

MAPFRE

Shareholders General Meeting  
(8 March 2008)

CHAIRMAN'S REPORT

MR. JOSE MANUEL MARTINEZ

Before concluding this Shareholders General Meeting, I would like to mention certain aspects which I consider to be of importance with regard to the activity carried out in 2007, and also with regard to our projects and strategies for the future:

\* For us it gives us great pleasure to be able to present before you – in this the first year in which our company includes all the business activities of the Group, in accordance with the new structure approved at the end of 2006 – the magnificent results, both in the growth of revenues and in the growth of profits, and the important achievements that our Deputy Chairman, Alberto Manzano, and our Director-General, Esteban Tejera, have described in their reports.

- I think it is especially noteworthy that our total revenues from operations have comfortably exceeded 15,000 million euros, and the 12% increase obtained with regard to the year before; that premiums, which are the main component of our revenues, should have increased by 12.6% to reach the significant figure of 12,311 million euros; and that, despite our notable leadership, we should continue to increase our market share in Spanish insurance thanks to growth of 10.9%, which is well above the market rate of 3.9%. Our growth figure in absolute terms is 770 million euros, which means that every month we have issued in Spain 65 million euros more than in the previous year.

I consider it is also necessary to highlight that our growth has outstripped that of the market in all important business sectors (Motor, Health, Agricultural and Livestock, Commercial, Household and Multi-peril and Life), especially in this last sector, where our premiums have grown by 21.8% as against 2.1% in the sector as a whole; and that in Motor insurance we have attained a market share of 20.5%, with nearly 6,100,000 vehicles insured.

It is only right to congratulate all those who have contributed to the attainment of these magnificent results, and in particular our Territorial Organization, which I hope will continue in the future to maintain growth that is higher than the market rate, not only thanks to its greater efficiency, but also as a result of the policy that is pursued of increasing the number of offices open to the public, which number has increased by 180 in 2007.

- Premiums from the international business (4,454 million euros) now represent 36% of all MAPFRE premiums.

In 2007 they have increased by 15.8%, with the growth in Latin America being particularly noteworthy (18.7%), which is due in part to the policy of creating our own Network which we are implementing year-on-year. Only in 2007 we opened 235 new offices which gives us a current total of 1,890, which constitutes the most extensive and best-prepared network of insurance outlets on the sub-continent, which should allow us to substantially increase our future organic growth.

I think it would be convenient to mention the growth (24% in euros) reported by our insurance subsidiaries in Brazil, and whose premiums now represent nearly 10% of the MAPFRE worldwide total, and the fact that this growth has been compatible with the attainment of good results.

For these achievements, I congratulate the Chairman of MAPFRE in Brazil, Antonio Cassio, and the members of his team who are here at this General Meeting. I would also like to welcome the Chairmen of our subsidiary companies in Mexico (José Ramón Tomás), Florida (Jaime Tamayo), and Portugal (Antonio Belo), who are also present.

- \* The attributable profits obtained in 2007 (731.1 million euros with growth of 20%) is obviously highly satisfactory, and originates for the most part from the result of our operations, without any extraordinary capital gains other than those resulting from the normal management of our investments. Therefore, it is the result of business management that allows significant growth to be achieved whilst at the same time maintaining a high level of service to our clients and a proper control of the management expenses, and an improvement in the underwriting and management of claims.

Special mention should be made, given their importance in absolute terms, to the contributions made to the net profits by Motor Insurance in Spain (over 300 million euros), and to our international operations (nearly 200 million euros), as well as the percentage increase reported by MAPFRE SEGUROS GENERALES, which has increased by 50%.

In order to conclude this look at the 2007 results, I think it would be convenient to highlight certain data that allow us to evaluate the current scale and financial solidity of our company:

- Our equity stands at 5,614 million euros.
- Our investments and cash stand at 30,542 million euros, with shadow capital gains which greatly exceed the profits for the year.
- Total assets, including funds managed off the balance sheet, have reached the figure of 44,820 million euros.

