

**REPORT ON THE ACTIVITIES OF  
THE CAPITAL GROUP OF  
POWSZECHNY ZAKŁAD UBEZPIECZEŃ  
SPÓŁKA AKCYJNA  
IN THE FIRST HALF OF 2010**

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## INTRODUCTION

### 1. Overview of consolidated financial performance

The financial performance of the PZU Group in the first half of 2010 was mainly affected by:

- changes in the structure of written premium:
  - a drop in written premium in property insurance related, among others, to restructuring of the corporate customer segment portfolio;
  - a rise in life insurance segment sales;
- a significant impact of one-off events on the profit/loss on insurance activity:
  - heavy snowfall in winter;
  - two floods in May and June;
  - lower amount of released technical provisions due to conversion of multi-year policies into single-year ones in P group life insurance;
- a decrease in administrative expenses due to fixed cost reduction;
- good profit achieved on investing activities despite a significant drop in the value of the investment portfolio (advance dividend payment of PLN 12,750 million in November 2009);
- consistent implementation of the strategy of the PZU Group with respect to:
  - maintaining the leading position in group life insurance with a stable level of profitability of this business line;
  - restructuring of the corporate customer motor insurance portfolio quality in property and casualty insurance;
  - implementation of restructuring processes aimed at reduction of administrative expenses (conclusion of negotiations concerning the collective labor agreement with union and commencement of the lay-off process).

In the first half of the 2010, the net profit decreased, however the ROE remained stable.

### 2. Macroeconomic conditions in the first half of 2010

#### 2.1 Major economic trends and economic growth rate

In the first half of 2010 the Polish economy was still recovering despite disruptions caused by a harsh winter in Q1 as well as national mourning and flood in Q2.

In Q1 2010 GDP rise was 3.0% year on year. Due to a harsh winter, the level of investments dropped substantially (-12.4% year on year). Nevertheless, it did not have any effect on a rise in individual consumption to 2.2% year on year. Adverse weather conditions had a particularly strong impact on public infrastructure investments, which currently constitute the most dynamic element of the investment demand. Despite a low level of investments, the rise in domestic demand in Q1 2010 was the strongest since the end of 2008. In addition to an increase in consumption, the above resulted from replenished share, which increased for the first time since Q3 2008. What dropped substantially, though, was the contribution of net export to GDP rise. As regards production, the major

factor that affected GDP rise was increasing gross value added in the industry, although the gross value added in the construction sector decreased considerably as a result of the winter. Surprisingly, the gross value added in market services dropped for the first time since a long time, mainly as a result of a slump in the financial brokerage industry, where the gross value added dropped by as much as 27.4% year on year.

It appears that GDP in Q2 2010 will rise compared to Q1 2010 and may reach even 3.5% year on year. It was a period of a strong economic rebound after the winter, also in the key export market of Poland, i.e. Germany, where GDP rise was the highest since the early 1990s. Therefore, the increase in industrial production in Poland driven by external demand (in the first half of 2010 the rise in export reached approx. 20%) and share replenishment turned out to be extremely high. Over the entire first half of 2010 the value of industrial production sold exceeded the pre-crisis level. At the same time, losses recorded in the construction and assembly industry due to a harsh winter were offset. After a drop observed in April due to the national mourning, a rise was recorded in retail sales and economic analyses indicate that the improvement is likely to continue. However, both monetary data (a decrease in the level of debt assumed by enterprises at banks in the first half of the year, after elimination of the effects of PLN exchange rate fluctuations as well as an increase in the level of their deposits) and economic analyses confirm also that the interest of enterprises in new investments at the beginning of Q3 remained low. Despite of improvements in Q2, insufficient demand remains the major problem reported by business entities, which, considering the uncertainty as to the future economic conditions and production capacity expanded before, results in continuing low investment activity of private enterprises.

## **2.2 Capital market**

Compared to the end of 2009, in mid-2010 a rise was observed in the prices of Treasury bonds in the domestic market, whereas the prices of WSE-listed shares decreased (WIG – by 1.5% and WIG 20 – by 4.9%). Although the yield on Polish T-bonds (up to 10 years) decreased sharply in Q1 2010 (by 66-78 b.p.), in Q2 the yield curve rose offsetting a portion of previous gains on debt securities (by 40 points in the case of 10-year, 27 points in the case of 5-year and 32 points in the case of 2-year bonds). A drop in the bond yield in Q1 reflected the relatively low yield on bonds in the underlying markets and a rise in the demand of foreign investors, who appreciated the stability of the Polish economy considering the problems faced by Greece and other euro zone peripheral countries. However, the debt crisis unfolding in those countries led to strong risk aversion in international financial markets, which resulted, among others, in falling prices of Polish T-bonds in Q2. The same factors affected the conditions in the equity market in the first half of 2010. Although a correction was observed at the WSE in late January and early February, it turned out a temporary phenomenon and at the end of February the prices of shares started to grow again. Consequently, from the end of 2009 to the end of March 2010 the WIG index grew by 6.2% and WIG20 - by 4.5%. However, the prices of equity securities (including those listed at the WSE) started to fall in April. From the end of March to the end of June the WIG index dropped by 7.2%, whereas WIG 20 by almost 9%.

## **2.3 Monetary policy, interest rates and inflation**

Inflation measured by CPI dropped from 3.5% YoY at the end of 2009 to 2.3% YoY in June 2010. The net inflation rate dropped in the period from 2.6% YoY to 1.5% YoY. Although the demand-driven

pressure on price growth cannot be seen yet, its effects will become noticeable as economic growth accelerates. Increased risk aversion in international financial markets accompanied by a rise in FX rates supported a rise in production prices as well as imported goods (including spare parts for cars) and fuel. Floods together with rainy and humid weather resulted in unprecedented growth in food prices in June as well as an unexpected CPI increase in the same month. In the analyzed period the Monetary Policy Council did not introduce any changes to the monetary policy parameters.

## ***2.4 Labor market and consumption***

The situation in the labor market improved in the first half of 2010. The average number of employees in the enterprise sector increased by 81.3 thousand, while at the same time in 2009 it dropped by 73 thousand. At the end of June 2010 it was higher by 1.1% year on year. The registered unemployment rate dropped from the level of 13.0% in February to 11.6% in June. In the first half of 2010 the average gross monthly pay in the enterprise sector increased moderately by 3.3% year on year. The rise in the average monthly pay in the national economy was slightly higher in the analyzed period – (4.1% YoY in Q1 and 3.9% YoY in Q2 2010), and increase in the average gross pension and disability allowance (except for agriculture) was 6.7% YoY. However, the rise in pays in the enterprise sector and the economy as a whole as well as social benefits observed in the first half of 2010 was slower compared to 2009. The effects of the recent increase in the number of employees and larger than expected drop in the unemployment rate on pay growth have not been seen yet. Although the bargaining power of employees still remains relatively limited, good financial position of enterprises will facilitate pay concessions by employers. Additionally, in Q1 2010 the growth rate of real income from hired labor was slowing down, however, due to a rise in employment in the enterprise sector and a drop in inflation this trend started to reverse in Q2.

## ***2.5 Foreign exchange rates***

Changes in level of risk aversion on international financial markets have had a considerable impact on FX rates. While in Q1 2010 PLN was gradually appreciating, the EUR/PLN exchange rate rose by 7.3%, the USD/PLN exchange rate by 18.2% and the CHF/PLN exchange rate by 16.1% from the end of March to the end of June. The above resulted from increased risk aversion in international financial markets as a consequence of the debt crisis in peripheral economies of the euro zone.

## ***2.6 Influence of macroeconomy factors***

The current economic recovery accompanied by accelerated GDP growth is also gradually improving the conditions in the insurance industry. However, at least in Q1 2010 the rebounding economic activity did not result in a rise in real income from hired labor, whereas the increase in consumer demand still remained relatively low. PLN depreciation compared to the pre-crisis period had an adverse impact on the level of the claims ratio in motor insurance due to the effect on prices of imported spare parts. In Q2 2010 the macroeconomic conditions in the insurance industry continued to improve gradually. Further improvement in labor market conditions and consumer mood may have also a slight positive impact on the demand for insurance services in the 2<sup>nd</sup> half of the year, however it will be a gradual process. The probability of interest rate increases by the end of 2010 rose somehow at the end of Q2, although it may be done by the Monetary Policy Council only in 2011,

especially if Polish zloty appreciates substantially and uncertainty as to the strength of the rebound in the Polish economic environment increases. Considering stabilization of market conditions and extremely low interest rates maintained in major global financial markets, the probability of continued PLN appreciation in the second half of the year is increasing. However, a relatively high level of public finance deficit in Poland remains a risk factor here.

## 2.7 Market share of PZU SA, PZU Życie SA and PTE PZU SA (data in line with PAS)

As of the end of March 2010 the gross written premium in the Polish insurance industry as a whole amounted to PLN 13,059.4 million, which denotes a 3.6% rise (+ PLN 475.1 million) vs. Q1 2009. The premium in property and casualty insurance increased by 3.3%, whereas life insurance companies recorded a rise of 3.9% in the same period.

As of the end of June 2010 the share of PZU SA ("PZU") in the Polish property and casualty insurance market (measured on gross written premium basis) was 38.8%, whereas the share of PZU Życie SA ("PZU Życie") in the Polish life insurance market was 23.9%. The PZU Group remains the leader in the Polish insurance market.

*Amounts in PLN million*

Property and casualty insurance - Gross written premium	1 January – 31 March 2010			1 January – 31 March 2009		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	537.1	1 228.4	691.3	578.4	1 230.1	651.7
TPL motor insurance	689.0	1 812.2	1 123.2	757.2	1 845.3	1 088.1
Other products	1 042.1	2 800.9	1 758.8	1 044.6	2 579.9	1 535.3
<b>TOTAL</b>	<b>2 268.2</b>	<b>5 841.5</b>	<b>3 573.3</b>	<b>2 380.2</b>	<b>5 655.3</b>	<b>3 275.1</b>

In the first half of 2010 the property and casualty insurance market grew slowly (approx. 3.3%). However, in contrast to the life insurance sector, the profitability of property insurance is decreasing (technical loss of the market: PLN -343.9 million), which results from a rise in the claims ratio, including the incidence of claims, and the price pressure due to strong competition.

PZU SA share in market premium (%)	31 March 2010	31 March 2009
Comprehensive car insurance	43.7%	47.0%
TPL motor insurance	38.0%	41.0%
Other products	37.2%	40.5%
<b>TOTAL</b>	<b>38.8%</b>	<b>42.1%</b>

Implementation of the corporate insurance portfolio restructuring program, in particular as regards motor insurance due to its high claims ratio, was the main reason for a drop in the market share of PZU. The above program involves restrictive underwriting policy with respect to higher risk activities.

Amounts in PLN million

Technical results	1 January – 31 March 2010			1 January – 31 March 2009		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	(8.8)	(138.8)	(130.0)	128.4	109.0	(19.4)
TPL motor insurance	33.4	(94.4)	(127.8)	7.8	(174.3)	(182.1)
Other products	(84.0)	(110.7)	(26.8)	180.1	272.7	92.6
<b>TOTAL</b>	<b>(59.3)</b>	<b>(343.9)</b>	<b>(284.6)</b>	<b>316.4</b>	<b>207.5</b>	<b>(109.0)</b>

Despite a harsh winter, which has had a particularly strong impact on PZU due to its leading position in the agricultural insurance market, in Q1 2010 the Company's technical results remained very good compared to other market players. The above is noticeable especially as regards motor insurance, where PZU managed to retain positive technical profitability, while its competitors recorded a technical loss of approx. 14%, mainly as a result of low motor insurance prices in the Polish market (substantially lower than in other EU member states).

Amounts in PLN million

Life insurance market – gross written premium	1 January – 31 March 2010			1 January – 31 March 2009		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Regular premium	1 586.3	3 645.3	2 059.0	1 546.8	3 460.2	1 913.4
Single premium	250.5	4 047.7	3 797.2	458.2	3 943.9	3 485.7
<b>TOTAL</b>	<b>1 836.8</b>	<b>7 693.0</b>	<b>5 856.2</b>	<b>2 005.0</b>	<b>7 404.1</b>	<b>5 399.1</b>

Life insurance market – share	31 March 2010	31 March 2009
Regular premium	43.5%	44.7%
Single premium	6.2%	11.6%
<b>TOTAL</b>	<b>23.9%</b>	<b>27.1%</b>

In the life insurance market the regular premium rose by 5.3% and the single premium by 2.6%. The rise in the regular premium is correlated with increased pays and employment in the economy, whereas the single premium has remained at a stable level. The market share of PZU Życie SA decreased mainly as a result of lower written premium from single premium insurance, where deposits embedded in policies (distributed through bank's network with relatively low profitability) constitute the major product group. Lower exposure to such products results from a focus on sales of higher margin products and limitation of the asset concentration risk. As regards regular premium insurance, which is not exposed to considerable market fluctuations and does not involve significant margins, the market share of PZU remains stable and the Company's position leading among other market players.

