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

Warsaw, 15 March 2011

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INTRODUCTION

1. Overview of consolidated financial performance

In 2010 gross written premium of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Capital Group (hereinafter: the PZU Group, the Group) amounted to PLN 14,544,457 thousand (PLN 14,362,717 thousand the year before; an increase by 1.3%).

Following single events of crisis nature, lower amount of mathematical provisions derecognized in group insurance (lower pace of converting long-term policies to annual renewable ones) and deteriorated performance on investments (decrease in the investment base following dividend payment), the operating profit of the PZU Group was materially reduced (by 32.9 percent compared to 2009).

The net profit of the PZU Group in 2010 amounted to PLN 2,439,229 thousand, showing a drop by 35.2% compared to 2009 performance.

The total costs of insurance activity (acquisition and administrative expenses) decreased by 3.7% compared to the end of the previous year. The decrease resulted mainly from restructuring activities.

At year-end, the value of financial assets was PLN 45,345,032 thousand, being 6.0% lower year on year. Equity was 13.6% higher than in the previous year and amounted to PLN 12,799,926 thousand.

At the end of 2010, ROE[1] was 20.3%, by 3.7 p.p. lower than at the end of the previous year.

At the same time, ROA was 4.7%, by 2.0 p.p. lower than at the end of the previous year.

2. Macroeconomic conditions in 2010

2.1 Major economic trends/economic growth rate

In 2010 GDP in Poland increased by 3.8% outgrowing projections, compared to the increase by 1.7% the year before. The economic growth was triggered by growing domestic demand (4.0% increase compared to 1% decrease in 2009). The foreign trade balance had a slight negative impact on the GDP increase. The key triggers of domestic demand increase in 2010 included individual consumption, which grew by 3.2% compared to 2.1% in 2009 and growth of inventory, which added 1.8 p.p. to the GDP increase. The year 2010 saw a clear increase in export, among others due to economic growth in Germany and PLN exchange rate favourable for export. Import also grew rapidly, stimulated by an increase in domestic demand. Private investments of enterprises did not grow in 2010. The drop in gross expenditures on fixed assets was higher than in 2009 (1.1% drop) and amounted to 2%, despite high expenditures incurred by the public sector on investments in infrastructure. As for manufacturing of GDP, the highest growth driver was higher gross added value in the industry (9.1% versus a decrease of 0.3% in 2009). The increase in the added value in services was higher than in 2009 (1.5% vs. 0.9%), but comparing to the preceding years, it was still moderate. Despite a high growth in production of the construction and erection industry, which was observed

[1] ROE ratio calculated as net profit for the year divided by average balance of equity in 2010 year.

after the winter downturn, the value added growth in the construction industry (3.8%) was lower than in 2009 (9.9%).

2.2 Capital market

In 2010 stock exchange indexes grew slower than in 2009 after the rebound. At the end of 2010, WIG was 18.8% higher and WIG20 14.9% higher than at the end of the previous year. The growth trend on stock exchanges was intermitted by a temporary downturn in late January and early February and a longer slump in May and June, which resulted from the increase in global aversion to risk related to the severe debt crisis in the euro zone peripheral economies. The growth of global stock exchange indexes was driven by expansive monetary policy of key central banks and sustained economic upturn.

In 2010 the prices of Treasury bonds issued in the domestic market increased and their yield to maturity dropped. The YTM of five- and two-year bonds dropped by 40 b.p. and the YTM of ten-year bonds decreased by 16 b.p. (2010 year-end vs. 2009 year-end). Still, in case of 10-year bonds, the average annual decrease was quite significant and exceeded 30 b.p. The decrease in the YTM of Polish bonds was associated with the YTM of bonds in key underlying markets, resulting from relaxed monetary policy, higher aversion to risk and the fear of the second wave of recession. Due to better economic growth prospects in developed countries, at the end of 2010, the YTM of bonds started to grow in global markets.

2.3 Monetary policy, interest rates, inflation

In 2010 the CPI dropped considerably from 3.5% to 2.6%. The trend was related to limited pressure of demand and salaries. In such conditions, the Monetary Policy Council maintained the reference rate at a very low level of 3.5%. After a summer drop to 2% YoY, inflation started to grow again, mainly due to the increase in prices of food and energy and it finally reached 3.1% YoY. In October, the Monetary Policy Council decided to increase the mandatory provision rate from 3.0% to 3.5%, still the decision pertained to the period from 31 December 2010. Based on the decision, the rate returned to the level from before 30 June 2009 and it was a sign auguring the increase in interest rates. On 19 January 2011 the Monetary Policy Council decided to increase the base interest rate by 25 b.p. after 19 months. Currently, the reference rate equals 3.75%.

2.4 Labour market and consumption

The situation in the labour market improved in 2010, but the unemployment rate registered at the end of the year (12.3%) was slightly higher than in the previous year (12.1%). Employment in the enterprise sector grew by 124 thousand people after a drop by 98 thousand in 2009. After a decrease in 1Q10 (by 0.3% YoY), in two consecutive quarters average annual employment in the Polish economy increased gradually (respectively by 0.7% YoY and 1.6% YoY). Despite higher demand for work, unemployment of 11.5%-13% and higher professional activity observed in 2010 allowed for controlling the increase in salaries. Based on preliminary data, annual salaries growth in the Polish economy in 2010 was lower than in the preceding year (4% vs. 5.4% YoY). Still, the employment growth and lower inflation contributed to the salaries growth rate similar to those reported in 2009. The growth of pensions and disability allowances was not as fast.

In 2010 consumption growth increased quarter by quarter - in particular in the second half of the year, which was related to the changes in tax regulations expected in 2011 or purchases of flood victims. The sale of cars, furniture, electronic equipment and household appliances visibly grew in 2010.

2.5 Foreign exchange rates

Average annual rate of exchange of the Polish zloty increased in 2010 as compared to key global currencies such as euro (by 7.7%) US dollar (by 3.2%). During the year the rate of exchange of the Polish zloty was considerably affected by periodic growth of aversion to risk in global financial markets, resulting from the effects of the debt crisis in peripheral economies of the euro zone. In effect, the rate of exchange of the Polish zloty deteriorated in May-July and, to a lesser extent, at the end of the year. The Polish zloty strengthened against euro by 3.6% at the end of 2010 versus the end of 2009, but the higher value of dollar in global markets resulted in the deterioration of the PLN/USD rate of exchange by nearly 4.0%. The Polish zloty also weakened versus the Swiss Frank – by nearly 14.4% between the end of 2009 and the end of 2010.

2.6 The impact of macroeconomic factors on the insurance sector

The macroeconomic situation exerted a slight positive impact on the sale of insurance. Based on estimates, the salary income growth was slightly higher in 2010 than in 2009, still the social benefit income was lower. In such conditions, gross written premium increased faster in 2010 both in life and property insurance. Faster GDP growth and higher employment contributed to improving conditions of selling insurance services. In 2010 production, import and sale of cars increased, which created more advantageous conditions for selling comprehensive car insurance and TPL insurance. Stronger zloty, in particular comparing to euro, was one of the factors reducing the claims ratio in this insurance segment.

In 2010 the credit market was still stagnated. Despite relaxing the credit policy of banks towards enterprises, the demand for credit remained relatively low. The credit dynamics grew insignificantly. However, the growth in the mortgage loans remained stable. In 2010 the decrease in investments in fixed assets was even stronger than in 2009, which resulted from stagnation in private investments. The conditions for selling financial and investment-related insurance (real property insurance) were still quite difficult.

The situation on capital markets was quite advantageous in 2010, which enabled insurers to generate profit both on the stock and bond market.

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

2.7.1 General insurance market

As at the end of September 2010, gross written premium for the entire insurance sector in Poland amounted to PLN 40,196.1 million marking the growth of 4.8% (+ PLN 1,841.8 million) year on year. The premium of property and other personal insurance companies increased by 5.5% up to PLN 16.925,9 million, while life insurance companies reported a 4.3% growth up to PLN 23,270.2 million.

2.7.2 Property and other personal insurance

At the end of September 2010 the market share of PZU (hereinafter "PZU") in the Polish property and other personal insurance market measured by gross written premium amounted to 34.9%. The share of PZU Lycia (hereinafter "PZU Lycia") in the life insurance market amounted to 28.5%. The PZU Group remains the leader in the Polish insurance market.

PLN million

Gross written premium – property insurance	IQ- IIIQ 2010			IQ- IIIQ 2009		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	1 639.7	3 822.7	2 183.0	1 665.7	3 684.5	2 018.8
TPL motor insurance	1 951.8	5 661.3	3 709.5	2 035.3	5 494.2	3 458.9
Other products	2 323.2	7 441.8	5 118.6	2 474.5	6 866.8	4 392.3
TOTAL	**5 914.7**	**16 925.9**	**11 011.2**	**6 175.5**	**16 045.4**	**9 869.9**

Source: Report of the Polish Financial Supervision Authority for IIIQ2010, the Issuer

Written premium structure	IQ- IIIQ 2010			IQ- IIIQ 2009		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	27.7%	22.6%	19.8%	27.0%	23.0%	20.5%
TPL motor insurance	33.0%	33.4%	33.7%	33.0%	34.2%	35.0%
Other products	39.3%	44.0%	46.5%	40.1%	42.8%	44.5%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

PZU share in market premium (%)	IQ- IIIQ 2010	IQ- IIIQ 2009
Comprehensive car insurance	42.9%	45.2%
TPL motor insurance	34.5%	37.0%
Other products	31.2%	36.0%
TOTAL	**34.9%**	**38.5%**

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

PLN million

Technical performance	IQ- IIIQ 2010			IQ- IIIQ 2009		
	PZU	Market	Market, excluding PZU	PZU	Market	Market, excluding PZU
Comprehensive car insurance	-127.6	-380.8	-253.2	163.0	45.5	-117.5
TPL motor insurance	-152.4	-555.6	-403.2	-164.6	-583.1	-418.6
Other products	-53.8	-192.9	-139.0	337.5	613.3	275.8
TOTAL	**-333.8**	**-1 129.3**	**-795.5**	**336.0**	**75.7**	**-260.3**

Source: Report of the Polish Financial Supervision Authority for IIIQ2010, the Issuer

Despite catastrophic events in 2010, which had a particularly strong impact on PZU due to its leading position in the agricultural and property insurance market, in three quarters of 2010 the Company's technical results remained very good compared to other market players. It was particularly visible in the motor insurance segment.

2.7.3 Life insurance

In three quarters of 2010 the life insurance market improved. Gross written premium increased by approx. 4.3% YoY as a result of increase in the regular premium (+ 9.9%) and a slight decrease in single premium (-0.2%). The increase in the regular premium is correlated with pay and employment growth, while the single premium has remained stable.

PLN million

	IQ- IIIQ 2010			IQ- IIIQ 2009		
	PZU Lycia	Market	Market, excluding PZU Życie	PZU Życie	Market	Market, excluding PZU Życie
Written premium	**6 632.6**	**23 270.2**	**16 637.6**	**7 246.9**	**22 308.9**	**15 062.0**
Technical result	**1 681.0**	**2 762.3**	**1 081.3**	**2 500.7**	**3 509.8**	**1 009.2**

Source: Report of the Polish Financial Supervision Authority for IIIQ2010, the Issuer

The year 2010 saw a decrease in the market share of PZU Życie resulting from a lower single premium written obtained through the banking channel (27.3% less), where deposits embedded in policies (with relatively low profitability) and resigning from sales of Fundusz Gotówka insurance, whose profitability was also poor. Reduced exposure to this sort of products results from focusing on sales of high margin ones. As regards regular premium insurance, which is not exposed to considerable market fluctuations and does not involve significant margins (YoY premium increase by 1.9%), the market share of PZU remains stable and the Company's position leading among other market players. At the end of 3Q 2010 the market share of PZU Życie measured by the gross written premium amounted to 28.5% and dropped by 4,0 p.p. compared to the end of September 2009.

The technical result of PZU Życie accounts for a major part of the result generated by all life insurance companies. The YoY drop recorded during the nine months of 2009 results mainly from a lower reduction in technical provisions in group life insurance due to conversion of unlimited-term contracts to annual renewable ones. Interestingly, despite the reduced technical result of PZU Życie the technical margin on premium written is still nearly four times higher than the margin generated jointly by all other life insurers on the market (25.3% compared to 6.5%).

