

**REPORT OF THE BOARD OF DIRECTORS OF CORPORACIÓN MAPFRE, S.A.
CONCERNING THE REORGANISATION OF THE CORPORATE STRUCTURE OF
SISTEMA MAPFRE**

The Board of Directors of CORPORACIÓN MAPFRE reviewed in its meeting held today the report prepared by the Board of Directors of MAPFRE MUTUALIDAD on the proposal it will submit for the attention of the General Assembly concerning the reorganisation of the corporate structure of SISTEMA MAPFRE, which contains a detailed description of the scope of said reorganisation and of its aims. The essential aspects, as far as CORPORACIÓN MAPFRE is concerned, are the following:

AIMS

- All Group activities and companies will be drawn together under CORPORACIÓN MAPFRE, which shall be renamed as MAPFRE S.A. and will remain a listed company.
- The majority control on CORPORACIÓN MAPFRE shall be transferred to FUNDACIÓN MAPFRE, thereby abiding by the corporate by-laws of MAPFRE MUTUALIDAD, which establish that the wealth generated by its business activities shall revert back to Society through its foundational activities, 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.

REASONS

The proposed operations, in the opinion of the Board of Directors of MAPFRE MUTUALIDAD, 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 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.

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 companies 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 will be undertaken by FUNDACIÓN MAPFRE using the larger financial resources made available to it by the new structure.

- 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 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; 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 giving mutual members the opportunity to continue to be insured under the present terms by MAPFRE AUTOMÓVILES and to continue sharing in this exciting project by receiving their part of MAPFRE MUTUALIDAD's net assets in the form of CORPORACIÓN MAPFRE shares.

- 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.

IMPLEMENTATION OF THE PROPOSAL

The change in the corporate structure that is being proposed requires that a set of agreements be adopted by the General Assembly of MAPFRE MUTUALIDAD, some of which will lead to equivalent agreements that will have to be approved by the General Shareholders' Meeting of CORPORACIÓN MAPFRE, which imply 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) MAPFRE MUTUALIDAD will donate to FUNDACIÓN MAPFRE the entire shareholding in CARTERA MAPFRE S.L. it will have acquired as a result of the operations detailed under previous paragraph a).
- d) CORPORACIÓN MAPFRE will be renamed as MAPFRE S.A.

Once these operations will have been approved and executed:

- 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 by eliminating its present complexity that arises from the coexistence of a mutual parent company and a joint-stock listed holding company. This will benefit all stakeholders in MAPFRE: mutual members, policyholders and customers; minority shareholders; employees; delegates and agents; and collaborators.
- 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.

Therefore, the directors and managers of CORPORACIÓN MAPFRE will not derive, nor will they be entitled to, any economic privilege or gain whatsoever as a result of the definition, development and execution of the plan aimed at changing the corporate structure described in this report. Furthermore, the directors of CORPORACIÓN MAPFRE unanimously subscribe to the general principle of subordination of their own personal interests to those of the company in achieving the goals aimed at through this project.

EXECUTION OF THE AGREEMENTS

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.

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. and by the mutual members of MAPFRE MUTUALIDAD who may wish to do so 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 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 TILLINGHAST TOWERS PERRIN 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.

Share of minority shareholders in CORPORACIÓN MAPFRE

As the capital increase will be carried out by means of a contribution in kind of securities owned by MAPFRE MUTUALIDAD, the other shareholders will not be able to subscribe for the new shares that will be issued as a result of this operation.

For that reason, a number of steps will be taken to protect the interests of minority shareholders pursuant to article 159 of the Company Law, which establishes the requirements that must be met in order for the suppression of preferential subscription rights to be agreed, and more specifically requires that:

- Directors issue a report to: justify in detail how the proposal satisfies the interests of the company; establish the ratio at which the shares will be issued; and describe thoroughly the contributions and the persons who will make them.
- An auditor other than that of the company, who will be appointed for this purpose by the Mercantile Registry, will produce a report on: the fair value of the shares of the company; the theoretical value of the preferential subscription rights whose suppression is being proposed; and the fairness of the figures contained in the directors' report.

As the contribution is in kind, it is necessary that another independent expert, who will also be appointed by the Mercantile Registry, issue a report on the valuation of the assets to be contributed.

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 to undertake new projects and acquisitions, while maintaining appropriate levels of indebtedness.

THE FUTURE GOVERNANCE OF MAPFRE

Once the proposals submitted for the consideration of the General Assembly of MAPFRE MUTUALIDAD are approved, the Board of Directors will propose the modifications in the by-laws of FUNDACIÓN MAPFRE and CORPORACIÓN MAPFRE needed 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 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 its 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.

The Board of Directors of MAPFRE S.A. (presently CORPORACIÓN MAPFRE) 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 other than CARTERA MAPFRE S.L., the vote this entity, 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; and that executive directors do not exceed a third of the total members of the Board.

- c) Appropriate procedures will be put in place so that that the office of Chairman of FUNDACIÓN MAPFRE and MAPFRE S.A. be held by the same person, to ensure an appropriate degree of coordination.
- d) 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.

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 will act 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.

FINAL CONSIDERATIONS AND VALUATION

The Board of Directors shares the view of the Board or MAPFRE MUTUALIDAD and likewise considers that the approval of the agreements detailed in this report 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 takes up this challenge in full confidence, based on the strong solvency that MAPFRE has reached and on the outstanding quality of its staff.

The adoption of the new model should 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

The Board of Directors of CORPORACIÓN MAPFRE, within the scope of its specific responsibilities, unanimously considers the proposed operation leading to the change in the corporate structure as very positive, and views as correct both the analysis of the reasons that justify it and the goals that are being aimed at. In this respect, the addition to CORPORACIÓN MAPFRE of the Motor insurance business, in which MAPFRE is the undisputed leader in Spain, the size and financial strength that the company will achieve and the dynamism generated by the organisational simplification that is being targeted, are key elements that underpin the full support of the Board of Directors of CORPORACIÓN MAPFRE for the proposed operation.

The content of this report was unanimously approved by the Board of Directors in its meeting held on 29 May 2006, which was attended by the following directors: Mr. CARLOS ALVAREZ JIMENEZ, Mr. DOMINGO SUGRANYES BICKEL, Mr. FRANCISCO RUIZ RISUEÑO, Mr. RICARDO BLANCO MARTINEZ, Mr. VICTOR BULTO MILLET, Mr. JUAN FERNANDEZ-LAYOS RUBIO, Mr. RAFAEL GALARRAGA SOLORES, Mr. SANTIAGO GAYARRE BERMEJO, Mr. LUIS HERNANDO DE LARRAMENDI MARTINEZ, Mr. LUIS ITURBE SANZ DE MADRID, Mr. MANUEL JESUS LAGARES CALVO, Mr. ALBERTO MANZANO MARTOS, Mr. JOSE MANUEL MARTINEZ MARTINEZ, Mr. ANTONIO MIGUEL-ROMERO DE OLANO, Mr. FILOMENO MIRA CANDEL, Mr. ALFONSO REBUelta BADIAs y Mr. JOSE MANUEL GONZALEZ PORRO.

Majadahonda (Madrid), 29 May 2006

THE CHAIRMAN,

THE SECRETARY,