PLN million

Technical result	1 January – 31 March 2010			1 January – 31 March 2009		
	PZU Życie	Market	Market, excluding PZU Życie	PZU Życi	Market	Market, excluding PZU Życie
	683.9	1 053.1	369.2	970.7	1 283.0	312.3



The technical result of PZU Życie accounts for a major part of the result generated by all life insurance companies in the market. A drop recorded in Q1 2010 year on year results mainly from a lower decrease of insurance provisions of P group insurance resulting from conversion of long-term contracts into one-year renewable ones.

Pension funds market	30 June 2010			30 June 2009		
	OFE PZU	Open pension fund market	Open pension fund market, excluding PZU	OFE PZU	Open pension fund market	Open pension fund market, excluding PZU
Number of OPF members	2 158 954	14 612 907	12 453 953	2 056 595	14 111 304	12 054 709
Net AUM in PLN million	26 816.9	193 189.9	166 373.0	20 818.6	152 908.2	132 089.6

  

Market share of OFE PZU "Złota Jesień" (%)	30 June 2010	30 June 2009
Number of OPF members	14.8%	14.6%
Net AUM	13.9%	13.6%

At end of 2<sup>nd</sup> half of the year there was 2,158 thousands members in OFE PZU, which accounts for 14.8% of all fund members and makes it third in the market. Compared to the end of June 2009, the number of OFE PZU members increased by 102 thousand, i.e. 5% (while the total number of members rose by 3.6%).

In the first half of 2010 the number of first time clients concluding contracts with a pension fund dropped by 20% due to negative demographic factors (individuals born at the time of population decline reach the production age) and worsening of the labor market conditions.

Additionally, a large number of people decided to change their fund (a 6% rise compared to similar transfer sessions in 2009). OFE PZU is among funds with a positive transfer balance and holds the fourth position with the total of 9 960 individuals in the first half of the year (net transfers from two sections in 2010).

At the end of June 2010, the total net assets of all funds amounted to PLN 193 189.89 million and increased by 26.3% compared to the first half of 2009. During this period, the assets of OFE PZU increased by 28.8% to PLN 26 816.87 million. The above rise was mainly driven by the level of premiums received from the Social Insurance Institution as well as profits on investing activities. In the first half of 2010 the Social Insurance Institution transferred premiums of PLN 1 545.07 million to OFE PZU, which was almost 11.3% more year on year (according to data published by the Polish Financial Supervision Authority – KNF).

## **2.8 Macroeconomic factors that affect the Group activity in the second half of 2010**

Due to a rise in prices in June and the possible increase in demand-driven pressure, the probability of a series of interest rate rises to be introduced by the Monetary Policy Council by the end of this year increased as well, which may affect the PZU Group's profit on investing activities.

Additionally, a public debate is taking place and work focusing on further changes in the pension insurance system is underway, assuming, among others, a drop in the value of the pension premium transferred by the Social Insurance Institution to pension funds, establishment of sub-funds and laying

down the principles for market acquisition. The above changes will have a material impact on the activities of open pension funds in Poland. So far no official document which might be referred to a parliamentary session has been drafted.

Considering a very high claims ratio in the property and casualty insurance market as well as worsening performance of insurance companies, it is probable that insurance prices will start to grow (in particular motor insurance).

As regards foreign economies (Lithuania and Ukraine) where the PZU Group is present, Q2 2010 has been the first quarter of improvement of the basic macroeconomic parameters, which may denote a gradual recovery from the economic recession. Additionally, a loan granted to the Ukrainian government by the International Monetary Fund and a high level of foreign currency reserves of the National Bank of Ukraine lead to stabilization of the UAH/USD exchange rate and lessen the UAH devaluation risk.

### 3. Organization of the PZU Group

#### 3.1 Business activities of the PZU Group

The scope of business activities of the PZU Group includes provision of comprehensive insurance services. The Group companies offer services relating to life, other casualty and property insurance as well as asset management on behalf of their customers in the form of an open pension fund and investment funds.

In the period from January to June 2010 the scope of activities of the major PZU Group companies did not change substantially.

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				30 June 2010	31 December 2009	30 June 2010	31 December 2009	
<b>Entities included in consolidation</b>								
1	Powszechny Zakład Ubezpieczeń SA	Warszawa	n/a	n/a	n/a	n/a	n/a	Property and casualty insurance.
2	Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie”)	Warszawa	18.12.1991	100,00%	100,00%	100,00%	100,00%	Life insurance.
3	Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU”)	Warszawa	08.12.1998	100,00%	100,00%	100,00%	100,00%	Pension fund management.
4	PZU Centrum Operacji SA („PZU CO”)	Warszawa	30.11.2001	100,00%	100,00%	100,00%	100,00%	Auxiliary activity related to insurance and pension funds.
5	Tower Inwestycje Sp. z o.o. (former: PZU Tower Sp. z o.o.; „Tower	Warszawa	27.08.1998	100,00%	100,00%	100,00%	100,00%	Other finance services excluding insurance and pension funds.

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				30 June 2010	31 December 2009	30 June 2010	31 December 2009	
6	Inwestycje") PrJSC IC PZU Ukraine („PZU Ukraine”)	Kijów (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Property insurance.
7	UAB DK PZU Lietuva („PZU Lietuva”)	Wilno (Lithuania)	26.04.2002	99,76%	99,76%	99,76%	99,76%	Property insurance.
8	Ogrodowa- Inwestycje Sp. z o.o.	Warszawa	15.09.2004	100,00%	100,00%	100,00%	100,00%	Acquisition, operation, lease and disposal of real property.

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				30 June 2010	31 December 2009	30 June 2010	31 December 2009	
<b>Non-consolidated subsidiaries</b>								
9	PZU Pomoc SA	Warszawa	18.03.2009	100,00%	100,00%	100,00%	100,00%	Assistance services.
10	Ipsilon Sp. z o.o.	Warszawa	02.04.2009	100,00%	100,00%	100,00%	100,00%	Assistance and medical services.
11	Syta Development Sp. z o.o. w likwidacji	Warszawa	29.04.1996	100,00%	100,00%	100,00%	100,00%	Acquisition and disposal of real property, trade agency and administration of real property.
12	Towarzystwo Funduszy Inwestycyjnych PZU SA („TFI PZU”)	Warszawa	30.04.1999	100,00%	100,00%	100,00%	100,00%	Creation, representing and management of investment funds.
13	Sigma Investments Sp. z o.o.	Warszawa	28.12.1999	100,00%	100,00%	100,00%	100,00%	Investment activity Acquisition and disposal of shares in public companies, bonds and other listed securities.
14	PZU Asset Management SA („PZU AM”)	Warszawa	12.07.2001	100,00%	100,00%	100,00%	100,00%	Management of securities portfolios for the account of third parties.
15	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA („MPTE PZU SA”)	Warszawa	13.08.2004	100,00%	100,00%	100,00%	100,00%	Management of employee pension fund.
16	PrJSC IC PZU Ukraine Life Insurance	Kijów (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Life insurance.

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				30 June 2010	31 December 2009	30 June 2010	31 December 2009	
17	LLC SOS Services Ukraine	Kijów (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Assistance services.
18	Company with Additional Liability Inter-Risk Ukraine UAB PZU	Kijów (Ukraine)	01.07.2005	100,00%	100,00%	100,00%	100,00%	Legal services.
19	Lietuva Gyvybes Draudimas	Wilno (Lithuania)	26.04.2002	99,34%	99,34%	99,34%	99,34%	Life insurance.
20	Armatura Kraków SA	Kraków	07.10.1999	64,63%	64,63%	64,63%	64,63%	Production of kitchen and bathroom mixing faucets.
21	Armatoora SA	Nisko	10.12.2008	64,63%	64,63%	64,63%	64,63%	Production of radiators and aluminum casts.
22	Armatoora SA i wspólnik sp. k.	Kraków	10.02.2009	64,63%	64,63%	64,63%	64,63%	Use of free funds, development investments.
23	Armagor Sp. z o.o.	Gorzów Śląski	06.09.2009	64,08%	63,20%	64,08%	63,20%	Production of valves, tooling services.
24	ICH Center SA	Warszawa	31.01.1996	90,00%	90,00%	90,00%	90,00%	Green Card claims handling.

No.	Entity's name	Registered office	Date of commencing control/significant impact	% of share capital directly or indirectly held by PZU		% of votes directly or indirectly held by PZU		Business activity
				30 June 2010	31 December 2009	30 June 2010	31 December 2009	
<b>Affiliates</b>								
26	Kolej Gondolowa Jaworzyna Krynicka SA Nadwiślańska	Krynica	17.08.1998	37,53%	37,53%	36,71%	36,71%	Operation of ski hoists.
27	Agencja Ubezpieczeniowa SA	Tychy	08.06.1999	30,00%	30,00%	30,00%	30,00%	Insurance activities.

### 3.2 Entities of the PZU Group

#### PZU

It is a joint-stock company with its registered office in Warsaw at Al. Jana Pawła II 24 and the Parent of the PZU Group. It was established as a result of transformation of Państwowy Zakład Ubezpieczeń into a joint-stock company wholly owned by the State Treasury.

PZU is recorded in the Register of Entrepreneurs of the National Court Register at the District Court for the capital city of Warsaw, XII Business Division of the National Court Register, under KRS number 0000009831.

In line with NACE classification, the core business of PZU includes non-life insurance (NACE 66.03).

The scope of statutory activities of PZU includes organizing and carrying out:

- direct insurance and indirect (reinsurance) activities in Poland and abroad;
- activities aimed at prevention of losses and limitation of their size;
- claims adjustment activities, i.e. determination of the extent of losses, securing recourse claims, pursuing claims as well as performing other claims adjustment activities under agreements or requests filed by other insurers;
- other insurance and reinsurance services;
- acquisition activities for open pension funds based on the provisions on organization and operation of pension funds.

## **PZU Życie**

The scope of its business includes insurance and other directly related activities. The Company is allowed to carry out acquisition activity for open pension funds based on the Act on organization and operation of pension funds.

The Company may carry out the following activities directly or through insurance intermediaries:

- acquisition activities for open pension funds;
- mediation for and on behalf of entities carrying out banking activity;
- mediation in selling and redemption of investment fund units or units in foreign funds, open-end investment funds with registered offices in European Union countries and open-end investment funds with registered offices in OECD countries other EU-member states.

## **PTE PZU SA**

Based on the Articles of Association, the key business of the Company is:

- establishing an open pension fund;
- managing the established open pension fund, representing it before third parties in a manner specified in the Articles of Association and managing more than one open pension fund.

Based on NACE classification, the core business of PTE PZU SA is auxiliary activities related to insurance as well as a pension and annuity fund.

## **Lithuanian market**

In the Lithuanian market the PZU Group carries out property and life insurance activities through two entities:

- **UAB DK PZU Lietuva** – property and casualty insurance;
- **UAB PZU Lietuva Gyvybės Draudimas** – life insurance.

## **Ukrainian market**

In the Ukrainian market the PZU Group carries out property and life insurance activities through two entities:

- **PrJSC IC PZU Ukraine** – property and casualty insurance;
- **PrJSC IC PZU Ukraine Life** – life insurance.

As foreign property insurance companies are subject to consolidation, only their financial performance will be presented in detail in the report.

## **TFI PZU**

The scope of business of the Company includes establishment and management of investment funds (as their body), including intermediation in the sale and redemption of participation units as well as representing the funds before third parties.

At present the Investment Fund Management Company manages 16 investment funds pursuing various investment strategies.

Its offer includes investment products and services addressed to both individual and institutional customers as well as additional savings schemes under pillar III of the social insurance system, such as:

- IKE (Individual Pension Accounts);
- Specialized Investment Programs;
- PPE (Employee Pension Programs);
- ZPI (Corporate Investment Programs).

### **PZU Asset Management**

The Company manages selected asset portfolios of the following PZU Group companies: PZU, PZU Życie, TFI PZU and Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU.

The scope of business activities of the Company includes:

- brokerage activities within the meaning of the Act on trading in financial instruments, including investment portfolio management on behalf of investment funds;
- provision of portfolio management services:
  - property, financial instruments or property rights in entities investing in the property sector;
  - financial instruments not admitted to organized trading or property rights to companies;
  - funds or other entities investing their assets in property rights or financial instruments.

### **PZU Pomoc**

Pursuant to its Articles of Association, the scope of activities of the Company includes in particular:

- loyalty scheme management as part of other business supporting activities;
- organization of assistance services, which involve providing assistance to customers;
- rental and lease of motor vehicles.

### **Ogrodowa–Inwestycje**

The core business of the Company is:

- rental and management of own or leased real property;
- acquisition and sale of real property on own account;
- wire communication services.

### **PZU CO**

The scope of statutory activities of the Company includes:

- auxiliary activities related to insurance as well as pension and annuity funds and performance of other functions relating to investment fund management and life and pension insurance settlements;

- computer consulting services, software related services, data processing as well as database related services.

