

*ANNUAL REPORT*

*2005*

CORPORACIÓN **MAPFRE**



# INDEX

<b>GOVERNING BODIES</b>	<b>  4</b>
<b>LETTER TO SHAREHOLDERS</b>	<b>  6</b>
<b>RELEVANT EVENTS IN THE YEAR</b>	<b>  11</b>
<b>2005 CONSOLIDATED MANAGEMENT REPORT</b>	<b>  17</b>
Market environment	18
Development of the insurance markets	19
Business development	25
Main activities of the year	35
External audit	47
Adoption of IFRS	47
Targets	47
<b>2005 CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>  49</b>
Balance Sheet	50
Income Statement	52
Statement of changes in equity	54
Cash flow statement	56
Financial information by segments	58
Notes to the Consolidated Financial Statements	65
General Overview on the Company and its Activity	65
Bases of Presentation of the Consolidated Financial Statements	66
Consolidation	72
Earnings per share and dividends	73
Accounting policies	74
Breakdown of financial statements	88
Other information	124
Subsidiaries, Associated Undertakings and Joint Ventures (Appendix 1)	128
<b>AUDIT REPORT FOR THE 2005 CONSOLIDATED ANNUAL ACCOUNTS</b>	<b>  145</b>
<b>PROPOSED RESOLUTIONS</b>	<b>  148</b>
<b>CORPORATE GOVERNANCE REPORT</b>	<b>  151</b>
<b>SISTEMA MAPFRE</b>	<b>  183</b>
General information	184
Presence In Spain	186
International presence	188
Ratings	190
Chart	192
Results	194
<b>ACKNOWLEDGEMENTS AND MENTIONS</b>	<b>  195</b>

# GOVERNING BODIES

## GOVERNING BODIES (\*)

Board of Directors	Executive Committee	Audit Committee	Remuneration and Appointments Committee	Compliance Committee
<b>Chairman</b> Mr. Carlos Álvarez Jiménez	FIRST VICE-CHAIRMAN	FIRST VICE-CHAIRMAN	FIRST VICE-CHAIRMAN	
<b>Executive Vice-Chairman</b> Mr. Domingo Sugranyes Bickel	CHAIRMAN		CHAIRMAN	
<b>Second Vice-Chairman</b> Mr. Francisco Ruiz Risueño	SECOND VICE-CHAIRMAN	SECOND VICE-CHAIRMAN	SECOND VICE-CHAIRMAN	CHAIRMAN
<b>Managing Director</b> Mr. Ricardo Blanco Martínez	MEMBER			
<b>Members</b> Mr. Víctor Bultó Millet	MEMBER			
Mr. Juan Fernández-Layos Rubio			MEMBER	
Mr. Rafael Galarraga Solores				
Mr. Santiago Gayarre Bermejo	MEMBER			
Mr. Luis Hernando de Larramendi Martínez		MEMBER	MEMBER	MEMBER
Mr. Luis Iturbe Sanz de Madrid				MEMBER
Mr. Manuel Jesús Lagares Calvo		CHAIRMAN		MEMBER
Mr. Alberto Manzano Martos	MEMBER			
Mr. José Manuel Martínez Martínez				
Mr. Antonio Miguel-Romero de Olano	MEMBER	MEMBER		
Mr. Filomeno Mira Candel	MEMBER			
Mr. Alfonso Rebuelta Badías	MEMBER	MEMBER	MEMBER	MEMBER
<b>Secretary and Member</b> Mr. José Manuel González Porro	SECRETARY AND MEMBER	SECRETARY AND MEMBER	SECRETARY AND MEMBER	

\* Composition of the governing bodies as of the date of formulation of the Consolidated Annual Accounts of SISTEMA MAPFRE.

# LETTER TO SHAREHOLDERS

## DEAR SHAREHOLDER,

In 2005, the Annual Accounts have been prepared for the first time under International Financial Reporting Standards (IFRS); the Accounts for fiscal year 2004 have likewise been restated under these standards to facilitate the comparison. As a consequence of the adoption of the said standards, the information contained in the notes to the Annual Accounts has been expanded significantly, thereby providing you with an even more thorough view of the company and allowing you to better compare our figures with those of other large European insurance companies.

In April 2005, we published a detailed report on the adoption of IFRS by MAPFRE, which is available on our web page [www.mapfre.com](http://www.mapfre.com). IFRS differ in several respects from the Spanish General Accounting Principles for Insurance Companies; one among them has a particularly significant impact on results, as it eliminates equalisation reserves, whose cumulative amount was added to equity as of 31.12.04. As a consequence of this new accounting treatment, the results of our business activities may show a greater volatility in the future depending on the development of the claims experience.

