the event of disability. Non-Life insurance saw growth just above 5%, due to tough tariff competition that offset part of the rise in the number of policies issued. The best performer was the Employment Risks line, which reported a 23.1% rise in premiums as a result of the growing working population and the application of higher contribution coefficients. The Non-Life loss ratio rose due to the drop in tariffs. The Employment Risks (Non-Life) and Retirement (Life) lines were also hit by higher losses caused by the larger number of court cases and, consequently, the larger volume of compensations paid.
  - In BRAZIL, according to end of November figures, the total volume of premiums rose, mainly on account of the growing penetration of Motor Insurance, the spread of other insurance products, especially Life and Household, among the low-income population and the launch of new products by the insurance companies. The table below displays the premium growth and development of the loss ratio of the main lines of business:

	Change in premiums	Loss ratio	
		2005	2004
Life	11.0%	55.1%	52.9%
Motor	17.7%	69.4%	72.7%
Health	4.8%	91.4%	87.2%
General Insurance	12.1%	39.7%	43.2%

During 2005, the ongoing consolidation process in the market continued, the highlights being the acquisitions of HSBC Seguros by HDI Seguros, of Real Seguros by Tokyo Marine Nichido, and of NOSSA CAIXA, in which MAPFRE VERA CRUZ acquired a 51% shareholding.

\* The figures for the Latin American markets have been obtained from the MAPFRE companies which operate there and from FUNDACIÓN MAPFRE ESTUDIOS.

- The figures for CHILE as at the end of September pointed to a slight increase in the volume of total premiums, chiefly due to a contraction in Life Insurance following the enforcement of stricter requirements for applying for early retirement, which dampened demand for life annuities. In contrast, Non-Life insurance reported growth ensuing from the upturn in sales of new vehicles, which boosted Motor premiums by 13.5% and served to offset the decline in tariffs throughout the other lines of business, especially in Fire and Earthquakes, which is the most important line of the sector. The Non-Life loss ratio remained stable at around 53%.
- In COLOMBIA, according to figures as at the end of September, the Life line accounted for most of growth in the total volume of premiums, spurred by the demand for mortgage-related insurance products, Burial insurance and university education savings schemes. In contrast, Non-Life insurance only grew 2.3% due to tough tariff competition that led to a downturn in the volume of premiums in some of the main lines of business, such as Fire and Earthquakes. The Motor sector reported a 8.6% upturn following a strong increase in sales of new vehicles. The loss ratio rose in the Non-Life business due to the lower tariffs, and remained stable in the Life insurance business.

**During 2005, the ongoing consolidation process in the Brazilian market continued, the highlights being the acquisitions of HSBC Seguros by HDI Seguros, of Real Seguros by Tokyo Marine Nichido, and of NOSSA CAIXA, in which MAPFRE VERA CRUZ acquired a 51% shareholding**

- In MEXICO, according to figures as at the end of September, intense tariff competition brought down the total volume of premiums. In Non-Life insurance, Motor insurance premium remained almost unchanged, despite more than one million new vehicles having been registered, while the other lines of business decreased more than 6%. In contrast, Accident and Health insurance recorded a significant 13.4% increase. The Non-Life insurance loss ratio increased on account of the combined effect of the drop in rates and the losses caused by hurricanes Emily, Stan and Wilma, though the hurricanes' impact was moderate due to the relatively low level of retention. Life Insurance premiums fell due to a very large volume of issuance by one single insurance company in 2004, which was not repeated this year, and to the levels of return offered, which failed to match those of alternative financial instruments.
- In PARAGUAY, according to figures for the first six months, the modest increase in the total volume of premiums was the result of the slow-growing economy and higher inflation having pushed down the population's purchasing power. The Motor line accounted for the increase in Non-Life insurance, and its volume grew 14.8% due to the strong rise in new vehicle sales; while the other Non-Life lines reported a drop of 5.5%. Life insurance, which only represents 7.2% of all premiums, recorded an increase in the individual lines of business. The loss ratio ended higher than the previous fiscal year.
- In PERU, according to figures as at the end of November, Life Insurance was mainly to account for the rise in the total volume of premiums, as a result of sustained growth in Group Life, Loan Repayment Insurance and Hazardous Employment Insurance. Non-Life insurance was marked by two opposing trends: stiff tariff competition in its main line (General Insurance), which limited its growth to less than 2%; and higher rates in the Accident/Health and Motor lines, which reported increases of 8.8% and 5.7%, respectively. The loss ratio ended the year significantly higher in Non-Life and remained stable in Life Insurance.



José Manuel Martínez and Santiago Gayarre in the meeting of RED MAPFRE management in Madrid

## 2005 witnessed the highest frequency and intensity of catastrophic losses in the history of reinsurance

- In PUERTO RICO, according to figures for the first nine months, the total volume of premiums grew notably, due chiefly to the 20.2% rise in Health insurance, prompted by the success of medical care plans for retirees subsidised and regulated by the federal authorities (Medicare). The other Non-Life lines faced strong tariff competition, which limited growth to 0.6%. Life Insurance premiums dropped as a result of the low returns offered, tax treatment changes and the slight stagnation of the economy. The loss ratio rose in Life and Non-Life alike, as a consequence of price competition and of aggressive underwriting policies. The market became further concentrated after the country's leading insurance company (Triple S) took over one of the largest life insurance firms (Great American Life).
- EL SALVADOR, according to figures as at the end of September, the total volume of premiums grew only moderately, due chiefly to stiff tariff competition, especially in the Motor and Fire business lines. The Life Insurance loss ratio remained steady, but rose significantly in Non-Life on account of the larger number of accidents and thefts in the Motor business, the drop in tariffs, and a higher level of retention.
- In URUGUAY, the total volume of premiums shrank with respect to the previous year, as most Non-Life policies are indexed to the US dollar, which depreciated against the peso. Growth in the working population and wage rises prompted 20%-plus rises in pension insurance (Life) and Employment Risks (Non-Life). The Non-Life loss ratio ended the year higher, due mainly to weather-related losses.
- In VENEZUELA, according to figures as at the end of November, the Health insurance business line, which is the biggest in the market, was the main driver for the increase in the total volume of premiums, following the externalisation of group policies by the public sector. The Motor and General Insurance lines were hit by strong tariff competition. The loss ratio rose in the Health line, and remained stable across the other lines of business.

### REINSURANCE MARKET

2005 witnessed the highest frequency and intensity of catastrophic losses in the history of reinsurance. The storm at the start of year in Scandinavia, the storms and floods that hit Central Europe during the summer, and especially hurricanes Katrina, Rita and Wilma, which devastated the south and southeast of the US, as well as different parts of the Caribbean and Mexico in the second half of the year, negatively influenced the earnings of the various market participants.

In particular, hurricane Katrina became the biggest claim ever covered by the insurance and reinsurance markets, causing losses that far exceeded the insurance and reinsurance companies' initial estimates. The outcomes of the accumulation simulation and control models failed to match reality, and therefore many of the hypotheses upon which these tools were based will be reviewed.

As occurred in 2001 after the World Trade Center disaster, there was an influx of new capital that served to incorporate new reinsurance companies and boost the equity of, existing ones, mainly on the Bermudas market. This situation is not contributing to keep reinsurance prices steady; despite certain occasional corrective measures being applied on the markets hit by the catastrophes, patterns of behaviour varied on the other markets.

## Total consolidated revenues grew 12.6% over the previous year

Unlike the rising price cycle that commenced after the World Trade Center disaster, in 2005 rates remained at reasonable technical levels on the majority of markets, but there are signs that the situation could worsen in 2006. The markets and businesses that were not hit by catastrophes reported acceptable technical results, and this combined with a slight improvement in financial returns due to the evolution of interest rates and stock markets.

In the light of the results published during the last quarter of 2005, the rating agencies have placed the whole sector under review with a negative outlook, and reinsurers are likely to come under a fresh bout of strong pressure if they want to hold onto their current ratings. The agencies published new criteria that will be applied during 2006, which will doubtlessly contribute to maintain appropriate levels of capitalisation, and will drive the sector to improve its management of accepted risks.