## FINANCIAL PERFORMANCE OF THE PZU GROUP IN THE FIRST HALF OF 2010

### 4. Comments to the consolidated financial performance of the PZU Group

Data from the consolidated income statement	PLN '000		
	1 January – 30 June 2010	1 January – 30 June 2009	% change
Gross written premiums	7 393 705	7 486 843	(1.2)%
Net earned premiums	7 002 918	7 229 338	(3.1)%
Revenue from commissions and fees	130 090	159 110	(18.2)%
Net profit/loss on investing activities	1 265 042	1 503 576	(15.9)%
Net insurance claims	5 089 412	4 015 678	26.7%
Acquisition costs	877 564	864 965	1.5%
Administrative expenses	821 635	848 439	(3.2)%
Operating profit (loss)	1 500 095	2 871 148	(47.8)%
Gross profit (loss)	1 441 441	2 871 148	(49.8)%
Net profit	1 169 834	2 308 833	(49.3)%

#### 4.1 Premiums

Gross written premiums for the first half of 2010 amounted to PLN 7,393.7 million (PLN 7,486.8 million the year before). A decrease by PLN 93.1 million (1.2%) was caused by a lower written premium in the property and casualty insurance segment, which was partly offset by increased sales in the life insurance segment. A drop in the written premium resulted in a decrease in the net earned premium.

Premium changes have been discussed in the comments to segment performance (point 5.1 and 5.2).

#### 4.2 Profit/loss on investing activities

Profit/loss on investing activities	PLN '000		
	1 January – 30 June 2010	1 January – 30 June 2009	% change
Interest income	948 071	1 224 862	(22.6)%
Dividend income	46 467	36 623	26.9%
Income on investment property	12 319	11 585	6.3%
Exchange differences	1 838	6 010	(69.4)%
Other	(11 326)	(10 953)	-
<b>Total net investment income</b>	<b>997 369</b>	<b>1 268 127</b>	<b>(21.4)%</b>
Net profit/loss on realization of investments	213 425	24 288	778.7%
Impairment losses	(52 671)	(116 266)	-
<b>Total net profit/loss on realization and impairment loss on investments</b>	<b>160 754</b>	<b>(91 978)</b>	<b>-</b>
<b>Net change in the fair value of assets and liabilities measured at fair value</b>	<b>106 919</b>	<b>327 427</b>	<b>(67.3)%</b>
<b>Investment income</b>	<b>1 265 042</b>	<b>1 503 576</b>	<b>(15.9)%</b>

In the first half of 2010 investment income dropped by 15.9% year on year as a consequence of a decrease in net investment income and lower fair value of assets, with a simultaneous increase in the net profit on realization of investments.

A decrease in net investment income by PLN 270.8 million resulted from lower interest income (due to a lower value of the debt security portfolio). The above was a consequence of an advance dividend



payment for 2009 of PLN 12,750 million in November 2009 (pursuant to the Settlement Agreement of 1 October 2009 entered into by the State Treasury of the Republic of Poland and Eureko, PZU and Kappa SA, and based on decisions taken by the shareholders and PZU Management Board in October 2009).

The "Net change in the fair value of assets and liabilities measured at fair value" decreased by PLN 220.5 million mainly due to a drop in the value of equity instruments relating to declines in the stock market. Warsaw Stock Index (WIG) reflecting changes in the prices of all listed companies dropped by 1.5% in the first half of 2010 compared to an 11.7% rise in the first half of 2009.

The net profit on realization of investments increased by PLN 189.1 million, whereas losses resulting from impairment were lower by PLN 63.6 million. The above changes were mainly driven by higher gains on disposal of equity instruments.

The PZU Group continues its conservative investment portfolio policy. Debt securities issued by governments accounted for more than 80% of the investment portfolio both as of 30 June 2010 and 30 June 2009.

#### **4.3 Claims**

A rise in net claims by PLN 1,073.7 million (26.7%) was for the most part the effect of a lower level of conversion of multi-year policies into single-year ones (a lower amount of mathematical provisions released) in the life insurance segment and of a rise in property, general TPL and agricultural insurance claims in the property insurance segment due to a heavy snowfall in Q1 2010 and floods in Q2.

The reasons for a rise in the value of claims have been presented in detail in the comments to segment performance.

#### **4.4 Acquisition costs and administrative expenses**

Acquisition costs in the first half of 2010 increased by PLN 12.6 million (1.5%) compared to the level in the first half of 2009. The increase resulted mainly from changes in sales in the property and casualty insurance segment related to restructuring of the insurance portfolio (a rise in the share of higher commission products and distribution channels) as well as changes implemented with respect to sales network management in the previous year (changes in the commission system and introduction of overrides).

A decrease in administrative expenses by PLN 26.8 million (-3.2%) resulted mainly from restructuring activities carried out in the PZU Group companies, including among others the employment restructuring program in PZU and PZU Życie Head Offices in the second half of 2009. In the first half of 2010 another employment restructuring process was commenced. Its effects, however, will only be seen in the second half of the year. Additionally, cost optimization projects are being implemented at the level of the PZU Group.

#### **4.5 Other items**

In the first half of 2010 the balance of other operating revenue and expenses increased by PLN 94.3 million year on year (a change from PLN (146.4) million to PLN (52.1) million). The above resulted

mainly from the fact that the obligatory payment made to the National Health Fund in relation to TPL motor insurance is no longer required ("Religa's" tax).

The reasons for the above change have been presented in the segment performance section.

#### 4.6 Performance of the PZU Group

The operating profit in the first half of 2010 amounted to PLN 1,500.1 million and was lower by PLN 1,371.1 million (-47.8%) year on year, which was mainly caused by a rise in net claims paid in the current year and a lower value of released technical provisions in the life insurance segment. A drop in the operating profit led directly to a decrease in the net profit by PLN 1,139 million (-49.3%).

#### 4.7 Consolidated statement of financial position

	PLN '000		
Data from the consolidated statement of financial position	30 June 2010	30 June 2009	30 June 2009
Assets	47 474 306	53 176 209	58 950 458
Share capital	86 352	86 352	86 352
Minority interest	128	133	164
Total equity	11 338 781	11 266 879	22 355 981

A decrease in the value of equity at the end of 2009 financial year resulted from an advance payment towards expected dividend in November 2009. In the first half of 2010 their balance changed slightly (a rise by 0.6%), among others due to the distribution of profit for 2009 presented below. The PZU Group's return on equity remained at a level of 2009 – as of the end of the first half of 2010 ROE was 20.7% compared to 20.8% after the first half of 2009 (annualized net profit divided by equity as the end of the year).

The decrease of financial assets at the end of the first half of 2010 compared to the end of the first half of 2009 was caused primarily by repayment of the loan financing the payment of advance dividend for 2009.

On 10 June 2010 the General Meeting of Shareholders of PZU adopted Resolution No. 25/2010 on distribution of the profit of PZU SA and dividend payment for the financial year ended 31 December 2009.

Pursuant to the above resolution, the record date for the remaining dividend for the financial year ended 31 December 2009 was set to 25 August 2010. 9 September 2010 is the dividend date.

### 5. Comments to segment reporting

#### 5.1 Property and casualty insurance

	PLN '000		
Data from the income statement – property and casualty insurance	1 January – 30 June 2010	1 January – 30 June 2009	% change
Gross written premiums	4 166 331	4 360 154	(4.4)%
Net earned premiums	3 775 749	4 102 568	(8.0)%
Net profit/loss on investing activities	3 631 241	2 053 650	76.8%
Net insurance claims	2 924 032	2 556 331	14.4%
Acquisition costs	654 061	648 391	0.9%
Administrative expenses	474 240	477 686	(0.7)%
Operating profit (loss)	3 315 918	2 357 753	40.6%

Gross written premiums in direct and indirect insurance in the property and casualty insurance segment (after intra-segment adjustments) for the first half of 2010 and the first half of 2009 amounted to PLN 4,153.0 million and PLN 4,336.3 million, respectively. A drop by PLN 183.3 million (4.2%) resulted mainly from declining sales of motor and property insurance products. Sales of motor insurance in the retail customer segment dropped by 0.7% (lower sales mainly at the beginning of the year – at year end increases are observed), whereas due to portfolio restructuring and poor conditions in the lease market sales in the corporate customer segment decreased by PLN 19.7% (the total written premiums in motor insurance decreased by 5.8%). The above decrease was partly offset by a 2.0% rise in written premiums in other TPL insurance. A drop in the value of premiums earned in the first half of 2010 by PLN 326.8 million (8.0%) year on year was for the most part the effect of lower sales as well as higher costs relating to changes in the balance of provisions for unearned premiums and unexpired risks.

PLN '000			
<b>Gross written premiums in direct property and casualty insurance (by classes specified in section II of the attachment to the Act on insurance activity)</b>	<b>1 January – 30 June 2010</b>	<b>1 January – 30 June 2009</b>	<b>% change</b>
Accident and sickness insurance (class 1 and 2)	203 557	204 649	(0.5)%
TPL motor insurance (class 10)	1 366 362	1 465 284	(6.8)%
Other motor insurance (class 3)	1 112 208	1 176 769	(5.5)%
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	29 412	31 190	(5.7)%
Insurance against fire and other damage to property (classes 8, 9)	967 878	1 002 767	(3.5)%
TPL insurance (classes 11, 12, 13)	313 327	305 662	2.5%
Credit insurance and suretyship (classes 14, 15)	34 662	33 005	5.0%
Assistance (class 18)	84 258	72 141	16.8%
Legal protection (class 17)	459	560	(18.0)%
Other (class 16)	40 877	44 225	(7.6)%
<b>Gross written premiums in direct property and casualty insurance (by classes specified in section II of the attachment to the Act on insurance activity)</b>	<b>4 153 000</b>	<b>4 336 252</b>	<b>(4.2)%</b>

\* Taking into account intra-group adjustments of PLN 13,331 thousand in 2010 and PLN 23,902 in 2009.

An increase in the value of claims in the property and casualty insurance segment by PLN 367.7 million (14.4%) was caused mainly by claims resulting from a heavy snowfall and melt as well as floods which struck Poland and a rise in the incidence of claims in motor insurance.

As regards snow-related claims, the total of PLN 185 million was paid and covered by provisions (taking into account reinsurance programs, the share of PZU SA in such events, net of reinsurance, was PLN 157 million). The above claims were related mainly to agricultural (farm buildings) and property insurance (fire and other natural disasters).

In the first half of 2010 the total of PLN 549 million gross was paid or covered by insurance provisions with respect to flood-related claims (the share of PZU net of reinsurance was PLN 237 million), due to two floods that hit Poland in May and June. Claims of approx. PLN 38 thousand were paid on the above basis by the end of June 2010. Flood-related claims were filed mainly in the property and agricultural segments.

In the first half of 2010 net investment income increased by PLN 1,503.6 million to the amount of 3,631.2 million. It resulted from a higher dividend received from PZU Życie (the dividend received in 2010 was PLN 3,120.0 million, while the dividend received in 2010 PLN 1,419.1 million). Eliminating the effect of the dividend, investment income dropped by PLN 123.3 million due to a lower value of financial assets following the payment of dividend in the amount of PLN 12.750 million in 2009 and due to deterioration of the situation in capital markets.

In the first half of 2010 acquisition costs in the property and casualty segment increased by PLN 5.7 million. The increase resulted from a change in the product structure (a rise in the share of higher commission products), changes in the structure of distribution channels (an increase in the share of commission channels at the expense of automatic non-commission renewals) as well as changes in sales implemented in the previous year, i.e. standardization of commission rates and introduction of additional bonuses supporting agent effectiveness and making their remuneration conditional on the goals set (the so called overrides).

In the first half of 2010 administrative expenses decreased by PLN 3.4 million or 0.7% (excluding a one-off appropriation to the Company's Social Benefits Fund of PLN 10.0 million, the drop would be PLN 13.4 million, i.e. 2.8%) mainly as a consequence of the employment restructuring program implemented in the Head Office of PZU in the second half of 2009 and cost optimization projects implemented in the PZU Group. The effects of restructuring activities carried out in the current year cannot be seen at present as the notice periods have not ended yet and due to the process schedule.

An increase in the balance of other operating revenue and expenses by PLN 77.3 million resulted primarily from the fact that the obligation to make payments to the National Health Fund from 1 January 2009 (in 2009 the remaining capitalized costs were settled, of which PLN 92.2 million in the first half of 2009) was cancelled and from a drop in the value of reinsurance commissions and the share in profit in 2010 (in the first half of 2009, in line with accounting principles applicable to reinsurance, revaluation of previous year contract commission settlements was recorded in the total amount of PLN 38.6 million).

In the first half of 2010 and the first half of 2009 the operating profit in the property and casualty insurance segment was PLN 3,315.9 million and PLN 2,357.8 million, respectively. An increase by PLN 958.1 million (40.6%) as a consequence of a higher profit on investing activities (mainly higher dividends received from PZU Życie SA) as well as a lower level of other operating expenses was partly offset by higher claims and a drop in the net earned premium.

#### ***Effect of one-off events on operating profit***

As regards the property insurance segment, one-off events with a material impact on the Company's operating profit occurred both in the first half of 2010 and 2009.

The major events that occurred in the first half of 2010 include mass snow-related claims in Q1 (a decrease in operating profit by PLN 157 million) and floods in Q2 (a decrease in operating profit by PLN 237 million).