In fiscal year 2005, our shareholders' equity grew 17.9% to reach €2,183.6 million at year-end, mainly on the back of the positive results of our subsidiaries. The net consolidated profit for the period was €249.8 million, a 19.3% increase over the previous year. Earnings per share went from €0.93 to €1.05, growing 12.9% in spite of a larger number of shares in issue as a consequence of the capital increase carried out the previous year.

These favourable results were obtained thanks to the positive development of the business areas consolidated under CORPORACIÓN MAPFRE, both in Spain and in other countries:

- Direct Non-life insurance premiums grew 10.3% in Spain and 28.4% in Latin America.
- Funds managed in Life Insurance, Mutual and Pension Funds increased by 10.8%



**Carlos Álvarez Jiménez**  
CHAIRMAN OF THE BOARD  
OF DIRECTORS  
**Domingo Sugranyes Bickel**  
EXECUTIVE VICE-CHAIRMAN  
CHAIRMAN OF THE EXECUTIVE COMMITTEE

- The profit before tax of the companies that operate in Spain exceeded the figure for the previous year by 10.4%, and those coming from other countries by 9.5%.

CORPORACIÓN MAPFRE continued investing in some of its subsidiaries that offer a great growth and profitability potential:

- We invested around €190 million over the past two years in reinsurer MAPFRE RE, which recorded an 18.1% increase in its premiums volume. In 2005, MAPFRE RE bore the impact of several large claims: the fire at the Windsor building in Madrid; floods in Austria, Germany and Switzerland; hurricane Katrina in the South Eastern United States; and hurricane Wilma, which affected with special severity the area of Cancun in Mexico. Nevertheless, the balanced composition of our reinsurance portfolio allowed this Unit to make a profit of €32.3 million.
- MAPFRE AMÉRICA is another development area in which CORPORACIÓN MAPFRE invested nearly €92 million in this fiscal year. The subsidiaries of this holding company, which operate in 12 Spanish- and Portuguese-speaking American countries, obtained in 2005 substantial increases in their business and profit volumes. These companies are carrying out an ambitious plan to create an own distribution network, which has always been a differentiating factor of SISTEMA MAPFRE in Spain and will doubtlessly be key to achieving even more ambitious goals in the Americas. The capital increase in MAPFRE AMÉRICA that we subscribed for in 2005 was used to enter into a bancassurance agreement with Brazilian financial institution BANCO NOSSA CAIXA, from which we expect to obtain significant profits in the near future.
- CORPORACIÓN MAPFRE is investing also in the development of MAPFRE QUAVITAE, a company that focusses on the provision of services for the Elderly, which manages 3,069 places in nursing homes in Spain and has over 48,000 remote assistance contracts outstanding. In 2005, new nursing homes were opened in several Spanish cities, with notable success in terms of initial occupancy.
- MAPFRE INMUEBLES offers interesting investment opportunities to CORPORACIÓN MAPFRE as well through new real estate developments: in 2005, it acquired plots totalling 300,000 sq.m. at attractive terms and it expects to develop 2,300 dwellings over the next years.

- Lastly, we invested €21.9 million in MAPFRE ASISTENCIA, which continued to expand its extensive international business activities offering travel and home assistance services, as well as Pecuniary Losses and Extended Warranty insurance. This Unit finds itself at the height of an international expansion effort and is already present in 38 countries; in this respect, it is worth mentioning its subsidiary ROAD CHINA that offers roadside assistance in all large Chinese cities and their surroundings since 2005.

These activities in which we invested new resources complement the operating areas from which CORPORACIÓN MAPFRE derives most of its profits: the Spanish direct insurance companies that belong to MAPFRE – CAJA MADRID HOLDING. MAPFRE SEGUROS GENERALES once again stood out among them due to its excellent growth, service quality and profitability levels; MAPFRE EMPRESAS finalised its corporate structure and continued its sustained expansion in Spain and in other countries serving large Spanish clients in Property Insurance, as well as in Third Party Liability and Credit Insurance; MAPFRE VIDA obtained a substantial increase in the volume of funds it manages in various savings products, and recorded also a strong rise in the sales of Life Protection products; MAPFRE CAJA SALUD improved materially its results and widened its network of healthcare centres through further acquisitions of private hospitals.

As part of SISTEMA MAPFRE, in 2005, under the guidance of our majority shareholder (MAPFRE MUTUALIDAD), we made further progress in the improvement of our corporate governance through the update of the Code of Good Governance of SISTEMA MAPFRE. For the first time, we are presenting a Social Responsibility Report that has been audited by an independent firm.