PLN million

Life insurance market – gross written premium	IQ- IIIQ 2010			IQ- IIIQ 2009		
	PZU Życie	**Market**	**Market, excluding PZU Życie**	**PZU Życie**	**Market**	**Market, excluding PZU Życie**
Regular premium	4 755.1	10 958.3	6 203.2	4 664.5	9 973.6	5 309.1
Single premium	1 877.5	12 312.0	10 434.4	2 582.3	12 335.2	9 752.9
TOTAL	**6 632.6**	**23 270.2**	**16 637.6**	**7 246.9**	**22 308.9**	**15 062.0**

Source: Issuer

PZU Życie share in market premium (%)	IQ- IIIQ 2010	IQ- IIIQ 2009
Regular premium	43.4%	46.8%
Single premium	15.2%	20.9%
TOTAL	**28.5%**	**32.5%**

2.7.4 Pension insurance

PLN million

Pension Insurance Market	2010			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	2 193 502	14 930 991	12 737 489	2 119 094	14 360 664	12 241 570
Net AUM in PLN million	30 512,5	221 461,6	190 949,1	24 584,0	179 039,9	154 455,9

Source: Report of the Polish Financial Supervision Authority for IVQ2010, the Issuer

Market share of OFE PZU “Złota Jesień” (%)	2010	2009
Number of OPF members	14.7%	14.8%
Net AUM	13.8%	13.7%

At the end of 2010, PFE PZU had about 2.193.5 members constituting 14.7% of the general number of open pension funds members and gives PFE PZU the third place in the market. Compared to the end of 2009, the number of OFE PZU members increased by 74.5 thousand, i.e. 3.5% (while the total number of members rose by 4.0%).

In 2010 the number of first time clients concluding contracts with a pension fund dropped by 7% compared to 2009 due to negative demographic factors (individuals born at the time of population decline reach the production age) and worsening of the labour market conditions.

Additionally, a large number of people decided to change their fund (a 6% rise compared to in 2009). OFE PZU is among funds with a positive transfer balance and holds the seventh position in net transfers in 2010.

At the end of 2010, the total net assets of all funds amounted to PLN 221,251.12 million and increased by 23.86% compared to the end of 2009. During this period, the assets of OFE PZU increased by 23.87% to PLN 30,659.57 million giving OFE PZU third place among the market players. 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 2010, Social Insurance Institution provided OFE PZU with PLN 3,076.14 of premiums, which is over 9.0% higher than in 2009.

2.7.5 Investment funds

According to the Chamber of Fund and Asset Management (CFAM) at the end of December 2010, net assets of investment funds in Poland approximated PLN 116.13 billion. The value of AUM in 2010 increased by over 24%. The balance of payments and cancellations amounted to PLN 9.38 billion, while performance on AMU approximated PLN 13.15 billion. Cash funds benefited the most (approx. PLN 5.94 billion new funds) as well as debt securities (approx. PLN 1.91 billion). On the other hand, balanced investment funds saw the largest drop (approx. PLN -1.42 billion). The share of five largest investment fund associations measured by value of assets of managed investment funds amounted to 51.4% at the end of December 2010.

In terms of net AUM, TFI PZU is 13th among 31 investment fund associations included in the CFAM report. At the same time, TFI PZU remains the leader in the segment of employee pension plans among domestic investment pension funds with assets exceeding PLN 1.24 billion.

2.8 Macroeconomic factors that will affect the activities of the PZU Group in 2011

Further improvement in the labour market is expected in 2011 (e.g. further decrease in the unemployment rate), which will result in a slight increase in the growth of household income. The GDP growth rate is expected to remain at the level reported in 2010 and the consumption and investment growth are likely to increase. These factors should positively affect the demand for insurance services.

The expected growth of inflation and short- and long-term interest rates will considerably affect the investment policy and investment income.

3. Organization of the PZU Group

3.1 Business activities of the PZU Group

As at the date of the Report, the PZU Group comprises PZU and seven entities included in consolidation, holding shares in eighteen not consolidated companies. PZU is the parent entity in the PZU Group. The PZU Group and some subsidiaries of PZU carry out insurance activity including property, personal and life insurance, as well as management of pension funds, establishing and management of investment funds, and management of portfolio of a single or several financial instruments.

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

No.	Entity's name	Registered office	Date of assuming control/significant influence	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Core business
				31 December 2010	31 December 2009	31 December 2010	31 December 2009	
Subsidiaries subject to consolidation								
1	Powszechny Zakład Ubezpieczeń SA	Warsaw	n/a	n/a	n/a	n/a	n/a	Property and personal insurance
2	Powszechny Zakład Ubezpieczeń na Życie SA (PZU Życie)	Warsaw	18.12.1991	100.00%	100.00%	100,00%	100,00%	Life insurance
3	Powszechne Towarzystwo Emerytalne PZU SA (PTE PZU)	Warsaw	08.12.1998	100.00%	100.00%	100,00%	100,00%	Pension fund management
4	PZU Centrum Operacji SA ("PZU CO")	Warsaw	30.11.2001	100.00%	100.00%	100,00%	100,00%	Auxiliary activities related to insurance and pension funds
5	Tower Inwestycje Sp. z o.o. (former PZU Tower Sp. z o.o.; „Tower Inwestycje")	Warsaw	27.08.1998	100.00%	100.00%	100,00%	100,00%	Other financial services except from insurance and pension funds
6	PrJSC IC PZU Ukraine („PZU Ukraine")	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100,00%	100,00%	Property insurance
7	UAB DK PZU Lietuva („PZU Lietuva")	Vilnius (Lithuania)	26.04.2002	99.76%	99.76%	99,76%	99,76%	Property insurance
8	Ogrodowa-Inwestycje Sp. z o.o.	Warsaw	15.09.2004	100.00%	100.00%	100,00%	100,00%	Purchase, operation, lease and disposal of real property
9	PZU Fundusz Inwestycyjny Otwarty Papierów Dłużnych Polonez	Warsaw	11.10.1999	45.37%*	50.71%	n/a	n/a	Investing of funds collected from members
Subsidiaries not subject to consolidation								
10	PZU Pomoc SA	Warsaw	18.03.2009	100.00%	100.00%	100,00%	100,00%	Assistance services
11	Ipsilon Sp. z o.o.	Warsaw	02.04.2009	100.00%	100.00%	100,00%	100,00%	Assistance and medical services
12	SYTA Development Sp. z o.o. in liquidation	Warsaw	29.04.1996	100.00%	100.00%	100,00%	100,00%	Acquisition and disposal of real property, agency in real property trade, real property management
13	Towarzystwo Funduszy Inwestycyjnych PZU SA (TFI PZU)	Warsaw	30.04.1999	100.00%	100.00%	100,00%	100,00%	Establishing, representing, managing investment funds
14	Sigma Investments Sp. z o.o.	Warsaw	28.12.1999	100.00%	100.00%	100,00%	100,00%	Investing activity Acquisition and disposal of public companies' shares and other listed securities
15	PZU Asset Management SA (PZU AM)	Warsaw	12.07.2001	100.00%	100.00%	100,00%	100,00%	Management of securities portfolios for the account of third parties
16	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA (MPTE)	Warsaw	13.08.2004	100.00%	100.00%	100,00%	100,00%	Management of employee pension fund
17	PrJSC IC PZU	Kiev	01.07.2005	100.00%	100.00%	100,00%	100,00%	Life insurance

	Ukraine Life Insurance	(Ukraine)						
18	LLC SOS Services Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100,00%	100,00%	Assistance
19	Company with Additional Liability Inter-Risk Ukraine	Kiev (Ukraine)	01.07.2005	100.00%	100.00%	100,00%	100,00%	Legal services
20	UAB PZU Lietuva Gyvybes Draudimas	Vilnius (Lithuania)	26.04.2002	99.34%	99.34%	99.34%	99.34%	Life insurance
21	Armatura Kraków SA	Kraków	07.10.1999	64.63%	64.63%	64.63%	64.63%	Manufacturing of bathroom and kitchen mixer taps
22	Armatoora SA	Nisko	10.12.2008	64.63%	64.63%	64.63%	64.63%	Manufacturing of heaters and aluminium casts
23	Armatoora SA i wspólnik sp. k.	Kraków	10.02.2009	64.63%	64.63%	64.63%	64.63%	Use of free cash, development investments
24	Armagor Sp. z o.o.	Gorzów Śląski	06.09.2009	64.37%	63.20%	64.37%	63.20%	Manufacturing of valves and tooling services
25	ICH Center SA	Warsaw	31.01.1996	90.00%	90.00%	90.00%	90.00%	Loss handling services - green card
Associates								
26	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	17.08.1998	37.53%	37.53%	36.71%	36.71%	Ski lifts
27	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	08.06.1999	30.00%	30.00%	30.00%	30.00%	Insurance handling

** Since 1 January 2010, the consolidation of the fund has been discontinued following loss of control.*

3.2 PZU Group Companies

3.2.1 PZU

PZU, a joint-stock company with its registered office in Warsaw at Al. Jana Pawła II 24 is 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 pursuant to Article 97 of the Act on insurance activity of 28 July 1990 (consolidated text: Journal of Laws No. 11 of 1996, item 62, as amended).

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.

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.

Insurance activity concerns other personal and property insurance (Section II of the Appendix to the Act of 22 May 2003 on insurance activity – Dz. U. No. 11 of 2010, item 66 as amended, the “Insurance Act”).

3.2.2 PZU Życie

The core business of the Company 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 for open-end pension funds ;
- agency for banking entities;
- 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 counties other EU-member states.

3.2.3 PTE PZU

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

- 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.

3.2.4 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 personal insurance;
- UAB PZU Lietuva Gyvybës Draudimas – life insurance.

3.2.5 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 personal insurance;
- PrJSC IC PZU Ukraine Life – life insurance.

3.2.6 TFI PZU

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

At present TFI PZU 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).

3.2.7 PZU AM

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

Its core business includes:

- brokerage activities within the meaning of Article 69 of the Act on trading in financial instruments including investment portfolio management on behalf of investment funds;
- provision of portfolio management services.

3.2.8 PZU Pomoc SA

Pursuant to its Articles of Association, the scope of activities of PZU Pomoc SA 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.

3.2.9 Ogrodowa-Inwestycje Sp. z o.o.

The core business of the Company includes:

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

3.2.10 PZU CO

According to the Articles of Association, the core business 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;
- all types of commercial activities and services on own account and in cooperation with other entities.

FINANCIAL PERFORMANCE OF PZU GROUP IN 2010

4. Events significantly affecting the activities and financial performance of PZU Group in 2010

The financial performance of PZU Group in 2010 was affected by the following factors:

- changes in the structure of written premium for property and personal insurance segment – restructuring of the corporate portfolio;
- growing trend in life insurance, both group and individual;
- impact of catastrophic and one-off events:
  - heavy snowfalls in winter (IQ);
  - two floods in May and June (IIQ);
  - smaller local floods and heavy rains in July-August;
  - lower amount of technical provisions derecognized due to conversion of multi-year policies to single-year ones in type P group life insurance; in Q3 2010 the impact of conversion gradually weakened due to reduction of the multi-year contract portfolio;
- 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 in November 2009 and payment of 2009 dividend);
- 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 personal insurance;
  - implementation of restructuring processes aimed at reducing administrative expenses (conclusion of negotiations concerning the collective labour agreement with the trade unions and commencement of the lay-off process).

5. Comments to the consolidated financial performance of the PZU Group

5.1 Premiums

Gross written premiums from direct and indirect insurance for 2010 amounted to PLN 14,544,457 thousand (PLN 14,362,717 thousand the year before). The growth of PLN 181,740 thousand (+1.3%)

resulted mainly from development of group insurance and increasing sales of endowment insurance with a single premium in the bancassurance channel (the life insurance segment). In the property and personal insurance segment, premium written remained on a similar level as in 2009.

Premium changes have been discussed in the comments to segment performance (point 6.1 and 6.2).

PLN thousand

Gross written premiums	2010	2009	% change
Gross written premiums – property and personal insurance	8 031 916	8 021 895	0,1%
In direct insurance	7 994 504	7 966 464	0,4%
In indirect insurance	37 412	55 431	-32,5%
Gross written premiums – life insurance	6 512 541	6 340 822	2,7%
Individual premiums	2 342 210	2 288 920	2,3%
In direct insurance	2 342 210	2 288 920	2,3%
In indirect insurance	-	-	-
Group insurance premiums	4 170 331	4 051 902	2,9%
In direct insurance	4 170 331	4 051 902	2,9%
In indirect insurance	-	-	-
Gross written premiums	**14 544 457**	**14 362 717**	**1,3%**

5.2 Investment performance

Investment income for the 12 months ended 31 December 2010 and 31 December 2009 amounted to PLN 2,781,840 thousand and PLN 3,469,001 thousand, respectively.

