

The background is a solid red color. It features two thin, white, curved lines that intersect. One line curves from the top left towards the bottom right, and the other curves from the top right towards the bottom left. The text is positioned in the upper left quadrant of the page.

Consolidated Management Report

Consolidated Management Report 2006

Evolution of the market in 2006

In 2006, the market has registered a satisfactory evolution thanks to the non-existence of major natural catastrophes, there having been no individual claims that have an adverse effect on the results of the reinsurance market.

The reduction of the combined ratio, due to the above mentioned non-existence of significant natural catastrophes, together with improved financial returns, allow us to expect the reinsurance market to close the year with substantially higher results over those obtained in the 2004 and 2005 financial years, both of them affected by large and frequent catastrophe claims that gave rise to major losses.

The market has characterised by an improvement in conditions and prices in the areas and business lines affected by catastrophes and by a continuance of, or slight reduction in, the conditions and tariffs in non-affected markets. This leads to assume that, during 2007, competitors' pressure to obtain market shares and revenues according to their high capitalisation and expectations will increase.

Generally, global reinsurers are experiencing a reduction in their premium growth rates, partly arising from the voluntary limitation of their catastrophe exposure in some territories, a result of an improved ability to analyse their exposures and a reshaping of the models used, and partly from the increase in retentions and changes of proportional to non-proportional reinsurance on the part of some cedants.

Two thousand six has witnessed a continued entrance of new capital in the reinsurance sector coming from large investment funds, either in the form of side cars, catastrophe bonds or creation of new reinsurers in the Bermudas market.

The challenge ahead is to demonstrate reinsurance companies' ability to generate appropriate and sustainable results in a more competitive environment, which will be more feasible for reinsurers with diversified portfolios in terms of business lines, territories, and advanced management systems as regards their exposure.

MAPFRE RE, which in 2006 reached its 25th anniversary, has recorded an excellent financial year with a sustained increase in both revenues and results.

In 2006, the market also developed positively as regards results due to the lack of major natural catastrophes and to an improvement in the financial markets. Nevertheless, higher competition was found in the businesses and markets not affected by the heavy losses of the two preceding years.

In this context, MAPFRE RE has strengthened its commitment to the markets, has improved its financial ratings and has continued with its consolidation and expansion process, which allows it to strengthen its position for the future.

MUNICH OFFICE



Main activities

- The process of the entity's structural development has continued with the creation of the new Munich branch, which will look after the German, Austrian and Eastern European markets.
- A Strategy Committee for Latin America has been created, and the Peru and Panama markets have been allocated to the Bogota Management Centre. Also, the new Asia Pacific Area has been shaped.
- In 2006, operations have commenced of the new business platform for the US market and authorisation has been obtained to set up MAPFRE RE's branch in Canada.
- The integration of reinsurance for the MAPFRE entities in a corporate programme has been successfully completed, thus paying attention to the Group's overall needs.
- In 2006, the application of the capital model per Management Centre and Line has commenced, which has facilitated an improved management of risk and of the resources necessary for the development of business. It is worth noting that no significant inconsistencies have been found and that the capitals required by the model are adequately covered by the entity's resources.
- In July 2006, the rating agency Standard & Poor's increased MAPFRE RE's rating to AA with stable outlook. In December 2006 S&P confirmed the said rating, with a neutral opinion about MAPFRE SA's potential investment in Italy, which will be carried out in 2007. A.M. Best also confirmed, on the same dates, its A+/Positive rating. Nevertheless, in December, it changed the outlook to negative after considering the said investment. Both ratings support the entity's financial situation and its management capacity.
- The development of the new computer management system Condor has finished, which was successfully implemented during the first days of January 2007. Its development will continue throughout 2007, and its tolls will be extended. During 2006, training courses were carried out at head offices, being taught by in-house staff members, which were attended by all the users of the new system, both of head offices and of offices abroad, in order to derive the maximum performance from the system.
- In-house training programmes were developed by MAPFRE RE's professionals and technical experts on new technical instruments for reinsurance management, which will lead to better service to our clients and to improved productivity.
- Over 2006, MAPFRE RE has maintained its policy of services to cedants and markets, holding several training courses. Two seminars were held, with remarkable success, in the Life line in Latin America, and several courses taught by ITSEMAP were held in Europe, America and Asia. The TRÉBOL magazine continues to feature technical articles and interviews with outstanding professionals, and this contributes to maintaining a significant and regular link with our clients and professionals from the insurance sector worldwide.