## BUSINESS DEVELOPMENT

### OPERATING REVENUES AND FUNDS UNDER MANAGEMENT

Direct insurance and accepted reinsurance premiums written by CORPORACIÓN MAPFRE and its subsidiaries were €7,260.3 million in 2005, a 13.2% increase. Total operating revenues from insurance and pensions activities amounted to €9,344.3 million, including €295.7 million of new gross contributions to pension funds. The breakdown of these revenues by business line is shown in the following table:

	2005	2004	% Var. 05/04
<b>Companies operating primarily in Spain</b>	<b>5,884.9</b>	<b>5,577.8</b>	<b>5.5%</b>
- Gross written and accepted premiums	4,508.6	4,256.9	5.9%
- Income from investments	1,110.8	1,070.3	3.8%
- Other income	265.5	250.6	5.9%
<b>Companies operating primarily abroad</b>	<b>3,178.3</b>	<b>2,467.5</b>	<b>28.8%</b>
- Gross written and accepted premiums	2,751.7	2,157.6	27.5%
- Income from investments	297.2	217.3	36.8%
- Other income	129.4	92.6	39.7%
<b>Holding company (non-consolidated)</b>	<b>241.6</b>	<b>118.7</b>	<b>103.5%</b>
<b>CUMULATIVE REVENUES SUBTOTAL</b>	<b>9,304.8</b>	<b>8,164.0</b>	<b>14.0%</b>
Consolidation adjustments	(256.2)	(127.6)	100.8%
<b>CONSOLIDATED REVENUES SUBTOTAL</b>	<b>9,048.6</b>	<b>8,036.4</b>	<b>12.6%</b>
Gross contributions to pension funds	295.7	290.6	1.8%
<b>TOTAL REVENUES FROM OPERATIONS</b>	<b>9,344.3</b>	<b>8,327.0</b>	<b>12.2%</b>

Figures in million euros

Total consolidated revenues grew 12.6% over the previous year. This positive development was characterised by the following factors:

- o Organic growth in premiums volumes across most markets and business lines in which the Group operates.
- o Appreciation of the US dollar and some Latin American currencies against the euro in 2005, which reversed the trend observed in previous years.



The following table shows the evolution of funds under management in Life insurance and Savings products:

	2005	2004	% Var. 05/04
Technical reserves - Life insurance	14,867.8	13,594.9	9.4%
Pension funds <sup>(1)</sup>	1,287.4	1,103.2	16.7%
Investment funds	3,097.1	2,680.1	15.6%
<b>TOTAL</b>	<b>19,252.3</b>	<b>17,378.2</b>	<b>10.8%</b>

Figures in million euros

(1) Figures do not include defined benefit plans amounting to €733.7 million in 2004.

The 10.8% growth in funds under management obtained in 2005 reflects primarily the following factors:

- The winning of a larger amount of savings in mutual funds, especially guaranteed types;
- A smaller volume of maturities of single premium products in the banking channel;
- New externalisation transactions.

€505.1 million of the total increase in Life insurance technical reserves came from the rise in the market value of investments.

#### Spain

Gross direct insurance and accepted reinsurance premiums written by the companies that operate primarily in Spain reached €4,508.6 million, to which €295.7 million of new gross contributions to pension funds must be added, with the following breakdown:

	2005	2004	% Var. 05/04
<b>LIFE INSURANCE OPERATING UNIT</b>	<b>1,915.3</b>	<b>1,844.8</b>	<b>3.8%</b>
<b>GENERAL INSURANCE OPERATING UNIT</b>	<b>1,140.2</b>	<b>1,021.1</b>	<b>11.7%</b>
<b>COMMERCIAL INSURANCE OPERATING UNIT</b>	<b>1,101.5</b>	<b>1,080.6</b>	<b>1.9%</b>
- Industrial business	980.9	962.6	1.9%
- Credit and Surety business	120.6	118.0	2.2%
<b>MAPFRE CAJA SALUD</b>	<b>353.3</b>	<b>316.8</b>	<b>11.5%</b>
Consolidation adjustments	(1.7)	(6.4)	-
<b>TOTAL PREMIUMS</b>	<b>4,508.6</b>	<b>4,256.9</b>	<b>5.9%</b>
<b>Gross contributions to pension funds</b>	<b>295.7</b>	<b>290.6</b>	<b>1.8%</b>

Figures in million euros

The increase in the volume of premiums in the Life Insurance Operating Unit was characterised by sustained growth in Life – Risk products, a slightly lower volume of issuance in Life – Savings products and new externalisation transactions.

Business growth in the General Insurance Operating Unit came primarily from Multi-peril lines, which grew in excess of 14%. In 2005, there were over 2.1 million homes insured and more than 4 million outstanding policies.

The larger volume of premiums obtained by the Commercial Insurance Operating Unit reflects the winning of new business and the expansion of its activities abroad, which helped counter the impact of lower rates caused by strong competition in this market segment, as well as the transfer of the Life and Accidents insurance portfolios to other operating units. Premiums grew

**In 2005, there were over 2.1 million homes insured and more than 4 million outstanding policies**

14.1% in the SME business and 6.4% in large risks, while MAPFRE CAUCIÓN Y CRÉDITO's business volumes only increased 2.2% due to intense competitive pressure in Credit insurance.

Lastly, MAPFRE CAJA SALUD, which operates in a highly specialised business line, recorded an 11.5% increase in its premiums, which came primarily from the Health Assistance business line.

The following table shows a breakdown of written and accepted premiums by line of business in 2005 and 2004, together with the corresponding market shares (provisional in the case of 2005):

	2005	2004	% Var. 05/04	Market shares	
				2005	2004
Motor	143.9	145.5	(1.1)%	1.2%	1.3%
Health	353.3	316.8	11.5%	7.9%	7.7%
Other - Non Life	2,090.1	1,888.3	10.7%	16.8%	16.7%
Consolidation adjustments	(1.7)	(6.3)			
<b>TOTAL NON LIFE</b>	<b>2,585.6</b>	<b>2,344.3</b>	<b>10.3%</b>	<b>8.9%</b>	<b>8.7%</b>
Life Risk	252.2	237.8	6.0%		
Life Savings	1,522.2	1,561.4	(2.5)%		
Life Externalizations	148.6	113.5	30.9%		
Consolidation adjustments	-	(0.1)			
<b>TOTAL LIFE</b>	<b>1,923.0</b>	<b>1,912.6</b>	<b>0.5%</b>	<b>9.0%</b>	<b>9.9%</b>
<b>TOTAL</b>	<b>4,508.6</b>	<b>4,256.9</b>	<b>5.9%</b>	<b>9.0%</b>	<b>9.2%</b>

Figures in million euros

The breakdown of premiums written through the agents channel and the CAJA MADRID bank channel was as follows:

	2005	2004	% Var. 05/04
<b>AGENTS CHANNEL</b>	<b>3,518.0</b>	<b>3,327.3</b>	<b>5.7%</b>
MAPFRE VIDA	1,073.0	1,034.3	3.7%
MAPFRE SEGUROS GENERALES	1,033.3	942.4	9.6%
MAPFRE EMPRESAS	1,076.7	1,048.6	2.7%
MAPFRE CAJA SALUD	335.0	302.0	10.9%
<b>CAJA MADRID BANK CHANNEL</b>	<b>992.3</b>	<b>936.0</b>	<b>6.0%</b>
MAPFRE VIDA	842.3	810.5	3.9%
MAPFRE SEGUROS GENERALES	106.9	78.7	35.8%
MAPFRE EMPRESAS	24.8	32.0	(22.5)%
MAPFRE CAJA SALUD	18.3	14.8	23.6%
Consolidation adjustments	(1.7)	(6.4)	-
<b>TOTAL PREMIUMS</b>	<b>4,508.6</b>	<b>4,256.9</b>	<b>5.9%</b>

Figures in million euros

The total income from investments for the companies that operate primarily in Spain was €1,110.8 million, a 3.8% increase. Of these, €986.5 million came from interest income, dividends and equivalents, against €905.4 million in 2004.

The remaining revenues (Other income), which grew 5.9% in 2005, were contributed mainly by companies that operate in business lines other than insurance, among which the following must be mentioned:

- The stockbroking and mutual and pension funds management subsidiaries of MAPFRE VIDA grouped under MAPFRE INVERSIÓN, whose revenues increased 8.4% over the previous year to €97.8 million;
- MAPFRE INMUEBLES, whose recorded revenues decreased 40.2%, due to the delivery of comparatively fewer homes than in the previous year;
- MAPFRE QUAVITAE, whose revenues grew 28%. In 2005, this company completed the integration of its operations with those of MAPFRE ASISTENCIA and opened three new nursing homes in Oviedo, San Sebastián and Santiago de Compostela.