- \* At the company, economic data constitute an essential way of assessing its performance. At MAPFRE, these economic data normally come out very well, because they are the fruits of a job well done, with the tenacity, effort, and skill of many people in everything that makes up the

qualitative aspects of our business management. In this regard I would like to mention the following:

- At the close of the first year of trading for the new MAPFRE S.A., all legal, operational, and organizational tasks required by the change-over to the new structure have been completed, and I can assure you that the new MAPFRE is functioning with full normality at all levels.
- We have continued to make progress in the important project of the transformation of the MAPFRE Network into a customer-focussed multi-product network. It was a necessary but complex project, and some adjustments are still being made, such as the build-up of the Territorial Corporate Business Centres; but the main part has been completed, and in the future the fruits of this transformation will be even greater than what has been achieved so far.

In order to stimulate the activities of the MAPFRE Network, and also to ensure that it communicates effectively with the various Operating Units, we have appointed Aristóbulo Bausela as the Director-General of the Network. In addition to his youth (42 years), he provides wide experience gained in the 17 years he has been linked with MAPFRE, and high prestige within our organization.

- The Family Division, created early in the last financial year, has made considerable advances in the configuration of its operational structure, which, as has already been stated, allows us to take the step of integrating all Non-life retail and small companies business into one single company (MAPFRE FAMILIAR).
- Also up and running are the new International Direct Insurance Division, and the International Transactions Committee, both of

which are essential in order to co-ordinate our international activity, which is becoming increasingly important.

- Early in the last financial year we set up the Technology and Procedure Directorate-General, in order to undertake a series of projects which would allow us to continue to improve our productivity and the quality of the service provided to customers. Its aim is for MAPFRE to become the leader in the application of new technologies and communications in the insurance business. It is an ambitious target, and we know that we will only achieve it in the medium term, but we also know that we are making good progress, and that no efforts or investments are being spared along the way.

- \* Growth is an essential factor for the success of a business Group like MAPFRE. Throughout 2007 we have continued to advance in our growth strategy, which has as its main aims to continue to increase our market share in the Iberian Peninsula; to consolidate our leadership in Latin America and to attain market shares in the various countries close to that enjoyed in Spain, with particular emphasis on Brazil and Mexico; to have an effective presence in the United States, the biggest insurance market in the world; to increase our operations in the European markets, seeking out niches in which to perform our activities, without ruling out possible acquisitions; and to seek new opportunities in emerging markets, for which our more international operations, Reinsurance and Assistance, are essential, with a particular emphasis on China and India, which account for nearly 40% of the world's population and are experiencing significant economic growth.

Our strategy for attaining these goals is based on the following plan of activity:

- Sustained organic growth, for which it is essential to increase our efficiency and competitiveness, as well as the development of our distribution networks that we are carrying out in Spain and America.
- The encouragement of new banking-insurance agreements such as the one reached last year in Brazil with the NOSSA CAIXA bank – which is progressing in an extremely favourable manner – or those that we are setting up this year with CAJA CASTILLA LA MANCHA, BANKINTER, and BBVA, to which we may add the agreement that has already been signed with CAJA DUERO in January of this year.
- The development of our line of direct insurance transactions for major commercial risks in Europe, for which purpose in 2007 we opened offices in Paris, London, and Cologne, and which are added to the service network which is already provided by our insurance entities in other countries for Spanish firms in their international expansion.
- The take-up of any acquisition opportunities that arise for entities that offer the possibility of increasing our size or breaking into new markets, and which are compatible with our aim of increasing our earnings per share year-on-year, and with our policy of maintaining a prudent level of indebtedness.

The acquisitions made in 2007 have been in line with the foregoing, and I think it necessary to make special reference to that of GENEL SIGORTA and GENEL YASAM, which allow us to increase our presence and position in Turkey, a market with great future potential, and also that of COMMERCE, in the United States, to which I shall refer later at greater length when I talk about the 2008 financial year.

- The international expansion of MAPFRE REASEGURO and MAPFRE ASISTENCIA which, in addition to the usefulness of their own operations, allow us to achieve, with reduced risks and costs, a presence in and a knowledge of new markets of possible interest, of which significant examples would be the consolidation of the assistance operations in China, and the recent creation of the subsidiary in Mumbai (India).
- I think it is essential to mention that MAPFRE RE has reached its twenty-fifth birthday and has celebrated this by obtaining the best results of its entire business history. Last October Pedro Macedo was appointed as Managing Director and took the main executive responsibility for facing this new era of major challenges in the re-insurance market.