Information on subsidiaries

CAJA REASEGURADORA DE CHILE AND INVERSIONES IBERICAS

These two entities have contributed an aggregate pre-tax result of EUR 1.2 million, with both companies' aggregate shareholders equity amounting to EUR 63.6 million.

Events after the balance sheet date

The major storms occurred in Northern Europe during January are deemed part of the expected catastrophe losses and are not envisaged to have a significant impact on the results for 2007.

Outlook

- During the recent renewal campaign, an improvement has been observed in the tariffs and conditions of the areas and lines that were affected by the major losses of 2004 and 2005 and which remain exposed to the catastrophe risk.
- In other markets, terms and conditions are maintained albeit stronger competition may be observed. Likewise, there is an increase in retentions on the part of cedants and a transformation of proportional into non-proportional reinsurance programmes, which will affect the percentage growth of the entity's premium income.
- During 2007, the portfolio will continue to be developed in markets with high growth potential, short-tail business will be fostered in North America and maximum advantage will be taken of the development capacity offered by the new Munich branch.

Proposal of resolutions

CORPORATE MANAGEMENT

- Approval of the Individual and Consolidated Annual Accounts for 2006.
- Approval of the Board of Directors' Management during financial year 2006.
- Approval of the following proposal of distribution of the available net profit:

DISTRIBUTION OF RESULTS

Distribution basis	euros
Result of the year ⁽¹⁾	44,262,032.59
Result from previous years pending application	66,007,584.77
Total	110,269,617.36

(1) Corresponds to the parent company.

Distribution	euros
Legal reserve	4,426,203.26
Dividend	34,670,912.64
Donation to MAPFRE Foundations	1,130,000.00
Remainder	70,042,501.46
Total	110,269,617.36

GOVERNANCE BODIES

- Reappointment of directors Mr. Lorenzo Garagorri, Mr. Rolf Mehr, and SOCIETÀ CATTOLICA DI ASSICURAZIONE as members of the Board of Directors for a further four-year mandate.

OTHER PROPOSALS

- Extension of the appointment of Ernst & Young, S.L. as auditing firm of the company's accounts for a period of one year.
- Donation to FUNDACIÓN MAPFRE amounting to EUR 1,130,000 in accordance with the proposed distribution of profits for the year.
- Authorisation to the Board of Directors in order that, pursuant to the provisions of article 13 of the Corporations Act, it may, during a period of five years from the date of this resolution, increase the share capital one or several times, up to the maximum figure legally allowed.
- Delegation of powers for the fulfilment and raising to public status of the resolutions adopted by the Shareholders Meeting.
- Vote of thanks to all staff for their loyal cooperation during the year.