In the context of year on year analyses, a reduction of the investment portfolio due to dividend payment under a relevant agreement (in particular with respect to investment income) may also be regarded as a one-off event.

On the other hand, in Q1 2009 these included: a payment to the National Health Fund (Religa tax reducing the financial profit by PLN 92 million), released provision related to handing a significant claim filed in the 1990s (increasing the financial profit by PLN 20 million) as well as effects of settlements with reinsurers regarding previous year contracts (increasing the financial profit by PLN 39 million).

## 5.2 Life insurance

	PLN '000		
<b>Data from the income statement – life insurance</b>	<b>1 January – 30 June 2010</b>	<b>1 January – 30 June 2009</b>	<b>% change</b>
Gross written premiums	3 228 014	3 127 500	3.2%
Net earned premiums	3 228 180	3 127 613	3.2%
Net profit/loss on investing activities	749 819	799 739	(6.2)%
Net insurance claims	2 164 676	1 459 206	48.3%
Acquisition costs	171 410	184 426	(7.1)%
Administrative expenses	304 394	303 508	0.3%
<b>Operating profit (loss)</b>	<b>1 332 720</b>	<b>1 960 549</b>	<b>(32.0)%</b>

	PLN '000		
<b>Written premium by product group – life insurance</b>	<b>1 January – 30 June 2010</b>	<b>1 January – 30 June 2009</b>	<b>% change</b>
Group insurance	2 073 266	1 998 793	3.7%
Individual insurance, including:	1 154 748	1 128 707	2.3%
- individually continued insurance	897 125	884 050	1.5%
- other individual insurance	257 623	244 657	5.3%
<b>Total</b>	<b>3 228 014</b>	<b>3 127 500</b>	<b>3.2%</b>

	PLN '000		
<b>Written premium by payment type - life insurance</b>	<b>1 January – 30 June 2010</b>	<b>1 January – 30 June 2009</b>	<b>% change</b>
Regular premium	3 168 382	3 101 307	2.2%
Single premium	59 632	26 193	127.7%
<b>Total</b>	<b>3 228 014</b>	<b>3 127 500</b>	<b>3.2%</b>

An increase in the gross written premium by PLN 100.5 million (3.2%) resulted mainly from growth of group insurance – a rising number of the insured, higher average premium in group cover products as well as higher premium in single premium endowment products distributed through the bancassurance channel. The value of premium in individually continued insurance also increased, for the most part due to sales of additional insurance products, including the “Assistant in Case of Damage to Health” rider. The rise in the value of premium in individual insurance was the effect of progressing sales of the “Świat Zysków” single premium insurance as well as launching of a new savings and investment product with a cover. The above change was partly offset by the expiry of the endowment portfolio.

A rise in the value of net claims paid and change in the balance of technical provisions by PLN 705.5 million (48.3%) was the effect of lower payments and an insignificant increase in the value of provisions in the first half of 2010 compared to a substantial decrease in the first half of 2009.

Claims dropped by PLN 7.1 million (0.3%), mainly as a consequence of lower payments under individual and group investment insurance policies as well as a lower value of claims related to continued insurance. The decrease was partly offset by a minor increase in the value of claims under group cover policies; the total value of claims related to group insurance remained at a level similar to that in 2009. The difference in the balance of technical provisions (PLN 712.6 million) resulted mainly from slower conversion of multi-year group cover policies into single-year renewable ones (in the first half of 2010 PLN 325.4 million of provisions was released in group cover insurance, while in the corresponding period of 2009 the amount was PLN 1 020.6 million).

In the first half of 2010 investment income decreased by PLN 49.9 million to PLN 749.8 million as a result of deterioration of the situation in capital markets compared to the first half of 2009.

In the first half of 2010 and 2009 acquisition costs in the life insurance segment amounted to PLN 171.4 million and PLN 184.4 million, respectively. A change by PLN 13.0 million (7.1%) was mainly attributable to a drop in indirect acquisition costs, which was partly offset by a rise in the value of commissions paid in relation to group cover products due to a growing share of premiums obtained through the brokerage channel. However, as regards the share of the premium obtained through the brokerage channel in the total gross written premium, the rising trend slowed down substantially year on year.

Administrative expenses in the life insurance segment rose by PLN 0.9 million (0.3%), but except for a one-off appropriation to the Company's Social Benefits Fund (PLN 5.0 million), administrative expenses dropped by PLN 4.1 million year on year (1.4%), mainly as a result of cost saving measures applied (e.g. headcount reduction in the Head Office of PZU Życie in 2009). The effects of the restructuring measures applied in the current year cannot be seen at present as the termination periods have not ended yet and due to the process schedule.

In the first half of 2010 and 2009 other net operating revenue and expenses in the life insurance segment amounted to PLN 4.8 million and PLN 19.7 million, respectively. A change of the balance of other net operating revenue and expenses by PLN 14.9 million was mainly the effect of lower costs of prevention activities .

In the first half of 2010 the operating profit in the life insurance segment decreased by PLN 627.8 million (32.0%) for the most part due to a lower value of released technical provisions in group cover insurance (e.g. lower conversion of long-term contracts into one-year renewable ones).

#### ***Effect of one-off events on operating profit***

As regards life insurance, in the first half of 2010 and 2009 no one-off events occurred which would have a material impact on the operating profit generated by the segment.

### 5.3 Investment contracts

Investment contracts concluded by PZU Życie are recognized under “Unallocated (consolidation exclusions and other)”. Investment contract accounting is based on the deposit method. In consequence, investment contract volumes are not classified as revenue in accordance with IFRS.

Investment contract volumes by product group	PLN '000		
	1 January – 30 June 2010	1 January – 30 June 2009	% change
Group	32 673	302 377	(89.2)%
Individual, including:	461 623	487 639	(5.3)%
- individually continued	-	-	-
- other individual	461 623	487 639	(5.3)%
<b>Total</b>	<b>494 295</b>	<b>790 016</b>	<b>(37.4)%</b>

Investment contract volumes	PLN '000		
	1 January – 30 June 2010	1 January – 30 June 2009	% change
Regular payments	3 128	4 622	(32.3)%
Single payments	491 168	785 394	(37.5)%
<b>Total</b>	<b>494 295</b>	<b>790 016</b>	<b>(37.4)%</b>

In the first half of 2010 and 2009 investment contract volumes were PLN 494.3 million and PLN 790.0 million, respectively. A drop by PLN 295.7 million (37.4%) resulted mainly from recalling an individual unit-linked single-premium product “Fundusz Gotówka” (- PLN 351.9 million) as well as lower sales of endowment investment contracts through the bancassurance channel (- PLN 268.8 million). The above change is partly offset by increased sales of unit-linked products distributed through the bancassurance channel (+ PLN 235.0 million) and a rise in gross written premium from an investment endowment product “Pewny Zysk” (+ PLN 91.1 million) distributed through branch network.

### 5.4 Open pension fund activity

Data from the consolidated income statement – pension insurance	PLN '000		
	1 January – 30 June 2010	1 January – 30 June 2009	% change
Revenue from commissions and fees	115 947	147 012	(21.1)%
Net profit/loss on investing activities	9 281	9 136	1.6%
Acquisition costs	25 124	27 110	(7.3)%
Administrative expenses	40 704	57 345	(29.0)%
<b>Operating profit (loss)</b>	<b>60 446</b>	<b>72 416</b>	<b>(16.5)%</b>

In the first half of 2010 and the first half of 2009 revenue from commissions and fees in the pension insurance segment amounted to PLN 115.9 million and PLN 147.0 million, respectively. A drop by PLN 31.1 million (21.1%) resulted mainly from the introduction of a statutory limitation of the fee charged by PTE PZU on premiums transferred by the Social Insurance Institution to the pension fund. The fee was reduced as of 1 January 2010 from 7% to 3.5%.



A decrease in acquisition costs by PLN 2 million (7.3%) was for the most part the effect of changes in the sales network structure as well as lower costs of incentive schemes and training for the sales network.

In the first half of 2010 administrative expenses of PTE PZU dropped by PLN 16.6 million (29%), which was mainly a consequence of lower transfer agent costs, reduced marketing and PR expenses as well as sales integration within the PZU Group.

The operating profit decreased by PLN 12 million (16.5%), which corresponded to the drop in the value of revenue from commissions and fees (partly offset by a decrease in costs).

## **6. Risk factors which may affect financial performance in the following quarters**

### ***6.1 Property and casualty insurance***

The key risk factors that can affect the performance of the PZU Group Companies in the second half of 2010 include:

- unchanged unemployment rate in 2010 and a slowdown in individual consumption, which may translate into a lack of demand for insurance products;
- further price pressure on the part of the competition;
- growing incidence of claims;
- stronger position of insurance brokers, which may result in increased acquisition costs;
- amendments to public procurement regulations or their interpretations, which may have a particularly negative impact on the rules applicable to product offering and management;
- changes in the financial brokerage market, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels of the Companies;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy - lower yield may result in worse investment profitability and the need to change the technical rates applied by the Company;
- situation in the capital market in 2010, in particular at the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on market trends;
- PLN exchange rate fluctuations affecting the amount of provisions for claims for foreign losses expressed in PLN;
- low flexibility of numerous product applications in the PZU Group companies, impeding fast adaptation to market needs;
- possible changes (amended laws) to the principles for measuring provisions for capitalized annuity, which may require increasing their value;



- possible increase in the PZU deductible in next catastrophic claims in 2010 which results from the fact that some elements of reinsurance cover may be used up due to the catastrophic claims in the first half of 2010;
- increase in the average cost of personal claims due to a growing share of private healthcare and the principle of compensation for a relative's death (Article 446 § 4 of the Civil Code), which may require an increase in the value of TPL motor insurance provisions,
- increase in the number and value of claims from clients and victims as a result of introduction of the Act on Pursuing Claims in Group Proceedings on 19 July 2010.

## **6.2 Life insurance**

The key risk factors that can affect the performance of PZU Życie SA in the second half of 2010 include:

- unchanged unemployment rate in 2010 and a slowdown in individual consumption, which may translate into a lack of demand for insurance products;
- stronger position of insurance brokers, which may result in increased acquisition costs;
- amendments to public procurement regulations or their interpretations, which may have a particularly negative impact on the rules applicable to product offering and management;
- changes in the financial brokerage market, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels of the Companies;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy - lower yield may result in worse investment profitability and the need to change the technical rates applied by the Company;
- situation in the capital market, in particular at the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on market trends;
- any changes to the generally applicable regulations or their interpretations with respect to technical management of group insurance products by individuals designated for that purpose by policyholders;
- interest rate volatility, which may have a material adverse impact on activities, revenue, performance of financial position as well as the European Embedded Value;
- changes in the current mortality, longevity and incidence proportion;
- growing product competition in the structured product segment, substituting traditional investment fund-based insurance.

## **6.3 Pension funds**

The key risk factors that can affect the performance of PTE PZU in the second half of 2010 include:

- unchanged unemployment rate in 2010 translating into a lower number of new fund members;

- changes in the financial brokerage market, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels of the Companies;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy - lower yield may reduce the profitability of the Fund's investments and management fees collected by the Company;
- situation in the capital market in 2010, in particular at the Warsaw Stock Exchange – a portion of the income is generated on the Fund's investing activities;
- possible further changes in the pension insurance system leading to a drop in the value of the pension premium transferred by the Social Insurance Institution to pension funds, establishment of sub-funds and laying down the principles for market acquisition. So far no official document which might be referred to a parliamentary session has been drafted.

## **7. Management Board's position concerning previous performance projections**

The PZU Group did not publish or disclose any projections concerning separate or consolidated financial information.

## **ACTIVITIES OF THE PZU GROUP IN THE FIRST HALF OF 2010**

### **8. Activities, key developments and achievements of the major PZU Group Companies**

#### ***8.1 Corporate governance at the PZU Group Companies***

Pursuant to the Regulations of the Warsaw Stock Exchange, the Exchange Board may adopt corporate governance rules for issuers of shares and other securities admitted to trading on a stock exchange, which ought to be applied by such issuers. As of 30 June 2010 the corporate governance rules laid down in "Good practices of companies listed at WSE" attached as an appendix to a regulation of the Exchange Board of 4 July 2007 were in force. On 19 May 2010 the Warsaw Stock Exchange introduced the first amendment to "Good practices of companies listed at WSE" since 4 July 2007. Good practices were revised to reflect the latest amendments to laws, current international corporate governance trends as well as the expectations of market participants. The "Revised good practices of companies listed at WSE" entered into force as of 1 July 2010.

In the period from the IPO until the end of the first half of 2010 PZU did not comply with selected principles laid down in "Good practices of companies listed at WSE". In particular, the recommendations laid down in point II.1, II.2, III.1 were not complied with.

As of 1 July 2010 the Company started to apply principle II.1 and II.2 set forth in "Good practices of companies listed at WSE" with respect to running a corporate website.