All of the above leads us to look confidently towards fiscal year 2006, in which we expect to deliver once again satisfactory growth levels and results for our shareholders, whom we thank very sincerely for the trust they put in us.

With kind regards,



**Carlos Álvarez Jiménez**  
CHAIRMAN OF THE BOARD OF DIRECTORS



**Domingo Sugranyes Bickel**  
EXECUTIVE VICE-CHAIRMAN  
CHAIRMAN OF THE EXECUTIVE COMMITTEE



*RELEVANT  
EVENTS  
IN THE YEAR*

## RELEVANT EVENTS IN THE YEAR

### JANUARY

- (05.01.05) ○ MAPFRE VIDA launches a new guaranteed mutual fund, whose holders earn the average appreciation of the IBEX 35, Standard & Poor's 500, Nikkei 225 and SMI indices.
- (14.01.05) ○ A new institutional advertising campaign commences with the slogan "The path of your life".
- (28.01.05) ○ CORPORACIÓN MAPFRE raises its shareholding in MIDDLESEA INSURANCE, the leading Maltese insurer, to 20.66%.

### FEBRUARY

- (13.02.05) ○ The fire at the "Windsor Building" occurs. The initial estimate of the claims payable by MAPFRE is €10 million, an amount deemed not to affect the expected development of results for fiscal year 2005.
- (26.02.05) ○ The Annual General Meetings of MAPFRE MUTUALIDAD and CORPORACIÓN MAPFRE are held, in which their Annual Accounts for fiscal year 2004 and the performance of their respective Boards of Directors are approved.

### MARCH

- (04.03.05) ○ The Spanish Corporate Reputation Watcher (MERC0) once again ranks MAPFRE as the most valued Spanish company in the insurance sector. Economic and financial results, overall size and sales quality are the aspects that receive the highest score.
- (09.03.05) ○ MAPFRE's Insurance Policy for Foreign Residents is selected by magazine Actualidad Económica as one of the "Best Ideas of the Year".

### APRIL

- (04.04.05) ○ MAPFRE is selected by U.S. consulting firm Great Place To Work as one of the ten best companies to work for in Argentina, standing out for its sustained improvement in the work environment.
- (09.04.05) ○ MAPFRE's representative office in Beijing is opened.
- (27.04.05) ○ For the first time, SISTEMA MAPFRE and its listed subsidiary CORPORACIÓN MAPFRE release their results under International Financial Reporting Standards (IFRS).

### MAY

- (13.05.05) ○ VIAJESMAPFRE.COM is created, aiming to become the leading company in the on-line travel agencies segment in Spain.
- (16.05.05) ○ MAPFRE signs an agreement with the High Commissioner for the Victims of Terrorism and sets up through its foundations a €1,500,000 fund to grant scholarships for the professional retraining of people who have become disabled as a consequence of terrorist attacks occurred in Spain.
- (20.05.05) ○ MAPFRE acquires the entire share capital of ENKEN SERVICIOS DE PREVENCIÓN and ENKEN ASISTENCIA SANITARIA. These companies specialise in risk prevention services and labour health assistance.
- (24.05.05) ○ MAPFRE is awarded a 51% shareholding in NOSSA CAIXA SEGUROS E PREVIDENCIA, a Brazilian Life and Pensions insurer, in a public tender process.
- (26.05.05) ○ The second edition of the America Forum on Corporate Social Responsibility for Spanish multinationals operating in Latin America, which is organised by MAPFRE, is held.

### JUNE

- (02.06.05) ○ MAPFRE begins to sell Payment Protection Insurance, which is designed for professionals, as well as the self-employed and civil servants.
- (11.06.05) ○ The second MAPFRE POLYCLINIC, a pioneering centre for preventive sports healthcare, is opened in Barcelona.
- (23.06.05) ○ MAPFRE acquires British company ABRAXAS, which operates in the Pecuniary Losses line of business and specialises in the distribution of Guaranteed Asset Protection (GAP) and Mechanical Breakdown Guarantee insurance.
- (23.06.05) ○ MAPFRE is selected as one of the twenty best companies to work for in Spain, based on a survey published by magazine Actualidad Económica.
- (29.06.05) ○ Rating agency A.M. Best affirms the 'A+' (superior) rating it assigns to MAPFRE MUTUALIDAD and MAPFRE RE, based on the Group's leading position in Spain and Latin America, strong capitalisation and excellent operational management. It likewise raises to 'aa' its issuer credit rating assigned to MAPFRE RE and affirms the 'aa-' rating on the bond issue of CORPORACIÓN MAPFRE.
- (29.06.05) ○ The Board of Directors of MAPFRE MUTUALIDAD approves a wide-ranging restructuring and renewal of the MAPFRE Foundations, by virtue of which all foundations operating in Spain, effective from 1 January 2006, will merge into FUNDACIÓN MAPFRE, which will carry out its activities through five specialised institutes.
- (29.06.05) ○ MAPFRE makes further progress in the renewal of its corporate structures by updating and modifying key aspects of its Code of Good Governance, that establishes the corporate governance rules for SISTEMA MAPFRE since March 2000.
- (30.06.05) ○ MAPFRE signs a cooperation agreement with the ROYAL ACADEMY OF HISTORY, by virtue of which it becomes a member of the Association of Protectors of the Academy.