PLN thousand

Profit/loss on investing activities	2010	2009	% change
Interest income	1 772 869	2 273 225	-22.0%
Dividend income	77 655	79 290	-2.1%
Income on investment property	26 523	22 678	17.0%
Exchange differences	(17 178)	14 609	-217.6%
Other	(31 285)	(26 418)	-
Total net investment income	**1 828 584**	**2 363 384**	**-22.6%**
Net profit/loss on realization of investments	303 152	353 480	-14.2%
Impairment losses	(103 701)	(92 170)	-
Total 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**	**-10.7%**
Investment income	**2 781 840**	**3 469 001**	**-19.8%**

A decrease in net investment income by PLN 534,800 thousand resulted from lower interest income. The key reason for lower investment income was reduction in the value of debt securities portfolio due to the dividend paid under the settlement with Eureko BV at the end of November 2009.

The "Net change in the fair value of assets and liabilities measured at fair value" decreased by PLN 90,502 thousand mainly due to a slowdown on the stock market resulting in smaller increases in equity instruments value. In 2010 Warszawski Indeks Gieldowy (WIG) reflecting changes in the prices of all listed companies increased by 18,8% compared to 46.9% in 2009.

The net profit on realization of investments decreased by PLN 50,328 thousand, whereas losses resulting from impairment were higher by PLN 11,531 thousand. As a result, net profit/loss on realization and impairment losses on investments dropped by PLN 61,859 thousand.

Investment policy of the PZU Group is secure. Debt securities issued by governments accounted for over 75% of the investment portfolio, both as at 31 December 2010 and 31 December 2009. A decrease in the value of these securities resulted from the closing of dividend funding transactions in April 2010 with regard to the settlement with Eureko BV.

The increase in the share and value of equity instruments resulted mainly from a growth in their market price in 2010.

PLN thousand

	2010	%	2009	%
Debt securities, including:	**35 200 159**	**77.6%**	**38 787 479**	**80.4%**
issued by governments	*34 291 519*	*75.6%*	*38 004 941*	*78.8%*
other	*908 640*	*2.0%*	*782 538*	*1.6%*
Equity instruments, including:	**5 741 732**	**12.7%**	**4 767 842**	**9.9%**
listed on a regulated market	*3 083 846*	*6.8%*	*2 711 646*	*5.6%*
other (units, investment certificates, not listed stock, shares)	*2 657 886*	*5.9%*	*2 056 196*	*4.3%*
Loans, reverse repo transactions and term deposits with financial institutions	**4 296 170**	**9.5%**	**4 667 007**	**9.7%**
Other	**106 971**	**0.2%**	**15 265**	**0.0%**
TOTAL	**45 345 032**	**100.0%**	**48 237 593**	**100.0%**

5.3 Claims

In both segments of PZU Group, net claims increased in total by PLN 862,954 thousand (+9.1%). In the life insurance segment it stemmed mainly from a lower level of conversion of multi-year policies to single-year ones (lower amount of mathematical provisions derecognized) and increase in payments (mainly due to increased amounts of performances in group insurance and continued insurance). In the property insurance segment it was related to a significant increase in property claims, general TPL and agricultural insurance (intensive snowfalls in Q1 2010 and flood in Q2).

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

5.4 Acquisition costs and administrative expenses

In 2010 acquisition costs grew by PLN 11,799 thousand (+0.6%) versus 2009. The increase resulted mainly from changes in sales in the property and personal 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 145.7 thousand (-8.1%) 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 2010 the PZU Group continued the employment restructuring process in field units, among others aimed at improved efficiency of claim handling, centralization of current policy maintenance and establishing of new client service standards (creating of the Group Network Function) and resulting in a significant reduction of fixed costs of current operations. Additionally, on the Capital Group level, the fixed cost optimizing program carried for half a year produced positive outcome and reduced expenditure in many areas, including administration (office supplies, mail service), real property maintenance (cleaning costs) or IT.

5.5 Other items

In 2010 the balance of other operating revenue and expenses improved by PLN 129,278 thousand year on year (a change from PLN (-333,516) thousand to PLN (-204,238) thousand 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.

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

5.6 Performance and performance ratios of PZU Group

The operating profit in 2010 amounted to PLN 3,088,085 thousand and was lower by PLN 1,513,666 thousand (-32.9%) 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 1,323,682 thousand (-35.2%).

PLN thousand

Data from the consolidated income statement	2010	2009	% change
Gross written premiums	14 544 457	14 362 717	*1.3%*
Net earned premiums	14 213 013	14 485 214	*-1.9%*
Revenue from commissions and fees	288 037	340 876	*-15.5%*
Net profit/loss on investing activities	2 781 840	3 469 001	*-19.8%*
Net insurance claims	(10 299 235)	(9 436 281)	*9.1%*
Acquisition costs	(1 851 404)	(1 839 605)	*0.6%*
Administrative expenses	(1 663 163)	(1 808 881)	*-8.1%*
Operating profit (loss)	3 088 085	4 601 751	*-32.9%*
Gross profit (loss)	3 029 431	4 565 811	*-33.6%*
Net profit	2 439 229	3 762 911	*-35.2%*
Minority profits (loses)	(2)	(34)	*-94.1%*
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300	
Basic and diluted earnings (loss) per ordinary share (in PLN)	28.25	43.58	*-35.2%*

PLN thousand

Data from the consolidated statement of cash flows	2010	2009	% change
Net cash generated by operating activities	469 423	(1 540 556)	*-130.5%*
Net cash used in/generated by investment activities	5 329 478	9 404 126	*-43.3%*
Net cash used in financing activities	(5 727 985)	(8 029 975)	*-28.7%*
Total net cash flows	70 916	(166 405)	*-142.6%*

At the end of 2010, ROE was 20.3%, by 3.7 p.p. lower than at the end of the previous year.

At the same time, ROA was 4.7%, by 2.0 p.p. lower than at the end of the previous year.

In 2010, the Combined Operation Ratio (COR) in property and personal insurance gained to 104.5% and increased by 5.5 b.p. comparing to prior year. The increase was caused mainly by higher claim ratio duo to heavy winter and flood in 1st and 2nd quarter. Slightly higher level of acquisition cost results from changes in product structure and changes in distribution channels. Operation ratios in property and personal insurance segment are presented in item 6.1.

5.7 Assets and liabilities structure

Financial assets accounting for 89.7% of the balance sheet total, are the key asset item. At the end of 2010, they amounted to PLN 45,345,032 thousand and was 6.0% lower than at the end of 2009.

A decrease in financial assets at the end of 2010 results mainly from repayment (on 22 April 2010) of liabilities arising from a sell-buy-back transaction entered into with the objective to finance PZU's advance dividend payment for 2009 in the amount of PLN 4,086,821 thousand.

On 10 June the General Shareholders' Meeting of PZU decided that the total amount of dividend for the year ended 31 December 2009 would be PLN 13,692,021 thousand, whereas its portion of PLN 12,749,917 thousand was paid on 26 November 2009 against dividend expected at the end of the 2009 financial year. The dividend still to be paid was PLN 942,104 thousand, i.e. PLN 10.91 per share. 25 August 2010 was set as the record date and dividend was paid on 9 September 2010.

Equity was higher by 13.6% versus the previous year and amounted to PLN 12,799,926 thousand.

PLN thousand

Data from the consolidated statement of financial position	2010	2009	*% change*
Assets	50 533 832	53 176 209	*-5.0%*
Share capital	86 352	86 352	
Minority interest	126	133	*-5.3%*
Total equity	**12 799 926**	**11 266 879**	***13.6%***
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300	
Book value per ordinary share (in PLN)	148.23	130.48	*13.6%*

5.8 Changes in investments in controlled entities

5.8.1 PZU Pomoc SA

On 3 November 2010, the Extraordinary Shareholders' Meeting of PZU Pomoc adopted a resolution on increasing the share capital of the Company by PLN 1,020,080 up to PLN 4,885,800 by means of issuing 102,080 ordinary registered shares, C series, with the nominal value of PLN 10.00 each. The issue price was PLN 74.60 per share.

On 25 November 2010 PZU subscribed for all the shares in question and paid PLN 7,615 thousand on the same day.

On 30 December 2010 the capital increase was registered in the National Court Register.

5.8.2 Capital restructuring of insurance companies in Ukraine

On 10 March 2010, PZU Ukraine and on 21 April 2010, PrJSC IC PZU Ukraine Life Insurance ("PZU Ukraine Life") received protocols concerning a breach of the license requirements from the Ukrainian insurance supervision due to inappropriate level of net assets. (Pursuant to the regulatory requirements, the net assets of an insurance undertaking may not be lower than the share capital).

The end of June and beginning of July 2010 saw an issue of shares of both Ukrainian companies. PZU assumed the total of:

- 100,000 shares of PZU Ukraine at the nominal value of UAH 10 per share and issue price of UAH 3,000 per share, for the total amount up to UAH 300,000 thousand; (the shares were paid for on 25 June 2010 with USD 37,892 thousand - an equivalent of UAH 299,700 thousand or PLN 126,161 thousand; and on 12 July 2010 with USD 38 thousand - an equivalent of UAH 300 thousand and PLN 122 thousand);
- 5,000 shares of PZU Ukraine Life with the face value of UAH 100 each and issue price of UAH 10,400 each for the total amount of up to UAH 52,000 thousand (the shares were paid for on 25 June 2010 with USD 4,753 thousand (PLN 15,826 thousand) - an equivalent of UAH 37,596 thousand and on 12 July 2010 in the amount of USD 1, 822 thousand (PLN 5,855 thousand) – an equivalent of UAH 14,404 thousand).

The increase in the share capital of both companies was registered on 10 August 2010. Successful increase in the share capitals of both companies facilitated satisfaction of the regulatory requirements.

The second stage of capital restructuring of the above companies involves redemption of its own shares.

On 7 October 2010, Extraordinary Shareholders Meetings of PZU Ukraine and PZU Ukraine Life passed resolutions regarding redemption of:

- 25.000.000 shares of PZU Ukraine at the price equal to the nominal value, i.e. UAH 10 per share, for the total amount of UAH 250,000 thousand;
- 120.000 shares of PZU Ukraine Life at the price equal to the nominal value, i.e. UAH 100 per share, for the total amount of UAH 12,000 thousand.

In November 2010, the Ukrainian supervisory body informed that the Ukrainian companies met the license terms, and on 30 December 2010, following expiration of the former TPL motor insurance license, it decided to issue a new TPL motor insurance license for PZU Ukraine, valid for an unlimited period of time.

Following new favourable tax solutions introduced in Ukraine on 1 January 2011, Management Board of PZU decided to change the restructuring schedule of Ukrainian companies and carry out the share redemption process in Q11 2011, as well as to reduce the redemption amount by the equivalent of the share capital increase planned for 2011.

On 27 December 2010, Extraordinary Shareholders Meetings of PZU Ukraine and PZU Ukraine Life passed resolutions regarding redemption of:

- 29.207.233 shares at a price lower than the nominal price (UAH 10) i.e. UAH 7.19 per share;
- 167.989 shares at a price lower than the nominal price (UAH 100) i.e. UAH 21.43 per share.

On 18 January 2011, PZU SA concluded the following agreements with:

- PZU Ukraine an agreement on the sale of 29,207,233 shares at UAH 7.19 per share totalling to UAH 210,000 thousand (the equivalent of USD 26,448 thousand (PLN 75,380 thousand) was received on 31 January 2011);
- PZU Ukraine Life - an agreement on the sale of 139,991 shares at UAH 21.43 per share totalling to UAH 3,000 thousand (the equivalent of USD 378 thousand (PLN 1,077 thousand) was received on 31 January 2011).

On 2 February 2011, based on the above agreements, PZU transferred ownership of the shares to acquirers.

The remaining 27.998 shares of PZU Ukraine Life designed for redemption were purchased from PZU Ukraine (pursuant to an agreement concluded on 18 January 2011). In this way, PZU did not lose the controlling interest in PZU Ukraine Life.

The capital restructuring of the above companies (recording of share capital reduction) shall be closed in Q2 2011.