**The direct insurance subsidiaries of MAPFRE AMÉRICA wrote in 2005 premiums amounting to €1,655 million, a 28.4% increase over the previous year**

#### International

Premiums written and accepted by the Units and Companies that operate primarily abroad evolved as follows:

	2005	2004	% Var. 05/04
<b>MAPFRE AMERICA</b>	<b>1,655.0</b>	<b>1,289.1</b>	<b>28.4%</b>
- Argentina	195.2	161.7	20.7%
- Brazil	434.6	259.4	67.5%
- Chile	133.6	95.2	40.3%
- Colombia	55.2	41.8	32.1%
- El Salvador	28.4	28.1	1.1%
- Mexico	250.8	242.5	3.4%
- Paraguay	8.6	7.3	17.8%
- Peru	27.1	22.6	19.9%
- Puerto Rico	254.3	223.8	13.6%
- Dominican Republic	1.8	-	-
- Uruguay	10.0	8.1	23.5%
- Venezuela	255.4	198.6	28.6%
<b>MAPFRE INSULAR (The Philippines)</b>	<b>12.9</b>	<b>10.0</b>	<b>29.0%</b>
<b>SUBTOTAL DIRECT INSURANCE</b>	<b>1,667.9</b>	<b>1,299.1</b>	<b>28.4%</b>
<b>ACCEPTED REINSURANCE</b>	<b>1,337.4</b>	<b>1,132.6</b>	<b>18.1%</b>
<b>ASSISTANCE</b>	<b>254.8</b>	<b>191.2</b>	<b>33.3%</b>
<b>TOTAL CUMULATIVE PREMIUMS</b>	<b>3,260.1</b>	<b>2,622.9</b>	<b>24.3%</b>
Intra-group transactions eliminated upon consolidation	-508.4	-465.3	9.3%
<b>TOTAL CONSOLIDATED PREMIUMS</b>	<b>2,751.7</b>	<b>2,157.6</b>	<b>27.5%</b>

*Figures in million euros*

The breakdown by business line of direct insurance premiums written is shown in the following table:

	2005	2004	% Var. 05/04
Motor	749.4	617.2	21.4%
Health and accidents	263.1	185.6	41.8%
Other lines of business	655.4	496.3	32.1%
<b>TOTAL</b>	<b>1,667.9</b>	<b>1,299.1</b>	<b>28.4%</b>

*Figures in million euros*

The direct insurance subsidiaries of MAPFRE AMÉRICA wrote in 2005 premiums amounting to €1,655 million, a 28.4% increase over the previous year. It is worth noting the growth achieved by the subsidiaries operating in Brazil (67.5%), Chile (40.3%), Colombia (32.1%) and Venezuela (28.6%), while increases in excess of 10% were recorded in nearly all other countries.



By geographical areas, 39% of the premiums accepted by MAPFRE RE in 2005 came from Spain, 25% from the rest of Europe, 21% from Latin America, 8% from North America and the remaining 7% from other countries

MAPFRE is one of the leading Non-Life insurance groups in Latin America, where it ranked second in 2004 with a share of approximately 6.1% of the premiums of the countries and territories in which it operates. The following table shows the growth rates of direct insurance premiums in local currency achieved in the various countries, together with the corresponding market shares:

	2005	Market Share Non-Life <sup>(1)</sup>
Argentina	19.7%	8.0%
Brazil	35.5%	5.2%
Chile	23.9%	11.0%
Colombia	15.8%	4.2%
El Salvador	0.3%	14.1%
Mexico	(1.1%)	3.6%
Paraguay	19.4%	12.7%
Peru	15.6%	6.3%
Puerto Rico	12.5%	11.6%
Uruguay	4.2%	5.7%
Venezuela <sup>(2)</sup>	41.1%	9.5%

(1) Figures as per the latest data available for each market, except in the case of Paraguay, Puerto Rico and Venezuela whose market shares are as of the close of 2004.

(2) Total market share (Life + Non-Life).

The volume of premiums of MAPFRE INSULAR (The Philippines) grew 29% in euros and 25.2% in local currency.

In the accepted reinsurance business, MAPFRE RE and its subsidiaries recorded a consolidated volume of premiums of €1,337.4 million in 2005 (€1,132.6 million in 2004), an 18.1% increase. Retained premiums were €913.5 million, equivalent to a 68.3% retention rate (68.2% in 2004). By geographical areas, 39% of premiums accepted in 2005 came from Spain, 25% from the rest of Europe, 21% from Latin America, 8% from North America and the remaining 7% from other countries. Within these figures, MAPFRE REINSURANCE CORPORATION (U.S.A.) booked a volume of premiums of €83.8 million, against €87.3 million in 2004.

The total revenues (premiums and revenues from the sale of services) of MAPFRE ASISTENCIA and its subsidiaries reached €364 million, a 34.3% increase over the previous year. Their breakdown by geographical areas was as follows: Spain, 20%; Latin America, 22%; other European countries, 40%; United States, 10%; and 8% from other areas.

The total income from investments for the companies that operate primarily abroad was €297.2 million, a 36.8% increase. Of these, €218.5 million came from interest income, dividends and equivalents, against €154.6 million in 2004.

## MANAGEMENT RATIOS

The consolidated Non-Life combined ratio of CORPORACIÓN MAPFRE was 97.6% in 2005, against 95.1% the previous year. The increase recorded was caused primarily by a series of large claims incurred in the year, among which hurricanes Katrina and Wilma stand out. In the Life insurance business, the ratio of expenses as a percentage of funds under management remained stable.

The evolution of the main management ratios for the insurance subsidiaries of CORPORACIÓN MAPFRE is shown in the following table:

Company	Ratios					
	Expense Ratio <sup>(1)</sup>		Loss Ratio <sup>(2)</sup>		Combined Ratio <sup>(3)</sup>	
	2005	2004	2005	2004	2005	2004
<b>Companies operating primarily in Spain</b>						
GENERAL INSURANCE OP. UNIT	27.3%	28.1%	64.7%	64.5%	92.0%	92.6%
MAPRE EMPRESAS	13.1%	12.5%	78.0%	76.0%	91.1%	88.5%
MAPFRE CAUCIÓN Y CRÉDITO <sup>(4)</sup>	0.1%	(6.2%)	78.7%	74.7%	78.8%	68.5%
MAPFRE CAJA SALUD	15.7%	16.1%	81.2%	82.5%	96.9%	98.6%
MAPFRE-CAJA MADRID HOLDING	21.1%	21.9%	71.2%	70.8%	92.3%	92.7%
<b>Companies operating primarily abroad</b>						
MAPFRE AMERICA	34.8%	34.1%	68.2%	67.1%	103.0%	101.2%
MAPFRE RE	32.1%	33.2%	67.6%	58.5%	99.7%	91.7%
MAPFRE ASISTENCIA	25.3%	21.0%	71.1%	73.7%	96.4%	94.7%
<b>CORPORACION MAPFRE (Consolidated)</b>	<b>28.1%</b>	<b>27.5%</b>	<b>69.5%</b>	<b>67.6%</b>	<b>97.6%</b>	<b>95.1%</b>
MAPFRE VIDA <sup>(5)</sup>	0.9%	0.9%				

(1) [Net operating expenses – other technical income + other technical expenses] / Net premiums earned. Figures corresponding to the Non-Life insurance account.

(2) [Net claims incurred + variation of other technical reserves] / Net premiums earned. Figures corresponding to the Non-Life insurance account.

(3) Combined ratio = Expense ratio + Loss ratio. Figures corresponding to the Non-Life insurance account.

(4) Given the importance of services activities for MAPFRE CAUCIÓN Y CRÉDITO, the net income from other activities is added to the numerator of the expense ratio of this subsidiary.

(5) Net operating expenses / average third-party funds under management.

## RESULTS

The consolidated profit after tax was €393.8 million (€331.5 million in 2004), an 18.8% increase. The net consolidated profit after tax and minority shareholders grew 19.3% to €249.8 million. Earnings per share reached €1.05, against €0.93 the previous year (adjusted for the effects of the capital increase carried out in 2004).

