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The following is a Company Announcement issued by Middlesea Insurance plc, pursuant to the Listing Rules of the Malta Financial Services Authority.

Quote

Board of Directors of Middlesea Insurance plc issues its views to the shareholders on the Bid offered by MAPFRE Internacional S.A.

Further to the Company Announcement issued on 11 August 2011, whereby it was communicated that MAPFRE Internacional S.A. had proceeded with the Mandatory Bid and had issued the Offer Document pursuant to the provisions of the Listing Rules, the Board of Directors of Middlesea Insurance plc (the “**Company**”) has issued a statement with its views of the Bid.

The full statement with pertinent Annex is being attached herewith in terms of the Listing Rules. The Board of Directors’ statement is also available for viewing on the Company’s website at www.middlesea.com. Shareholders on the Company’s register as at 29 July 2011, may also collect a physical copy of the Board of Directors’ statement from the Company’s head office in Floriana.

Unquote

By order of the Board

Joseph FX Zahra
Chairman of the Board of Directors



Middlesea Insurance p.l.c.

Statement from the Board Of Directors of Middlesea Insurance plc with regard to the Mandatory Bid Offer from MAPFRE Internacional S.A.

21 August 2011



1) INTRODUCTION

On 29 July 2011, MAPFRE Internacional S.A. (the “**Offeror**”), following regulatory approval, acquired Munich Re’s 19.9% shareholding in Middlesea Insurance plc (“**MSI**”). With this acquisition, MAPFRE Internacional S.A. has increased its aggregate shareholding in MSI’s issued share capital to 50.98%, and has thereby acquired a controlling interest in MSI.

In terms of Chapter 11 of the Listing Rules issued by the Listing Authority at the Malta Financial Services Authority (the “**Listing Rules**”), the Offeror, as a consequence of the acquisition of the controlling interest in MSI, is required to make a mandatory bid for the remaining shares in MSI (the “**Mandatory Bid**”), whereby the other shareholders in MSI are entitled (but not obliged) to sell their shareholding in MSI to the Offeror at the price of €0.965 per share (the “**Bid Price**”).

The Offeror has informed the Listing Authority of the Mandatory Bid, and on 5 August 2011 announced its decision to launch the Mandatory Bid.

On 11 August 2011 the Offeror published an offer document (the “**Offer Document**”) containing *inter alia* the terms of the Mandatory Bid, including the Bid Price. The Bid Price is determined in accordance with Rules 11.38, 11.39 and 11.40 of the Listing Rules.

In terms of the Mandatory Bid, the shareholders have the right to opt to sell their shares to the Offeror at the Bid Price, but they are not in any manner obliged to divest of their current shareholding. Where a shareholder opts to sell its shares to the Offeror at the Bid Price, the Offeror is obliged to acquire such shares.

A copy of the Offer Document has been circulated by the Offeror to all the shareholders and is available on MSI website at www.middlesea.com.

The Offer Document has been submitted to the Malta Financial Services Authority in terms of the Listing Rules. A report on the Bid Price, drawn up by Ernst & Young (being an expert who is independent of the Offeror and MSI), is appended to the Offer Document.

This statement is being made by the Board of Directors (the “**Board**”) of MSI pursuant to Rules 11.28, 11.29, 11.30 and 11.31 of the Listing Rules.

Three members of the Board of MSI (namely, Mr Andres Jimenez Herradón, Mr Javier Fernandez-Cid Plañiol and Mr Pedro Lopez Solanes), being employees of the Offeror, have declared themselves disqualified and have abstained from participating in the deliberations leading to the issuance of this statement prepared by the Board of MSI. Accordingly, unless the context otherwise required, references to the “Board of Directors” or the “Board” in this statement only include the directors of the Board who are not employed by the Offeror.

The Board has engaged Charts Investment Management Service Limited to consider the Bid Price for the purpose of providing an expert opinion thereon. The Board has also consulted the local law firm of Mamo TCV Advocates during the offer process as deemed appropriate.

The Board has issued this statement after having reviewed the Offer Document and the expert opinion of Charts Investment Management Service Limited.



2) BACKGROUND INFORMATION

On 29 April 2011, in a letter addressed to the Chairman of MSI, the Offeror informed the Board of MSI that, subject to regulatory approval, the Offeror had reached an agreement with Munich Re to purchase and acquire Munich Re's 19.9% shareholding in MSI. Regulatory approval for the Offeror to increase its shareholding was granted on 16 June 2011 by the Insurance and Pensions Supervision Division and on 15 July 2011 from the Authorisation Unit of the MFSA. On 29 July 2011, the Offeror acquired Munich Re's 19.9% shareholding in MSI, and as a result of this acquisition the Offeror increased its aggregate shareholding in MSI to 50.98%, thereby acquiring a controlling interest in MSI.