6. Comments to segment reporting

6.1 Property and personal insurance

PLN thousand

Data from the income statement – property and personal insurance	2 010	2 009	% change
Gross written premiums	8 032 762	8 023 727	0.1%
Net earned premiums	7 700 289	8 147 140	-5.5%
Net profit/loss on investing activities	4 090 758	2 836 093	44.2%
Net insurance claims	(5 690 846)	(5 642 669)	0.9%
Acquisition costs	(1 385 570)	(1 366 522)	1.4%
Administrative expenses	(967 244)	(1 055 255)	-8.3%
Operating profit (loss)	3 613 184	2 719 193	32.9%

** Includes dividend from PZU Życie of PLN 3,120,00 thousand and PLN 1.419,146 thousand in 2010 and 2009, respectively.*

Gross written premiums in direct insurance in the property and personal insurance segment (after intra-segment adjustments) for 2010 and 2009 amounted to PLN 8,031,916 thousand and PLN 8,021,895 thousand, respectively. An increase by PLN 9,035 thousand (0.1%) resulted mainly from growing 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 2010 by PLN 446,851 thousand (-5.5%) year on year was for the most part the effect of higher costs relating to changes in the balance of provisions for unearned premiums and unexpired risks. An increase in the provision for unearned premium was higher than the year before since its carrying amount at the end of 2008 was high (due to good sales performance in 2008) and decreased in 2009 following reduction in written premium. In the last months of 2010 increased again due to sales improvement.

PLN thousand

Gross written premiums in direct property and personal insurance (by classes specified in section II of the attachment to the Act on insurance activity)	2 010	2 009	% change
Accident and sickness insurance (class 1 and 2)	505 616	503 242	0.5%
TPL motor insurance (class 10)	2 668 813	2 699 655	-1.1%
Other motor insurance (class 3)	2 314 797	2 266 895	2.1%
Sea, aircraft and transport insurance (classes 4, 5, 6, 7)	48 766	45 346	7.5%
Insurance against fire and other damage to property (classes 8, 9)	1 640 743	1 597 276	2.7%
TPL insurance (classes 11, 12, 13)	500 237	476 883	4.9%
Credit insurance and suretyship (classes 14, 15)	68 066	67 959	0.2%
Assistance (class 18)	175 915	148 783	18.2%
Legal protection (class 17)	777	800	-2.9%
Other (class 16)	70 774	159 625	-55.7%
Gross written premiums in direct property and personal insurance (by classes specified in section II of the attachment to the Act on insurance activity)	**7 994 504**	**7 966 464**	**0.4%**

** Taking into account intra-group adjustments and excluding gross written premium on indirect insurance totalling to PLN 37,412 thousand in 2010 and PLN 55,431 thousand in 2009.*

An increase in the value of claims in the property and personal insurance segment by PLN 48,177 thousand (0.9%) was caused mainly by claims resulting from a heavy snowfall and melt, floods which struck Poland and a growing frequency of claims regarding motor insurance.

An increase in the value of claims in 2010 versus the previous period was caused mainly by mass claims, such as:

- floods (May-June) – the total gross amount of PLN 652,641 thousand (net amount of PLN 230,408 thousand);
- snowfalls (January-March) – the total gross amount of PLN 169,427 thousand (net amount of PLN 138,978 thousand).

In 2010, investment income grew by PLN 1,254,665 thousand up to PLN 4,090,758 thousand due to an increased dividend received from PZU Życie (the 2010 dividend amounted to PLN 3,120,00 thousand compared to PLN 1,419,146 in 2009). Investment income of the Group excluding the dividend dropped by PLN 446,189 thousand due to financial assets reduction following the payment of PLN 12,749,917 thousand in 2009 and deterioration of capital markets.

In 2010 acquisition costs in the property and personal segment increased by PLN 19,048 thousand. 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 2010 a decrease in administrative expenses of PLN 88,011 thousand was seen (8.3%; excluding the one-off appropriation to the Social Benefit Fund of PLN 10,000, the decrease would amount to PLN 98,011 thousand, i.e. by 9.3%), mainly due to employment restructuring in the head office of PZU carried out in H2 2009 and cost optimization activities performed in the Group. The activities brought a desirable outcome in the form of 14.8% reduction of FTE at the end of 2010 YoY and a decrease in personnel costs by 9.6% YoY despite unplanned additional costs of remuneration arising from handling of flood effects. At the same time, tighter cost regime in 2010 brought positive results – among others in the form of reduced IT, administrative and depreciation/amortization expenses.

An increase in the balance of other operating revenue and expenses by PLN 65,391 thousand resulted primarily from the fact that the obligation to make payments to the National Health Fund was cancelled (in 2009, the remaining capitalized costs were settled) accompanied with a reduction in reinsurance commission and profit sharing in 2010.

In 2010 and 2009 the operating profit in the property and personal insurance segment was PLN 3,613,184 thousand and PLN 2,719,193 thousand, respectively. An increase by PLN 893,991 thousand (32.9%) as a consequence of a higher profit on investing activities (mainly higher dividends received from PZU Życie) 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 2010 and 2009.

The key events of 2010 include:

- snowfalls (Q1) – the total gross amount of PLN 169,427 thousand (net amount of PLN 138,978 thousand);
- floods (May-June) – the total gross amount of PLN 652,641thousand (net amount of PLN 230,408 thousand);
- a reduced investment base due to dividend payment: in November 2009, in the amount of PLN 12,749,917 thousand as a result of a settlement concluded and the remaining part of the 2009 dividend paid on 9 September 2010 in the amount of PLN 942,104 thousand.

In 2009, the events included the statutory payment to the National Health Fund reducing the operating profit by PLN 119,381 thousand.

6.2 Life insurance

PLN thousand

Data from the income statement – life insurance	2 010	2 009	% change
Gross written premiums	6 512 541	6 340 822	2.7%
Net earned premiums	6 514 124	6 339 878	2.7%
Net profit/loss on investing activities	1 688 815	1 858 322	-9.1%
Net insurance claims	(4 607 139)	(3 793 582)	21.4%
Acquisition costs	(360 488)	(391 911)	-8.0%
Administrative expenses	(601 314)	(619 764)	-3.0%
Operating profit (loss)	2 581 675	3 282 367	**-21.3%**

PLN thousand

Written premium by product group – life insurance	2010	2009	% change
Group insurance	4 170 331	4 051 902	2.9%
Individual insurance, including:	2 342 210	2 288 920	2.3%
- individually continued insurance	1 797 331	1 776 050	1.2%
- other individual insurance	544 879	512 870	6.2%
Total	**6 512 541**	**6 340 822**	**2.7%**

Written premium by payment type - life insurance	2010	2009	% change
Regular premium	6 356 029	6 222 032	2.2%
Single premium	156 512	118 790	31.8%
Total	**6 512 541**	**6 340 822**	**2.7%**

An increase in the gross written premium by PLN 171,719 thousand (2.7%) 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 premium derived from Employee Pension Plans and group health insurance increased as well. In individually continued insurance, premium growth resulted mainly from sales of additional insurance including the new extension “Assistant in Case of Damage to Health”. The significant premium growth in individual insurance stems from:

- five subscriptions for Świat Zysków single-premium insurance;
- launch of a new regular premium savings and investment product with an insurance element called Plan na Życie;
- in cooperation with CITI Bank Handlowy SA, launch of a new individual term product with a single premium.

The changes were partly offset with expiration of endowment insurance portfolio concluded in the nineties.

A rise in the value of net claims paid and change in the balance of technical provisions by PLN 813,557 thousand (21.4%) was the effect of payments growth by 5.3% accompanied with a growth in provisions compared to a significant drop in 2009.

Claims increased by PLN 22,729 thousand mainly following a rise in claims in group cover insurance, continued insurance and increased endowment amounts from individual endowment policies concluded in the 1990's. The growth was partly offset with a decrease in payments from individual and group investment insurance (mainly individual pension accounts and Pogodna Jesień) and a reduced "old portfolio" claims.

The difference in the balance of technical provisions (PLN 588,828 thousand) resulted mainly from slower conversion of multi-year group cover policies into single-year renewable ones (in the first half of 2010 PLN 520,261 thousand of provisions was released in group cover insurance, while in the corresponding period of 2009 the amount was PLN 1,339,811 thousand). At the same time, the Company saw a decrease in loss provisions resulting from changes in loss handling procedures, including lead time reduction.

In 2010, investment income dropped by PLN 169,507 thousand to PLN 1,688,815 thousand. The main reason was a reduced performance on treasury securities (following dividend payment at the beginning of the year).

In 2010 and 2009 acquisition costs in the life insurance segment amounted to PLN 360,488 thousand and PLN 391,911 thousand, respectively. The change by –PLN 31,423 thousand resulted mainly from:

- a reduced commission on cover insurance distributed through the bancassurance channel – effects of reduced sales;
- an increase in commissions paid in relation to group cover insurance resulting from the growth share of the premium earned through the broker channel; slowdown in the increasing trend in the share of premium earned through the broker channel in the total gross written premium compared to 2009;
- a decrease in indirect acquisition costs.

Administrative expenses in the life insurance segment decreased by PLN 18,450 thousand (-0.3%), except for a one-off appropriation to the Company's Social Benefits Fund (PLN 5,000 thousand), administrative expenses dropped by PLN 23,450 thousand year on year (3.8%), mainly as a result of cost saving measures applied including headcount reduction and fixed costs optimizing program carried out in the PZU Group.

In 2010 and 2009 other net operating revenue and expenses in the life insurance segment amounted to PLN -52,323 thousand and PLN -110,576 thousand, respectively. A net change in the balance of other operating revenue and expenses by PLN 58,253 thousand resulted among others from a provision for GraphTalk elimination system of PLN 31,292 thousand recognized in 2009 (in 2010, just PLN 764 thousand) and from reduced revenue from derecognized impairment loss on mortgage loan for MetroProjekt (PLN 2,609 thousand in 2010 vs. PLN 16,642 thousand in 2009).

In 2010 the operating profit in the life insurance segment decreased by PLN 700,692 thousand (21.3%) for the most part due to a lower value of released technical provisions in group cover insurance (e.g. conversion of long-term contracts into one-year renewable ones).

Effect of one-off events on operating profit

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

6.3 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.

PLN thousand

Investment contract volumes by product group	2010	2009	% change
Group	1 897 092	2 502 495	-24.2%
Individual, including:	890 566	1 074 132	-17.1%
- individually continued	-	-	-
- other individual	890 566	1 074 132	-17.1%
Total	**2 787 658**	**3 576 627**	**-22.1%**

Investment contract volumes	2010	2009	% change
Regular payments	7 136	9 255	-22.9%
Single payments	2 780 522	3 567 372	-22.1%
Total	**2 787 658**	**3 576 627**	**-22.1%**

In 2010 and 2009 investment contract volumes were PLN 2,787,658 thousand and PLN 3,576,627 thousand, respectively. A drop by PLN 788,969 thousand (22.1%) resulted mainly from recalling an individual unit-linked single-premium product “Fundusz Gotówka” (PLN 701,161 thousand) as well as lower sales of endowment investment contracts sold through the bancassurance channel (PLN 606.828 thousand). The above change is party offset by increased sales of unit-linked products distributed through the bancassurance channel (PLN 341,193 thousand) and a rise in gross written premium from an investment endowment product “Pewny Zysk” (PLN 179,198 thousand).

6.4 Pension fund activity

PLN thousand

Data from the consolidated income statement – pension insurance	2 010	2 009	% change
Revenue from commissions and fees	246 915	309 702	-20.3%
Net profit/loss on investing activities	16 121	17 392	-7.3%
Acquisition costs	(48 738)	(61 177)	-20.3%
Administrative expenses	(93 119)	(122 425)	-15.0%
Operating profit (loss)	99 571	116 882	**-14.8%**

In 2010 and 2009 revenue from commissions and fees in the pension insurance segment amounted to PLN 246,915 thousand and PLN 309,702 thousand, respectively. A drop by PLN 62,787 thousand (-20.3%) 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 12,439 thousand (-20.3%) 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. Administrative expenses of PTE PZU dropped by PLN 29,306 thousand (-23.9%), which was mainly a consequence of lower transfer agent costs (effective from January 2010, the monthly account maintenance rate was reduced), lower marketing and PR expenses, sales integration within the PZU Group (transfer of some employees from PTE PZU to other PZU Group companies) as well as employment reduction.

