

**REPORT OF THE BOARD OF DIRECTORS ON THE PROPOSAL IT IS
SUBMITTING TO THE GENERAL ASSEMBLY CONCERNING THE
REORGANISATION OF THE CORPORATE STRUCTURE OF SISTEMA MAPFRE**

I. BACKGROUND

▪ **Business development**

SISTEMA MAPFRE (hereinafter "MAPFRE"), whose parent company is MAPFRE MUTUALIDAD and whose present corporate organisation chart is shown under annex 1, has recorded an impressive expansion, which turned a small mutual insurance company that collected premiums worth 33 million pesetas (approximately €0.2 million) in 1955 into the largest Spanish insurance group, with a multinational scope – its presence being particularly strong in Latin America – and a size that is beginning to be significant in the European market, especially in Non-life lines. In 2006, MAPFRE expects to exceed revenues of €13.5 bn and funds under management of €40 bn, and to obtain a gross consolidated profit of more than €1 bn. At the close of fiscal year 2005, it employed 24,967 people and had 4,273 offices open to the public and over 50,000 agents.

The main driver of this development has been a management approach that views the company as an institution at the service of the public and translates into five main principles:

- Full independence from any group or institution, which is essential to ensure that management give priority to MAPFRE's business goals.
- Social responsibility, meaning a commitment that the business activities of MAPFRE effectively contribute to the development of Society and to the personal advancement of its staff.
- Ethical behaviour, implying that management must be based primarily on the greatest respect for the legitimate rights of the company itself and of all people or legal entities that deal with it. Among others, this must translate into a strict and quick fulfilment of all its legal and contractual obligations.

- Growth in MAPFRE's volume of business and net assets, in order to be able to meet its corporate goals. Such growth must be driven by effectiveness and dynamism, as well as by innovation and by making the best use of the means provided by technological progress, and has to be achieved by respecting the aforementioned institutional principles, ethical behaviour being the overriding one.
- Humanism, meaning that the relationships among the people that make up MAPFRE must be based on mutual respect and on values such as tolerance, friendliness and solidarity.

From the point of view of the business management, the development of MAPFRE has been made possible, among other factors, by two momentous strategic decisions that were taken at the right time:

- a) The creation of joint-stock subsidiaries that developed autonomously with a high degree of specialisation many of its insurance businesses and which, since 1980, are grouped under a listed holding company (CORPORACIÓN MAPFRE), which gives access to the capital markets to fund its expansion.
- b) A daring international expansion, albeit carried out wisely and by taking limited risks, that has given MAPFRE a presence in 38 countries, which, as previously mentioned, is particularly strong in Latin America, where it presently ranks as the second largest Non-life insurance group by volume of premiums. This expansion took place in coordination with a swift development of the Assistance business abroad and with a growing business in the international reinsurance markets, which has put MAPFRE RE in a distinguished position in the global ranking by volume of premiums.

All these achievements have allowed MAPFRE to reach and retain a clear leading position in the Spanish insurance market and a prominent position in the Latin American markets. However, MAPFRE is yet to attain a sufficient size to compete successfully in other markets (especially in Europe), which is essential to achieve the objective of having in our country, like in others of the European Union, a large multinational insurance company that is the leader in its own domestic market and has a significant presence in the global markets.

It must be noted that MAPFRE's development was financed – as far as MAPFRE MUTUALIDAD is concerned – solely with the funds generated by its business activities and without any contribution from mutual members, who, in accordance with the Law and the corporate by-laws, are not liable for corporate debt. Minority

shareholders did contribute to it, not only through CORPORACIÓN MAPFRE's listing on the Stock Exchange, but also directly in some subsidiaries of CORPORACIÓN MAPFRE and MAPFRE MUTUALIDAD.

It is worth highlighting in particular the alliance with CAJA MADRID, whose highly satisfactory development will not be affected by the proposed operations.