In general terms, most Units and Subsidiaries of CORPORACIÓN MAPFRE increased considerably their profits with respect to fiscal year 2004. Among them, the increase recorded by MAPFRE AMÉRICA stands out. Larger catastrophe claims negatively affected the result of MAPFRE RE, which, nevertheless, made a net profit of €32.3 million on the back of significant results growth in the non-catastrophe business.



Domingo Sugranyes addresses those present in 2005 Annual General Meeting



The following table shows the sources and breakdown of results:

	2005	2004	% Var. 05/04
<b>INSURANCE ACTIVITIES</b>	<b>524.5</b>	<b>482.4</b>	<b>8.7%</b>
Companies operating primarily in Spain	364.4	336.2	8.4%
Companies operating primarily abroad	160.1	146.2	9.5%
<b>OTHER ACTIVITIES</b>	<b>41.0</b>	<b>33.6</b>	<b>22.0%</b>
<b>Holding &amp; other companies and consolidation adjustments</b>	<b>(17.6)</b>	<b>(36.4)</b>	<b>(51.6%)</b>
<b>Profit before tax and minority shareholders</b>	<b>547.9</b>	<b>479.6</b>	<b>14.2%</b>
Taxes	(154.1)	(148.1)	4.1%
<b>Profit after tax</b>	<b>393.8</b>	<b>331.5</b>	<b>18.8%</b>
Result attributable to minority shareholders	(144.0)	(122.1)	17.9%
<b>Profit after tax and minority shareholders</b>	<b>249.8</b>	<b>209.4</b>	<b>19.3%</b>

Figures in million euros

The change of the results of the main Units and Companies with respect to the previous year is shown in the following table:

	Before tax and minority shareholders		After tax and minority shareholders	
	2005	2004	2005	2004
<b>INSURANCE ACTIVITIES</b>				
<b>Companies operating primarily in Spain</b>				
LIFE INSURANCE OPERATING UNIT	133.1	129.4	88.8	86.1
GENERAL INSURANCE OPERATING UNIT	111.6	108.1	69.7	70.5
COMMERCIAL INSURANCE OPERATING UNIT	103.9	92.1	71.4	63.1
MAPFRE CAJA SALUD	15.7	6.7	9.9	3.9
<b>Companies operating primarily abroad</b>				
MAPFRE AMÉRICA	91.6	70.4	105.7	55.5
MAPFRE RE	54.4	72.0	32.3	45.6
ASSISTANCE UNIT	14.2	3.8	10.0	3.6
<b>OTHER ACTIVITIES</b>				
MAPFRE INMUEBLES	2.8	9.2	2.4	6.3
LIFE INSURANCE OPERATING UNIT (MAPFRE INVERSIÓN)	39.2	30.4	25.4	19.5
MAPFRE QUAVITAE	(1.0)	(6.0)	(1.2)	(5.7)
<b>OTHER ACTIVITIES</b>				
GESMADRID	5.7	5.2	3.7	3.4
CAJA MADRID PENSIONES	2.3	1.6	1.5	1.0
CAJA MADRID BOLSA	2.7	2.0	1.8	1.3

Figures in million euros

In 2005, a number of shareholdings and portfolios were transferred among various business units in order to complete the final structure of the Commercial Insurance Operating Unit:

- Transfer of MAPLUX from MAPFRE RE to MAPFRE SEGUROS GENERALES and rearrangement of the accepted reinsurance portfolios between MAPLUX and INDUSTRIAL RE, a subsidiary of MAPFRE EMPRESAS;

- Transfer of MAPFRE INDUSTRIAL from the GENERAL INSURANCE OPERATING UNIT to MAPFRE EMPRESAS;
- Transfer to MAPFRE EMPRESAS of MAPFRE CAUCION y CRÉDITO, previously a subsidiary of MAPFRE - CAJA MADRID HOLDING;
- Transfer to MAPFRE VIDA and MAPFRE SEGUROS GENERALES, respectively, of the Life and Accidents insurance portfolios of MUSINI.

All these movements have generated gains and losses in the Units involved that are broken down in the following table:

	Increase / (decrease) in profit	
	Before tax and minority shareholders	Net
MAPFRE EMPRESAS	24.7	17.6
MAPFRE SEGUROS GENERALES	(10.2)	(7.2)
MAPFRE RE	(8.6)	(8.6)
MAPFRE-CAJA MADRID HOLDING and others	(5.9)	(1.8)

These effects have been eliminated in the net consolidated profit of CORPORACIÓN MAPFRE

The net result of MAPFRE AMÉRICA includes income of €30.6 million from tax refunds within the fiscal group arising from the use of negative taxable amounts from previous years. Excluding this, it would have grown 35.3% over the previous year.

The contribution of the various Units and Companies to the net consolidated profit breaks down as follows:

	Net result	Minority interest	Consolidation adjustments	Contribution to consolidated result 2005	Contribution to consolidated result 2004
<b>INSURANCE ACTIVITIES</b>					
LIFE INSURANCE OPERATING UNIT	114.2	(56.1)	-	58.1	53.8
GENERAL INSURANCE OPERATING UNIT	69.7	(37.7)	7.2	39.2	35.5
COMMERCIAL INSURANCE OPERATING UNIT	71.4	(26.1)	(17.6)	27.7	30.2
MAPFRE CAJA SALUD	9.9	(5.0)	-	4.9	1.9
Consolidation adjustments				3.6	(8.1)
MAPFRE-CAJA MADRID HOLDING				133.5	113.3
<b>OTHER ACTIVITIES</b>					
MAPFRE INMUEBLES	2.4	-	-	2.4	6.3
MAPFRE QUAVITAE	(1.2)	0.7	-	(0.5)	(2.6)
<b>COMPANIES OPERATING PRIMARILY IN SPAIN</b>	<b>266.4</b>	<b>(124.2)</b>	<b>(10.4)</b>	<b>135.4</b>	<b>117.0</b>
MAPFRE AMÉRICA	105.7	(13.3)	-	92.4	47.1
MAPFRE RE	32.3	(5.0)	8.6	35.9	40.4
ASSISTANCE UNIT	10.0	-	(1.9)	8.1	3.6
MAPFRE INSULAR	0.8	-	-	0.8	0.8
<b>COMPANIES OPERATING PRIMARILY ABROAD</b>	<b>148.8</b>	<b>(18.3)</b>	<b>6.7</b>	<b>137.2</b>	<b>91.9</b>
Other companies and consolidation adjustments				(22.8)	0.5
<b>CORPORACIÓN MAPFRE</b>				<b>249.8</b>	<b>209.4</b>

Figures in million euros



The net consolidated equity reached €3,161.3 million, against €2,712.1 million at the close of 2004

Under Spanish General Accounting Standards and Spanish Accounting Standards for Insurance Companies ("Plan General de Contabilidad" and "Plan Contable de Entidades Aseguradoras", hereinafter referred to as "PGC/PCEA"), the estimated net consolidated profit would have grown 33.2% over fiscal year 2004 to €243,6 million.

#### INVESTMENTS AND LIQUID ASSETS

The book value of investments and liquid assets as of 31 December 2005 was €21,808 million, a 10.7% increase over the previous year. The following table shows its breakdown and percentage distribution:

	2005	% over total	2004	% over total
<b>Risk-free investments</b>	<b>1,264.4</b>	<b>5.8%</b>	<b>1,261.9</b>	<b>6.4%</b>
- Cash	964.7	4.4%	900.8	4.6%
- Unit-linked investments	299.7	1.4%	361.1	1.8%
<b>Real Estate Investments</b>	<b>722.8</b>	<b>3.3%</b>	<b>618.6</b>	<b>3.1%</b>
- Buildings for own use	377.7	1.7%	304.3	1.5%
- Other Real Estate investments	345.1	1.6%	314.3	1.6%
<b>Financial investments</b>	<b>19,585.8</b>	<b>89.8%</b>	<b>17,586.2</b>	<b>89.3%</b>
- Shares	448.5	2.1%	410.3	2.1%
- Fixed income	17,850.8	81.9%	15,747.5	79.9%
- Investment funds	905.3	4.2%	794.6	4.0%
- Other financial investments	381.2	1.7%	633.8	3.2%
<b>Other investments</b>	<b>235.0</b>	<b>1.1%</b>	<b>233.6</b>	<b>1.2%</b>
- Investments in associated companies	104.4	0.5%	78.3	0.4%
- Accepted reinsurance deposits	97.9	0.4%	113.1	0.6%
- Other investments	32.7	0.1%	42.1	0.2%
<b>TOTAL</b>	<b>21,808.0</b>	<b>100.0%</b>	<b>19,700.3</b>	<b>100.0%</b>

Figures in million euros

The value of real estate investments shown in the previous table does not include unrealised gains, which amounted to €203.4 million at the close of the year according to independent surveyors.