ARGENTINA OFFICE



Economic and statistical information

INCOME STATEMENT UNDER IFRS	2006	2005	2004	Var. % 06/05	Var. % 05/04
ACCEPTED REINSURANCE					
Accepted premiums	1,437.7	1,337.4	1,132.6	7%	18%
Premiums earned in the year	1,276.9	1,197.4	941.1	7%	27%
Claims (including claim related expenses)	(739.3)	(916.9)	(507.4)	(19)%	81%
Operating expenses and other technical expenses	(393.5)	(350.8)	(296.5)	12%	18%
RESULT OF ACCEPTED REINSURANCE	144.2	(70.3)	137.1	(305)%	(151)%
RETROCEDED REINSURANCE					
Premiums and variation in provision for unearned premiums	(399.3)	(362.0)	(301.8)	10%	20%
Claims paid and variation in provision for claims	223.9	351.2	124.8	(36)%	181%
Commissions and participations	95.4	89.2	83.6	7%	7%
RESULT OF RETROCEDED REINSURANCE	(80.0)	78.4	(93.4)	(202)%	184%
Other technical revenues and expenses	(0.6)	(1.2)	(1.1)	(49)%	7%
RESULT OF THE TECHNICAL ACCOUNT LIFE AND NON LIFE	63.6	7.0	42.6	810%	(84)%
Net revenues from investments	54.7	59.4	32.6	(8)%	82%
Unrealised investment gains and losses		0.0	0.0		
Other non technical revenues and expenses	(2.6)	(3.4)	(3.4)	(23)%	(1)%
Results of minority shareholdings		0.2	0.1	(100)%	200%
RESULT OF THE LIFE AND NON LIFE BUSINESS	115.8	63.3	72.0	83%	(12)%
RESULT FROM OTHER ACTIVITIES		0.0	0.0		
RESULT BEFORE TAXES AND MINORITY INTERESTS	115.8	63.3	72.0	83%	(12)%
Corporation tax	(38.6)	(22.1)	(26.4)	74%	(16)%
Result after tax on discontinued operations		(8.9)	0.0		
RESULT AFTER TAX	77.2	32.2	45.6	139%	(29)%
Minority shareholders	0.0	0.0	0.0	(108)%	767%
RESULT AFTER TAX AND MINORITY INTERESTS	77.2	32.3	45.6	139%	(29)%

EUR millions

RATIOS	2006	2005	2004
NON LIFE Business			
Claims in accepted reinsurance	57.6%	77.6%	51.7%
Expenses in accepted reinsurance	31.2%	30.0%	31.4%
Combined ratio net of retroceded reinsurance	92.3%	99.0%	92.5%
LIFE Business			
Net operating expenses / Provisions for life insurance	18.2%	12.9%	12.9%

COMPOSITION OF THE ACCEPTED PREMIUMS	2006	2005	2004	Var. % 06/05	Var. % 05/04
Non Life	1,336.6	1,241.7	1,060.2	7.6%	17.1%
Life	101.0	95.7	72.4	5.5%	32.2%
TOTAL	1,437.7	1,337.4	1,132.6	7.5%	18.1%

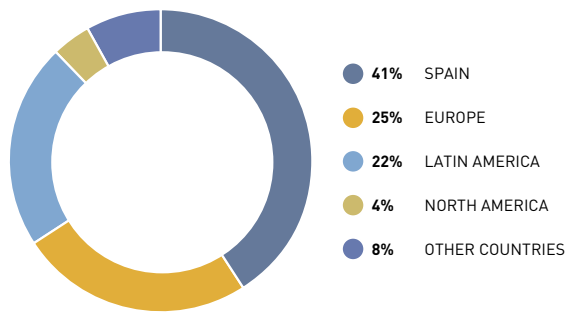
BASIC BALANCE SHEET MAGNITUDES (IFRS)	2006	2005	2004	Var. % 06/05	Var. % 05/04
Financial investments and cash	1,486.3	1,374.3	1,096.1	8.1%	25.4%
Total assets	2,660.6	2,545.2	1,916.7	4.5%	32.8%
Equity	647.1	622.7	537.1	3.9%	15.9%
ROE	11.9%	5.2%	8.5%	129.2%	(38.7)%