MAPFRE CAUCION Y CREDITO, one of the few entities at an international level that specializes with great success in these segments has also reached its twenty-fifth birthday.

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\* In order to conclude this review of 2007, I would like to refer to certain people who are here with us at this event:

- Last December Fernando Suarez stepped down as the Chairman of the Insurance Ombudsman Committee, after holding this position for twenty-three exemplary years during which he has shown all the efficiency, all the legal wisdom, and all the rectitude and independence of thought that have come to characterize him.

His work as the first Chairman of the Insurance Ombudsman Committee, not only at MAPFRE, but at any Spanish institution, has been exemplary in all aspects, and he has been able to make



his independence and rigour compatible with a cordial relationship with MAPFRE and its senior management. Our gratefulness to Fernando Suarez is very profound, as much as what he has given to MAPFRE, and I think it is right and proper to state this publicly at this important event.

He is replaced as Chairman of the Insurance Ombudsman Committee by José María Gondra, a professor of Commercial Law, who has all the personal qualities and professional capabilities necessary in order to maintain the rigorous line that characterizes the activities of the said Committee. To him we extend our warmest welcome, our thanks for having accepted the appointment, and our commitment to provide him with all the co-operation necessary, whilst respecting the independence of the Committee.

- In 2007, two of the Deputy Chairmen at our entity have relinquished their executive functions at MAPFRE: Domingo Sugranyes and Santiago Gayarre.

Domingo Sugranyes joined MAPFRE in 1981, and in my opinion MAPFRE has been very fortunate to have had a person of his personal and professional category on board for the last twenty-six years. Although his business contributions have been innumerable, I would like to highlight three aspects in which I think that his intervention has been fundamental:

- The first has been in our transformation into a multi-national group, in other words, our international development. In addition to his mastery of the main European languages, Domingo has an intimate knowledge of people, markets, and countries. But above all he has been able to show us what an international business outlook should be, and this has been a magnificent learning curve for all of us. We now

know that it is possible to learn a lot from other countries, and also that we have a great deal to contribute.

- The second aspect is the development of our activity in Credit insurance, and he has been responsible for its inception ever since the time he was Chairman of MAPFRE CAUCION Y CREDITO, and which is today an important line of business for MAPFRE, both nationally and internationally.
- And finally, his significant contribution towards MAPFRE being the modern financial institution it is today, with an active presence in the Stock Market, as against the old MAPFRE with little contact with the financial and stock markets. MAPFRE's new financial outlook, its manner of doing business, of informing, and of relating to the capital markets is due to Domingo Sugranyes, who culminated this activity with the recent launch of the new MAPFRE S.A., a project which he always encouraged and in which he firmly believed.

Santiago Gayarre, for his part, is one of the historic figures at MAPFRE, who has dedicated his entire professional life, over 37 years, to our company. Amongst his innumerable contributions to MAPFRE, I would like to highlight first and foremost his contribution to the extraordinary quality that we have attained in the management of Motor Insurance, to which the MAPFRE of today owes so much, and the MAPFRE of tomorrow will continue to be indebted to him given that it is and will continue to be one of the pillars of MAPFRE, both nationally and internationally. Santiago Gayarre's dedication, effort, and success since 1990, when he took over as chief executive of our Motor business, have without doubt been decisive in this management.

Furthermore, Santiago Gayarre has been the driving force behind the transformation that has taken place at the MAPFRE Network, which I have referred to above. Only someone with the drive and prestige of Santiago Gayarre could achieve such a profound change.

And finally, he has been the driving force behind the current MAPFRE AMERICA, which has given us so much satisfaction, and will continue to do so in the future.

Santiago has many personal and professional qualities, and with regard to the latter I would like to say that, despite being very demanding in his work, he is loved and admired by all his companions and associates.

I think that the little I have said about the executive functions performed by Santiago Gayarre and Domingo Sugranyes is sufficient to understand that without their professional contributions, the MAPFRE of today would be different, and would probably not have accomplished the significant achievements that it has attained in those areas to which I have referred. For this reason, MAPFRE has much to be grateful to them for, and I express this gratitude now publicly.