#### SHAREHOLDERS' EQUITY AND RETURNS

The net consolidated equity reached €3,161.3 million, against €2,712.1 million at the close of 2004. Its year-on-year variation sums up the positive impact of the profits earned by the Units, the increase in the value of investments and hedging derivatives and the appreciation of the US dollar and of some Latin American currencies against the euro. Of the total equity amount



referred to above, €977.7 million corresponded to minority shareholdings in subsidiaries and €2,183.6 million to the shareholders of CORPORACIÓN MAPFRE. Consolidated shareholders' equity was equal to €9.1 per share at the close of 2005 (€7.8 as of the end of 2004).

The return on equity (ROE), defined as the net consolidated profit after tax and minorities as a percentage of average shareholders' equity, was 12.4% (12.5% in 2004).

The following table shows the ROE of CORPORACIÓN MAPFRE and those of its main Units and Companies:

	2005			2004 ROE % <sup>(1)</sup>
	Average equity	Profit	ROE % <sup>(1)</sup>	
CORPORACIÓN MAPFRE	2,017.5	249.8	12.4%	12.5%
MAPFRE - CAJA MADRID Holding	1,475.9	261.7	17.7%	17.1%
MAPFRE VIDA	576.3	114.2	19.8%	21.6%
MAPFRE SEGUROS GENERALES <sup>(2)</sup>	299.7	69.7	23.2%	26.4%
MAPFRE EMPRESAS	275.1	65.5	23.8%	17.0%
MAPFRE CAUCIÓN Y CRÉDITO	34.0	7.9	23.3%	30.7%
MAPFRE CAJA SALUD	101.2	9.9	9.8%	4.2%
MAPFRE AMÉRICA	663.8	105.7	15.9%	10.7%
MAPFRE RE	579.8	32.3	5.6%	11.7%
MAPFRE ASISTENCIA	78.3	10.0	12.8%	5.6%

(1) Net result after taxes and minority interests/average shareholders' equity excluding minority interests. The equity of CORPORACIÓN MAPFRE in 2004 is weighted for the €500.5 million capital increase carried out in April.

(2) Without MAPFRE INDUSTRIAL.

### MAIN ACTIVITIES OF THE YEAR

#### CODE OF GOOD GOVERNANCE

On 29 June 2005 and following a proposal from the Audit and Institutional Control Committee, the Board of Directors of MAPFRE MUTUALIDAD, the parent company of SISTEMA MAPFRE, approved the new wording of the Code of Good Governance, which has updated substantial aspects of the Code that has regulated the corporate governance of SISTEMA MAPFRE since March 2000, in order to: adapt it to the new corporate governance regulations; review the structure and responsibilities of the governing bodies of SISTEMA MAPFRE and of those of its various entities so as to increase the degree of coordination of the activities of SISTEMA MAPFRE as a whole, and simplify and expedite the decision-making processes; solve any interpretation doubts or implementation issues; and update its appendices, removing obsolete ones and adding new ones (such as the Internal Code of Conduct regarding Listed Securities).

#### REARRANGEMENT OF FOUNDATIONAL ACTIVITIES

At the same meeting, the Board approved an extensive rearrangement and update of the activities developed by the MAPFRE-sponsored foundations. Further information may be found in the Social Responsibility Report.

As a result of this rearrangement, the five nationwide foundations associated with SISTEMA MAPFRE were merged to form FUNDACIÓN MAPFRE, which will engage in its activities through five specialised institutes:

- Prevention, Health and Environment.
- Road Safety.

The five nationwide foundations associated with SISTEMA MAPFRE were merged to form FUNDACIÓN MAPFRE, which will engage in its activities through five specialised institutes

- o Insurance Sciences.
- o Culture.
- o Social Action

The Board of Trustees of the FUNDACIÓN MAPFRE is formed by the members of the Board of Directors of MAPFRE MUTUALIDAD and two representatives of FREMAP, in order to boost the Foundation's activities and integrate it into SISTEMA MAPFRE's action strategy.

This rearrangement will end in 2006 with a thorough, clean-slate review of the Foundation's activities, to adapt them to the current social needs of the countries in which the SISTEMA MAPFRE engages in its business activities.

#### APPOINTMENTS

In 2005, the Board of Directors of MAPFRE MUTUALIDAD again approved key appointments, representing a further move forward in the orderly process aimed at renewing the management structure of SISTEMA MAPFRE. Worth mentioning were the appointment of Antonio Huertas Mejías as chairman of the Executive Committee of MAPFRE MUTUALIDAD and Managing Director of the Motor Insurance Operating Unit, Ignacio Baeza Gómez as chairman of the Executive Committee and Chief Executive of MAPFRE VIDA, and Angel Alonso Batres as Chairman of the Board of Directors of MAPFRE SEGUROS GENERALES.

#### STRATEGIC ALLIANCE WITH CAJA MADRID

During 2005, MAPFRE further strengthened its strategic alliance with CAJA MADRID, which is a model of how two major independent financial groups can support each other to compete more efficiently in the market and offer a better service to their customers. Throughout 2005, the mutual co-operation between their respective networks in the distribution of insurance and banking products grew significantly, this having been a singularly positive factor in securing the excellent results achieved in this year.

The volume of insurance premiums contributed by the CAJA MADRID network in 2005 amounted to €1,019.4 million and the CAJA MADRID lending and savings banking products sold by the MAPFRE Network amounted to €2,944 million. These figures demonstrate the level of co-operation achieved by both groups.



#### ACQUISITIONS, PROJECTS AND DISPOSALS

### MAPFRE ASISTENCIA carried out two capital increases to support the development of its business activities

#### Direct investments

The following are the most significant investment and disposal transactions concerning subsidiaries of the Group and affiliates that were carried out by CORPORACIÓN MAPFRE in 2005:

- o A minority shareholding in MAPFRE AMÉRICA was acquired for a price of €26.1 million. Furthermore, €65.8 million were invested to subscribe for the share of CORPORACIÓN MAPFRE and buy shares not subscribed for by other shareholders in a capital increase carried out by this subsidiary to fund another capital increase in its subsidiary MAPFRE VERA CRUZ SEGURADORA (Brazil). As a consequence of these two transactions, CORPORACIÓN MAPFRE raised its shareholding in MAPFRE AMÉRICA to 87.46%, from 84.92% at the close of 2004.
- o With a view to financing the expansion of the real estate business, a €47.9 million capital increase carried out by MAPFRE INMUEBLES was subscribed for and a €16.4 million loan at market terms was granted to one of its subsidiaries.
- o MAPFRE - CAJA MADRID HOLDING repaid the €45.5 million loan granted to it by CORPORACIÓN MAPFRE in 2003 to finance the acquisition of MUSINI.
- o A €44 million investment was made to subscribe for the part corresponding to CORPORACIÓN MAPFRE in the €50 million capital increase carried out by MAPFRE RE.
- o MAPFRE ASISTENCIA carried out two capital increases: one of €6.8 million, to support the development of its business activities; and another of €10 million, to finance the acquisition of the British company ABRAXAS, which was complemented by a €5.1 million 5-year loan granted at market terms.
- o CORPORACIÓN MAPFRE subscribed for its part in two capital increases carried out by MAPFRE QUAVITAE: €5.5 million in a €12 million increase aimed at strengthening the company's financial position and reducing its indebtedness; and €4.2 million in another €9 million increase used to finance the acquisition of MAPFRE ASISTENCIA ORO.
- o Within the framework of an agreement between the MIDDLESEA GROUP and MAPFRE, CORPORACIÓN MAPFRE sold to insurer MIDDLESEA INSURANCE (Malta) its entire shareholding in PROGRESS ASSICURAZIONI (Italy), which was 39%, and raised its holding in the share capital of MIDDLESEA INSURANCE to 21%. Overall, this transaction has implied a net €5.2 million outlay for CORPORACIÓN MAPFRE.
- o MAPFRE INTERNACIONAL S.A. has been created as the holding company in charge of the expansion of MAPFRE abroad (except in the Iberian Peninsula and in Latin America). The share capital of this new holding company is expected to reach €35 million after the contribution of the shareholdings in MAPFRE INSULAR and MIDDLESEA plc presently owned by CORPORACIÓN MAPFRE.

