

**CAPITAL GROUP
POWSZECHNY ZAKŁAD UBEZPIECZEŃ
SPÓŁKA AKCYJNA
WARSZAWA, AL. JANA PAWŁA II 24**

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE 2010 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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CONSOLIDATED FINANCIAL STATEMENTS OF THE POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA FOR THE 2010 FINANCIAL YEAR

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REPORT ON THE ACTIVITIES OF THE POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA AKCYJNA CAPITAL GROUP FOR THE 2010 FINANCIAL YEAR

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

We have audited the attached consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group, for which Powszechny Zakład Ubezpieczeń Spółka Akcyjna with registered office in Warsaw at , Al. Jana Pawła II 24, as the parent, including consolidated statement of financial position prepared as of 31 December 2010, consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year from 1 January 2010 to 31 December 2010 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the capital group in line with the law is the responsibility of the Management Board of the Parent. The Management Board of the Parent and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion. We believe that, despite the uncertainty specified below, our audit provided a reasonable basis for our opinion.

In our opinion, the audited consolidated financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2010 as well as its profit or loss in the financial year from 1 January 2010 to 31 December 2010,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2010 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited consolidated financial statements.

Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

Piotr Sokołowski
Deputy Chairman of the Board
Certified auditor
No. 9752

Dariusz Szkaradek
Member of the Board
Certified auditor
No.9935

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-754 Warsaw

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represented by

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entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 15 March 2011

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL
STATEMENTS OF THE POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA
AKCYJNA CAPITAL GROUP FOR THE 2010 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Parent

Powszechny Zakład Ubezpieczeń Spółka Akcyjna with its registered office in Warsaw at Al. Jana Pawła II 24, was established via transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company, pursuant to Article 97 of the Act of 28 July 1990 on insurance activity (consolidated text, Journal of Law from 1996, no. 11, item 62, as amended).

The terms and procedures of transformation and assignment of liabilities of Państwowy Zakład Ubezpieczeń are governed by the Ordinance of the Minister of Finance of 18 December 1991 (Journal of Law from 1991, no. 119, item 522). Formal and actual transformation of Państwowy Zakład Ubezpieczeń into a state-owned joint-stock company took place on 23 December 1991 pursuant to a notarized deed Rep. A-III-21516/91.

Currently, the Company is recorded in the register of entrepreneurs kept by the District Court for the capital city of Warsaw, XII Business-Registry Division in Warsaw under number KRS0000009831.

The Company has the following tax identification number NIP: 526-025-10-49, assigned by the Second Tax Office Warszawa-Śródmieście on 4 June 1993.

The REGON number assigned to the Company by the Statistical Office on 5 July 1993 is: 010001345.

The Company operates based on the provisions of the Code of Commercial Companies.

According to Polish NACE (PKD), the core business of PZU includes other personal and property insurance (PKD 65.12) and according to NACE, non-life insurance (EKD 6603). Warsaw Stock Exchange (WSE) classifies the Company in the insurance sector.

As of 31 December 2010, the Company's share capital amounted to PLN 86,352,300 and was divided into 86,352,300 ordinary shares with a face value of PLN 1 each.

As of 10 June 2010, (the date of the last Shareholders' Meeting) the Company's shareholders included:

- State Treasury – 45,1875% shares,
- Other shareholders – 54,8125% shares.

During the financial year there were no changes in the share capital of the Company.

During the audited period, the shareholding structure of the Company's share capital has changed as described in explanatory note to the financial statements.

After the balance-sheet date there were no changes in the Company's share capital.

As of 31 December 2010, the Capital Group's equity amounted to PLN 12,799,926 thousands.

The Capital Group's financial year is the calendar year.

Composition of the Management Board as of the date of the opinion:

- Andrzej Klesyk - President of the Management Board,
- Witold Jaworski - Member of the Management Board,
- Przemysław Dąbrowski - Member of the Management Board.

Changes in the composition of the Management Board during the audited period:

- on 27 September 2010, Rafał Stankiewicz resigned from the position of Member of the Management Board,
- on 30 September 2010, Supervisory Board of PZU, pursuant to Article 383.1 of the Code of Commercial Companies (Dz.U. No. 94 of 2000, item 1037 as amended), delegated its member, Dariusz Filar, to act as a member of the Management Board for the period from 1 October 2010 until appointing of a new member, no longer, though, than until 31 December 2010,
- on 21 December 2010, Supervisory Board of PZU appointed Przemysław Dąbrowski a member of the Management Board. At the same time, Dariusz Filar ceased to act as the Management Board Member.

The above changes have been reported and registered at a relevant court register.