▪ FUNDACIÓN MAPFRE

MAPFRE's commitment to Society does not only translate into a socially responsible management of its business activities. Its government bodies have believed for many years that MAPFRE should return to Society part of the profits it earns, for which purpose since 1975 it has been devoting part of its annual results to promote and finance non-profit activities of general interest.

These activities are carried out primarily through FUNDACIÓN MAPFRE, with respect to which the corporate by-laws of MAPFRE MUTUALIDAD establish that:

- in each fiscal year, MAPFRE MUTUALIDAD shall devote part of its retained earnings to make donations or contributions to the foundations promoted by MAPFRE.
- in the event of a dissolution of MAPFRE MUTUALIDAD, any surplus in the Own Reserves Fund shall be transferred entirely to the net assets of FUNDACIÓN MAPFRE.

FUNDACIÓN MAPFRE has the following aims:

- Promoting Safety, and especially Road Safety.
- Supporting research, teaching and scientific dissemination in the field of the Health, and raising the quality of Medicine.
- Promoting the diffusion of Culture, the Arts and Literature.
- Supporting education and management research in the fields of Insurance, Safety and Business Administration.
- Promoting research and the spreading of knowledge about the common History of Spain, Portugal and the countries linked to them by historical ties.

- Contributing, by means of other initiatives, to satisfying the needs of the least-favoured segments of the population.

II. BASIS OF AND REASONS FOR THE PROPOSAL

The Board of Directors of MAPFRE MUTUALIDAD deems it appropriate to propose to the General Assembly of Mutual Members that MAPFRE, while keeping and even reinforcing its institutional principles mentioned above, take a new and momentous strategic step to accelerate the development of its business activities that shall lead to the following outcomes:

- All its business activities and the companies that undertake them will be grouped under listed holding company CORPORACIÓN MAPFRE, which shall be renamed as MAPFRE S.A.¹
- The majority control on said holding company shall be conferred on FUNDACIÓN MAPFRE, thereby abiding by the corporate by-laws, which establish that most of the wealth generated by the business activities of MAPFRE shall revert back to Society through its foundational activities, in full respect of the rights of mutual members and without any special benefit for any of the people who work for MAPFRE (Directors, Managers and Employees), who shall only receive, if applicable, the amounts they may be entitled to like any other mutual member.

Annex 2 contains the corporate organisation chart that will result from the proposed operations, which, in the opinion of the Board of Directors, are appropriate and justified for the following reasons:

- MAPFRE's present corporate structure has made it possible to finance the growth of its activities and its expansion to date, however it does not allow to undertake the new projects needed to continue increasing its size and efficiency in the markets in which it operates, and to acquire a meaningful presence in the direct insurance markets of other European countries, or of the United States, which will require substantially larger outlays than those made so far. In fact, at present there are acquisition opportunities in the market that could be seized confidently only with the proposed changes in the corporate structure.

The new proposed structure will increase substantially MAPFRE's financial flexibility and its ability to attract investors in order to fund its growth, as all its

¹ To avoid possible misunderstandings, the reader of this report is warned that throughout the same reference is made to CORPORACIÓN MAPFRE indistinctly under its present name as well as under the name it is expected to take in the future (MAPFRE S.A.).

business activities, including those presently undertaken by MAPFRE MUTUALIDAD and its direct subsidiaries, will be valued by the market.

- The new proposed structure will also allow a more efficient and transparent management, by eliminating the complexity of the present structure, in which a listed company, under which part of MAPFRE's activities and businesses fall, coexists with a mutual insurance company that carries out another significant part of those activities and acts as the parent company.²

Under the new structure: the government bodies of MAPFRE MUTUALIDAD and CORPORACIÓN MAPFRE will be unified and their respective scopes of decision will be defined more precisely, thus simplifying and making more efficient the Group's governance framework; the possibility of a conflict of interests between both entities will be eliminated; the transparency of the information on its business activities and results will be enhanced by putting it entirely under the scrutiny of the market, as recommended by the Economic Authorities; and investors will be able to share in all the activities of the Group, as is desirable from all points of view, is increasingly demanded by market operators and is recommended by the CNMV (Spain's National Commission for the Securities Market), which made it evident in its Unified Code of Good Governance.