The operating profit decreased by PLN 21,526 thousand (15.0%), which corresponded to the drop in the value of revenue from commissions and fees (partly offset by a decrease in costs).

The net profit decreased by PLN 17,311 thousand (-14.8%), which corresponded to the drop in the operating profits.

At the end of 2010, the assets managed by PTE PZU were amounting to PLN 30,512,533 thousand and increased by PLN 5,929,573 thousand (+24.1%) comparing to 2009.

7. Risk factors which may affect financial performance in the following periods

7.1 Property and personal insurance

The key risk factors that can affect the performance of the PZU Group Companies in 2011 include:

- unchanged unemployment rate in 2010 and a slowdown in individual consumption, which may translate into a lack of demand for insurance products;
- price pressure of competitors;
- growing trends in the claims ratio;
- stronger position of insurance brokers, which may result in increased acquisition costs;
- 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 2011, in particular on the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on market trends;
- imprecise definition of tax exemptions related to insurance and medical services in the amended VAT Act;
- 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 in line with the prudence principle;
- 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;
- risk of higher number and value of claims and victims related to the act on group claims, which came into force;

- changes in regulations applicable to banks, which may result in a reduced number of mortgage loans granted and debtor insurance policies.

7.2 Life insurance

Key risks that can affect the performance of PZU Życie in 2011:

- unchanged unemployment rate in 2011 and a slowdown in individual consumption, which may translate into a lack of demand for insurance products;
- potential increase in competition in group insurance arising from the growing role of brokers in the segment and the requirement to hold tender for group insurance applicable to entities subject to the Public Procurement Act;
- 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, as well as the European Embedded Value amount;
- situation in the capital market, in particular on the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on the 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;
- changes in the current mortality, longevity and incidence proportion;
- little flexibility of many product applications used in PZU Group companies hindering fast adjustment to market needs and maintenance of certain products within a time period allowing effective competition in the new investment products area.

7.3 Pension funds

Key risks that can affect the performance of PTE PZU in 2011:

- 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;
- unchanged unemployment rate in 2011 translating into a lower number of new fund members;
- low pace of pay increase affecting growth of premiums paid by pension 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 2011, in particular at the Warsaw Stock Exchange – a portion of the income is generated on the Fund's investing activities translating into value of assets and fees charged by the Company for management services.

8. Management Board's position concerning previous performance projections

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

PZU ACTIVITIES IN 2010

9. Activities, key developments and achievements of the major PZU Group Companies

9.1 Rating

PZU and PZU Życie are regularly rated by credit rating agencies. The rating assigned to PZU and PZU Życie results from an analysis of the financial information, competitive position, management and corporate strategy. It also includes a rating outlook, i.e. an assessment of the future position of the Company in the event specific circumstances occur.

As of the date of preparing the report, 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 the ratings on the PZU Group companies by Standard&Poor's, together with the previous year ratings.

Company name	Rating and outlook	Date of rating/update	Previous rating and outlook	Date of rating/update
PZU				
Financial strength rating	A /stable/	5 July 2010	A /stable/	16 July 2009
Credit rating	A /stable/	5 July 2010	A /stable/	16 July 2009
PZU Życie				
Financial strength rating	A /stable/	5 July 2010	A /stable/	16 July 2009
Credit rating	A /stable/	5 July 2010	A /stable/	16 July 2009

9.2 Restructuring of PZU and PZU Życie

On 29 December 2009 the Management Board of PZU and PZU Życie announced an implementation plan of the restructuring program for 2010-2012.

On 10 February 2010, the Management Boards of PZU and PZU Życie adopted a resolution concerning planned group lay-offs in 2010.

On 11 March 2010 the Management Boards of PZU and PZU Życie and Trade Unions operating in the companies concluded a lay-off agreement. As agreed, from 26 March to 20 November 2010, the staff restructuring and optimization was carried out as a part of the lay-offs.

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

In 2010, the change was expected to affect up to 6,655 employees of PZU SA and PZU Życie at the most and involved net reduction, i.e. cutting the number of staff in 2010 in both companies by 2,079 persons.

Termination conditions offered 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.

In 2010 the changes affected 6,045 employees, out of which 2,439 were given termination documents.

Dismissed employees were offered one of the largest outplacement schemes introduced in Poland in 2010.

The total 2010 restructuring costs charged to the provision amounted to PLN 147,750 thousand.

As of 31 December 2010 the provision for restructuring costs amounted to PLN 75,253 thousand (vs. PLN 158,763 thousand as of 31 December 2009), which implied a change in the provision of PLN 83,510 thousand in 2010.

9.3 Key developments and implementation of the strategy

The project activities carried out in PZU last year were directly related to the PZU Group strategy for 2009-2011, focusing on profitable growth and creating a client-focused cost-effective organization.

The following steps related to profitable growth were carried out:

- a unified model for managing the agency network of PZU and PZU Życie has been developed and implemented; in relation to property insurance segment, the new model was launched in PZU in the second half of 2010, while in life insurance segment, in 2010 the project focused on development of managerial competencies and improved operation of agency network management structures, as well as on operational details of the model of recruitment and inception of new agents;

- a new multi-agency cooperation model has been developed, based on the new commission and motivation system; in 2010 a pilot was launched in the Pomerania region;
- the implementation of modern shared service centres for the whole PZU Group has been started; as a part of this project a countrywide typology and physical presence model for sales and service centres was developed in 2010 and the Company prepared a number of new model offices to be implemented in the first stage;
- restructuring of the sales function responsible for property insurance for the corporate sector was carried out, based on improving competences of the sales force and optimizing their placement;
- as a part of developing the PZU Pomoc concept, new products were implemented: Door to Door, Assistance at Home and Assistance on the Road (sold since 2011);

The following project activities were carried out as a part of activities focused on creating effective organization, which focuses on customer needs in the area of loss adjustment:

- centralizing of claims handling in PZU Życie through transfer to nine centres and full implementation of a new centralized IT system (SLS Life);
- a similar process was carried out in the property insurance segment – the existing distributed property loss handling structures were centralized in nine regional centres and a pilot rehab was performed as means of reducing permanent disability;
- the internet has been used as a channel for communicating personal claims, requesting for claim payment and checking the status of claims. Additionally, at the end of 2010, the internet claim lodging was integrated with the claim handling system thus eliminating the need of manual data transfer;
- in cooperation with PZU Pomoc SA a health care centre was established and a process of service provider contracting was commenced, which significantly improved flexibility of PZU Życie regarding provision of health care performances related to occupational medicine;
- as a part of developing the PZU Pomoc concept, a network of service providers was further developed in relation to Road Assistance as well as in the area of assistance at home; the “door-to-door” service and E-call system.

Apart from the said project related to the network of modern offices, the following activities have been taken in the area of customer service:

- the structures of managing the existing offices in the PZU Group have been unified and the process of front-office staff unification has been started in order to provide comprehensive services to customers in the life and property segment in all offices;
- an extended client service tool in group insurance was implemented with a possibility to sell property products to these clients, which should allow full use of cross-selling potential with regard to clients of PZU Życie (at present, the activity is being completed).

Moreover, the following initiatives have been carried out in PZU Group in 2010 with respect to process and cost optimization:

- employment restructuring resulting in FTE reduction by 2,062;

- optimizing and centralizing of operations and insurance accounting in PZU – the project involved establishing of Back Office and Insurance Accounting Centres and standardizing of sales and insurance accounting process maintenance; similar activities were carried out in relation to back office processes in PZU Życie (also including operations and insurance accounting);
- unification of internal accounting processes in PZU and PZU Życie and initiation of the implementation of unified electronic workflow;
- implementation of a common IT system for HR and payroll function in PZU and PZU Życie.

9.4 Key marketing activities in 2010

Advertising, media and the Internet

In 2010 PZU performed 5 wide-scale advertising campaigns focusing on motor insurance:

- in January the Company organized a "Newsboys" campaign, which was aimed at changing the image of PZU motor insurance. The idea of the campaign was based on the Rzeczpospolita ranking, which stated that PZU offers the least expensive TPL and comprehensive car insurance for new cars;
- in March and April a campaign aimed at showing the flexibility of the PZU offer was carried out. The key idea was "Insure whatever you need and pay less";
- in July-September a campaign "Local discounts" was carried out in selected regions of Poland in order to present the attractive price offer of PZU;
- in September the Company launched a campaign "Good comprehensive car insurance, cheap TPL insurance" focusing on the new motor insurance offer of PZU. The campaign was based on the idea "Beware of sham insurance";
- in early November we started the second stage of the campaign based on the idea "Beware of sham insurance".

The key purposes of these campaigns were:

- to change the way PZU motor insurance prices are perceived;
- to create a PZU image as a firm offering best motor insurance solutions in the market;
- to acquire new customers.

Apart from advertising campaigns, in 2010 a series of outdoor, press and cinema projects were carried out, including among others:

- placing displays „PZU POMOC 801 102 102" in 10 locations around the country at main roads;
- press project – advertorials of PZU Pomoc for the on the road assistance in October-December 2010;
- displays in Cinema-City network (Warsaw, Łódź) placed for the period of one year (logotypes, stairs, seats).

9.5 Corporate social responsibility activities in 2010

Ethics in business

PZU applies ethical and corporate social responsibility principles presented in item 9.1

Social responsibility

As a part of its educational activities, PZU launched two insurance websites:

- "JakieUbezpieczenie.pl" - an informative and educational website, which presents the advantages of insurance in a clear and user-friendly manner. This website is limited to information only; cannot be used for sale;
- „ŻycieNa100procent.pl" – a website including among others savings calculators, questionnaires and product animations, interviews with celebrities, savings-promoting articles, etc.

AS every year PZU carried out preventive actions to improve public safety and mitigate various risks. The following activities were carried out in this area in 2010:

- continuation of the cooperation with Tatra Voluntary Mountain Rescue (TOPR), Voluntary Mountain Rescue Service (GOPR) and Voluntary Water Rescue Service (WOPR);
- cooperation with the Misie Ratują Dzieci association in therapeutic and psychological assistance to children who become accident victims.

PZU acted as a sponsor and patron of various cultural and sport events – both local and countrywide. The key activities in this are include:

- sponsoring the Royal Castle in Warsaw;
- PZU zone during the Long Night of Museums at the Royal Castle in Warsaw;
- close cooperation with the National Museum in Kraków, Nowe Sukiennice Branch;
- sponsoring Teatr Wielki (The National Opera House) in Warsaw;
- sponsoring Teatr Nowy in Warsaw;
- sponsoring Martyna Wojciechowska's mountaineering "Carstensz Expedition"
- sponsoring "Rzeszów Carpathia Festiwal 2010",
- patronage over the 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.

PZU Foundation

The mission of the PZU Foundation is to carry out public benefit activities in the area of: education, culture, art, healthcare and social welfare. The Foundation performs its goals by initiating and supporting a number of ideas and projects.

The key activity of the Foundation in 2010 was to provide financing of projects carried out by non-government organizations and other organizational units, which statutory objectives are coincident with the areas of activities of the Foundation. Moreover, the PZU Foundation continued cooperation with other well-known social organizations under partnership programs. Financial aid was granted to the PZU Group employees in a difficult life situation.

As a part of its activities in 2010, the Foundation provided grants to non-governmental organizations, which submitted their requests.

The Foundation carried out the following educational activities:

- competition for grants entitled “Enriching education in rural areas” – the objective of the competition is to support educational initiatives in rural areas and levelling out educational opportunities of children.
- partnership programs – in cooperation with Fundacja Edukacyjna Przedsiębiorczości in Łódź and Polsko - Amerykańska Fundacja Wolności - the purpose of which is to facilitate access of young people from rural areas to higher education, by way of funding sponsored scholarships for the first year of studies.
- actuarial competition – the objective of the competition is to select the best master and doctoral thesis.

PZU Foundation supported interesting initiatives and cultural events in the area of the arts and sciences, such as projects organized by the National Museum in Warsaw and in Cracow.

The social welfare initiatives included:

- competition for grants entitled “Developing social activity of disabled children and teenagers”, aimed at creating a system supporting the disabled and their families, and levelling out the opportunities of the disabled in social and family life;
- grants for individuals, including PZU employees – financial support for the PZU Group employees and their families and other individuals affected by accidents or persons in difficult financial situation.
- in 2010 PZU Foundation started cooperation with Polska Akcja Humanitarna Foundation to organize help for flood victims.

As for healthcare, grants were provided to support local initiatives related to prevention and financing purchases of medical equipment for health centres.