Furthermore, as the Supervisory Board of PZU assessed its work and presented the results of the assessment to the General Meeting of the Company's Shareholders on 10 June 2010, principle III.1 of the Good Practices has been fully complied with. Additionally, guidelines for Supervisory Boards of the PZU Group companies regarding the internal control audit, the risk management system as well as the supervisory board's self-assessment have been laid down.

The By-laws of PZU adopted by the General Meeting on 2 December 2009 incorporate the rules laid down in the Code of Commercial Companies applicable to corporate governance at public companies as well as provisions which are to ensure PZU's compliance with the corporate governance principles laid down in "Good practices of companies listed at WSE". Similar changes introduced to the Regulations of the Supervisory Board of PZU on 4 March 2010 reflect, among others, the provisions of the Good Practices applicable to qualifications and independence of Supervisory Board Members as well as activities of the committees appointed by the Supervisory Board of PZU. In the first half of the year, the following committees function as part of the Supervisory Board of PZU:

- the Audit Committee of the Supervisory Board of PZU – since 3 June 2008;
- the Promotion and Compensation Committee of the Supervisory Board of PZU - since 16 June 2010.

## 8.2 Rating

PZU and PZU Życie are subject to regular ratings by rating agencies. The rating of PZU and PZU Życie is an assessment resulting from an analysis of financial data, competitive position, management and corporate strategy. The rating is supplemented with an outlook, i.e. the future evaluation of the position of the company in the case of specific circumstances.

As of the end of the first half of 2010 PZU and PZU Życie had a long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) at the A level with a stable rating outlook. On 5 July 2010 Standard & Poor's Ratings Services maintained the above rating. The table below presents ratings of the PZU Group companies assigned by Standard&Poor's with the ratings assigned a year before.

Company	Rating and outlook	Rating/update date	Previous rating and outlook	Rating/update date
<b>PZU</b>				
Financial strength	A /stable	5 July 2010	A /stable/	16 July 2009
Creditworthiness	A /stable	5 July 2010	A /stable/	16 July 2009
<b>PZU Życie</b>				
Financial strength	A /stable	5 July 2010	A /stable/	16 July 2009
Creditworthiness	A /stable	5 July 2010	A /stable/	16 July 2009

## 8.3 Restructuring process at PZU and PZU Życie

In connection with the planned implementation of the restructuring program for the years 2010–2012 announced on 29 December 2009, PZU and PZU Życie created a restructuring provision in the total amount of PLN 158.8 million. The provision covers costs relating to the headcount reduction planned till the end of 2010 in the area of finance, operations, claims handling, customer service and sales. The estimated value of the provision includes the costs of termination benefits to which employees are entitled under the applicable laws as well as costs of additional compensation and the outplacement program.

On 11 March 2010 the Management Boards of PZU and PZU Życie and the trade unions active in the companies concluded a lay-off agreement. As agreed, from 26 March to 20 November 2010 the companies are undergoing staff restructuring and optimization as part of the lay-offs.

The restructuring process is related e.g. to centralization of functions which so far have been dispersed throughout several centers located in large Polish cities and higher specialization of hired staff. It mostly affects operations, finance, loss adjustment and the PZU Group network.

The change was expected to affect 6,665 employees of PZU SA and PZU Życie at the most and involve net reduction, i.e. cutting the number of staff in 2010 in both companies by no more than 2,079 persons.

Termination conditions offered by the Employer to the dismissed employees or employees who did not accept the offered terms of employment exceeded the scope provided for by the applicable laws (the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees – Journal of Laws No. 90 of 2003, item 844). The amount of additional redundancy pay depends on the salary of each employee and their time of employment at the PZU Group.

Moreover, a special outplacement program has been launched for the laid off employees. Under the program employees may attend e.g. career continuation workshops, sole proprietorship training courses or individual consultations with career advisors free of charge. They may also use assistance including, among others, preparation to job interviews, legal advice related to employment or sole proprietorship and receive the latest offers available in the job market.

It is one of the largest programs of supporting dismissed staff run in Poland in 2010.

By 30 June 2010 the changes affected 3,266 employees: 2,017 of them accepted the proposed change of the terms of employment and 1,249 were given termination documents.

#### **8.4 Strategy implementation and development projects**

In the first half of 2010, like in the previous years, the directions of activities set out in the Strategy for the period 2009-2011 were maintained. Most of the development initiatives were aimed at implementation of the strategy. Such projects supported the attainment of two strategic goals, including enhancing position in the share in the Polish market and establishing a customer-oriented organisation. The activities were to restore the profitability of corporate insurances, maintain the market position and high profitability of group insurances, as well as to restructure and reduce the administrative expenses.

##### **Sales area**

In the first half of 2010, the PZU's activities mostly focused on a reform of the corporate sales area aimed at improvement in the results of the said area. Within the framework of the programme, the qualifications of the middle-level management staff of the area were verified, a number of regulations streamlining and enhancing the control of the sales process were developed, the products and their rates were changed (as discussed in detail in the following part of this chapter), and the activities of individual salespersons were verified. Also, some changes aimed at optimisation of the geographic deployment of individual sales teams were made.

On account of the current policy aimed at the profitability improvement, the portfolio of corporate customers decreased in comparison to the corresponding period of the previous year by nearly 1 thousand entities, representing mainly industries with high loss ratio.

Another great reform implemented in the sales area involved the Nowa Era Sprzedaży Życie project [New Sales Era] (NES Życie). The goal of the said project is to increase the efficiency of the agency network of PZU Życie, with particular emphasis on sales of individual regular insurances.

At the end of 2009, the agency network was segmented. In the first half of 2010, the company focused on the recruitment model of salespersons and managers: the profile of a candidate for an Agent and Team Manager was prepared, the recruitment process was unified and enriched by Assessment Centre sessions for team Managers and a recruitment package was implemented. An additional component to support sales, which is directly related to the recruitment process, included introduction of the new Runways for trainee Agents and new Team Managers, adjusted to the sales results achieved in the first year of employment.

The implementation of an analogical initiative at PZU was completed in 2009 – it was the New Sales Era project streamlining the operation and financial efficiency of the agency network. At the same time, activities aimed at improvement in the cooperation with multi-agencies were taken this year.

An important event regarding sales management involved creation of a Group Network Division in charge of customer service at PZU and PZU Życie establishments on May 1<sup>st</sup>, 2010. The reform and unification of areas between the companies involved, among others, appointment of common directors for individual sales areas and works aimed at implementation and maintenance of uniform, general customer service standards. At the same time, activities aimed at creation of a new common model of a chain of establishments were taken, together with determination of the scale, exact functions and preparation of tools for customer service. The change will enable to achieve cost synergies in that area and improvement in the image of the PZU Group.

### ***Loss adjustment area***

The development projects aimed at greater focus of the PZU Group on the customer and his/her [a part of the text is missing] are clearly visible in the loss adjustment and benefit settlement area. In the first half of 2010, the activities under the Nowa Organizacja Likwidacji Świadczeń project [New Organisation of Benefit Settlement] were continued. Due to the implementation of new procedures and changes in the processes and organisation (centralisation of some functions), the project is to result in an increase in the customer satisfaction through shortening of the turnaround times, in particular in respect of benefit settlement. Furthermore, the project is to contribute to a reduction in costs of the area (reduction in the number of jobs) and decrease in the value of the benefits paid by means of a better control of the process.

Another great initiative in the said area is the PZU Pomoc initiative, which has been developed since 2009. In the first half of 2009, upon implementation of the new solutions regarding the road assistance, the company worked on creation of a chain of service providers oriented towards assistance at home and rehabilitation. In addition, the company conducted activities to contribute to the creation of new innovative solutions with respect to loss adjustment and improvement in the quality of the services provided.

## **Operations area**

The greatest projects in the period in question involved optimisation and centralisation of processes in the operations and insurance accounting areas of PZU (the so-called Mikro2 project). The overriding goal of the said activities includes a reduction in administrative expenses at the entire Company generated by the dispersed and inefficient organisational structure (under this project, the greatest number of employees described in the previous chapters are dismissed). One half of the project has been implemented to date. Three Operation Centres were launched (in Łódź, Gdańsk and Warszawa), and another three (Opole, Rzeszów and Wrocław) along with branches (in Bydgoszcz and Kraków) will be launched successively in the 2nd half of 2010.

Implementation of the automatic registration of policies from a tool supporting the agents, i.e. Titus Plus, will enable further improvements in the PZU's sales service area. The works on creation of the said functionalities were continued throughout the first half of the year and now are being tested.

In the service area of PZU Życie, the Group Insurance Recorder project (eRU) was implemented. It involved implementation of the service of group and capital insurances in employing establishments using an Internet browser. In the past period, the service of the product "Plan na Życie" was launched and the first stage of the functionality involving conclusion of individual continued insurance contracts by e-mail was implemented.

In the first half of 2010, also works on reorganisation of accounting processes in the own operations area through their unification at PZU and PZU Życie and on implementation of a uniform electronic document flow in the PZU Group were conducted. In addition, the life insurance company and the property insurance company continued to implement a common system to handle HR and payroll functions – the system is now used by PZU and PZU Życie.

Furthermore, in the first half of 2010 a number of other activities aimed at a reduction in costs were carried out in the PZU Group. They included:

- initiatives in the IT area including implementation of a common maintenance bus for all systems, transferring the IT infrastructure to a server room in Piaseczno and centralisation of the infrastructure for product systems handling group and continued insurances (GUR, GURIK);
- organisational and procedural changes in the correspondence distribution area;
- printout process optimisation.

## **8.5 The main marketing activities in the first half of 2010**

In the first half of 2010, the promotional activities of PZU and PZU Życie were focused, mainly, on the improvement in the image of the insurer and support of the PZU's initial public offering, including notification of the place and time of subscription to shares. Furthermore, educational activities concerning insurance were conducted with a view to creation of a future demand for services.

The main goal of image campaigns was to present the PZU Group as an insurer who responds to the needs of individual customers. At the same time, the campaign built the image of the PZU Group as a flexible and modern company meeting the needs of each customer and offering its products for an affordable price. As part of the image campaign, the action to support sales of the automotive

insurance to retail customers were conducted; the benefits were communicated by different media reaching the consumers across Poland. The following campaigns were implemented:

- “OC-AC Marzec” – the campaign showed that if somebody takes out an insurance with PZU, he/she may choose the most suitable option (from TPL insurance alone, through MiniCasco and motor hull insurance with additional options);
- “Lokalna Obniżka” – information about local discounts on TPL insurance in a given city and support of local sales activities;
- “Dobre AC Tanie OC” – information about change in the offer of automotive insurance at PZU and creation of motor hull insurance with PZU as a full, high quality product.

Image campaigns were not limited to PZU’s offer only. At the same time, activities creating the image of PZU Życie as an expert in provision of modern and comprehensive insurance and investment solutions were conducted. The company conducted, among others, the “Plan na Życie” campaign which was directed at ambitious people with aspirations striving after improvement in their and their family and friends’ living standard.

In addition to media campaigns, the company carried out also a number of sponsoring activities that directly contributed to the creation of a positive image of PZU. The insurer acted as a sponsor and patron of different all-Poland’s and local cultural and sport events. The essential activities in that area include:

- sponsoring the Royal Castle in Warsaw;
- PZU zone during the Long Night of Museums at the Royal Castle in Warsaw;
- patronage of the National Museum in Kraków;
- sponsoring the Grand Theatre in Warsaw;
- sponsoring the New Theatre in Warsaw,
- sponsoring Martyna Wojciechowska’s mountaineering “Carstensch Expedition”;
- sponsoring “Rzeszów Carpathia Festiwal 2010”;
- patronage of Decius Villa in Kraków;
- sponsoring the Góraszka Air Picnic;
- sponsoring the European Fairy Tale Centre in Pacanów;
- sponsoring the Academy of Capital Market Leaders;
- sponsoring the “Droga na Harvard” competition.

The promotional activities aimed at creation of a positive image of PZU are not limited solely to the external communication. Also, 3 large galas finishing sales competitions run by PZU and PZU Życie were organised: prizes were awarded to the best employees of Customer Service Points, the best salespersons of PZU Życie’s group insurance and the first common Sales Congress of PZU SA and PZU Życie SA was organised.

Within the framework of educational activities, the PZU Group launched two insurance-dedicated websites:

- “JakieUbezpieczenie.pl” – an educational website which explains the benefits of insurance products in a simple and easily accessible way. It is not a sales website, but a website providing information only.



- “ŻycieNa100procent.pl” – the website containing, among others, saving calculators, questionnaire and product animations, interviews with stars, articles encouraging people to save, etc.

Like every year the PZU Group also conducted preventive activities aimed at improvement in the public safety and limitation of different risks. The following activities were taken in the first half of 2010 in that area:

- continuation of the cooperation with TOPR [Tatra Voluntary Rescue Team], GOPR [Mountain Voluntary Rescue Team] and WOPR [Water Voluntary Rescue Team]
- implementation of the “Policja 2008” preventive programme
- preventive activities during Kia Lotos Cup competition
- a cycle of “Z kobietą bezpiecznie na drodze” training courses.

## **8.6 PZU's activities in the first half of 2010**

In the first half of 2010, the activities of PZU were, to a great extent, focused on the reorganisation of the corporate insurance portfolio and activities to improve sales of insurances to retail customers.