It will also be possible to delimit more precisely the business activities of MAPFRE – which shall be carried out by the Group comprising MAPFRE S.A. and its subsidiaries – and those of a social and non-profit nature that may be undertaken in the future by FUNDACIÓN MAPFRE using the returns earned on its assets and without having to rely on the recurring contributions by the entities of the Group.

- In general terms, the new structure seems also more appropriate to enable a Group of the size of MAPFRE to compete effectively in markets that are increasingly of a global scale, and to offer better products, more competitive prices and higher quality services to its policyholders and clients, as well as more satisfactory development opportunities to the people who work for it.

The mutual structure has had a very deep social rooting and has played a fundamental role in Western societies. However, nowadays it does not provide

² Going forward, the name 'MAPFRE Group' will be used to identify the business group comprising MAPFRE S.A. and its subsidiaries, while the name 'SISTEMA MAPFRE' will be used to refer to the institutional group formed by the MAPFRE Group and FUNDACIÓN MAPFRE.

the most appropriate framework for a large Group like MAPFRE, which has a multinational presence and highly diverse customers and business activities. The experience of other countries of our environment shows that, with few exceptions, those mutual companies that have reached a certain scale have been transforming their structures by grouping their activities under listed companies, thereby creating large business groups.

In fact, the very development achieved so far by MAPFRE has been possible just because, as was already pointed out, most of its activities have been undertaken by a large structure made up by joint-stock companies, a process whose logical conclusion is the step that is now being proposed.

- The existence of FUNDACIÓN MAPFRE and the provisions concerning it contained in the corporate by-laws of MAPFRE MUTUALIDAD allow to take that step:
 - By preserving the conception of MAPFRE as an independent institution, its public service attitude, its institutional principles and its management culture.
 - Through an exemplary operation from a social responsibility standpoint, as its main beneficiaries will be: Society at large, to which most of the assets accumulated during many years with the effort and contribution of several generations will revert through FUNDACIÓN MAPFRE; mutual members, who will continue to be insured under the present terms by MAPFRE AUTOMÓVILES and will be given the opportunity to continue sharing in this exciting business project of the Group by receiving their part of MAPFRE MUTUALIDAD's net assets in the form of CORPORACIÓN MAPFRE shares; and all clients, employees, delegates, agents and collaborators, who will also benefit from the larger size and greater efficiency made possible by the new structure.
 - By allowing the minority shareholders of CORPORACIÓN MAPFRE to share in a larger business project with greater development potential.
 - In full respect of the legitimate rights of all stakeholders in MAPFRE.

III. IMPLEMENTATION OF THE PROPOSAL

The restructuring proposal that is being submitted for the consideration of the General Assembly implies in essence the realisation of the following operations:

- a) MAPFRE MUTUALIDAD will transfer its insurance portfolio, as well as its assets and liabilities belonging to such portfolio, to a subsidiary (MAPFRE AUTOMÓVILES SOCIEDAD ANÓNIMA DE SEGUROS Y REASEGUROS) that going forward will carry out in a specialised fashion the insurance activity of SISTEMA MAPFRE that to date has been undertaken directly by MAPFRE MUTUALIDAD.

The shares in MAPFRE AUTOMÓVILES that MAPFRE MUTUALIDAD will receive in exchange for the transfer referred to above will in turn be contributed to subsidiary CARTERA MAPFRE S.L. Previously, this subsidiary will have received all shares in CORPORACIÓN MAPFRE held by MAPFRE MUTUALIDAD, as well as its other assets not linked to the Motor insurance business, including its shareholdings in operating companies (MAPFRE AMÉRICA VIDA, MAPFRE AGROPECUARIA, MAPFRE SEGUROS GERAIS, BANCO DE SERVICIOS FINANCIEROS CAJA MADRID - MAPFRE, etc.) and in the Group's ancillary companies (CENTRO DE FORMACIÓN MAPFRE, MAPFRE INFORMÁTICA, etc.).