Consequently, and in line with regulatory requirements laid down in Chapter 11 of the Listing Rules, the Offeror has been required to make the Mandatory Bid and has accordingly, through the Offer Document, made a general offer to all the other shareholders of MSI to acquire their shareholding at the Bid Price. The Bid Price is established in accordance with the specific provisions of the Listing Rules, and is communicated in the Offer Document.

In this context, it should be noted that in its letter of the 29 April 2011, the Offeror stressed its desire to maintain the current listed status of MSI, and to work with the Listing Authority and all the other shareholders in this regard.

On the same day, by virtue of a Company Announcement dated 29 April 2011, Bank of Valletta plc ("BOV"), being the second largest shareholder, currently holding 31.08% of the issued share capital in MSI, informed the market and the public that it had conditionally agreed with the Offeror that it will not tender its shares for sale under the Mandatory Bid. Appropriate disclosure of this agreement between the Offeror and BOV is made in the Offer Document.

3) CONSIDERATIONS

3.1 Strategic Outlook

The Offeror intends to maintain its support in the reorganisation process of MSI which it started in 2010 in order to ensure strategic alignment, boost management and improve operational efficiency for the benefit of all shareholders and policyholders. Synergies with MAPFRE Group companies will be sought to boost operational efficiency and contribute positively to the performance and bottom line results of MSI.

The Offeror intends to improve on the current leading position of MSI and the Middlesea Group in Malta, in both the Life and Non-Life Insurance Market, with the introduction of new innovative products, additional expertise and more efficient information technology and work procedures.

As communicated in section 8 of the Offer Document, by acquiring a controlling interest in MSI, MAPFRE would be strengthening its commitment to the European Insurance Market, as well as its business expansion in the southern regions of the European Union.

During its meeting of 29 April 2011, the Board of MSI, having received news of the share acquisition arrangement between Munich Re and the Offeror, expressed a positive sentiment and



outlook after taking into account the reputation of the MAPFRE Group, its brand equity and goodwill, its international spread, as well as MAPFRE Group's financial strength and technical expertise across a wide spectrum of insurance related services and activities. The Board of MSI also interpreted the news as a vote of confidence in MSI and its future potential.

3.2 Employees and location

According to section 8 of the Offer Document, the Offeror does not intend to carry out material changes in the current conditions of employment in place at MSI as a direct consequence of acquiring a controlling interest in MSI. The Offeror is confident that its strategic involvement and leadership role in MSI should, over time, have a positive influence on the Maltese economy and will be beneficial to its shareholders and employees.

The Offeror intends to leverage the best strategies and personnel in MSI and MAPFRE Internacional S.A., in order to effectively compete in the marketplace, improve on the current leading position of MSI in the local insurance market, and to seek further sustainable growth for the benefit of all the shareholders, policyholders, employees and all stakeholders of MSI.

Core to its values, the Offeror is committed to fairness, meritocracy and the rewarding of talent, and seeks efficiency and development in human resources related matters. Given its global dimensions, the Offeror also intends to invest further in the development of MSI employees, and to complement local expertise with other international specialised expertise within the MAPFRE Group, in order to boost the operations of MSI and provide it with a competitive edge in the local Market.

MSI has informed all its employees and the recognised Trade Union of the developments and of the Mandatory Bid. No objections or concerns were raised on the Mandatory Bid.

MSI will not change its brand name as a direct consequence of the acquisition of a controlling interest by the Offeror and the company's operations and head office will continue to be located in Malta, with a priority business focus on the local market. Any future potential business opportunities will be considered on the basis of rationale and feasibility. Any market niche to be considered in Malta or abroad will be based on an assessment of financial feasibility, risk and fit with MSI's strategies and corporate values. However, the priority focus of MSI is the local market.

3.3 Listing status

The Offeror has expressed directly its desire to maintain MSI's status as a listed company on the Malta Stock Exchange, and to work accordingly with the Listing Authority and with all the other shareholders of MSI in this regard. The Offeror will be looking to further improve the business potential and prospects of future sustainable profits for the mutual benefit of all shareholders and stakeholders of MSI.

The Offeror is not seeking to buy out and squeeze out the other shareholders. Rather, it is obliged to proceed with this Mandatory Bid because of the provisions of the Listing Rules. Whilst it does not desire to squeeze out the other shareholders, the Offeror is fully committed to comply and adhere with all relevant legislation, and will honour fully its obligations to buy any shares which the current shareholders wish to sell in terms of the Offer Document.



3.4 Opinion on the Bid Price

Charts Investment Management Service Limited have reviewed the Offer Document and the Bid Price, and have issued an opinion to the Board of MSI dated 16 August 2011, as per Annex A of this document.

Charts Investment Management Service Limited have confirmed that the Bid Price has been established in line with the specific provisions of the Listing Rules. Shareholders are encouraged to read through the complete report prepared by the appointed expert as presented in its entirety in Annex A.