Fortunately at MAPFRE we have very good teams of managers, and their executive functions will continue to be performed effectively, although with a different personality, by different senior managers. We will miss the day-to-day human contact, and in my case in particular their invaluable support and co-operation, although we expect to continue to enjoy their friendship.

In any event, we will have their wise counsel as members of various Committees of MAPFRE companies, both in Spain and abroad.

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The current 2008 financial year is also going to be very important for MAPFRE. In addition to tackling our permanent objective of organic growth with ambition and enthusiasm, and to ensuring that the projects commenced in the previous year come progressively to fruition, we will undertake a set of new projects:

\* The first of these is the re-organization of our business partnership with CAJA MADRID, which has been explained by our Deputy Chairman Alberto Manzano, and with regard to which I would like to highlight the following aspects:

- a) To maintain and, in so far as is possible, to increase the reciprocal co-operation between the networks of both groups in Spain, and its extension to other countries in which both groups are present. For this reason, it has seemed appropriate to us that the agreement should include a significant shareholding participation (12.5%) by CAJA MADRID in MAPFRE INTERNACIONAL, in addition to that already held in MAPFRE AMERICA.
- b) The creation of MAPFRE CAJA MADRID VIDA, with the aim of continuing the joint development of the Life Assurance business, distributed through the CAJA MADRID Network, which has been fundamental in maintaining the significant position that MAPFRE VIDA holds in Spanish Insurance, and which experience has also been essential for the subsequent development of other banking-insurance agreements.
- c) The increase in size that the acquisition of practically the whole of the shares in MAPFRE SEGUROS GENERALES, MAPFRE VIDA, MAPFRE EMPRESAS, and MAPFRE CAJA SALUD entails, and the inclusion of CAJA MADRID as the second-largest

shareholder in our parent company, after FUNDACION MAPFRE which will have a participation of approximately 64%.

- d) The appointment to our Board of Directors of Miguel Blesa, a lawyer, a State Financial Inspector, and the Chairman of CAJA MADRID since 1996; and of José Antonio Moral Santín, an Economist, a Professor of Applied Economics, and Deputy Chairman of CAJA MADRID since 1996. We are sure that both will make a valuable contribution to the MAPFRE Board of Directors, given their wide knowledge and business experience.

- \* The second project to which I would like to refer is the creation of MAPFRE FAMILIAR, which is logically the next step following the creation of the Family Division at the start of the last financial year.

In recent years, our management bodies have approved numerous reforms to the structure of MAPFRE, which have been a response, on the one hand, to the aim of increasing our levels of efficiency and competitiveness by way of co-ordination and the synergies between the various operating areas, and on the other hand, to the greater operating focus by MAPFRE towards its clients, distinguishing between private individuals and businesses.

We believe that these reforms are compatible with our objective of maintaining highly-specialized management of the different products, which, thanks to the means provided by modern technology, is currently possible without having to differentiate them into separate corporate structures.

The re-organization of the partnership with CAJA MADRID, which as I have said, means that MAPFRE holds practically 100% of the shares in its Spanish subsidiaries, makes it possible to advance in this new strategic framework, providing the Family Division with a single corporate

structure, by way of the creation of MAPFRE FAMILIAR, S.A. which will be focussed towards retail customers and the protection of the risks affecting small family businesses, and into which the current businesses of MAPFRE AUTOMOVILES, MAPFRE SEGUROS GENERALES, and MAPFRE CAJA SALUD will be incorporated, as well as part of the business of MAPFRE AGROPECUARIA that corresponds to the risks affecting retail customers and the assets held by families and small companies.

The rest of the MAPFRE AGROPECUARIA business will be incorporated into an expanded MAPFRE EMPRESAS, which will continue to provide the agricultural and livestock sector with specialized service by way of a specific Directorate-General.