Once these transfers will have been completed, the assets on the balance sheet of MAPFRE MUTUALIDAD will comprise solely its shareholding in CARTERA MAPFRE S.L. and cash.

- b) CARTERA MAPFRE S.L. will contribute to CORPORACIÓN MAPFRE, by means of a capital increase subscribed for through a contribution-in-kind, all its shareholdings in the aforementioned subsidiaries and affiliates, with the sole exception of the shares in CORPORACIÓN MAPFRE itself held by it and of those in some subsidiaries of lesser importance. After this operation, the assets of CARTERA MAPFRE S.L. will comprise primarily shares in CORPORACIÓN MAPFRE and cash.
- c) Since the transfer of the entire insurance portfolio implies the dissolution of MAPFRE MUTUALIDAD pursuant to the Law, the following operations will be carried out:

- Conferral on FUNDACIÓN MAPFRE of the Own Reserves Fund, by means of a donation to said foundation of the entire shareholding in CARTERA MAPFRE S.L. that MAPFRE MUTUALIDAD will have acquired as a result of the operations detailed in the previous paragraph.
- Distribution among mutual members of the net assets to which they are entitled, which will be made up by the Mutual Equity Fund and any additional amount obtained by attributing, as a proportion of the Mutual Equity Fund and the Own Reserves Fund, any result or residual balance, both explicit or implicit, that may derive from the agreements approved by the General Assembly. Mutual members will be given the option to receive the resulting part in the form of cash or CORPORACIÓN MAPFRE shares.

d) CORPORACIÓN MAPFRE will be renamed as MAPFRE S.A.

The Board of Directors wishes to emphasise that these operations, once approved and executed:

- Will ensure that MAPFRE – being controlled by FUNDACIÓN MAPFRE – shall retain its full independence, its Spanish roots and its institutional stability.
- All business activities of MAPFRE will be valued by the market and shall be submitted to the rules and scrutiny thereof, thus consolidating its position as a large multinational group managed in accordance with its institutional principles and its management culture.
- MAPFRE's market capitalisation and its ability to raise funds through capital increases and debt issuance will increase considerably.
- As was already pointed out, the management of the Group as a whole will become more efficient and transparent, benefitting all stakeholders in MAPFRE: mutual members, policyholders and customers; minority shareholders; employees; delegates and agents; and collaborators.
- The provisions of the corporate by-laws of MAPFRE MUTUALIDAD with respect to the use of its net assets will be effected.
- The provisions of Article 6 of the corporate by-laws of MAPFRE MUTUALIDAD will be complied with strictly, since the operation will not generate any gain, shareholding or special right on the tangible or intangible assets of MAPFRE

MUTUALIDAD for the benefit of directors, managers or employees, except for those amounts they may be entitled to as mutual members.

Finally, all operations detailed above will be carried out while preserving the ordinary operating conditions of all business activities, which will not be affected by these changes.

IV. EXECUTION OF THE AGREEMENTS

A) General aspects

The realisation of the planned operations requires certain regulatory approvals, to whose obtainment are subject the agreements that are being proposed. As a consequence, their approval by the Assembly will not lead by itself to any change in the present functioning of MAPFRE MUTUALIDAD nor in that of the other entities of the Group, which will continue to carry out their business activities as usual. Once the regulatory approvals will have been obtained, the agreements shall be executed by means of the necessary public deeds, from the signing of which business activities will continue operating seamlessly under the new corporate structure.

The Departments and Services of MAPFRE MUTUALIDAD related to its direct insurance business will become part of newly-created company MAPFRE AUTOMÓVILES; the MAPFRE Network will fall under a dedicated subsidiary of CORPORACIÓN MAPFRE; and the Common Areas of the Group will pass to CORPORACIÓN MAPFRE itself. All of this will be accomplished while fully preserving the rights of the policyholders of MAPFRE MUTUALIDAD, who will automatically be insured by MAPFRE AUTOMÓVILES, and of all the people who work for the Group: employees, delegates, agents, professional brokers and collaborators.