## JULY

- (01.07.05) Rating agency STANDARD & POOR'S affirms the 'AA' (Excellent) and 'AA-' (Excellent) it assigns to MAPFRE MUTUALIDAD and MAPFRE RE, respectively, as well as the 'AA-' rating on the bond issue of CORPORACIÓN MAPFRE. MAPFRE EMPRESAS, which requested for the first time a financial strength rating, is rated 'AA' (Excellent).
- (01.07.05) MAPFRE SEGUROS GENERALES launches a new household insurance product designed specifically for high net worth individuals.
- (05.07.05) Rating agency A.M. Best assigns its 'A' (Excellent) financial strength rating to MAPFRE EMPRESAS.
- (06.07.05) MAPFRE DOMINICANA begins to operate in direct insurance.
- (29.07.05) British magazine *Reactions* ranks MAPFRE among the world's 30 largest insurance groups by gross premiums and net profit.

## AUGUST

- (31.08.05) Training program 'Volunteers 2005' organised by MAPFRE ARGENTINA ends. Over 290 employees participated in it.

## SEPTEMBER

- (22.09.05) MAPFRE approves its Environmental Policy and its Action Plan thereby enacting the commitments it undertook by signing the United Nations' Global Pact and the United Nations' Environmental Program (UNEP FI).
- (30.09.05) MAPFRE ASISTENCIA obtains the ISO 9001:2000 official quality certificate from Bureau Veritas.
- (30.09.05) The Board of Directors of SEPI awards CLINISAS to MAPFRE CAJA SALUD. This acquisition, together with the purchase of healthcare centre San Francisco Javier, located in Bilbao, strengthens this business area.

## OCTOBER

- (20.10.05) MAPFRE EMPRESAS holds the XIX Insurance and Safety Days in Lisbon.
- (26.10.05) MAPFRE LA CENTRO AMERICANA is awarded by the Interamerican Federation of Insurance Companies the first international prize for institutional communication for its road safety campaign .
- (28.10.05) The Board of Directors of CORPORACIÓN MAPFRE agrees to pay from 18 November 2005 onwards an interim dividend of €0.17 per share, a 13% increase on the amount paid in November 2004.

## NOVEMBER

- (04.11.05) MAPFRE ranks second among the Non-life insurers operating in Latin America and moves up to the 13<sup>th</sup> place in Europe, in accordance with the information published by the Documentation Centre of FUNDACIÓN MAPFRE ESTUDIOS.
- (11.11.05) MAPFRE ASISTENCIA is awarded the 2005 ITIC prize by the International Travel Insurance Conference, which recognises its position as the best assistance insurance company in the world in 2005.
- (18.11.05) MAPFRE ranks as the eighth most admired company in Spain, based on a ranking prepared by newspapers *Expansión* and *Financial Times* and by consulting firm *PriceWaterhouseCoopers*.
- (22.11.05) The Health Channel, through which MAPFRE intends to make healthcare information accessible to all users, is launched on the Internet.
- (24.11.05) MAPFRE ASISTENCIA widens its offer of mechanical guarantee products in Spain by launching 'NEO Plus' y 'NEO Líder'.

## DECEMBER

- (29.12.05) Philippine supervisors approve the merger of MAPFRE ASIAN and INSULAR GENERAL INSURANCE COMPANY. The resulting company, in which MAPFRE has a 75.2% shareholding, is a leader in the Philippine Non-life insurance market.
- (31.12.05) CORPORACIÓN MAPFRE becomes a member of the CFO Forum.
- (31.12.05) In 2005, MAPFRE QUAVITAE opens three new Nursing Homes in Oviedo, San Sebastián and Santiago de Compostela .
- (31.12.05) MAPFRE INDUSTRIAL and MUSINI merge into a single entity called MAPFRE EMPRESAS.
- (31.12.05) The insurance premiums written by SISTEMA MAPFRE exceed €10bn .