Composition of the PZU SA Capital Group as of 31 December 2010:

- Parent – Powszechny Zakład Ubezpieczeń Spółka Akcyjna, and
- subsidiaries:
 - Powszechny Zakład Ubezpieczeń na Życie SA
 - Powszechne Towarzystwo Emerytalne PZU SA
 - PZU Centrum Operacji SA (poprzednio „Centrum Informatyki Grupy PZU SA”)
 - Tower-Inwestycje Sp. z o.o. (poprzednio „PZU Tower Sp. z o.o.”)
 - PrJSC Insurance Company PZU Ukraine i jej spółki zależne
 - UAB DK PZU Lietuva
 - Ogrodowa-Inwestycje Sp. z o.o.
 - PZU Pomoc SA
 - Ipsilon Sp. z o.o.
 - Syta Development Sp. z o.o. w likwidacji
 - Towarzystwo Funduszy Inwestycyjnych PZU SA
 - Sigma Investments Sp. z o.o.
 - PZU Asset Management SA
 - Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA
 - PrJSC Insurance Company PZU Ukraine Life Insurance
 - UAB PZU Lietuva Gyvybes Draudimas
 - Armatura Kraków SA i jej spółki zależne
 - ICH Center SA
- associates:
 - Kolej Gondolowa Jaworzyna Krynicka SA
 - Nadwiślańska Agencja Ubezpieczeniowa SA

The consolidated financial statements as of 31 December 2010 included the following entities:

- a) Parent – Powszechny Zakład Ubezpieczeń Spółka Akcyjna

We have audited the financial statements of the Parent Powszechny Zakład Ubezpieczeń Spółka Akcyjna for the period from 1 January to 31 December 2010. As a result of our audit, on 15 March 2011 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Share in the capital (%)	Name of the entity that audited the financial statements/consolidation package and type of opinion issued	Opinion date
Powszechny Zakład Ubezpieczeń na Życie SA	100%	Deloitte Audyt Sp. z o.o. – unqualified opinion	14 March 2011
Powszechnie Towarzystwo Emerytalne PZU SA	100%	Deloitte Audyt Sp. z o.o. – unqualified opinion	8 March 2011
PZU Centrum Operacji SA (former Centrum Informatyki Grupy PZU SA)	100%	Deloitte Audyt Sp. z o.o. – unqualified opinion	11 February 2011
Tower-Inwestycje Sp. z o.o. (former PZU Tower Sp. z o.o.)	100%	Deloitte Audyt Sp. z o.o. – unqualified opinion	16 February 2011
PrJSC Insurance Company PZU Ukraine	100%	Deloitte Ukraine – unqualified opinion	10 February 2011
UAB DK PZU Lietuva	99,76%	Deloitte Lietuva UAB – unqualified opinion	10 February 2011
Ogrodowa-Inwestycje Sp. z o.o.	100%	Deloitte Audyt Sp. z o.o. – unqualified opinion	28 February 2011

In the view of insignificance for the Capital Group profit/loss, the following companies were excluded from consolidation:

Company's name	Share in the capital (%)	Relationship	Value of shares at cost including impairment (PLN '000)
TFI PZU SA	100%	Subsidiary	24,793
PZU Asset Management SA	100%	Subsidiary	4,642
PZU Pomoc SA	100%	Subsidiary	18,565
UAB PZU Lietuva Gyvybes Draudimas	99,34%	Subsidiary	40,235
PrJSC IC PZU Ukraine Life Insurance	100%	Subsidiary	30,378
Armatura Kraków SA (Grupa Kapitałowa)	64,63%	Subsidiary	42,952
ICH Center SA	90%	Subsidiary	1,292
Międz Zakładowe Pracownicze Towarzystwo Emerytalne PZU SA	100%	Subsidiary	500
Ipsilon Sp. z o.o.	100%	Subsidiary	52
Syta Development Sp. z o.o. w likwidacji	100%	Subsidiary	0
Sigma Investments Sp. z o.o.	100%	Subsidiary	50
Kolej Gondolowa Jaworzyna Krynicka SA	37,53%	Associated entity	5,347
Nadwiślańska Agencja Ubezpieczeniowa SA	30%	Associated entity	540
Total			160,346

The Parent Company preparing the consolidated financial statements did not simplify or alter consolidation principles in relation to the consolidated entities.

In the financial year, occurred change in the composition of the audited Capital Group and its entities included in consolidation, for which the Parent Company has prepared the audited

consolidated financial statements, by excluding „PZU Fundusz Inwestycyjny Otwarty Papierów Dłużnych Polonez”.

2. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2009 resulted in a net profit of PLN 3,762,911 thousand. The consolidated financial statements of the Capital Group for 2009 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Audyt Sp. z o.o. On 7 March 2010 the certified auditor issued an unqualified opinion with an emphasis of matter on those financial statements, stating as follows:

“Without qualifying the accuracy and fairness of the audited consolidated financial statements, we would like to point out the fact presented in item 1 of the consolidated financial statements, that the Parent Company has prepared the consolidated financial statements for statutory purposes in line with the principles set out in the International Financial Reporting Standards in the form approved by the European Union pursuant to the resolution of the Extraordinary Shareholders’ Meeting of 3 March 2010 on conditional adoption of the IFRS under Article 55 clause 6 of the Accounting Act applicable to consolidated financial statements of entities intending to apply for admission to trading securities on a regulated market. The condition allowing for the adoption of the IFRS will be met when the entity has filed a motion to approve its prospectus by the Polish Financial Supervision Authority under the Act of 29 July 2005 on trading financial instruments (Journal of Law from 2005, no. 183, item 1538, with subsequent amendments).”

The General Shareholders’ Meeting which approved the consolidated financial statements for the 2009 financial year was held on 10 June 2010.

In accordance with applicable laws, the consolidated financial statements for the 2009 financial year were submitted to the National Court Register (KRS) on 18 June 2010 and filed for publication in Monitor Polski B on 18 June 2010. The financial statements were not published in Monitor Polski B till the date of issuing our opinion.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 30 November 2010 concluded between Powszechn Zakład Ubezpieczeń SA and Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Jacek Marczak, key certified auditor, (No. 9750), in the registered office of the Parent from 15 February to 15 March 2011.

The authorized entity was appointed by the Supervisory Board by resolution of 12 May 2010 based on authorization presented in Article 25, clause 2, point 10 of the Parent Company.

Deloitte Audyt Sp. z o.o. and Jacek Marczak, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649) to express an unbiased and independent opinion on the consolidated financial statements of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent of 15 March 2011.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated income statement as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

<u>Selected items from the statement of financial position</u> (in PLN '000)	<u>31.12.2010</u>	<u>31.12.2009</u>
Intangible assets	109,067	85,069
Property, plant and equipment	990,411	1,043,811
Investment property	441,014	346,552
Financial assets	45,345,032	48,237,593
Receivables	1,597,549	1,383,978
Reinsurers' share in technical provisions	771,850	748,313
Total assets	50,533,832	53,176,209
Equity	12,799,926	11,266,879
Undistributed profit / uncovered loss	6,063,666	5,377,826
Technical provisions	31,483,176	30,481,797
Investment contracts	3,544,515	3,726,529
Other provisions	470,475	575,541
Provision for deferred income tax	404,956	444,053
Other liabilities	1,132,079	5,974,052
Accruals and deferred income	685,232	700,769
<u>Selected items from the consolidated income statement</u> (in PLN '000)	<u>31.12.2010</u>	<u>31.12.2009</u>
Net earned premiums	14,213,013	14,485,214
Net investment income	288,037	340,876
Revenue from commissions and fees	1,828,584	2,363,384
Net profit/loss on realization and impairment loss on investments	199,451	261,310
Net change in the fair value of assets and liabilities measured at fair value	753,805	844,307
Other operating revenue	89,297	260,066
Net insurance claims	(10,299,235)	(9,436,281)
Acquisition costs	(1,851,404)	(1,839,605)
Administrative expenses	(1,663,163)	(1,808,881)
Claims and change in measurement of investment contracts	(176,765)	(275,057)
Income tax	(590,202)	(802,900)
Net profit	2,439,229	3,762,911
<u>Main items from the consolidated statement of other comprehensive income (in PLN '000)</u>	<u>2010</u>	<u>2009</u>
Net profit	2,439,229	3,762,911
Other comprehensive income	35,910	201,518
Net comprehensive income total	2,475,139	3,964,429

<u>Profitability ratios</u>	<u>2010</u>	<u>2009</u>
– profitability ratio on the basis of gross premium written (net profit / gross written premium)	16,8%	26,2%
– profitability ratio on the basis of net premium earned (net profit / net written premium)	17,2%	26,0%
<u>Claims ratios</u>		
– gross claims ratio (claims and change in technical provisions/gross earned premium)	75,3%	64,7%
– net claims ratio (claims and net change in technical provisions/net earned premium)	72,5%	65,1%
<u>Total operating costs ratio</u>		
– administrative expenses ratio (administrative expenses/gross written premium)	11,4%	12,6%
– acquisition costs ratio (acquisition costs/gross written premium)	12,7%	12,8%
<u>Return on investment and equity ratios:</u>		
– investment level ratio (financial assets and investment property / equity and technical provisions less reinsurers' share as at the end of the reporting period)	105,2%	118,5%
– return on equity (net profit/average equity) ¹	20,3%	24,0%
<u>Solvency and funds security ratios</u>		
– provision allocation ratio (financial assets and investment property / technical provisions less reinsurers' share)	149,1%	163,4%