The Board of Directors sees as desirable that all these steps be completed before 31 December 2006, in order for the new structure to begin operating effectively on 1 January 2007.

B) Conditions under which the proposed operations will be carried out

- The transfer of MAPFRE MUTUALIDAD's Motor insurance portfolio to MAPFRE AUTOMÓVILES will be carried out with retroactive effects in the accounts from the first of January of the year in which the relevant public deeds needed to formalise the proposed operations are signed, thus making it possible to provide a comprehensive and transparent information on the Group for a full fiscal year.
- All operations described in the proposed agreements will be carried out based on the book values of the assets and liabilities to be transferred, pursuant to Chapter VIII of Title VII of the Corporate Tax Law concerning the special fiscal

treatment of mergers, splits, contributions of assets and exchange of securities, with the purpose of avoiding unnecessary fiscal charges.

- Without any detriment to the previous conditions, the terms of the capital increase in CORPORACIÓN MAPFRE that will be subscribed for by CARTERA MAPFRE S.L. will be set in strict accordance with the market value of the shares of CORPORACIÓN MAPFRE and of the assets that will be contributed to it, so as to ensure that no economic gain or loss arises for any shareholder of CORPORACIÓN MAPFRE. For that purpose, the Boards of Directors of MAPFRE MUTUALIDAD and of CORPORACIÓN MAPFRE, without any detriment to the valuation performed by the independent experts appointed by the Mercantile Registry, have agreed that the corresponding exchange ratio will be determined on the basis of:
 - a) The weighted average price of the CORPORACIÓN MAPFRE share, based on closing prices, during the thirty calendar days preceding the day of the filing of the information on the proposed operations with the National Commission for the Securities Market (30 April to 29 May 2006, both inclusive).
 - b) A valuation of the assets to be contributed by CARTERA MAPFRE S.L. that will be performed by international investment bank MORGAN STANLEY in accordance with valuation methods that are generally accepted by the market, which will draw additional support from the technical and actuarial reports that will be issued by international firms TOWERS PERRIN TILLINGHAST and WATSON WYATT.

In addition, CITIGROUP will analyse the exchange ratio and issue a fairness opinion on it.

It is expected that the specific terms of the capital increase that will be subscribed for through a contribution-in-kind will be made public at the end of June 2006.

C) Position of minority shareholders in CORPORACIÓN MAPFRE

As consequence of the planned capital increase, CARTERA MAPFRE S.L. will increase considerably its shareholding in CORPORACIÓN MAPFRE. Going forward, CORPORACIÓN MAPFRE's free float is expected to increase again gradually to a level close to 49%, in a fashion what will be coordinated, if applicable, with any capital increases that may be considered necessary for CORPORACIÓN MAPFRE, in combination with appropriate amounts of debt, to ensure that sufficient funds are available to finance the growth of its existing subsidiaries and undertake new projects and acquisitions aimed at achieving the previously mentioned goal of expanding its presence into new markets.

This notwithstanding, the Boards of Directors of CORPORACIÓN MAPFRE and of CARTERA MAPFRE S.L. will pay special attention to ensuring that throughout this process the remaining shareholders of CORPORACIÓN MAPFRE be treated with absolute fairness, for which purpose they will solicit and take into account the opinion of independent experts.

V. OTHER ASPECTS OF THE PROPOSAL

A) The future governance of MAPFRE

Once the proposals submitted for the consideration of the General Assembly are approved, the pertinent modifications in the by-laws of FUNDACIÓN MAPFRE and CORPORACIÓN MAPFRE will be agreed upon to ensure that the future governance of these entities will comply with the following general guidelines:

- a) The Board of Trustees of FUNDACIÓN MAPFRE will maintain its present composition. Future renewals will comply with the following rules:
 - FREMAP, in its position as joint founding entity, will retain the right to appoint two members of the Board of Trustees.
 - The remaining members will be appointed in equal halves by the Board of Trustees itself and by the Board of Directors of MAPFRE S.A., which will take over the other responsibilities of MAPFRE MUTUALIDAD as founding entity.
- b) The management of CORPORACIÓN MAPFRE (under its new name of MAPFRE S.A.) will be a responsibility of its Board of Directors. The overview performed by the Board of Trustees of FUNDACIÓN MAPFRE will consist of: a regular follow-up of its activities and results; the supervision of the compliance of MAPFRE S.A. with the institutional principles of the Group and with its rules of good governance; and the prior authorisation of those operations that may affect directly the rights of shareholders or may require the approval of the General Shareholders' Meeting of MAPFRE S.A.
- c) The Board of Directors of MAPFRE S.A. will be appointed by its General Shareholders' Meeting. Without any detriment to the strict compliance with legal requirements and to the respect for the rights of all shareholders, the vote of CARTERA MAPFRE S.L., in its position as the majority shareholder, will be directed to achieving that: a third of the members are external directors nominated by the minority shareholders or independent ones; that executive directors do not exceed a third of the total members of the Board; and that the office of Chairman of FUNDACIÓN MAPFRE, CARTERA MAPFRE S.L. and MAPFRE S.A. be held by the same person, to ensure an appropriate degree of coordination.
- d) The present framework of Territorial Boards and Assemblies will be kept and adapted to the new corporate structure, to preserve and reinforce MAPFRE's

social and regional rooting and to facilitate the adaptation of the activities of FUNDACIÓN MAPFRE and of the Group to the needs of the Society in their respective catchment areas.

- e) In the future, the management of all the entities shall abide by the Code of Good Governance of SISTEMA MAPFRE, whose rules will be adapted to the new corporate structure and, where applicable, to the recommendations of the Unified Code drafted by the CNMV.
- f) The present Honorary Chairman of MAPFRE MUTUALIDAD, Mr. Julio Castelo Matrán, will become the Honorary Chairman of FUNDACIÓN MAPFRE.

B) Advisors to the Board for these operations

MAPFRE has been advised in the design and development of these operations by the following firms:

- CITIGROUP, which is acting as financial adviser for the whole operation and will issue a fairness opinion on the exchange ratio of the capital increase at CORPORACIÓN MAPFRE S.A. to be subscribed for through a contribution-in-kind.
- ATLAS CAPITAL, which advises on financial and strategic aspects of the operation.
- MORGAN STANLEY, which will value the assets to be contributed in the aforementioned capital increase.
- TOWERS PERRIN TILLINGHAST, which will certify the technical reserves of the Non-life business to be contributed to CORPORACIÓN MAPFRE.
- WATSON WYATT, which will advise on the valuation of the Life business to be contributed.
- GARRIGUES ABOGADOS, which advises on legal matters.

VI. FINAL CONSIDERATIONS

The Board of Directors considers that the approval of these agreements by the General Assembly will represent a significant management challenge for the governing bodies, the management team, the staff and collaborators of MAPFRE, in line with the growth attitude that has always characterised it and with its management culture, which is deeply rooted in the institutional principles established in the Code of Good Governance of MAPFRE that shall continue to be the thread and driver of its activity.

The Board proposes to take up this challenge in full confidence, based on the strong solvency and management maturity that MAPFRE has reached, on the outstanding quality of its staff and on the ample experience it acquired in developing or integrating successfully new projects and companies. In this respect, the Board believes that, under the new corporate structure that is being proposed, the following objectives can be achieved in a period of five years:

- MAPFRE will become one of the ten largest Spanish companies by market capitalisation and one of the five largest European Non-life insurance companies, with a volume of premiums in excess of €20 bn, a clear leading position in Spain and in Latin America, and a significant presence in other countries of the European Union.
- MAPFRE will reinforce its present leading position across all lines of the Spanish insurance market, and will increase materially its share of the Life and Health insurance, Pensions and Savings products market, both in its domestic market and abroad. In particular, the new MAPFRE AUTOMÓVILES will remain a model of specialised management, with a focus on the other countries in which MAPFRE has presence in direct insurance, and with a strong parallel development in its subsidiaries to become a reference in the provision of high-quality services to the users of motorcars.
- MAPFRE's expansion projects into the United States, with a specific focus on their Hispanic population, and the Far East, especially China, will be given a new boost.
- At the same time, the growth of the accepted reinsurance business will be promoted with the aim of positioning MAPFRE among the ten largest European professional reinsurers. Likewise, the expansion abroad of the Assistance business, in which MAPFRE should aim for the global leadership, and of the Commercial Insurance business, to offer insured companies the opportunity to