### ***Products – retail customers***

In June 2010, the company made changes in the automotive insurance offer for individual customers and SMEs (Small and Medium-Sized Enterprises) – e.g. lump-sum TPL/motor hull insurance package for new cars was extended by vehicles aged up to three years. Due to the foregoing and further extension of the cooperation with car importers, PZU achieved very good sales results in the dealer channel despite low sales of new cars in Poland.

The company introduced a possibility to choose motor hull insurance options depending on the spare parts used during a repair (to determine the compensation amount – maintenance service and optima option) and a new all risks motor hull insurance was implemented. It covers all types of losses irrespective of the cause.

PZU offers also a new door-to-door service. It is an additional package of services for owners of cars, including without limitation organisation of receipt of the damaged car, supply of the car to the PZU's Repair Network and a substitute car.

As regards property insurance for individual customers, the company continued to sell comprehensive PZU Dom and PZU Dom Plus insurance packages and the PZU Doradca insurance package for SMEs, which were very popular among the customers. Although the sale of property insurance was temporary interrupted in the flooded areas, high sales results were achieved in both customer groups.

### **Compulsory subsidized insurance**

A promotional offer was prepared for large farms who did not sustain losses. However, on account of lower purchase prices of agricultural produce in comparison to the previous year, the premium written on that product was lower than last year.

In accordance with the amendments to the legislation, new products of compulsory professional TPL insurance for medical doctors and people drawing up energy efficiency certificates were implemented. The change of professional TPL insurance for entities authorised to audit financial statements was



accompanied by execution of an agreement with the National Chamber of Statutory Auditors concerning the principles of conclusion of insurance contracts for the said professional group. Also the general agreement with the National Chamber of Legal Advisers concerning TPL insurance of legal advisers was renewed.

#### Products - Corporate customer

In accordance with its strategy, PZU took activities aimed at improvement in the profitability of automotive insurances for corporate customers by means of, among others, change of premiums. Also new terms and conditions of motor hull insurance for fleet customers were introduced.

In consequence of the systematic underwriting activities in that product group, the technical results have already improved.

Within the framework of activities aimed at improvement in the profitability and portfolio quality in the property insurance area, the role of underwriting was increased by limitation of sales to industries with the largest loss ratio, streamlining the risk classification and assessment process and more common use of additional clauses changing the insurance scope. Furthermore, new tools to assess the risk were implemented in the third party liability insurances and changes regarding insurance terms and conditions and evaluation principles were prepared.

#### Products - Bank insurance

In the first half of 2010, the company developed the cooperation with its current partners being the leading banks in the Polish market. Furthermore, the company commenced cooperation with ING Bank Śląski SA on payment card insurance for retail and corporate customers and with PLL LOT SA on travel insurance distribution.

#### **Loss adjustment**

In the first half of 2010, the adjustment of property and agricultural losses was dominated by two mass risks: snow at the beginning of the year and flood in May and June. In consequence, losses greater than usually occurred, which translated into significant dynamics of increase in compensation payments on account of property and agricultural losses.

In consequence of intensive and long-lasting snowfalls, more than 41 thousand losses were notified to PZU. The total value of compensation payments and provisions accounted for PLN 185 million gross (PLN 157 million net of PZU's reinsurance). Nearly one half of the said losses (approximately 20 thousand) were notified under agricultural insurance (building insurance).

In consequence of the floods that took place in spring, a total of 95 thousand losses were notified by June 30<sup>th</sup>, 2010 (out of which approximately 34.5 thousand accounting for a total of PLN 97.9 million were paid in the period analysed). The total amount of PLN 549 million gross (net of reinsurance of PLN 237 million) were paid or covered by provisions.

The high efficiency of loss adjustment after the flood would not have been possible if it had not been for the immediate activities aimed at minimisation of delays, in particular as regards inspections on site. For that purpose, 800 mobile experts, substantive adjusters and seasonal adjusters were delegated to adjust losses after the flood. At the same time, within the framework of substantive loss adjustment an emergency procedure was launched enabling, among others, loss adjustment based on

a telephone conversation with the insured and a simplified method of calculation of the loss value was applied. Furthermore, PZU Pomoc Mobile Office was sent to the flooded areas, which handled a total of 3.6 thousand matters.

Irrespective of the aforementioned events, a number of improvements were introduced to the loss adjustment process in the first half of 2010. They include:

- improvement in the process of mutual acceptance of recourse claims in automotive insurances – development of principles (as a set) of examination, acceptance and payment of recourse claims set out in the contract between PZU and other insurers concerning automotive insurances;
- extension of the comprehensive cooperation with establishment of the PZU repair network through the activation of the Loss Communication Platform enabling communication in the electronic form in the loss adjustment process, between the repair establishment cooperating with PZU and PZU's IT system;
- implementation of the simplified tiny loss adjustment procedure – The solution was appreciated by PZU's customers; 98% of respondents positively assessed that way of loss adjustment;
- implementation of the new tools to support the works of loss adjusters and improve their efficiency; the company implemented, among others, an expert application to evaluate losses in crops and a tool enabling Mobile Experts to access IT resources of the PZU Group directly from the employee's home;
- implementation of further improvements for the customers in respect of loss notification and adjustment – e.g. the possibility to notify losses by electronic mail;
- commencement of unification of the loss adjustment areas at PZU and PZU Życie in order to achieve cost synergies.

### ***8.7 Activities of PZU Życie in the first half of 2010***

In the first half of 2010, PZU Życie focused on sales of products with a regular premium and improvement in the profitability of group contracts.

#### ***Products***

##### *Group life insurance*

As regards the group security insurance, in the first half of 2010 (January 1<sup>st</sup>, 2010) the company began to sell a new additional Asystent [Assistant] insurance during health disorder (Asystent insurance). It is another product that supports the development of assistance insurances, which began several years earlier, being a consequence of cooperation with PZU Pomoc SA.

The scope of the Asystent group insurance includes stay at a hospital, surgical operation or an accident resulting in a severe, permanent injury. In the case of the aforementioned events, the insurance guarantees the package of assistance services, including nurse care at home, assistance in household management, care of children and small pets.

At the same time, the Asystent insurance was introduced as an additional insurance to individual continued insurance, with a slightly different scope of protection.

The scope of insurance against the risk of severe disease and insurance against the risk of permanent injury caused by a heart attack or intra-cerebral haemorrhage was extended to include heart attack types that were not covered by hitherto insurance products. The change is the first step towards even a greater extension of the cover. The scope of protection will subsequently be extended to include approx. 20 new types of disease.

In the first half of 2010, the Financial Supervision Authority registered 12 new employee pension schemes, out of which Companies of the PZU Group manage 6 schemes (2 employee pension schemes in the form of group life insurance with insurance capital fund "Pogodna Przyszłość" at PZU ŻYCIE, 4 schemes in the form of premiums paid by employers to PZU TFI).

#### Products - Individual life insurance

The main activity carried out in the first half of 2010 with respect to individual products included the campaign preparing the sales chain for implementation of a new individual product from January 2010, which began as early as in the fourth quarter of 2009, and a promotional action supporting sales of individual life insurances with a regular premium.

In the first half of 2010, a new product, i.e. individual life insurance with insurance capital fund "Plan na Życie" was successfully launched. In the first six months of 2010, approximately 5.6 thousand "Plan na Życie" policies were concluded with the total value of annual premium of approximately PLN 9.8 million. "Plan na Życie" is a long-term product requiring regular premium payments, supporting creation of a long-term and highly profitable portfolio.

In comparison to the previous year, the emphasis was significantly removed from sales of volumes written, which is reflected by suspension of sales of "Fundusz Gotówka", towards sales of products characterised by greater profitability, which resulted in great sales dynamics of individual insurances with a regular premium. The foregoing was achieved, among others, due to a cycle of training courses supporting the implementation of a new product to the company's offer, as well as due to the competition dedicated to the agency network promoting sales of individual life insurances in the first quarter of 2010.

In 2010, the sales offer of PZU Życie addressed to individual customers was also extended by TFI Systematic Saving Programmes "Komfort" and "Prestiż" – products of TFI PZU enabling to collect funds in Investment Funds on a regular basis.

#### Products - Health insurance

The works conducted in the first half of 2010 concerning the development of health insurances were involved the implementation of group hospital products. A number of training courses were conducted for the corporate and agency sales network. The hospital product was presents during insurance conferences and dedicated press conferences.

In addition to the sales-supporting and marketing activities, also activities oriented towards the development of the chain of health service providers were carried out. At the end of the first half of 2010, the number of hospitals contracted exceeded 50.

#### Products - Bank insurance

As the situation in the financial market improved, the first half of 2010 observed an increase in unit-linked products, i.e. products linked to investment funds, especially the Prestige Investment Programme offered in cooperation with Bank Millennium SA (both in PLN and in foreign currencies).

In the second quarter of 2010, a special programme was implemented to enable the Customers of db Invest Plus whose insurance period expired to joint new product - db Invest Plus Open on attractive terms.

The company also continued the works on modification of the existing products in order to better adjust them to the Customer's requirements and the changing economic conditions.

### ***Liquidation of the benefits***

In the first semester of 2010 the implementation of the following Project was continued: New Organization of the Benefits Liquidation and reorganization of the Losses and Benefits Liquidation Division. Among others, centralized teams dedicated to the benefit services were separated. Also, the unification of similar functional areas in PZU and PZU Życie was started in order to achieve synergy in the areas of customer relations (complaints and appeals), document service, identity analyses, statistics and liquidation of personal losses and benefits.

At the same time, new liquidation ways were introduced for the purpose of the improvement in the customer service and acceleration of the process:

- Simplified liquidation – for selected types of losses one withdrew from physician's examination and the benefits amount to be paid out is calculated by the Substantive Liquidator in the Regional Loss Liquidation Center,
- Liquidation in absence – consists in issuing a physician's opinion on the basis of documentation without involving the client (a pilot liquidation).

### ***8.8 Activity of PTE PZU in the first half of 2010***

In the first half of this year, positive balance of transfers on the secondary market was achieved. It translates to the increase in the number of the Fund members and an increase in the value of the assets managed by OFE PZU. The influence of the reduction of the fees obligatory from 1. January this year was limited thorough a decrease in the costs of the conducted operations.

In the first two transfer sessions 290.7 thousand people decided to change the fund, which means a 6% increase in comparison with the analogous transfer sessions of 2009. OFE PZU is among the funds with a positive balance of transfers and with its score of 9,960 persons, it takes the fourth place.

## **9. Selected other Companies of the PZU Group – directions of development and activity results**

### ***9.1 PZU Lietuva***

In the 1st semester of 2010 PZU Lietuva is on the third position in the property and casualty insurance market. The company noted a lower registration of premiums in comparison with the analogous period from the previous year. However, with the significant shrinking of the Lithuanian market, this is high

dynamics compared to the competition (in the 1st half of 2010 the marked shrank by -11,2%). In spite of the difficult situation in the capital markets, a stable level of income from deposits is still maintained. According to the accepted assumptions, employees in the companies' head Office and field organizational units are unified. Also, the concept of the Companies' sales network unification is implemented. The restructuring actions allowed reduction of the Companies' costs by 18% in comparison with the 1st semester of 2009, which allowed improvement of the financial results in comparison with the previous year.

As concerns marketing actions and sales support, new motivational systems for agents, coordinators and brokers have been introduced. It is planned that in the 3rd quarter the process of restructuring of the corporate sales network aimed at strengthening of the market position of the Company in this market segment will be completed.

## **9.2 PZU Ukraine**

In the 1st semester of 2010 PZU Ukraine noted high Premium dynamics with a significant drop in the Ukrainian insurance market – it increased its share in the classic market from 2.15% to 3.23% - 12 position in the market of property and casualty insurances.

In the 1<sup>st</sup> semester of 2010 in the area of sales, PZU Ukraine concentrated on the following actions:

- Works on the project of global changes in the Autocasco Comprehensive Insurance (program up-date),
- Introduction of new simplified voluntary Civil Liability insurance programs,
- Development of new products of voluntary medical, life and transport insurances,
- Opening of 6 new customer service centers and virtual customer service points in Charków and Zaporozhe,
- Implementation of the Project of corporate registrations in the underwriting through the on-line system.

On the turn of June and July 2010 the shares of both of the Ukrainian companies were issued. In total, PZU took over 100,000 shares of PZU Ukraine for the joint amount of PLN 128.790 million and 5,000 shares of PZU Ukraine Life Insurance for the joint amount of PLN 22.3 million. The held shares were paid for on 25 June 2010.

Financial resources by virtue of increased capitals were transferred in June 2010, however, as at 30 June 2010 the increased capital was not registered yet. The capital increase was registered on 10 August 2010.

## **9.3 TFI PZU**

Among the key undertakings of TFI PZU in the sales area in the 1st semester of 2010, the following ones should be mentioned:

- Active attracting of employee pension programs (in the 1st semester of 2010 4 new PPE were registered, and 7 next ones are to be registered by the Financial Supervision Committee),
- Attracting new distributors of the investment fund's participation units,

- Conducting promotional actions in the scope of increasing the pension awareness of the Poles together with the Chamber of Funds and Assets Managers,
- Establishment of PZU Dłużny Rynków Wschodzących/PZU Debt Emerging Markets.