9.6 Key HR activities

From 26 March to 20 November 2010, the company carried out staff restructuring and optimization as part of the lay-offs, as presented in item 6.3.

Moreover, the following HR activities were carried out in 2010:

- “Academy of PZU and PZU Życie” – a program co-financed by European Social Fund, established by Krajowa Izba Gospodarcza and Combidata Poland Sp. z o.o. The project covers training 1 281 people in ICT tools, IT technologies, project management and planning effective organization. Based on a consent of Polish Agency for Enterprise Development (PARP) and Combidata Poland Sp. z o.o. and in line with its business needs, PZU changed the project scope from project management to Customer Service Standards;
- investing in human capital, PZU prepared requests to PARP to co-finance training projects aimed at creating a modern sales network and developing staff competences in customer service;
- the MBA program created in 2009 by Gdańska Fundacja Kształcenia Menedżerów for the needs of the PZU Group by was supported. Program participants include 22 managers from PZU and PZU Życie.

9.7 Key activities in Accounting Transactions and IT

The year 2010 was the first year after the implementation of consolidated IT structures responsible for IT system development and projects in the PZU Group. The introduced changes resulted in a series of financial benefits and improved IT capacity. Key changes include three functional areas.

Software providing and modification

In cooperation with other entities projects and initiatives were performed supporting the strategy of PZU Group and current business activity, which resulted in implementation of the following IT solutions:

- automation and centralization of HR and payroll processes in PZU and PZU Życie (the HRMS Project);
- automation of registering PZU agents’ activities (the AZP Project);
- automation of commission calculating process in PZU Życie (the WNP Project);
- supporting work of insurance agents (the Titus+ project);
- supporting sales and maintenance of the new individual product of PZU Życie (Plan na Życie within NMP initiative);
- supporting management and publication of internal regulations (RAW).

The ongoing project included cooperation on:

- implementation of functionalities allowing automation of additional insurance handling within individually continued life insurance in PZU Życie (Dodatki IK);
- implementing of IT solutions supporting sales of selected property products to group policyholders (group cross-selling);
- implementing of a system to support financial reporting (Hyperion).

The project work carried out in BRI, components of the target IT structure were implemented: solutions to meet the current business needs whose design allows easy adjustment to future requirements. These solutions include:

- implementing of a shared integration platform of PZU and PZU Życie (ESB);
- implementing of PZU client data integration (MDM);
- implementing of the first version of a shared service and sales front-end of PZU and PZU Życie;
- implementing and national rollout of the central loss and claim handling system for PZU Życie (the solution shared with PZU);
- implementing a new portal platform (Liferay) for the PZU Group website with pilot of self-service functions designed for clients;
- initiating remodelling of the Filenet workflow platform and extending it to other processes in PZU and PZU Życie to allow automation of business processes in CGW, COK and ACRM projects.

The area involved strong remodelling of IT supporting processes and principles of cooperation with the business part of the enterprise. The Group implemented the process of "IT system architecture management". The process allows for determining and designing IT system development strategy in the PZU Group, considering business needs of the entity and the existing solutions. It allows effective planning and implementing of changes in the structure of existing IT systems. Implementation of the „initiative management" process allows clear defining and agreeing of terms and deadlines to deliver new IT solutions to business and purposeful development of the portfolio of implemented changes in terms of business effects optimization. The project management process is also responsible for timely performance of IT liabilities to the business. All these measures resulted in IT capacity improvement by 300% compared to 2009. In 2010, IT carried out 40 projects in cooperation with the business.

At the same time the Company focuses on the quality controls and technological supervision over service providers. In 2010 the supervision covered 81 key systems of the Group, i.e. 41% more than in the preceding year.

This allowed implementing of several projects of key importance for the business.

Application maintenance and user support

In 2010 the IT infrastructure was redesigned. Two professional data processing centres were created under the project of the Data Processing Center Reallocation. Dispersed elements of the IT systems and infrastructure were centralized in these units. At the same time, the service outsourcing model was used to reduce maintenance costs of processing centres. These activities allowed improved efficiency of data processing and server protection on TIER 4 level assuring 99.995% system availability.

In order to improve application management, a central system efficiency monitoring system (RUEI) was implemented. The measure shall ensure proactive management of IT systems and prevention of potential breakdowns. In 2010, the central monitoring included the key systems: Insurer, FKX, SLS. For other ten systems, selected elements are monitored. In 2011, all 27 critical systems are planned to be included in the comprehensive monitoring system.

In 2010, centralizing of key IT system was also carried out. Centralization of GUR/GURIK/ROS was completed with projected savings of PLN 2.3 million for the nearest three years.

Strong focus was placed on regime of IT systems maintenance resulting in an increased number of systems transferred to IT for maintenance purposes. At the beginning of 2010, 48 of 200 systems operating in the Group were transferred, with just 15 included in the change management process. At present, IT maintains 120 systems with 164 included in the change management process. IT supervised system maintenance allows more efficient management of these systems and the related infrastructure. Inclusion in the change management procedures allows improved control of changes introduced to the systems and therefore more focus on their stability and development aspects.

The centralization includes corporate mail as well. It involved pilot migration of some mailboxes. Construction of the Centralized Mailing System coupled with the Identity Management project (in 2010 the tender for the system was closed) shall improve quality of communication and data transfer via e-mail and increase security of IT system users.

The year 2010 brought significant changes regarding user support organization. A tender for implementation of the service management system (ITSM) was closed. The existing eleven problem indication channels were replaced by one shared by all employees.

Support structures were reorganized in order to create a common Service Desk. Changes were introduced in the field support, by way of reducing headcount by 30% and simultaneous efficiency growth. Further work is focused on maximizing of problem handling efficiency at first call.

In 2010 the number of solutions reached according to this standard increased to 33%. In 2011, the level of 70% is planned for problems solved at first call.

The above measures are to reduce costs of call handling and at the same time improve user satisfaction. In 2010, call handling costs were reduced by more than 50%.

Finance and organization

In 2010 principles were developed for efficient budget management of IT portions of implemented projects. The principles shall be implemented in 2011.

A number of master agreements with suppliers were negotiated and concluded, using the synergy effect of the PZU Group. The agreements were standardized and in many cases a multi-sourcing model was applied to provide the possibility of selecting the best offer and to ensure competitiveness of suppliers. The number of supplier contracts was reduced by 30%. An IT Supplier Portfolio was established including a target group of companies with whom IT shall cooperate on implementation, development and maintenance of IT structure systems for the nearest three years. The cooperation includes services for PZU, PZU Życie and PZU CO SA. This allows avoiding of one supplier monopolizing provision of services and cost savings of 30%. The Company concluded master agreements for IT consulting services and a master agreement on the purchase of the Oracle technological software.

In 2010, significant improvements in process management were introduced. Many IT processes are described, controlled and measured. KPI linked to incentive systems were introduced. Statistic process control methods were implemented (CFD diagrams) allowing capacity definition. Possibility to precisely calculate and control the time to market for IT is a key result of these works.

9.8 PZU activities in 2010

9.8.1. Sale

PZU offers a wide range of personal and property insurance, including motor, property, personal agricultural and other TPL insurance. At the end of 2010 the Company's offer included 200 insurance products in 18 insurance classes. Motor insurance constitutes the most important product group offered by PZU, both in terms of the number of binding insurance contracts and the share of gross written premium in the total gross written premium of PZU.

In 2010 PZU activities focused on improving the profitability of the corporate insurance portfolio and pro-sales activities in the retail segment.

Products – mass customer

- in 2010, the company made changes in the motor insurance offer for individual customers and SMEs (Small and Medium-Sized Enterprises) – e.g. lump-sum TPL/comprehensive car 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;
- the company introduced a possibility to choose comprehensive car insurance options depending on the type of spare parts used during repair (to determine the claim amount – maintenance service and optimal option) and a new all risks comprehensive car 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 car owners, including collection of the damaged car, supply of the car to the PZU's Repair Network and covering substitute car expenses;
- new principles, evaluation and service tools were introduced with respect to car fleet insurance for SMEs in order to streamline the service process in this segment;
- changes were made to the principles of insuring leased cars;
- in the area of property insurance for individual customers, sales of the “PZU Dom” and “PZU Dom Plus” comprehensive packages were continued. In case of SMEs the Company sold the “PZU Doradca” package. Despite a temporary decrease in sales of property insurance in the flooded areas, high sales were generated in both customer groups. In order to develop this insurance line the discounted residential insurance offer “Ubezpiecz mury” was launched;
- as for compulsory subsidized crop insurance, a promotional offer was prepared for large no-claims farms. 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 persons drawing up energy efficiency certificates were implemented. The change of professional TPL insurance for entities authorized to audit financial statements was accompanied by execution of an agreement with

the National Chamber of Statutory Auditors, concerning the principles of concluding insurance contracts for the said professional group. Also the master agreement with the National Chamber of Legal Advisers concerning TPL insurance of legal advisers was renewed;

- as for accident insurance, the premium written was at the level reported last year, mainly thanks to the unthreatened position of PZU in accident insurance for students and teachers and accident insurance for drivers;

Products – corporate customer

- in accordance with its strategy, PZU carried out activities aimed at improving the profitability of motor insurance for corporate customers (comprehensive car insurance and TPL motor insurance) by means a changing premium rates. Also new terms and conditions of comprehensive car insurance for fleet customers were introduced. As a consequence of systematic underwriting activities in that product group, the technical results have already improved;
- as a part of activities aimed at improving portfolio profitability and quality in the property insurance area, the role of underwriting was increased by limiting sales to industries with the highest claims 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 – financial insurance

PZU offers a wide range of insurance guarantees: from insuring the construction process at every stage, through bid bonds to payment guarantees. Additionally, PZU provides guarantees, e.g. insuring projects financed by the European Social Fund. PZU contract guarantees are granted to SMEs, corporate customers and non-profit organizations.

The key driver of insurance guarantees is the situation in the economy and investments in domestic fixed assets. In 2010 the development of guarantees was driven by investments related to Euro 2012 and higher EU financing spent by responsible entities in Poland.

Products –bancassurance

In 2010 the Company developed cooperation with the existing partners, i.e. leading banks in the Polish market. Moreover, it started cooperation with ING Bank Śląski SA in the scope of insuring payment cards for retail and corporate customers and with PLL LOT SA in travel insurance.

Special insurance added to bank products were launched: insurance programs to payment cards, insurance of buildings and residential premises added to mortgage loans.

PZU started cooperation with partners having large homogeneous customer bases and servicing mass payments. The purpose of the cooperation is to complete and develop the offer of these institutions by way of providing specialized and tailored insurance products, such as mobile phone insurance, notebook insurance, insurance covering the risk of bill payment in case of unemployment, travel insurance and accident insurance.

The Polish Financial Supervision Authority recommendations for banks and self-regulations of the bancassurance market may affect sales in the insurance sector related to bank products. Recommendation ”T” and recommendation "S” may increase financial safety of borrowers and limit the number of bad loans and mortgage loans.

Products –bancassurance

The structure of the sales network in PZU is to ensure effective sales to maintain a significant share of PZU in the insurance market and high quality of rendered services. This is achieved through dual organizational of sales:

- division by distribution channel;
- customer segmentation.

As of 31 December 2010, PZU offered its products via the following distribution channels:

- exclusive agents – own agency network of PZU;
- multi-agents - agents cooperating with several insurance companies;
- insurance brokers;
- bancassurance – sales through banks and other partners, who sell insurance products as a part of their auxiliary services;
- direct – telephone and Internet sales;
- PZU employees – sales in own offices.

9.8.2 Loss Adjustment

The following changes were introduced in 2010 as a part of organization of loss adjustment process in PZU:

- centralization of field loss adjustment structures has been completed in 9 Regional Loss Adjustment Centres of the PZU Group (RCLS);
- the loss adjustment system has been integrated with the MAO system supporting fraud detection;
- the Company has implemented a new version of PZU Internet notification application adjusted to the new portal www.pzu.pl and integrated with the loss adjustment system.

The motor loss adjustment in 2010 included optimization and stabilization of post-accident car repairs. External firms are no longer engaged in the foreign loss adjustment; the process has been included in the PZU structures under the first stage of centralization of loss adjustment with any foreign elements.

Framework agreements were concluded with external entities with regard to property loss adjustment and a program was implemented to calculate the percent of damage in crops for the loss adjustment purposes (the KŁOS application).