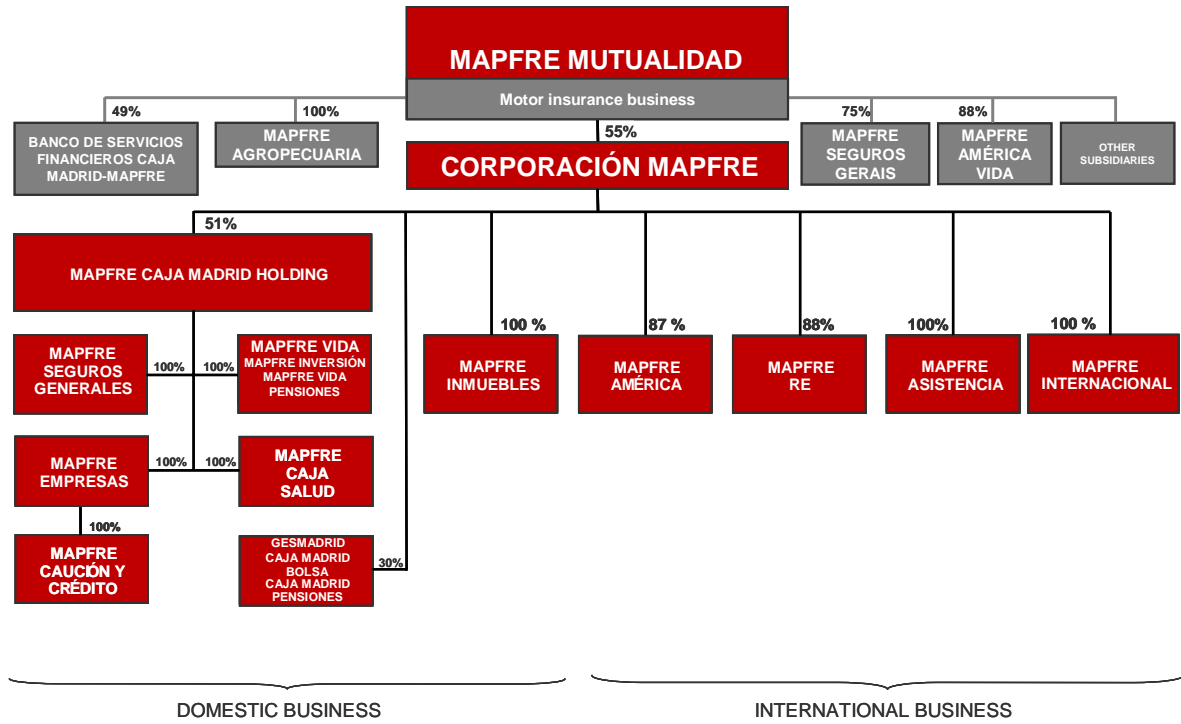
obtain a comprehensive cover of their risks in the various countries in which they operate, will be stepped up.

- FUNDACIÓN MAPFRE will multiply its activities directed at meeting the social needs of the countries in which MAPFRE operates, emphasising in particular those that benefit citizens most directly, and especially least-favoured groups, to become a reference institution for its cultural, educational and social activities.

The adoption of the new model will provide a unique opportunity for an in-depth revision of all of MAPFRE's structures and operating methods, with the aim of attaining, without any detriment to its traditional principles of specialisation and regional decentralisation, a high level of productivity, competitiveness and excellence in the fulfilment of its contractual obligations and in the service offered to its customers, which are the key factors for its future success

Madrid, May 29 2006

Annex 1



Annex 2