In the 1st six months of 2010 there was an increase in the total revenue by PLN 4,802.2 thousand (by 29.5%) in comparison with the analogous period in 2009. The main source of growth was the revenue by virtue of investment funds management, and their dynamics resulted from a higher value of the net assets of these funds as well as the change in the structure of these assets.

The net value of the investment funds assets managed by TFI PZU increased in the 1st semester by 3.6% reaching the level of PLN 2,934.2 million. Regarding the value of the net assets of the managed funds, TFI PZU is on the 13 place among 48 investment fund associations acting in the Polish market. At the same time, TFI PZU is still the leader in the employee segment of pension funds among the domestic TFI by having gathered assets of the value of PLN 1,020 million.

#### **9.4 PZU AM**

Consistently with the assumptions, in the 1st half of 2010, PZU AM rendered services only to the companies and funds from the PZU Group, i.e. PZU, PZU Życie, funds TFI PZU and MPTE.

In addition, PZU AM worked on the following projects:

- Building of the portfolio for the investment fund in the real property sector for the PZU Group,
- in cooperation with TFI PZU development of the PZU Dłużny Rynków Wschodzących and PZU FIO Energia Medycyna Ekologia products, model portfolios management within the insurance product called "Plan na Życie/Plan for Life" (in cooperation with PZU Życie).

#### **9.5 PZU Pomoc SA**

The most important undertakings of PZU Pomoc in the 1st semester of 2010 are as follows:

- Entry of the healthcare institution (NZOZ PZU Pomoc) in the register of healthcare institutions and construction of own network of medical benefit providers in the area of outpatient medical care with regard for the labor medicine scope,
- Implementation of the service of other assistance programs: temporary medical care and an assistance,
- Leasing out 20 other road assistance cars in the light network.

#### **9.6 PZU CO**

In the first half of 2010 the results of PZU CO were influenced by:

- lowering of the rate for the Open Pension Fund account management by more than 32%,
- bearing of costs associated with relocation of the headquarters of the Company from Matuszewska street to Empark building in Mokotow,
- bearing of costs associated with establishment of a Data Center in Piaseczno and relocation of IT resources,

- implementation of the project of restructuring of employment at the Company and the associated need to make additional severance payments on behalf of the dismissed employees.

## **10. The main fields of development planned**

The objective of PZU Group is, in the first place, to maintain the leading position on the Polish market of insurance products and services and attaining of attractive returns for the shareholders. Moreover, the Management Board plans to analyze the potential possibilities of diversification of sources of revenue by taking advantage of business opportunities in Poland, as well as possibilities of international expansion. PZU Group plans to achieve these objectives by focusing on the following activities:

- Maintaining of the market share while focusing on profitability of the basic field of operation. PZU Group shapes its product portfolio, distribution channels and the rules of valuation and acceptance of risk in a manner aimed at profitable growth on the most significant markets. PZU Group diversifies its approach towards individual segments of the Polish insurance market, depending on the market share and profitability of individual products.
- Within the framework of group life insurance and individually continued insurance, the strategy of the Management Board of PZU includes acquisition of new clients, particularly from the segment of small and medium enterprises, as well as increasing of the number of products sold to the existing clients.
- Within the framework of individual motor insurance, the aim of PZU Group is to put an end to loss of market share and maintaining of profitability thanks to an active pricing policy. A significant component of this strategy is the „PZU Assistance” service. It allows PZU Group to offer an extraordinary level of services and maintain the product advantage and loyalty of the key groups of clients. „PZU Assistance” is also a platform for acquisition of new clients despite the growing competition.
- PZU Group has also launched a number of initiatives aimed at maintaining the share in the market of products for entities belonging to the sector of small and medium enterprises, which is potentially a quickly growing group of clients, both with regard to group life insurance and property and casualty insurance.

The Management Board expects that the above objectives will be attained thanks to implementation of a number of initiatives, including centralization of processes in the fields, in which they have so far been scattered, and unification of functions that are common for the entire Group, reduction of employment and investing in new technologies, in particular, associated with implementation of effective customer service processes.

## **11. Summary of the public offering of PZU shares**

On October 1<sup>st</sup>, 2009, a Settlement and Disinvestment Agreement (the Agreement) was concluded between the State Treasury, Eureko B.V., PZU and Kappa S.A., concerning the out-of-court settlement of disputes associated with shares of Eureko B.V. and the State Treasury in PZU. One of



the conditions of the Agreement was the commitment of the parties to commence immediately the preparation of the Initial Public Offering (IPO) for PZU shares.

On April 13<sup>th</sup>, 2010, the PZU Prospectus was approved by the Polish Financial Supervision Authority, and then it was published on April 16<sup>th</sup>, 2010. Subscription of shares took place on April 20<sup>th</sup> - 26<sup>th</sup> 2010 for eligible investors, on April 20<sup>th</sup> – 28<sup>th</sup> for individual investors and on April 30<sup>th</sup>-May 5<sup>th</sup>, 2010 for institutional investors. On April 29<sup>th</sup>, 2010 the following was specified in the form of an announcement presenting the information required under Article 54.3 of the Act of 29 July 2005 on public offering, conditions governing the introduction of financial instruments to organized trading and public companies (Journal of Laws No. 185 of 2009, item 1439):

The price of sale of shares for individual investors and authorized persons and institutional investors in the amount of PLN 312,50 per share,

The final number of shares sold within the framework of the Offering as 25.819.337 shares (29,9% of the total number of issued shares), including the final number of shares and their share in the total number of issued shares was as follows: Kappa 12.866.492 (14,9%), by Eureko 8.635.230 (10%) and by the State Treasury - 4.317.615 (5%),

The number of sold shares to be designated for individual investors as 7.058.582, for authorized persons - as 73.938 and for institutional investors - as 18.686.817.

The Management Board of the National Depository for Securities (KDPW) adopted Resolutions No. 212/2010 on 16 April 2010 and No. 252/2010, 253/2010 and 254/2010 on 6 May 2010 whereby it granted PZU the status of participant of KDPW, the ISSUER, (Resolution No. 212/2010) - and decided to register 86,324,317 PZU shares (including 60,418,337 A series shares and 25,905,980 B series shares) with a code PLPZU0000011. The final registration of shares under the IPO in the KDPW took place on 26 April 2010 and of the remaining shares on 10 May 2010.

On 6 May 2010 PZU applied to WSE for admission and introduction to trading on the primary market of WSE of 60,418,337 A series shares and 25,905,980 B series shares.

On 7 May 2010 the Management Board of WSE adopted a Resolution No. 425/2010 whereby it decided to introduce 60,418,337 A series shares of PZU and 25,905,980 B series shares of PZU to trading on the primary market of WSE on 12 May 2010. The resolution was conditional and its requirements were met on 10 May 2010.

The offering included 25.819.337 shares of the Company. In the Offering, institutional investors were assigned 18.686.908 shares of PZU, individual investors - 7.058.491 shares and authorized persons - 73.938 shares of PZU. Interest among the institutional investors was nine times greater than the supply of shares. Among institutional investors, 59 percent were domestic, and 41 percent – foreign institutions.

In the Offering, the Company shares were assigned to 255.541 investors, including 251.288 individual investors, 1629 authorized persons and 2.624 institutional investors.

Since 12 May 2010 PZU shares have been listed in the Warsaw Stock Exchange. It was one of the largest IPOs in Central and Eastern Europe this year and the largest one in history of the Warsaw Stock Exchange. The debut ended a 10-year conflict between the key shareholders of PZU, i.e. the State Treasury and a Dutch company Eureko B. V. The opening price of shares on the first trading day grew by 11.7 percent, up to PLN 349 and the closing price was PLN 360 per share. PZU shares are continuously traded under the abbreviated name "PZU" and designation "PZU".



## **12. Risk management**

### ***12.1 The risk management policy***

PZU group has prepared and implemented a risk management system, which is aimed both at risk control and maintenance of the appropriate level of capitalization. Through identification, analysis, measurement, control, management and reporting of risks associated with the operating activity, PZU Group is able to meet its obligations towards its clients and business partners and meet the requirements posed by legal provisions and external regulations.

Risk management at PZU Group is based on the following general principles:

- Assuming of controlled risk: the financial strength and constant value increase are an integral part of the business strategy of PZU Group. To achieve these objectives, PZU Groups operates in accordance with a clearly defined risk policy within the framework of the established risk limitations.
- Clearly defined responsibility: PZU Group acts in accordance with the idea of distribution of tasks, competences and responsibility. The delegated employees are responsible for the risk their take, and their motivation is consistent with the business objectives of PZU Group.
- Adaptation to changes taking place in the business environment: an integral part of the process of risk control at PZU Group is the ability to respond to changes taking place in the business environment, resulting both from external and internal conditions of PZU Group.

PZU and PZU Życie manage the insurance risks by application of the following tools:

- Calculation and monitoring of adequate technical and insurance provisions
- The tariff strategy and monitoring of the present estimates and assessment of reasonability of the premium
- Reinsurance.

In the field of reinsurance, no significant changes have been noted, which would have to be taken into account in a description of changes in risk management in the period from January 1st until June 30th, 2010.

### ***12.2 Establishment of the Risk Division within the structures of PZU and PZU Życie***

On March 4th, 2010, a position of the Managing Director for Risk Affairs was established, and on August 1st, 2010, a Risk Office was established in the structure of PZU and PZU Życie to be responsible for:

- Development of the risk management system
- Identification of investment, insurance and operating risks and their measurement;
- Preparation and implementation of an internal model for investment, insurance and operating risks,

- Building of an effective system of reporting of profitability of the activity conducted, taking into effect the capital cost,
- Ensuring compliance by PZU Group with the requirements of the Directive Solvency II and other external legal provisions on the system of management of insurance and operating risks.

### **12.3 Stress tests**

In association with the obligation imposed upon insurance companies by the Commission for Financial Supervision, PZU and PZU Życie have conducted stress tests concerning the financial data reported as of December 31st, 2009 accordingly with the recommendations of the Commission for Financial Supervision and they delivered the results until July 31st, 2010. The stress tests showed that PZU Group had sufficient capital to continue its operation safely after the serious crisis in the business environment.

At present, it is the intention of the Commission to obligate insurance companies to conduct stress tests annually on the basis of their annual financial data.

## **ADDITIONAL INFORMATION**

### **13. Information on shareholders of PZU**

#### **13.1 A list of shareholders of PZU having at least 5% votes during the General Assembly**

As of the date of delivery of this interim statement, shareholders having at least 5% votes during the General Assembly of PZU are:

<b>No.</b>	<b>Shareholder name</b>	<b>Number of shares and votes</b>	<b>Percentage share in initial capital and in the general number of votes during the General Assembly of Shareholders</b>
1	State Treasury	39 020 483	45,1875
2	Eureko BV	11 225 798*	12,9999*
3	Other	36 106 019	41,8126
<b>Total</b>		<b>86 352 300</b>	<b>100,0000%</b>

\*Eureko BV is not entered in the Share Register of PZU having 3.020 shares of PZU, due to objections made by their previous owners. Excluding the shares subject to protest, Eureko BV is entitled to 11 222 778 votes during the General Assembly of Shareholders, that is, 12,9965% of the total number of votes.

#### **13.2 Specification of changes in the structure of ownership of substantial blocks of the issuer**

In the period from publication on April 16th, 2010 of the Prospectus of PZU until the date of delivery of this interim statement, significant changes in the ownership structure of substantial blocks of PZU shares took place, including:

- Decreasing of the number of PZU shares owned by the State Treasury from 43.338.098 to 39.020.483 and decreasing of the share of the State Treasury in the initial capital and in the general number of votes during the General Assembly of PZU from 50,1875 % to 45,1875 %,
- Decreasing of the number of shares of PZU owned by Eureko BV from 19.861.028 to 11.225.798 (taking into account 3.020 shares, for which Eureko BV is not entered in the share register of PZU, due to objections of their previous owners) and decreasing of the share of Eureko BV in initial capital from 22,9999 % to 12,9999 % and the general number of votes during the General Assembly of PZU from 22,9953 % to 12,9965 % (without taking into account the 3.020 shares mentioned above),
- Decreasing of the number of shares of PZU owned by Kappa SA from 12.866.492 to zero and decreasing of the share of Kappa SA in the initial capital and in the general number of votes during the General Assembly of PZU from 14,8999 % to 0%.