4) CONCLUSIONS

Taking into consideration the available information and the opinion obtained from Charts Investment Management Service Limited, the Board of MSI draws the following summary conclusions, which are being provided for the consideration of shareholders when assessing their position and action with regard to the Offer Document and the Bid Price:

- i. As opined by Ernst and Young, and also corroborated by Charts Investment Management Service Limited, the Board of MSI confirms that the Bid Price complies with the applicable provisions of the Listing Rules for the establishment of the “equitable price”.
- ii. The Board notes that the mechanism used in establishing the Bid Price in terms of the Listing Rules is historically-based, and does not necessarily factor in the present value of future economic benefits. Therefore, the Bid Price may not give full weight to factors such as the future strategic and business potential of the company, the goodwill of the MAPFRE brand, and the industry expertise of the Offeror, in assessing the intrinsic value of MSI and its underlying shares.
- iii. Considering the historically based equitable price, the Board cannot conclude categorically whether to recommend to the shareholders that they should accept or otherwise the Mandatory Bid, as this decision should be based on the current position, needs and aspirations of individual shareholders. The Board refers to the aforementioned considerations that, in the view of the Board, may be of relevance to the shareholders in the evaluation of the Mandatory Bid. **In this regard, we strongly recommend that shareholders seek advice and guidance from their stockbrokers and/or legal and financial advisers, in order to assess their individual positions and make their own decisions.**
- iv. Furthermore, the Board emphasises that the business of insurance deals inherently with the business of risks, and as with any type of investment and financial instrument, the value of shares can rise and fall, and past performance does not provide a guarantee for the future.
- v. It is also relevant to note that the Offeror has expressed its desire to maintain MSI’s status as a listed company on the Malta Stock Exchange, and to work together with the Listing Authority and the other shareholders in this regard. In its Company Announcement dated 29 April 2011, BOV (which is MSI’s other main and significant institutional shareholder), also expressed its desire to maintain the listed status of MSI. BOV, which currently holds 31.08% of the issued



share capital of MSI, has also agreed that it will not tender its shares for sale under the Mandatory Bid.

- vi. As at the date of this statement, the members of the Board of MSI who directly or indirectly own shares in the Company are Mr Joseph F.X. Zahra, The Noble Paul Testaferrata Moroni Viani and Mr Gaston Debono Grech. All these directors have decided not to accept the bid in the Mandatory Offer and to retain their shareholding in MSI.

By Order of the Board of Directors of Middlesea Insurance plc

Joseph F.X. Zahra
Chairman of the Board of Directors

21 August 2011



Annex A

Independent report from Charts Investment Management Service Ltd

16 August 2011

The Board of Directors
Middlesea Insurance p.l.c.
Middle Sea House
Floriana FRN 1442
Malta

Members of the Board:

Independent expert report on the Mandatory Bid being made by Mapfre Internacional to the minority shareholders of Middlesea Insurance p.l.c.

INTRODUCTION

On 29 July 2011, Mapfre Internacional (“**Mapfre**”) acquired from Munich Re 18,308,000 ordinary shares of Middlesea Insurance p.l.c. (the “**Company**”), representing 19.9% of the Company’s issued share capital. Following this transaction, Mapfre’s shareholding in the Company increased to 50.98% which constitutes a controlling interest in the Company. In terms of Listing Rule 11.8, Mapfre is required to make a Mandatory Bid to the minority shareholders of the Company at a price not lower than the equitable price.

We have been engaged by the Company:

- (i) to confirm that the price offered by Mapfre to the minority shareholders, to purchase shares of the Company, is equitable; and
- (ii) to provide the Board of Directors of the Company with an opinion on the price being offered in comparison with the fair value of its business.

EQUITABLE PRICE

In accordance with Listing Rules 11.39.1 to 11.39.4, the equitable price is the highest price determined by the following criteria:

- (i) Listing Rule 11.39.1 - During the six-month period 29 January 2011 to 28 July 2011, the shares of Middlesea Insurance p.l.c. (the “Shares”) traded on 50 occasions in which a total of 151,581 Shares were transacted for an aggregate amount of €146,198.889. As a result, the weighted average price of the Shares transacted during the said six-month period was **€0.964**.
- (ii) Listing Rules 11.39.2 and 11.39.3 are not applicable since Mapfre did not transact in the Shares during the period 29 January 2011 to 28 July 2011.
- (iii) Listing Rule 11.39.4 – In the last ten trading sessions in which the Shares traded, a total of 21,564 Shares were transacted totaling €21,772.535. The weighted average price is calculated at €1.01, which is 4.66% above the price of €0.965 being offered by Mapfre to the minority shareholders. Listing Rule 11.39.4 permits an offer price that is not lower than 10% the above weighted average price, that is not lower than **€0.909**.