EUR millions

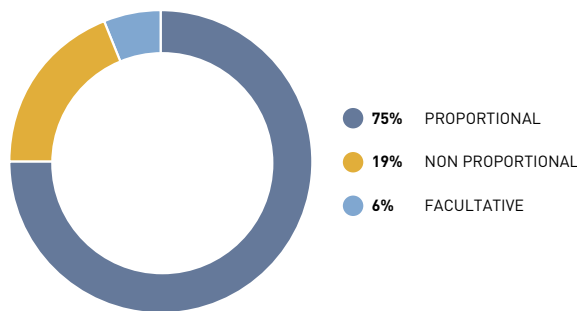
SOLVENCY AND COVERAGE DATA	2006	2005	2004	Var. % 06/05	Var. % 05/04
Technical provisions to be covered	1,539.31	1,487.4	1,047.0	3.5%	42.1%
Excess of qualifying assets over provisions	386.86	447.0	358.0	(13.5)%	24.9%
Minimum amount of solvency margin (consolidated)	201.25	198.1	178.0	1.6%	11.3%
Solvency margin (consolidated)	605.92	608.7	502.6	(0.5)%	21.1%
Times required minimum	3.0	3.1	2.8	(2.0)%	8.8%

OTHER INFORMATION	2006	2005	2004	Var. % 06/05	Var. % 05/04
Employees	256	251	258	2.0%	(2.7)%
% commissions on written premiums, accepted reinsurance	28.9%	24.5%	23.7%	18.0%	3.4%
% internal management expenses of accepted premiums	2.3%	2.3%	2.6%	0.0%	(11.5)%
Contracts in force at year end (incl. facultative business)	21,121	20,927	19,905	0.9%	5.1%

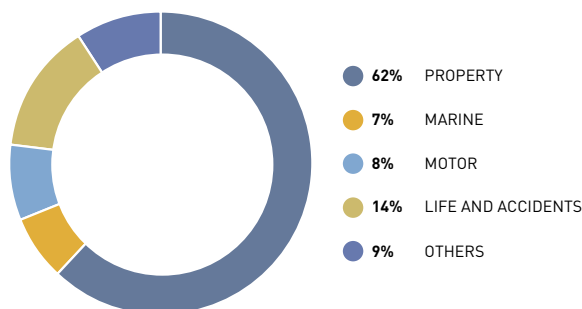
PORTFOLIO MIX PER GEOGRAPHICAL AREA



PORTFOLIO MIX PER TYPE OF BUSINESS



PORTFOLIO MIX PER LINE



Additional notes

ENVIRONMENT

MAPFRE RE, as an entity belonging to SISTEMA MAPFRE, assumes the latter's commitment to environment, consisting of integrating environmental criteria into the development of its activity, and of the control and reduction of its potential impact on it, this being in any case moderate due to the nature of the said activities. Along this line, MAPFRE, in addition to assuming the environmental commitments established in the UN Global Compact, is a member of the United Environmental Program Financial Initiative (UNEP), established for financial and insurance companies, which is promoted by the UN Program for Environment.

MAPFRE maintains a coordinated policy of Environmental care for the entire SISTEMA MAPFRE, to which effect a specific Department has been created, which forms part of the said SISTEMA's Directorate of Safety and Environment. This new Department has carried out a complete assessment of the environmental situation at the various MAPFRE entities and installations, which has given rise to adopting MAPFRE's Environmental Policy and to drafting an Action Plan. This Plan includes specific actions essentially focusing on making an efficient use of resources in order to achieve savings in water, energy and paper, while ensuring compliance with the legislation and improvement of environmental risk.

STAFF

The structure of staff rendering their services to the company is as follows:

Category	2006	2005	2004
Managerial	65	66	66
Clerical	102	98	107
Marketing	9	18	16
Others	80	69	69
Total	256	251	258

INVESTMENTS

As regards financial investments, MAPFRE RE's policy to mitigate its exposure to this type of risks is based on a prudent investment policy, with most of the portfolio consisting of fixed income securities.

With respect to credit risk, MAPFRE RE's policy is based on prudence (issuer's solvency) and diversification. Thus, its fixed income portfolio consists mostly of securities with high credit ratings.

Diversification criteria are applied, in relation to both fixed income and equity investments, by activity sector and maximum risk limits per issuer.