### 13.3 Shares of rights to shares owned by persons managing and supervising PZU

No.	Body/ Name	Number of shares/ rights to shares on the date of delivery of this interim statement (that is, August 26 <sup>th</sup> , 2010)	Number of shares/ rights to shares on the date of delivery of the previous interim statement (that is, May 17 <sup>th</sup> , 2010)	The resulting change in the period between these dates
<b>The Management Board</b>				
1	Andrzej Klesyk	0	0	X
2	Witold Jaworski	0	0	X
3	Rafał Stankiewicz	0	0	X
<b>Group Directors</b>				
1	Przemysław Dąbrowski	0	0	X
2	Rafał Grodzicki	0	0	X
3	Dariusz Krzewina	0	0	X
4	Mariusz J. Sarnowski	0	0	X
<b>Board of Supervisors</b>				
1	Marzena Piszczek	0	0	X
2	Waldemar Maj	30	0	30
3	Piotr Kamiński	0	0	X
4	Grażyna Piotrowska-Oliwa	0	0	X
5	Zbigniew Cwiąkański	0	0	X
6	Krzysztof Dresler	0	0	X
7	Dariusz Filar	0	0	X
<b>Total</b>		<b>30</b>	<b>0</b>	<b>30</b>

## 14. Other information

### 14.1 Changes in the composition of management and supervision bodies of PZU

#### The Management Board of PZU

In the period of 6 months ended on June 30th, 2010 and until the date of delivery of this interim statement, no changes in the composition of the Management Board of PZU took place, and it consisted of:

- Andrzej Klesyk - President of the Management Board of PZU;
- Witold Jaworski - Member of the Management Board of PZU;
- Rafał Stankiewicz - Member of the Management Board of PZU.

### **The Board of Supervisors of PZU**

As of December 31<sup>st</sup>, 2009, the composition of the Board of Supervisors of PZU was as follows:

- Tomasz Gruszecki Chairman;
- Marcin Majeranowski Vice Chairman
- Alfred Bieć Member of the Board;
- Tomasz Przesławski Member of the Board;
- Marzena Piszczek Member of the Board;
- Marco Vet Member of the Board;
- Waldemar Maj Member of the Board.

On January 5<sup>th</sup>, 2010, the Ministry of the State Treasury dismissed Alfred Bieć and Tomasz Przesławski from the Board of Supervisors, at the same time appointing Piotr Kamiński and Grażyna Piotrowska-Oliwa as the Members of the Board of Supervisors.

On January 12<sup>th</sup>, 2010, consortium of Eureka B.V. and Bank Millennium SA dismissed Marco Vet from the Board of Supervisors and appointed Jurgen Stegmann.

On June 9<sup>th</sup>, 2010, PZU received resignations of Marcin Majeranowski as a Vice Chairman and a member of the Board of Supervisors and Jurgen Stegmann – as the Member of the Board.

On June 10<sup>th</sup>, 2010, the Ordinary General Assembly of PZU dismissed Tomasz Gruszecki from the Board of Supervisors and appointed Zbigniew Cwiąkański, Krzysztof Dresler and Dariusz Filar as members of the Board of Supervisors.

From June 10<sup>th</sup>, 2010 until the date of delivery of this interim statement, the composition of the Board of Supervisors of PZU was as follows:

- Marzena Piszczek Chairwoman of the Board (appointed on June 16<sup>th</sup>, 2010)
- Zbigniew Cwiąkański Vice Chairman of the Board (appointed on June 16<sup>th</sup>, 2010)
- Grażyna Piotrowska-Oliwa Secretary of the Board (appointed on June 16<sup>th</sup>, 2010)
- Waldemar Maj Member of the Board;
- Piotr Kamiński Member of the Board;
- Krzysztof Dresler Member of the Board;
- Dariusz Filar Member of the Board;

On June 10<sup>th</sup>, 2010, the Ordinary General Assembly of PZU established the number of Members of the Board of Supervisors of PZU to be seven persons.

### **Establishment of Group Director Positions**

In January 2010, within the framework of introduction of a new management model in PZU Group, the following positions were established in PZU:

- PZU Group Director for Management of Group Divisions at the PZU Headquarters (on February 1st, 2010, Dariusz Krzewina was appointed for the position);
- PZU Group Director for Development of Group Branches at the PZU Headquarters (on February 1st, 2010, Rafał Grodzicki was appointed for the position);
- PZU Group Director for Finances at the PZU Headquarters (on January 30<sup>th</sup>, 2010, Przemysław Dąbrowski was appointed for the position);
- PZU Group Director for Operations at the PZU Headquarters (on January 30<sup>th</sup>, 2010, Mariusz J. Sarnowski was appointed for the position).

These persons are also Members of the Management Board of PZU Życie.

### **14.2 Emissions, buyout and repayment of debt and equity securities**

Within the period of 6 months, ended on June 30th, 2010, PZU conducted no emission, buyout or repayment of debt and equity securities.

### **14.3 Agreement for stabilization of market price of PZU shares**

On April 16th, 2010, an agreement for stabilization („Stabilization Agreement”) was concluded between Credit Suisse Securities (Europe) Limited, as the stabilizing manager, and PZU; according to this agreement, within 30 days after the first listing of PZU shares on the basic market of the Stock Exchange, the stabilizing manager could acquire PZU shares on this market to support the market price of PZU shares on this market on a level higher than established without such transactions. According to the Stabilization Agreement, in association with activities that could be implemented by the stabilizing manager, PZU provided the stabilizing manager with an option of sale of shares of PZU („Sale Option”). On the basis of the Sale Option, the stabilizing manager was entitled to sell to PZU the shares of PZU in the number not greater than 2.590.569, however, not greater than 15% of shares of PZU sold during the initial public offering, for the price per share equal to the price paid by the stabilizing manager at the Stock Exchange for a share subject to the Sale Option, which could not in any case be higher than the price of sale of shares for institutional investors in the initial public offering, provided that the total price that would have been paid by PZU for shares subject to the Sale Option, increased by the total amount of the commission of the stabilizing manager, would not exceed the amount of PLN 683.340 thousand.

Authorization for purchase of own shares by PZU within the framework of stabilization transactions was specified in the resolution of the Extraordinary Assembly of PZU of March 16<sup>th</sup>, 2010 passed on the basis of art. 362 § 1 clause 5 of the Act of September 15<sup>th</sup>, 2000 Code of Commercial Companies (Journal of Laws no. 94 of 2000, item 1037 as amended, “Code of Commercial Companies) and § 8 of the Articles of Association of PZU. In the resolution under concern, the Extraordinary General Assembly of PZU authorized the Management Board of PZU to purchase for the purpose of redemption, from the investment company or from investment companies engaged in stabilization activities, the shares of PZU in the total number not exceeding 2.590.569 shares, at a price not higher than the price of sale of shares within the framework of the initial public offering of PZU shares for institutional investors. Accordingly with the resolution under concern, purchase of PZU shares would be conducted for the purpose of redemption, and such purchase could take place only within the limits, in which remuneration of the shareholder (price for PZU shares) would be paid from the amount

that, according to art. 348 §.1 of the Code of Commercial Companies, could be designated for distribution among the shareholders.

Within the period of 30 days from the date of the first listing of PZU shares on the basic market of the Stock Exchange, no stabilizing transactions were conducted by the stabilizing manager with regard to PZU shares and the Sale Option was not exercised.

#### **14.4 Granting by PZU or its subsidiaries of credit or loan collaterals or granting warranties**

Within the period of 6 months ended on June 30th, 2010, neither PZU nor its subsidiaries granted credit or loan collaterals or warranties – in total to one entity or one subsidy of this entity – if the total value of the existing collaterals or warranties would constitute the equivalent of at least 10% of equity of PZU.

#### **14.5 Proceedings before courts, arbitration authorities or administrative bodies**

Entities belonging to PZU Group participate in numerous disputes, settled by courts, arbitration bodies and administrative bodies. Typical court litigations, in which PZU Group companies participate, include disputes associated with insurance agreements concluded, employment relationship and contractual obligations. Typical administrative proceedings, in which PZU Group companies are engaged, include proceedings before the Chairman of the Office for Protection of Competition and Consumers, Proceedings before the Commission for Financial Supervision and proceedings associated with ownership of real estate. The above proceedings and disputes are typical and repeatable; usually, neither of these individually is of significance for PZU Group. Most disputes, in which PZU Group companies are engaged, pertain to two companies: PZU and PZU Życie.

In the period of 6 months, ended on June 30th, 2010, until the date of delivery of this interim statement, at PZU Group, there were no proceedings before a court, an arbitration body or a public administration body with regard to liabilities or receivables of PZU or its direct or indirect subsidiaries, of value or total value constituting the equivalent of at least 10% of equity of PZU, except for the case (concluded on the date of delivery of this interim statement) of PZU Życie, concerning a claim for PLN one billion from a single natural person.

The case, mentioned above, was validly settled by courts of two instances in year 2005, which rejected the claim. In 2008, the claim against PZU Życie was filed again, and the court of the first instance rejected the claim by its ruling of March 23<sup>rd</sup>, 2009. The plaintiff appealed against the ruling, which was then rejected by the Appeal Court in Krakow on July 9<sup>th</sup>, 2009. On November 2<sup>nd</sup>, 2009, a cassation appeal was filed with regard to the issue under concern. By its ruling of March 9<sup>th</sup>, 2010, the Supreme Court refused to receive the cassation appeal of the plaintiff for recognition. The ruling has come into force.

As of June 30<sup>th</sup>, 2010, the value of all 20.761 disputes before courts, arbitration bodies and public administration bodies, conducted by entities of PZU Group amounted to the total of PLN 1.269.219 thousand. Within the framework of this amount, PLN 854.899 thousand concern liabilities, and PLN 414.320 thousand – receivables of companies from PZU Group, which constituted 8.15% and 3.95% of equity of PZU respectively according to PSR.

#### **14.6 Transactions with affiliated companies**

Within the period of 6 months, ending on June 30th, 2010, neither PZU nor its subsidiaries concluded any transactions with affiliated companies, which would be jointly or individually significant or concluded on the basis of other than market conditions.

#### **14.7 Seasonal or cyclical character of operation**

The activity of PZU Group is not subject to seasonal or cyclical changes to the degree that would justify application of the suggestions contained in the International Accounting Standards.

#### **14.8 Significant events after the balance sheet date**

Until the date of signing of this financial statement, no significant events occurred, which would not be taken into account in this financial statement.

#### **14.9 Mergers of commercial companies**

In the period subject to this consolidated financial statements, no mergers of PZU with other companies took place.

#### **14.10 Selection of the Auditor**

On May 12th, 2010, the Board of Supervisors of PZU selected Deloitte Audyt Sp. z o.o. seated in Warsaw, Al. Jana Pawła II 19, entered by the Polish Chamber of Auditors on the list of entities entitled to audit financial statements under the number 73, as the entity entitled to audit financial statements of PZU and PZU Group for year 2010, prepared in accordance with the act on accounting or the International Financial Reporting Standards.

#### **14.11 The price of PZU shares**

PZU shares have been listed on Warsaw Stock Exchange since May 12th, 2010. The average closing rate for PZU shares in the first 6 months of year 2010 was PLN 349.85 per share, and the highest rate – PLN 364.80 per share was recorded on June 21<sup>st</sup>, 2010. The condition of the Stock Exchange was the main factor influencing the price of PZU shares in this period.

The average daily turnover of PZU shares in the first 6 months of year 2010 amounted to 709 360 pieces, and the highest level (7 225 362 pieces) was recorded on the day of the debut of PZU (May 12<sup>th</sup>, 2010).

From May 2010, that is, from the debut, the shares of PZU have been recording a tendency of growth. Until August 20<sup>th</sup>, 2010, their price increased by 24.7% in comparison with the offering price. The highest price of PZU shares was recorded on August 3<sup>rd</sup>, 2010, amounting to PLN 401.20.



## **STATEMENTS OF THE MANAGEMENT BOARD OF PZU**

### **15. Truthfulness and reliability of the statements presented**

According to the best knowledge of the Management Board of PZU:

- The consolidated interim financial statement of Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period of 6 months, ended on June 30th, 2010 and comparable data (according to the IFRS);
- The individual interim financial statement of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period of 6 months, ended on June 30th, 2010 and comparable data (according to the Polish Accounting Standards) have been prepared in accordance with the applicable accounting rules and they reflect truly, reliably and clearly the entire property and financial situation of the PZU Group and PZU, respectively, and their financial results.

The Management Board of PZU hereby states that the Statement on activity of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the first 6 months of year 2010 contains a true presentation of development and achievements, as well as the situation of PZU Group, including the description of basic threats and risks.

### **16. Selection of the entity entitled to audit financial statements**

The Management Board of PZU hereby states that the entity entitled to audit financial statements - Deloitte Audyt Sp. z o.o. – auditing:

- The consolidated interim financial statement of Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period of 6 months, ended on June 30th, 2010 (according to the IFRS);
- The individual interim financial statement of Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period of 6 months, ended on June 30th, 2010 (according to the Polish Accounting Standards) was selected in accordance with the provisions of the law.

This entity, as well as auditors conducting audits, met the conditions for issue of objective and independent reports on audits in accordance with the legal provisions and occupational standards in force.

<b>Date</b>	<b>Name and surname</b>	<b>Position/Function</b>	
25 August 2010	Andrzej Klesyk	Chairman of the Management Board of PZU	..... (signature)
25 August 2010	Witold Jaworski	Member of the Management Board of PZU	..... (signature)
25 August 2010	Rafał Stankiewicz	Member of the Management Board of PZU	..... (signature)