The highest price derived by the above criteria is €0.964 and is therefore deemed to be the equitable price. This equitable price of €0.964 is marginally below the price being offered by Mapfre to the minority shareholders. Consequently, we hereby confirm that the offer price determined by Mapfre is in compliance with Listing Rules 11.38 and 11.39.

OPINION ON THE OFFER PRICE

Financial Overview of the Company

The Company went through two challenging years (2008 and 2009), in which significant losses were incurred and reserves were depleted. The situation was brought to an end when the Board decided to place into liquidation the Italian subsidiary – Progress Assicurazioni SpA, and following a rights issue through which €40.2 million was injected as fresh capital in the Company.

In 2010, the Board embarked on a new strategy plan with the prime objective to focus on strengthening the Company's position in Malta. During the year, the Company maintained its leading market share and registered profits amounting to €5.4 million.

Effect of Acquisition on the Company

Mapfre has been a shareholder in the Company since 2002 and prior to the acquisition of shares from Munich Re in April 2011, held 31.08% of the issued share capital. As from 2010, Mapfre has been active in the re-organisation of the Company and implementation of the new strategic plan. Through the said acquisition of 19.9% shareholding from Munich Re, Mapfre is now the largest shareholder and is set to take a leading role in growing the Company's business.

Mapfre is present in 43 countries around the world and is one of the largest insurance companies in Spain and Latin America. In 2010, Mapfre generated revenues of over €20.4 billion and wrote premiums close to €17 billion.

In the Offer Document distributed to the Company's shareholders, Mapfre is committed to '*embark on a knowledge transfer initiative*' to support the Company's strategy of growing the business locally and to develop a number of niches. This knowledge will benefit the Company since Mapfre invests heavily in market research and development of new products. It will also enable the Company to better assess claims and premium levels for the benefit of policyholders and ultimately the Company's shareholders.

The increased participation of Mapfre in the Company signifies that it will get more involved in the business of MSV Life p.l.c., which is 50% owned by the Company. Mapfre has extensive expertise in life business and in pension and retirement pension business, which are areas that have outstanding potential for future growth in Malta.

The Offer Price

In accordance with the Listing Rules Mapfre is required, following the increase in its stake in the Company to 50.98%, to make an offer to the shareholders for the acquisition of all the shares in the Company. The Offer Price has been established at the minimum amount required by the applicable Listing Rules, that is, at the Equitable Price. As stated in Sections 3.1 and 4.1 of the Offer Document, the Offer Price *“has not been considered on commercial terms”* and even though Mapfre have a preference to retain *“a strong consumer and public element”* in the shareholding of the Company, they have complied with the relevant regulation in order to ensure that the rights of investors are safeguarded.

Opinion

The Company went through a negative experience in recent years, which served as an eye-opener. In fact, the financial year 2010 was characterised by major changes within the Board and a reorganisation of the Company’s management structures. The key target for the year was to stabilise the Company’s financial situation, whilst maintaining its dominant position in the local insurance market. Amidst the slow recovery in international markets and continued fierce competition locally, the Company made a remarkable turn-around in 2010 and registered profits for the financial year. The Board has shown courage in implementing certain decisions, the results of which are showing initial positive signs. We are confident that the Company’s profitability and market share of the local insurance industry will continue to grow in the coming years, and this should lead to the resumption of dividend payments on a regular basis.

The acquisition of a controlling interest by Mapfre is of significance to the Company and its future prospects. Assuming that Mapfre will abide by the statements made in the Offer Document, this will ensure and accelerate the implementation of the Company’s strategic plans and visions. Moreover, the Company will benefit tremendously from the knowledge and international experience of this global insurance company. This knowledge transfer is invaluable and will definitely give the Company a cutting-edge over its competitors. It will also empower the Company to be at the forefront in offering new insurance products in the market, which the directors believe still has potential for substantial growth. This continual support should enable the Company to enhance its revenues and reduce costs, resulting in an increase in its profit margin and bottom-line profits.

Taking into consideration the current performance and future prospects of the Company, as well as the statements, assumptions and considerations included in the Offer Document issued by Mapfre, and the fact that this Mandatory Bid is a legal obligation, we are of the view that the Offer Price of €0.965 being offered by Mapfre to the Company’s shareholders does not reflect the full underlying value of the Company.

USE OF THIS REPORT

We have prepared this report in our capacity as experts, independent of Mapfre, Munich Re and the Company, to ascertain that the price offered by Mapfre is equitable and to provide an opinion on the offer price.

Our confirmation and opinion in this report is not intended to be and does not constitute a recommendation to any shareholder as to how such shareholder should act on any matters relating to the offer.

We hereby consent to this report to be made available to the Company's shareholders.

Yours faithfully,



Wilfred Mallia
Director