The analysis of the above figures and ratios identified the following trends in 2010:

- a decrease in profitability ratio on the basis of gross written premium from 26.2% in 2009 to 16.8% in 2010;
- a decrease in profitability ratio on the basis of net earned premium from 26.0% in 2009 to 17.2% in 2010;
- an increase in gross claims ratio from 64.7% in 2009 to 75.3% in 2010;
- an increase in net claims ratio from 65.1% in 2009 to 72.5% in 2010;
- a decrease in investment level ratio from 118.5% at the end of 2009 to 105.2% at the end of 2010;
- a decrease in return on equity from 24.0% in 2009 to 20.3% in 2010;
- a decrease in provision allocation ratio from 163.4% at the end of 2009 to 149.1% at the end of 2010.

¹ The average calculated as an arithmetic average of the equity balance as at the beginning and the end of the reporting period.

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2010 and include:

- consolidated statement of financial position prepared as of 31 December 2010, with total assets and liabilities plus equity of PLN 50,533,832 thousand,
- consolidated income statement for the period from 1 January 2010 to 31 December 2010, with a net profit of PLN 2,439,229 thousand,
- consolidated statement of comprehensive income for the period from 1 January 2010 to 31 December 2010 with a total comprehensive income of PLN 2,475,139 thousand,
- consolidated statement of changes in equity for the period from 1 January 2010 to 31 December 2010, disclosing an increase in equity of PLN 1,533,047 thousand,
- consolidated statement of cash flows for the period from 1 January 2010 to 31 December 2010, showing a cash inflow of PLN 70,916 thousand,
- additional information and explanations, including information on the adopted accounting policy and other explanatory notes.

The structure of assets and liabilities plus equity as well as items affecting the financial profit or loss has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2010 to 31 December 2010 and focused mainly on:

- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent,
- verification of the consolidation documentation,
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation,
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent presented the consolidation documentation including:

- 1) financial statements of entities included in the consolidated financial statements,
- 2) financial statements of controlled entities, adjusted to the accounting principles (policy) applied during consolidation,
- 3) financial statements of controlled entities translated into the Polish currency,
- 4) all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements,
- 5) calculation of the fair value of the net assets of controlled entities,
- 6) calculation of minority interest,
- 7) calculation of exchange differences arising from translation of the financial statements of controlled entities denominated in foreign currencies.

Basis for the preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group for the 2010 financial year have been prepared in accordance with the International Financial Reporting Standards.

Entities in the Capital Group

The scope and method of consolidation as well as the relationship between entities in the capital group have been determined based on the criteria specified in the International Financial Reporting Standards.

Financial period

The consolidated financial statements have been prepared as of the same balance sheet date and for the same financial year as the financial statements of the Parent – Powszechny Zakład Ubezpieczeń Spółka Akcyjna. Subsidiaries and associated companies included in consolidation prepared their financial statements as of the same balance sheet date as the Parent. The financial year of all subsidiaries and associated companies included in consolidation ended on 31 December 2010.

Consolidation method

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent and the subsidiaries included in consolidation were summed up.

Once the values had been summed up, consolidation adjustments and eliminations were applied to:

- the cost of shares held by the Parent in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent in these companies,
- mutual receivables and liabilities of entities included in consolidation,
- material revenue and expenses related to transactions between entities included in consolidation.

Subsidiaries and associates excluded from consolidation and not measured using the equity method due to their insignificance are measured at purchase price less impairment loss.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes to the consolidated financial statements give a correct and complete description of measurement principles regarding assets, liabilities, profit or loss and principles of preparation of the consolidated financial statements.

The Parent Company prepared the additional information and explanations in the form of tabular notes to individual items in the consolidated statement of financial position, income statement and statement of comprehensive income as well as narrative descriptions in line with IFRS. Explanatory notes describing: property, plant and equipment, intangible assets and provisions, including technical provisions correctly present increases and decreases as well as their basis during the financial year. Limited disposability was indicated for individual assets presented in the consolidated statement of financial position, as some of them constituted collateral of creditors.

Individual assets and equity and liabilities as well as revenue and expenses were correctly presented by the Parent Company in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows with additional notes, information and explanations constituting an integral part thereof, contain all the items, whose disclosure in the financial statements is required by the provisions of IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2010 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states. We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. CLOSING COMMENTS

Management Board's Representation

Deloitte Audyt Sp. z o.o. and the key certified auditor received a representation letter from the Parent's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

Piotr Sokolowski
Deputy Chairman of the Board
Certified auditor
No. 9752

Dariusz Szkaradek
Member of the Board
Certified auditor
No.9935

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-754 Warsaw

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financial statements entered under
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National Council of Statutory Auditors

Warsaw, 15 March 2011