Overall, these transactions have implied a net €192.1 million investment, as shown in the following table (figures in € million):

Company	Investments	Loans	Total
MAPFRE AMÉRICA	91.9	-	91.9
MAPFRE INMUEBLES	47.9	16.4	64.3
MAPFRE-CAJA MADRID HOLDING	-	(45.5)	(45.5)
MAPFRE RE	43.9	-	43.9
MAPFRE ASISTENCIA	16.8	5.1	21.9
MAPFRE QUAVITAE	9.7	-	9.7
MIDDLESEA	5.2	-	5.2
OTHER	0.7	-	0.7
<b>TOTAL</b>	<b>216.1</b>	<b>(24.0)</b>	<b>192.1</b>

#### Investments made by subsidiaries

- MAPFRE AMÉRICA made the following investments:
  - It subscribed for two capital increases carried out by MAPFRE VERA CRUZ SEGURADORA (Brazil): one of €78.6 million aimed at financing the acquisition of a 51% shareholding in insurer NOSSA CAIXA VIDA E PREVIDENCIA (Brazil); and another of €5.5 million to support the growth in its business volumes.
  - It invested €3.8 million in a capital increase carried out by MAPFRE PERÚ.
  - It contributed €2.2 million to incorporate MAPFRE DOMINICANA
- MAPFRE ASISTENCIA carried out two transactions:
  - It acquired for a price of GBP 10.5 million (approximately €16 million) the entire share capital of British company ABRAXAS, which distributes Pecuniary Losses and Mechanical Breakdown Guarantee insurance through an extensive network of car dealers in the United Kingdom.
  - It sold its subsidiary MAPFRE ASISTENCIA ORO to MAPFRE QUAVITAE.

Furthermore, it subscribed for capital increases carried out by several subsidiaries for a total investment of €9.5 million.

- MAPFRE CAJA SALUD was awarded healthcare centre CLINISAS, located in Madrid, in a privatisation process carried out by SEPI, for a price of €20.5 million. The company also acquired healthcare centre CLÍNICA SAN FRANCISCO JAVIER, located in Bilbao.
- As part of the process connected with the request of the license to operate in the U.S.A. as a reinsurer, MAPFRE RE set up a trust fund of USD 20 million (approximately €17 million) with the New York State Insurance Department.
- The COMMERCIAL INSURANCE OPERATING UNIT made the following investments:
  - MAPFRE INDUSTRIAL acquired for a price of €2.5 million the entire share capital of ENKEN SERVICIOS DE PREVENCIÓN and ENKEN ASISTENCIA SANITARIA. These companies specialise in risk prevention and health assistance services focussed on occupational health.
  - MAPFRE CAUCIÓN Y CRÉDITO acquired from minority shareholders a 25% stake in the share capital of holding company MAPFRE AMÉRICA CAUCIÓN Y CRÉDITO for a price of €5.5 million. Furthermore, the latter acquired from another minority shareholder a 22.1%

stake in the share capital of its subsidiary COMPAÑÍA DE SEGUROS DE CRÉDITOS COMERCIALES (Colombia) for a price of €1.4 million.

- MAPFRE SEGUROS GENERALES invested €3 million in a capital increase carried out by its subsidiary GESTORA DE ACTIVOS FUNERARIOS GESMAP.
- Having obtained the relevant authorisations, MAPFRE ASIAN absorbed Philippine insurer Insular General Insurance Company (I-Gen), a Non-Life subsidiary of Insular Life insurance company, and changed its name to MAPFRE INSULAR. CORPORACIÓN MAPFRE holds a 75.2% stake in the share capital of the resulting company.

#### Internal corporate reorganisation transactions

In 2005, the following transactions were completed to align the shareholding structure with the operational organisation of the Group:

- The integration of the COMMERCIAL INSURANCE OPERATING UNIT into a single group of companies was completed through a series of transactions:
  - MAPFRE EMPRESAS (formerly MUSINI) acquired: two shareholdings of 99.9986% and 99.96%, respectively, in the share capital of MAPFRE INDUSTRIAL and MAPFRE SERVICIOS MARÍTIMOS from MAPFRE SEGUROS GENERALES; and a 99.9933% shareholding in MAPFRE CAUCIÓN Y CRÉDITO from MAPFRE - CAJA MADRID HOLDING.
  - The Life and Accidents insurance portfolios of MAPFRE EMPRESAS were transferred to MAPFRE VIDA and MAPFRE SEGUROS GENERALES, respectively.
  - Finally, MAPFRE EMPRESAS absorbed MAPFRE INDUSTRIAL.
- MAPFRE RE transferred to MAPFRE SEGUROS GENERALES a 99.963% shareholding in MAPLUX REINSURANCE COMPANY LTD. (Luxembourg). Subsequently, MAPLUX transferred its Commercial and Credit & Surety portfolios to INDUSTRIAL RE, a subsidiary of MAPFRE EMPRESAS, which in turn transferred to it its Burial reinsurance portfolio.

These transactions were carried out at net asset value in accordance with Spanish accounting principles, with retroactive effect since 01/01/05.

#### Funding

The investments detailed above were paid for with available excess cash.



## INVESTMENT PLANNING AND MANAGEMENT

The management of SISTEMA MAPFRE's investments remained geared towards maximising returns while maintaining low risk levels, in order to preserve the outstanding financial strength that is MAPFRE's hallmark. To that end, the investments remained suitably diversified among the different alternatives offered by the market.

As far as investments in securities were concerned, the policy of striking an adequate balance between fixed income and equity investments remained unchanged, with a large relative weighting of the latter, with a main focus on the European markets, and a significant increase in the second half of the year of the positions on the American and Asian stock markets, clearly underweighted as a whole. The policy followed with respect to fixed-income assets was to diversify investments among different issuers, managing credit spreads with a view to increasing returns.

The real estate investment policy was maintained with the purchase of an office building in the northern part of Madrid, the completion of a new building at the corporate headquarters in Majadahonda, and progress in the construction of three office buildings in Fuencarral, which are scheduled for completion throughout 2006. MAPFRE's policy in this field is to constantly look for assets with a high level of profitability and strong upside potential.

## INVESTOR RELATIONS

The Finance and Investors Relations Department of CORPORACIÓN MAPFRE engaged in an intense communication activity with analysts and investors. Every quarter results were presented at meetings with analysts in Madrid and London, and by means of conference calls for analysts and investors, along with comprehensive complementary information, which was released simultaneously to the public through the CNMV (the Spanish National Securities Market Commission).

Overall, meetings were held during the fiscal year with 51 institutional investors and investment managers from Spain, and 177 from Canada, Denmark, France, Germany, Ireland, Italy, Portugal, Sweden, Switzerland, the United Kingdom and the United States; and numerous institutional investors from different countries were received at the CORPORACIÓN MAPFRE headquarters. Meetings were also arranged in London and Madrid in coincidence with the publication of the quarterly results, to give investors the opportunity to receive each quarter information about the development of the company's business activities.

In 2005, CORPORACIÓN MAPFRE took part in the following forums that banks and stock brokers organised to bring together listed companies and institutional investors:

- "Seminar Barcelone", organised by the bank HSBC CCF in Barcelona in March.
- "European Financials Conference 2005", organised by investment bank Goldman Sachs in Malaga in June.
- "II Iberian Conference", organised by Banco Santander in New York in September.
- "Stock Picking in Europe Conference", organised by the bank HSBC CCF in Paris in October..

All the public information about CORPORACIÓN MAPFRE and its results is available in the dedicated section for investors of the SISTEMA MAPFRE webpage.

## SHAREHOLDERS

At the end of fiscal year 2005, MAPFRE MUTUALIDAD owned 54.9% of the share capital of CORPORACIÓN MAPFRE, 33,102 Spanish shareholders held another 19.4%, and 908 foreign shareholders owned the remaining 25.7%.

The following table shows the approximate breakdown of shareholders by country:

SHAREHOLDERS	%
Spain	74.3
United Estates	3.6
France	1.6
United Kingdom	1.3
Germany	1.1
Switzerland	0.9
Scandinavian Countries	0.7
Canada	0.1
Belgium	0.1
Unidentified	16.3

At the end of 2005, the Board of Directors held the representation of 55.09% of all outstanding shares.