The project I have just referred to constitutes an important milestone in our history, and probably in the history of Insurance, in that I think it is the first time that a company focuses cover on the risks affecting the family unit, which forms the basis of our society. I should emphasize that the performance of this project will be complex, but it is sure to succeed thanks to the enthusiasm and drive of the human resources at the affected companies, and of their chief executives led by Antonio Huertas, together with Esteban Pedrayes and Francisco Marco. I am grateful for the generosity shown by all those affected, given that in these integration processes it is often necessary to relinquish business positions, and I congratulate them because they are embarking on one of the most exciting MAPFRE projects, which must achieve the objectives of reduced costs and improved customer service which are being pursued.

- \* The third major project we are undertaking in this financial year is the integration of COMMERCE into the MAPFRE Group.

On 14 February last, the General Meeting of the said company approved its acquisition by MAPFRE, and the only outstanding steps for this

acquisition to be completed are the authorizations from the insurance supervisors of the States of Massachusetts, New York, Ohio, and California, which together with other procedural approvals, will allow the transaction to be completed in the coming months.

This acquisition will be the largest undertaken by MAPFRE to-date, with an investment of 1,500 million euros, which we consider to be justified for the following reasons:

- The value of the company itself, which has equity of 1,325 million dollars, and premiums worth 1,900 million dollars, and it has obtained stable and growing profits in recent years (190 million dollars in 2007).
- The high quality of the service it provides to its clients, especially in the State of Massachusetts, where it has a market share of 31.5% in the private Motor insurance sector.
- Its competent management team and staff which, in addition to carrying out excellent insurance management, we are sure that they will quickly take on board MAPFRE's technical and procedural principles, and so a reciprocal professional exchange will take place that is beneficial for any company.

In addition, the acquisition of COMMERCE is of high strategic importance for MAPFRE for a variety of reasons:

- It balances the overall foreign investments made by MAPFRE, which have hitherto been mostly concentrated in Latin America, and it provides us with the value of having an English-speaking company with over 2,400 highly-qualified employees.
- It constitutes an excellent platform for the development of MAPFRE in the United States of America, which project has been

undertaken by the company in a very limited manner so far although it has authorization to operate in 50 States, and which we too will pursue in a very prudent manner.

- It opens the possibility of offering specialized products and services to the important Hispanic group in the United States, as well as that of co-operating with banks that have a presence there and with which MAPFRE has excellent relations.

Therefore, we think that this will be a very important transaction for the MAPFRE of the 21<sup>st</sup> century at all levels, which will give us positive results from day one, and which in the medium term will require special dedication from MAPFRE INTERNACIONAL and its management team led by Andrés Jiménez, and even from some MAPFRE entities in Spain.

- \* I recently stated publicly my confidence in that, despite the negative economic environment, we would once again substantially increase our revenues and our results in financial year 2008. I would like to briefly explain the reasons for this comment:

For many years now, one of the main managerial elements at MAPFRE has been the strategic plans drawn up by each and every one of our companies, and which are the basis for the Group's Strategic Plan, which has this year set ten major business objectives, out of which I would highlight the following:

- To improve the economic results, to increase the share value, and to optimize the use of financial resources; to which we should add that furthermore we expect to continue increasing the dividend for our shareholders, which has gone up by 40% in 2006 and by 44% in 2007.



- To achieve growth that is higher than that of the markets in which we operate, which we expect to continue to achieve despite our growing size, thanks to the quality of the service to our clients, to permanent innovation in our products, and to the efficiency of our distribution networks, which are unique in terms of their extent and professionalism in the majority of the countries in which we operate.
- To promote and systematize the measures concerning rationalization and internal control, the latter of which is essential in order for good business management, especially with regard to insurance. Internal control at MAPFRE is configured as a process, which involves everyone without exception, designed to ensure with reasonable certainty that the objectives of the MAPFRE Group are reached.
- To lead the application of technologies in insurance management, which aspect I have already referred to, but which I mention again given its importance. We have great confidence in that the new Information Technologies Directorate-General will achieve its important objectives.
- To permanently improve training, and achieve growing levels of professional development amongst managers, employees, and associates, for which purpose we have recently boosted the Training Management within the Human Resources Area.
- To manage our companies with a permanent orientation towards improving our Social Responsibility.