A new model of cooperation with certifying physicians has been developed. The key model assumption is to engage external entities to organize and carry out medical certificate examinations in order to ensure faster and better access to certifying services provided by medical doctors of all faculties.

PZU started cooperation with the Misie Ratują Dzieci association, which organizes psychological rehabilitation sessions for children. The sessions may be attended by persons injured in road accidents and those indirectly affected by accidents – people who lost their relatives or witnessed a traumatic event.

9.9 Activities of PZU Życie in 2010

9.9.1 Sale

Group insurance

In group insurances the year 2010 saw launches of new cover insurance products and the loyalty program PZU Pomoc w Życiu club in cooperation with PZU Pomoc SA.

On 1 January 2010 sales of new additional group insurance Assistant in Case of Damage to Health started. The scope of the group insurance includes hospitalization, surgery or an accident resulting in a permanent disability. The insurance guarantees the entire assistance package including home care by a qualified nurse, assistance in housekeeping, child care, care for pets, provision of rehab equipment, medical transport, transport to rehab facilities, small housekeeping works, assistance for a person appointed by the insured.

Assistant in Case of Damage to Health is also an addition to individually continued insurance. This is the first assistance product included in the portfolio to cover hospital treatment or surgery following an accident.

On 1 November 2010, the following products were launched:

- a new version of additional group insurance from serious disease. The scope of the new insurance is much broader from the existing one, with four variants of insurance instead of two, the number of diseases increased from 13 to 36, and the heart attack definition modified and adjusted to the one commonly used in contemporary medicine;
- the new version of the additional group permanent disability insurance resulting from heart attack or brain haemorrhage includes the only change in the form of the modified heart attack definition.

Prior to introducing of new versions of the above products the definition of heart attack was modified on 1 June 2010 in line with recommendations of the Office for Competition and Consumer Protection;

- additional insurance from serious disease of a spouse is similar to the above new insurance from serious disease; the only difference being the health of the spouse of the insured as the insurance subject.

PZU Pomoc w Życiu club is an exclusive loyalty program dedicated to clients holding group life insurance in PZU Życie. This is the first product of the kind launched on the insurance market, with the objective to develop client loyalty through offering of a complex coverage of life and health with a wide range of assistance services. The program offers a rebate system allowing discounts for services and products of partners of PZU Pomoc SA (e.g. car lease, mechanical and electric services, vulcanization and tire maintenance, spare parts replacement) and the Concierge program including free of charge concierge services (e.g. leisure; lease and provision of a replacement car or limousine with a driver; booking of conference rooms or tables in a restaurant, etc.) as well as professional services (plumber, electrician, locksmith). Program members are also offered a hotline with all sorts of information, e.g. travels, tourism, weather, entertainment, cultural events, addresses of companies, offices and public institutions and procedures regarding car accident or document loss. Membership is free of charge, and the scope of services offered shall be extended month by month.

In 2010 a clear growing trend was observed in group insurance contracts subject to the Public Procurement Law.

In Q3 2010, PZU Życie offered another group of clients – those with individually continued type P and P Plus policies – with insurance cover extended with five additional policies.

No significant events that could materially impact the group investment insurance market took place in 2010. Polish Financial Supervision Authority registered 29 new employee pension schemes out of which 14 are managed by PZU Group companies (3 schemes in the form of group life insurance with Pogodna Przyszłość fund in PZU Życie and 11 in the form of premiums paid by the employer to PZU TFI SA).

Activities performed in 2010:

- sales activities focused on development of group product offer with special attention to non-standard offers for corporate clients;
- in the beginning of the year, a new group hospital product was launched;
- principles were developed to separate the health insurance product line from life products (implemented early in 2011);
- guidelines were developed regarding a new commission system for Corporate Client Function (implemented early in 2011);
- construction of own medical services network including outpatient care (through PZU Pomoc SA) including occupational medicine in the fee for service model; achieving the number of 207 medical service providers around the country at year-end; the target number planned for the end of 2011 is 600 medical service providers;
- opening of a non-public outpatient clinic of PZU Pomoc.

Bancassurance

In 2010 development of bancassurance product offer was continued, both in cooperation with the existing and new partners. Following the growing trend in stock exchange indexes, client interest in unit-linked products increased. Implementation of modified and new products was commenced in cooperation with both with existing and new partners including single and regular premium. Cooperation was commenced with Bank Handlowy w Warszawie S.A. The agency contract concluded involves cooperation on sale of structured insurance (the second subscription period lasted from 9 November to 20 December). Deposits embedded in policies generated the most contribution to written premium, albeit lower than the year ago. According to the adopted strategy, offer of such products is conditional on the scope of cooperation with a given partner with regard to other product lines. In bancassurance products the Company focused on maintenance of the existing portfolio and preparing of new contracts related to mortgage loan insurance.

Both PZU i PZU Życie achieved the projected level of realized written premium on bancassurance products.

Active search for new banking partners and maintenance of the existing relationships regarding insurance offers. In the adopted model, the cooperation is based on extension of the banking offer with custom-made insurance products, among others insurance programs to payment cards, insurance of buildings and residential premises added to mortgage loans. The offer is completed with life insurance products including both coverage added to loans and the full range of investment products.

PZU started cooperation with partners having large homogeneous customer bases and servicing mass payments. The purpose of the cooperation is to complete and develop the offer of these institutions by way of providing specialized and tailored insurance products, such as mobile phone insurance, notebook insurance, insurance covering the risk of bill payment in case of unemployment, travel insurance and accident insurance.

The Polish Financial Supervision Authority recommendations for banks and self-regulations of the bancassurance market may affect sales in the insurance sector related to bank products. Recommendation ”T” and recommendation "S” may increase financial safety of borrowers and limit the number of bad loans and mortgage loans.

Key activities in Accounting Transactions and IT

Commissions:

- WNP project: automation of operational processes related to calculation of commission on new sales and modifications of group products;
- WNP project: calculation of additional commissions arising from incentive programs for agency sales network under NES project;
- calculation of commissions on group insurance for PKK and PSM since April 2010;
- centralized handling of claims regarding commissions on group cover insurance introduced in June 2010;

- implementing of calculation of commissions on sales of group hospital insurance;
- transfer of calculation of commissions on individual products from BRA.

New products implemented

- individual life insurance with capital fund Plan na Życie;
- additions to individually continued cover products;
- additional group insurance from serious disease and permanent disability resulting from heart attack or brain haemorrhage introduced to group cover insurance;
- 1st stage of PZU Ochrona Rodziny individual life insurance;
- new structured insurance sold by Bank Handlowy w Warszawie;
- five new subscriptions for Świat Zysków insurance;
- two new subscriptions for Solidna Stopa insurance.

Change of technological platform:

- migration of IPI Strefa Zysku with GT_UNL to INVEST system;
- migration of six cover products sold through banks from Bancassurance to Bankowe system;
- hardware centralization of GUR, GURIK and ROS bases - testing and implementation supervision in 360 POK.

Change in maintenance processes:

- development and pilot implementation of JOTY equity insurance buyout;
- transfer of back office tasks from nine Claim Handling Groups (ZWOK) to centralized maintenance in Shared Service Center;
- improvement of maintenance processes for individual equity insurance (renewals, extensions).

9.10 PTE PZU activities in 2010

In 2010 Otwarty Fundusz Emerytalny PZU "Złota Jesień" won the award for the best pension fund in Central and Eastern Europe granted by Investment & Pension Europe (IPE) in recognition of its performance compared to competitors and reference indexes, risk management and investment decision making methods, as well as involvement in implementing of corporate governance and best practices in its investment portfolio companies.

10. Other selected PZU Group companies – development and performance

10.1 PZU Lietuva

At the end of 2010, PZU Lietuva was ranked fourth on the property and personal insurance market. As the entire market, the company saw a YoY drop of written premium (in 2010 the marked was reduced by -4.5%). Despite difficult situation on capital markets, investment income remains stable and allows recording a financial profit at year end (pre-audit data). The reduced written premium results among others from the decision on restructuring of the corporate portfolio, in particular TPL due to high claims ratio, which resulted in withdrawal from cooperation with some clients.

Catastrophic losses arising from flood, wind, snow and fire on Lisco Gloria ferry where facilities insured by PZU Lietuva were located significantly contributed to the technical result.

In line with the assumptions, employees in HO and field units are unified. The restructuring activities allowed reduction of administrative expenses in the Companies by 19% compared to 2009, which resulted in improved financial performance.

Marketing and sales support include new incentive systems for agents, coordinators and brokers. On 1 August 2010 responsibilities of directors in regional branches were combined and since then they have been in charge both for the sale of property and personal and life insurance products. Under the one-company project, separate units selling property and personal insurance products were merged with life insurance selling facilities.

10.2 PZU Ukraine

In 2010, PZU Ukraine saw a significant increase in premium accompanied with a slight growth of the Ukrainian insurance market - it extended its classic market share from 2.44% to 3.16% being the tenth biggest on the classical property and personal insurance market (data at the end of Q3 2010) and continued the growing trend commenced in 2009.

In sales changes were introduced to comprehensive car insurance product (program update) and voluntary TPL scope was simplified. It was accredited by well recognized banks including Ukrsocbank (UniCredit Group), Raiffeisen Bank Aval (corporate client insurance). Cooperation was initiated with car dealers including NIKO Motors (Mitsubishi) and TOYOTA Ukraine.

On 30 December 2010, the Insurance Supervisory Authority decided to issue a new license for PZU Ukraine regarding the sale of MTPL for an unlimited period of time.

On 18 January 2011 PZU SA concluded transactions involving sales of treasury shares for redemption with the following subsidiaries: PrJSC IC PZU Ukraine („PZU Ukraine") and PrJSC IC PZU Ukraine Life Insurance („PZU Ukraine Life"). The issue has been presented in detail in point 5.8.2 hereof.

The capital restructuring of the above companies (recording of share capital reduction) shall be closed in Q2 2011.

The transactions will not impact the financial profit/loss of PZU.

10.3 TFI PZU

No material changes in the business scope of TFI PZU occurred in 2010.

Key sales initiatives included:

- active search for employee pension schemes;
- continuing extension of the distribution network;
- promotion campaign regarding investment plans carried out in mass media;
- in cooperation with PZU Group companies, carrying out a market survey aimed at exploration of investment behaviour, in particular perception of the investment fund market;
- promotion activities aimed at increase of pension awareness of Poles in cooperation with Chamber of Fund and Asset Management.

In 2010, the Company modified its product offer. Among others, work aimed at transforming open-end investment funds into one umbrella fund with sub-funds were carried out, as well as establishing of dedicated closed-end funds.

Key achievements in 2010:

- winning fourteen new employee pension schemes;
- attracting new distributors of investment fund units: BOŚ Bank SA, Podkarpacki Bank Spółdzielczy and Bank Spółdzielczy Rzemiosła;
- commencing cooperation on new unit-linked product with Towarzystwo Ubezpieczeniowe Benefia na Życie SA;
- concluding an agreement with PKP SA regarding establishment and management of closed-end investment fund on the real property market.

TFI PZU created PZU Dłużny Rynków Wschodzących, a sub-fund of PZU SFIO Globalnych Inwestycji. Additionally, PZU FIO Optymalnej Alokacji was transformed into a sector stock fund PZU FIO Energia Medycyna Ekologia.

Risk factors influencing the activities and performance of TFI PZU in 2010:

- growing competition on the investment fund market resulting in decreasing maintenance fee income and AUM fees;
- situation in the capital market, in particular on the Warsaw Stock Exchange and other European and world stock exchanges – most of the investment income of TFI PZU is conditional on the market trends;
- interest rate fluctuation.

In terms of net AUM, TFI PZU is 13th among 31 investment fund associations included in the CFAM report. At the same time, TFI PZU remains the leader in the segment of employee pension plans among domestic investment pension funds with assets exceeding PLN 1.24 billion.

At the end of 2010, the total net assets of funds managed by TFIPZU increased by 14% YoY and amounted to PLN 3,229.8 million. An increase in net assets resulted from a positive balance of payments and redemptions of the fund members and increase in investment value.

10.4 PZU AM

In 2010, the following changes in the organizational structure of PZU AM were introduced:

- operations:
    - Analyst Team was liquidated and its tasks transferred to the Public Market Bureau;
    - organization of Real Property Market Investment Bureau was commenced;
- support:
    - Supervision and Audit Team transformed in Supervision and Control Team and Internal Audit Team;
    - Investment Risk Control Bureau was liquidated and replaced by Investment Monitoring Team and Credit Analyses Team.