The company had no stock option plans in force for managers, employees or board members at the end of fiscal year 2005.

## STOCK MARKET DATA

During 2005, the shares of CORPORACIÓN MAPFRE traded for 256 days on the "Mercado Continuo" (the Spanish electronic market), which implies a trading frequency of 100%. A total of 224,882,578 shares changed hands during this fiscal year, compared to 203,445,253 in the previous fiscal year, a 10.5% increase in trading volumes. The actual value of these transactions was €2,887,8 million, against €2,083.9 million in 2004, a 38.6% increase.

In 2005, the price of the CORPORACIÓN MAPFRE shares rose by 28.7% against an 18.2% increase in the IBEX 35 index and a 30.5% increase in the DJ Stoxx Insurance index. Over the last five years, the price of the CORPORACIÓN MAPFRE shares went up by 114.8%, against a 17.8% increase in the IBEX 35 and a 47.3% decrease in the DJ Stoxx Insurance. The yield from dividends paid during the year was equal to 2.3% of the average share price for the year. At year end, three Spanish and international brokers had "buy" recommendations on the shares of CORPORACIÓN MAPFRE, against 1 recommendation to "hold" and 4 to "sell".

## HUMAN RESOURCES

At the end of the year, the total headcount of CORPORACIÓN MAPFRE and its subsidiaries amounted to 18,821 officers and employees, 8,756 of whom worked for Spanish companies and 10,065 for those based in other countries. The average age and length of employment were thirty-five and six years, respectively, underscoring the workforce's young age and its experience, and providing evidence of the stability and quality of employment in SISTEMA MAPFRE. Male employees made up 41.4% of the headcount, and female employees 58.6%.

The Social Responsibility Report provides further information about the human resources policy, the linchpins of which are as follows:





- Highly rigorous and objective staff selection processes, in accordance with internal regulations that were updated in 2005 and are subject to regular compliance checks by Internal Audit.
- Emphasis on permanent as opposed to temporary employment: 95% of employees in the Spanish insurance companies have an open-ended contract.
- Ongoing emphasis on training in order to achieve the highest levels of management efficiency and offer staff a wide range of career development opportunities.
- Full respect for employees' trade union (freedom of association and choice of representatives) and collective bargaining rights, pursuant to the legislation applicable in this field in each country, and maintaining channels for permanent dialogue with their trade union representatives.
- Occupational Hazard Prevention Policy oriented to providing safe and healthy working environments, guaranteeing employees' right to the protection of their health.

### REGIONAL STRUCTURE

As announced in the 2004 Management Report, 1 January 2005 marked the start of a far-reaching structural reorganisation of SISTEMA MAPFRE's territorial structure, involving the specialised networks of the different units being merged into a single one (MAPFRE NETWORK), with a clear customer focus and the grouping and integration of sub-centres under seven Regional Head Offices. Throughout the year, this new structure was consolidated by devoting considerable efforts to training, administrative organisation and software adaptation.

At the end of 2005, the MAPFRE Network consisted of 404 direct offices, under the responsibility of 358 office managers and 40 area managers, and 2,457 delegations run by professional agents. This territorial structure handled the work of a total of 19,264 tied agents and 3,066 brokers. Worth pointing out is that in 2005 the contracts of 78% of the agents who started working for MAPFRE in 2004 were renewed.

During the fiscal year 2005, further efforts were made to boost, expand and consolidate the regional organisation through different initiatives, such as the following:

- The "New Delegates" programme, which was attended by 260 agents.
- The 'Sistema Mapfre Integrated Agent' programme, involving 605 new agents, in which €4.7 million were invested.
- 906 sales campaigns aimed at more than 1,350,000 customers.
- The production of various reports and analyses to facilitate the sales initiatives of the Network.

### MANAGEMENT CONTROL

The Financial and Management Control Department (AECG) continued refining the financial and management control information for SISTEMA MAPFRE as a whole and for its various Units and Companies, providing monthly consolidated information for the various holding companies. Moreover, the information released to the public on a quarterly basis has been extended and now includes a greater degree of detail. The key projects completed recently include the adaptation of in-house information to the new territorial structure introduced at the start of 2005.

In 2006, IFRS will be applied throughout SISTEMA MAPFRE as the basis for preparing and following up budgets, and management information will now include new efficiency and productivity indicators obtained from operating databases, thus completing the monitoring of economic and financial indicators based on accounting data.

### STRATEGIC PLANNING

As is the standard practice at MAPFRE, at the end of 2005 all Operating Units and Companies of SISTEMA MAPFRE, as well as its Common Areas updated their respective Strategic Plans which set out their goals for the next three years (in this case for the 2006-2008 period) along with the strategies they expect to adopt in order to achieve them. These plans form part of the SISTEMA MAPFRE Strategic Plan, which was approved by the Board of Directors at their meeting on 7 February 2006.

Economic projections were prepared under International Financial Reporting Standards (IFRS), and reconciled with the Spanish Chart of Accounts. Moreover, efficiency and productivity indicators defined by each Operating Unit were added to the common and standardised economic and financial indicators used throughout SISTEMA MAPFRE.

### RISK MANAGEMENT

In keeping with present management trends for insurance and financial institutions and the new solvency regulations that are due to be implemented in the near future, in 2003 MAPFRE began the development of a Risk Management System. Throughout 2005, activities were carried out as scheduled, and the following deserve to be mentioned:

- Implementation of the operational risks model (risk map) in all SISTEMA MAPFRE companies.
- Creation of the Risk Management Department of SISTEMA MAPFRE, reporting to the Financial and Management Control Department, and appointment of risk coordinators in each Unit.
- Quarterly calculation of the risk and economic capital calculation model by standard factors, which is used to quantify insurance and financial risks (interest rate, market, liquidity and credit), as well as the optimum capital and the risk-adjusted return on capital (RAROC methodology).
- Completion of the internal MAPFRE RE risk and economic capital calculation model and adaptation thereof with a view to implementing it in direct insurance companies in 2006.

The Corporate Governance Report contains ample information about the MAPFRE Risk Management System.

### INTERNAL AUDIT

At the end of the year, CORPORACIÓN MAPFRE had seven Internal Auditing Departments (SAIs) in the General Insurance, Commercial Insurance, Life, America, Reinsurance, Assistance and Health Insurance Operating Units and ten Internal Auditing Units (UAIs) located in the main Latin American countries and in the Philippines, all under the coordination of the General Auditing Department, which reports directly to the Audit and Institutional Control Committee of SISTEMA MAPFRE.

Throughout 2005, a total of 567 audits were carried out, with the following breakdown: 177 in Central Services; 133 in the Territorial Structure; and 56 in subsidiaries. There were also 132 special audits and 17 system audits. The reports from the audits, their main conclusions, recom-

recommendations and the respective degree of compliance with them were regularly reported to the Audit Committee of CORPORACIÓN MAPFRE.

6,627 hours were devoted to training the internal auditors, both through in-house and external courses, equal to a ratio of 97 hours per auditor per year.

The General Auditing Department has likewise reviewed the individual and consolidated Management Reports and Annual Accounts of CORPORACIÓN MAPFRE and has reported on the said documents to the Audit Committee of CORPORACIÓN MAPFRE. The quarterly reports that CORPORACIÓN MAPFRE were filed with the Spanish National Securities Market Commission (the 'CNMV') and the relevant financial information that were submitted to the highest governing bodies of SISTEMA MAPFRE were also reviewed.

### INFORMATION TECHNOLOGY

Throughout 2005, the different Units focussed on upgrading their management applications in line with the priorities specified in their respective strategic plans: the Motor, General and Commercial Insurance Units centred their efforts on the TRON21 project, although computer applications required for new services and new channels were also developed. The Life Insurance Unit continued with its own technology overhaul plan, and the Health unit concentrated its efforts on the applications needed to operate through the MAPFRE Network. It must be noted that a large number of IT projects are underway in nearly all companies, which will enhance their capacity to process and analyse management information.

Overall, progress in the TRON21 project in 2005 was good, and several key milestones were reached, such as the start of the production of pilot applications for the Regional Administrative Centres. In view of the complex multisite test plan, this phase of TRON 21 is scheduled to be launched in May 2007.