Each one of the Strategic Plans at our entities includes the budgeted revenues and results for the following financial year, and forecasts for a further two years. In the case of MAPFRE, we do not make these budgets public, but I can assure you that the figures budgeted for 2008

are very positive, and exceed in both revenues and results the figures obtained in the previous financial year.

We know that 2008 is a difficult year, with a clear slowdown in economic growth and instability, due to financial turbulence, both of which affect spending and which may ultimately have an effect on our revenues; but it should also be said that we are very well prepared to face this situation, thanks in no small measure to the quality of our human resources, the efficiency of our business structures, and the prudent policy of investments carried out by MAPFRE, which allow us to state with all transparency and firmness that:

- MAPFRE does not have any exposure to the bonds backed by unsound lending that have been issued in the United States, known as sub-prime.
- MAPFRE does not have investments in bonds for which the main backing is determined by "monoline" insurance companies.
- 48% of our investments in the portfolio of free investments are made up of public debt of Member States of the European Union, which in the current situation acts as a haven.
- We continue to have capital gains, both in the fixed-income and in the equity portfolio, as well as comfortable capital gains in our property investments. These latter investments are not shown in the accounts.

Therefore, MAPFRE can face this situation with excellent prospects, and can set itself ambitious and attainable targets with regard to revenues and results, based on professional criteria that may be deduced from our strategic plans. Our experience in similar situations is that not only does MAPFRE meet its objectives, but it also comes out stronger.

Furthermore, we suspect that opportunities will arise which we will be able to take advantage of.

I am pleased to be able to conclude these remarks by saying that we have started the year very well, and that the figures for the month of January and February are very positive, and so I would even go so far as to say that our operating revenues could exceed 17,500 million euros this year.

\* This year we celebrate our 75<sup>th</sup> anniversary, and we expect to celebrate it with a variety of personal gestures for all staff and our closest associates, and also with a number of events:

- Gala Dinner presided by Their Majesties the King and Queen of Spain, and other galas at the General and Territorial headquarters in Spain and abroad.
- International History of Insurance Gathering, and presentation of the book “75 Years of MAPFRE History”.
- International Conference on Natural Disasters organized by MAPFRE RE.

The FUNDACION MAPFRE also expects to inaugurate its new headquarters at Paseo de Recoletos 23, and the Julio Castelo Naval Modelling Museum.

But our 75<sup>th</sup> anniversary is also a time for reflection and for expressing gratitude:

- The first is that I am sure that the best celebration for all of us who make up the MAPFRE family will be that the ambitious objectives that have been set for the financial year are met.

- The second refers to what have been the key elements that have driven our exponential business success, such that no one would have thought that MAPFRE would be its current size five years ago, and still less so ten or fifteen years ago, which phenomenon has been repeated throughout the history of MAPFRE. I personally believe that the crux and main driving force of our development has been our business culture based on our solid principles of activity: independence, ethics, humanism, social responsibility, and business growth. Out of all these, I would like to make special reference to two: Ethics and Social Responsibility.

Ethics have required that Governing Bodies, managers, employees, and associates, i.e. all persons who work or have worked at MAPFRE, should have worked with integrity, which is essential in a growth business model present in 44 countries.

Social Responsibility requires that the company, in addition to generating profits and creating employment, should offer its clients a quality service and fair treatment, and create value for its shareholders, remunerating them adequately. In effect, that it should act as a catalyst for the development of Society, which means treating all those that deal with the company with exemplary fairness.

Our culture, based on the principles I have just described, has allowed us to devote ourselves to MAPFRE with enthusiasm and effort, because we share that culture and we are proud of it.

I would like to end by expressing the necessary gratitude to our founders, on this the 75<sup>th</sup> anniversary of MAPFRE, who from the positions of highest responsibility laid the foundations for our current development, with a special mention for Ignacio Hernando de Larramendi and Julio Castelo; to the millions of insureds who have honoured us and who

honour us today with their trust; to our shareholders; to the delegates, agents, brokers, and associates who have contributed towards MAPFRE reaching its current size; and in particular, to the various generations of directors, managers, and staff, and their families, who have with their dedication and effort enabled that small mutual society born in 1933 to become today a large business Group, which looks to the future with great enthusiasm for being bigger and better.

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Thank you very much.

JMM/mh.