Special attention was paid to developing IT improvements aimed at facilitating the operation of the MAPFRE Network. By way of example, the Sales Management System, a tool that, among other features, simplifies the distribution, administration and allocation of sales opportunities and initiatives, went into production in September.

Basic steps were also taken with respect to orienting our applications towards the customer: the TRON21 customer database was consolidated as the reference for all Units in Spain. Together with the basic data standardisation plan, has been completed, it will provide a comprehensive view of each customer.

The infrastructure of the EDP centre in Majadahonda was updated through the installation of IBM z/9 central servers capable of processing 3,180 million instructions per second; work continued on consolidating the UNIX servers in the HP Superdome system, simplifying and boosting them, so that they are now capable of processing 869,500 transactions per minute; the central disk storage capacity was upgraded from 118 to 187 Terabytes; and the connectivity capacity of the SAN storage network went from 232 to 352 ports.

The e-mail service was centralised and upgraded by increasing the number of servers from 4 to 6, the storage capacity from 1 to 3.5 Terabytes, and the number of centrally managed mailboxes from 8,000 to 22,000; all the Exchange servers were removed from the former sub-centre sites and, with regard to Web technologies, the IBM pSeries/AIX servers were replaced with Intel/Linux servers; a review was conducted of the consolidation of the platform storage in the corporate storage systems (NAS/DMX), and the Documentum-based publication processes were improved; and the application server (Websphere) usage policies were changed, moving from a

single corporate cluster for all the companies to a platform housing corporate servers alongside each company's own servers, which can be upgraded independently.

In the Communications field, the MAPFRE RE and MAFRE QUAVITAE networks were integrated in the MAPFRE Corporate Communications Network; the DPC network cabling, equipment and infrastructure were revamped, implementing Gigabit technology; the data transmission network of the sub-centres and direct offices at 525 sites was changed altogether, maintaining the cost, multiplying its capacity fourfold, and externalising its management, with end-to-end encryption and backup lines; 335 delegations were equipped with VPN-IP communications; the availability of the Metropolitan Gigabit Ring was increased, and a subdivision was provided with a circuit supplied by a second operator; furthermore, the second operator installed a fiber optic access in Majadahonda; and the voice and data communications were diversified in the call centers, also through another operator.

The most outstanding improvements in the support provided to the MAPFRE Network included the upgrading and replacement of workstations and the installation of new equipment in offices and in the new Linea MAPFRE Autos call centre in Avila. 346 Office PCWebs were replaced with PDM's (Platform for MAPFRE Delegates), 223 new delegations fitted with PDM's were opened and 562 new PDM's were installed in existing offices. The PDM platform now comprises 1,820 lines and 3,553 positions.

An international consultancy firm conducted an in-depth diagnosis of the state of IT in MAPFRE. After the report's recommendations had been analysed and discussed, they were incorporated into the strategic plan and SISTEMA MAPFREs plan.

The Avila Balanced Data Processing Centre project is moving forward at a good pace, and is scheduled to open in the second half of 2007. This will provide a fuller DPC back-up solution in the event of a catastrophic contingency, which presently is provided through a contract with a specialised external firm.

### SAFETY AND THE ENVIRONMENT

Throughout the year, was enhanced security in all the facilities, special efforts being devoted to centralising the alarm and detection systems, and to the fire protection systems in historic



buildings. Further cost optimisations were achieved by integrating the security processes in the centralised procurement processes, and by unifying the fire-fighting equipment maintenance services.

Similarly, 2005 saw the completion of the groundwork both for the entry into operation of the MAPFRE General Control Centre, which will gradually centralise the alarm signals of all the facilities, and for the implementation of a single security pass for all SISTEMA MAPFRE personnel. Further emphasis was placed on raising Information Security levels, through a range of corporate projects and the implementation of new security measures and controls.

In 2005, the Environmental Policy and the Environmental Action Plan were finalised and approved by the Executive Committee of SISTEMA MAPFRE in September. On the basis of the Environmental Action Plan, measures are being implemented to optimise waste management, obtain the environmental certification of SISTEMA MAPFRE, and lower levels of water, energy and paper consumption. The HQ building has been awarded the ISO 14001 environmental certificate. The Social Responsibility Report, which forms part of the Annual Documentation of SISTEMA MAPFRE, contains detailed information about MAPFRE's environmental policy, plans and main courses of action.

## COMMUNICATION AND IMAGE

During 2005, special emphasis was placed on boosting and co-ordinating internal and external communications, with the following achievements being worthy of special mention:

- Relations with and response to the media were improved through several initiatives: 25 press conferences, 81 press releases, 122 interviews, replies to 686 information queries, the organisation of 22 events, and the handling and response to 258 economic information questionnaires.

Furthermore, special attention was devoted to raising the degree of awareness of MAPFRE's activities both regionally (Spain) and overseas (Latin America), by organising presentations of MAPFRE in Andalusia, Levante, the Basque Country, as well as in Argentina and Brazil, and by attending the MAPFRE EMPRESAS Seminars in Lisbon.

- Four editions of "EL MUNDO DE MAPFRE", the institutional magazine, were published in 2004, together with a separate special edition devoted to presenting the 2004 results and the 2005 Annual General Meetings. All the material was distributed to all the officers and employees of SISTEMA MAPFRE both on paper and via the Intranet.

Progress was also made in coordinating and improving the internal publications, one highlight being the redesign of the RED MAPFRE magazine (previously MAPFRE FAMILIAR), the design of inserts with information about each country for the EL MUNDO DE MAPFRE magazine, and the redesign of the publications of the MAPFRE FOUNDATION, which will be rolled out in 2006.

This communication effort was supplemented by the use of the Internal Portal as a vehicle for distributing important news (312 news items being distributed in 2005).

- The adoption of the new corporate identity of MAPFRE in stationery, operating documentation and advertising was completed, and will be extended to office and building signs during 2006.
- A new institutional advertising campaign entitled "The path of your life" was launched on television, in the press and on the Internet in two waves (January-February and October-November).

According to advertising efficiency research (ICEA omnibus Questionnaire and IMOP Report) MAPFRE continues to rank top in its sector, both in terms of spontaneous awareness (72.9%) and suggested awareness (95.2%). Moreover, during the campaign, brand awareness ranked eighth among financial institutions and top in the insurance sector.

At the end of the year, the Image and Advertising Department of SISTEMA MAPFRE, which will report to the Department of Communication and Social Responsibility, was set up with the mission of supervising and coordinating the corporate image and any advertising, both of products and services, as well as any other activity that has a direct or indirect effect on MAPFRE's brand image.

## EXTERNAL AUDIT

Ernst & Young audited the annual accounts of CORPORACIÓN MAPFRE and those of its main consolidated subsidiaries for fiscal year 2005, except for the entities located in El Salvador, which were audited by KPMG. In the aforementioned fiscal year, the External Auditors were paid €3,037,551 for the services rendered in connection with the audit of the annual accounts, €3,017,631 of which were paid to the main auditor. The latter received additional payments of €419,838 for services related with the audit of the annual accounts and of €449,820 for other complementary services. Neither of these two additional payments is deemed to compromise the independence of the auditors.

## ADOPTION OF IFRS

Pursuant to European Parliament and Council Regulation (EC)1606/2002 dated 19 July and Act 62/2003, MAPFRE MUTUALIDAD and CORPORACION MAPFRE prepared their consolidated annual accounts for fiscal year 2005 under International Financial Reporting Standards (IFRS), which were successfully adopted both in the aforementioned companies and in the SISTEMA MAPFRE subgroups that have chosen voluntarily to prepare their consolidated financial statements under IFRS.

The criteria actually adopted by SISTEMA MAPFRE and the accounting impacts derived from the application of these international standards are described in detail in the notes to the consolidated financial statements.

## TARGETS

As in previous years, CORPORACIÓN MAPFRE has defined as follows its targets for fiscal year 2006:

- Attain growth rates in Non-Life insurance higher than those obtained by the market of each country.
- Achieve increases in the volume of funds under management above those reached by the market of each country, both in Life insurance and in other savings products.
- Maintain a combined ratio equal to or lower than 97% in the Non-Life insurance and reinsurance business.
- Continue to improve expense ratios as a percentage of premiums (Non-Life insurance) and funds under management (Life insurance and savings).
- Increase earnings per share.