IN line with adopted assumptions, in 2010 PZU AM provided services solely to the PZU Group companies including PZU, PZU Życie, TFI PZU and MPTE.

According to plans, in 2010 the following new products were implemented:

- PZU Dłużny Rynków Wschodzących;
- PZU FIO Energia Medycyna Ekologia;
- portfolio hedging the sale of structured products.

The following projects were carried out:

- construction of investment portfolio for real property sector in PZU Group;
- preparing implementation of new fund management service, among others FIZ RE Income dedicated to institutional investors;
- concepts, negotiations of investment contract and work on startup of a closed-end investment fund for real property sector FIZ RE Value Opportunity for PKP SA;
- modifying model portfolio management process under Plan na Życie product (in cooperation with PZU Życie).

The following projects were continued:

- input of PZU and PZU Życie portfolios to investment funds (in cooperation with PZU, PZU Życie and TFI PZU);
- for entities not included in the Group:
    - asset management (portfolios and pension funds);
    - startup and management of closed-end funds (infrastructure, real property).

10.5 PZU Pomoc SA

In November 2010, an initiative was started aimed at building and development of PZU Pomoc w Życiu club. Each club member is offered privileges including among others:

- use of PZU Pomoc assistant;
- special custom-made offers;
- rebate program allowing discounts for goods and services offered by PZU Pomoc.

Another initiative carried out by PZU POMOC SA in 2010 involved launch of 13 "helping hand" vehicles with special markings dedicated to provision of specialist services in case of household breakdowns.

10.6 PZU Centrum Operacji SA

In 2010, performance of the Company was influenced by a decrease in income from transfer agent services due to reduced rates and the employment restructuring program necessitating the payment of lay-off benefits (headcount reduction by 14.5%).

Key initiatives implemented in 2010:

- relocation of PZU CO to the new premises at Postępu 18;
- relocation of IT resources to the newly established Data Center in Piaseczno;
- extension of Call Center (increased number of positions in two locations with redundant infrastructure);
- implementing of Information Security Management System ISO 27001 and Continuity Plan based on BS 25999;
- employment restructuring.

11. Key developments planned

The objective of the PZU Group is to maintain the leading position in the Polish insurance services market and to generate profit for the shareholders. The Management Board intends to analyze potential possibilities of revenue source diversification by way of grasping business opportunities arising in Poland and possibilities of international expansion. The PZU Group intends to accomplish these objectives by focusing on the following activities:

- maintaining the market share and focusing on profitability of core operations. The PZU Group shapes its product portfolio, distribution channels and principles of risk measurement and acceptance in a manner allowing for profitable growth in all key markets. The PZU Group differentiates its approach to particular segments of the Polish insurance market, depending on market share and profitability of particular products;

- as a part of individual motor insurance, the objective of PZU is to stop the process of losing market share and maintain profitability by active pricing policy. The key element of the strategy is "PZU Pomoc" assistance service. It allows PZU to offer outstanding services and therefore to maintain product advantage and loyalty of key customer groups. "PZU Pomoc" is also a platform, which allows for acquiring new clients despite growing competition;
- the purpose of PZU under individual property insurance is to introduce a new version of residential premises insurance, which will improve the competitiveness of the PZU offer by way of allowing for more precise adjustment of the insurance cover to individual needs;
- PZU will start a number of initiatives aimed at improving profitability and maintaining the market share of products for SMEs, which are a fast growing customer group.

The Management Board assumes that it will achieve these objectives by way of implementing initiatives, such as centralizing dispersed processes, unifying shared functions in the whole Group, reducing headcount and investing in new technologies, in particular those related to effectiveness of customer service.

A significant portion of initiatives takes place in loss adjustment.

The key initiatives include:

- The project of optimizing loss adjustment in motor insurance:
  - the change in the model of cooperation with garages by way of improving effectiveness of the Repair Network, optimization of the management module in the Repair Network and the dealers' channel;
  - completion of centralization of adjustment of losses with foreign elements;
  - implementation of tools for automatic review of cost estimates and invoices;
  - implementation of tools for simplified loss adjustment;
  - developing rules of defining recourse responsibility in losses for own policies and system support for the process;
  - mass correspondence service managed by loss adjustment system - Mass Printing;
  - developing the payroll system for the Loss Adjustment Department and key performance indicators;
- The project of optimizing loss adjustment in motor insurance:
  - launching the platform, which allows for requesting third-party inspection automatically, through the Internet;
  - optimization of expenses prepared by Mobile Property Experts;
  - implementation of application for simplified loss adjustment related to the construction industry;
  - integration of expert systems to prepare cost estimates for repair and construction works in the SLS Central IT System managing the liquidation process;

- implementation of the Internet platform to manage the loss effects, which allows for optimizing the property loss value;

- E-szkoda project:
  - creation of the Communication platform for seasonal loss adjusters;
  - creation of the Internet Module of Settlements with Assistance Service Providers;
  - creation of integration services in view of cooperation with brokers' applications;
  - creation of the internet notification form for foreigners;
  - creation of the functionality informing of the loss adjustment status by SMS;
- The Kłos project:
  - limiting the time for loss adjustment in crop insurance, by way of optimizing calculations and eliminating unnecessary documentation.

12. The summary of Initial Public Offering of PZU shares

12.1 The Settlement Agreement performance and the IPO

On 1 October 2009, the State Treasury, Eureko B.V., PZU and Kappa SA. concluded a Settlement Agreement (Agreement) to amicably settle the disputes related to the interest of Eureko B.V. and the State Treasury in PZU. One of the conditions of the Agreement was to oblige both parties to immediately start preparing the IPO of PZU shares.

On 13 April 2010, KNF approved the prospectus of PZU which was published on 16 April 2010. Shares were subscribed for between 20 and 26 April 2010 in the case of authorized persons, between 20 and 28 April 2010 in the case of individual investors and between 30 April and 5 May 2010 in the case of institutional investors.

The information including data required pursuant to Article 54.3 of the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies of 29 July 2005 (Journal of Laws 185 of 2009, item. 1439) published on 29 April 2010 specified:

- the price of shares for individual investors, authorized persons and institutional investors at PLN 312.50 per share;
- the final number of shares sold during the offering at 25,819,337 shares (29,9% of the total number of issued shares); the final number of sold shares and their share in the total number of issued shares was: Kappa SA - 12,866.492 (14,9%), Eureko - 8,635.230 (10,0%) and the State Treasury - 4,317.615 (5,0%);
- the number of shares sold to individual investors at 7,058,582, authorized persons at 73,938 and institutional investors at 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 (ISSUER) (Resolution No. 212/2010) and decided to register 86,324,317 PZU shares (60,418,337 A series shares and 25,905,980 B series shares) with a code PLPZU0000011. The shares traded in the public offering were registered in KDPW on 26 April 2010 and the other 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 Resolution 425/1020 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 covered 25,819,337 shares of the Company. Under the Offering, 18,686,908 shares of PZU were granted to institutional investors, 7,058,491 shares – to individual investors and 73,938 shares to authorized persons. The demand of institutional investors was nine times higher than the number of shares offered. 59% of institutional investors were domestic investors and 41% were foreign investors.

Under the Offering, the Company shares were granted to 255,541 investors, including 251,288 individual investors, 1,629 authorized persons and 2,624 institutional investors.

On 12 May 2010 PZU shares were first traded on GPW S.A. It was one of the largest offerings in 2010 in Central and Eastern Europe and the largest in history of the Warsaw Stock Exchange. The IPO ended a 10-year conflict of two largest shareholders of PZU, i.e. the State Treasury and the Dutch Eureko B. V. The opening price of PZU shares grew by 11.7% up to PLN 349 and the closing price reached PLN 360 per share. PZU shares are continuously traded under the abbreviated name “PZU” and designation “PZU”.

12.2 IPO costs

The total expenses related to the IPO of A series shares incurred by PZU amounted to PLN 25,611,049, including:

- the costs of preparing and carrying out the IPO: PLN 6,070,609;
- costs of remunerating underwriters: PLN 0;
- cost of preparing the prospectus including costs of consulting services: PLN 14,167,954;
- promotion costs related to the offer: PLN 5.372.486.

The costs of preparing the offer of sale of the existing shares constituted the costs of the period and were charged to the financial profit/loss for 2010. The costs in question do not include costs related to the IPO incurred by selling shareholders.

Average cost of sales per one share sold was PLN 0.99 and it did not include costs related to the IPO incurred by selling shareholders.

13. Risk management

13.1 Risk management policy

13.1.1 Key risk management assumptions

PZU developed and implemented a risk management system focusing on both risk control and ensuring the adequate level of capitalization. Operational risk identification, analysis, measurement, control, management and reporting allow PZU to meet its obligations to customers and business partners and to satisfy the requirements resulting from legal provisions and external regulations.

Risk management is based on three lines of defence:

- Line 1: risk management at the business (organizational) unit level in accordance with valid procedures, guidelines and limits. At this level, risk management is additionally supported by internal control principles.
- Line 2: risk management through specialized units and committees (established for the purpose of specific risk management) within the existing risk management framework, based on the applicable principles, methodologies and procedures.
- Line 3: the internal audit, whose tasks include independent control and audit of key risk management system elements and control activities embedded in the Group's operations. Additionally, this line includes monitoring the implementation of auditor's recommendations.

13.1.2 Key risk management principles

Risk management in PZU is based on the following key principles:

- Controlled risk acceptance: financial strength and sustainable value growth are an integral part of the business strategy adopted by PZU. In order to achieve the above objectives, the PZU operations are carried out in compliance with a clearly defined risk policy and subject to risk limitations;
- Clear responsibility: the operations of PZU are based on assignment of tasks, competencies and responsibilities. Designated employees are accountable for the risk they undertake, and their incentives are aligned with the business objectives of PZU;
- Adaptation to changes in the business environment: the ability to respond to changes in the business environment resulting from both external conditions and internal changes is an integral part of the risk control process in PZU.

13.1.3 Risk appetite

The risk appetite reflects the maximum level of acceptable risk that may be assumed by the organization and it is closely related to the business strategy and financial objectives. It may be described both in terms of quality and quantity.

PZU manages risk in a manner which ensures that the equity level and its availability are at least at the level of „AA" rating of Standard&Poor's Ratings Services (S&P).

In the case of market risk, risk appetite is determined based on the Value-at-Risk (VaR). VaR is a widely used approach to risk assessment resulting from a given portfolio of financial assets in the given time horizon.

The risk appetite is defined in the form of limits approved by one of the following committees:

- Asset and Liability Management Committee (ALCO);
- Credit Risk Committee in PZU and PZU Życie (CRC);
- Investment Committee in PZU and PZU Życie (IC);
- Financial Insurance and Guarantee Risk Committee at PZU (KRUFiG).

The next step involves allocation of risk limits to organizational units at lower levels of the organizational structure.

13.1.4 Risk profile

If individual risks are identified, the risk management process is centralized in the PZU Group. The foregoing applies to market risk, credit risk relating to investments and reinsurance as well as liquidity risk. Insurance risk is managed at the level of individual companies depending on the nature of their operations. Credit risk related to insurance and financial guarantees is managed at the level of PZU as such operations are carried out only by that entity.

Risk management at PZU is focused on identification and management of material risks occurring in individual business areas through setting appropriate limits (definition of the risk appetite), monitoring and clear division of obligations and responsibilities relating to risk management in a given area. The risk profile is reported annually to the Management Board of PZU.

PZU controls particular risk types by way of quantitative analysis (e.g. model-based risk assessment) as well as qualitative analysis (it is the most important in case of qualitative risks, such as strategic or reputation risk). Based on the analysis, PZU determines its risk profiles and exposure to particular risk types reported annually to the Management Boards of PZU and PZU Życie.

13.2 Establishment of the Risk Division within the structure of PZU and PZU Życie

On 4 March 2010 the position of a Risk Managing Director was established within the structure of PZU and PZU Życie and a Risk Office was established in those entities on 1 August 2010.

The scope of responsibilities of the Risk Office includes:

- development of the risk management system;
- identification of investment, insurance and operational risks, their measurement as well as development and implementation of an effective risk reporting system;
- development and implementation of an internal model for investment, insurance and operational risks;
- development of an effective system of reporting profitability of operations, taking into account the cost of capital;

- ensuring the PZU Group's compliance with the requirements of the Solvency II Directive as well as other external acts regarding the insurance and operational risk management system.

13.3 Risk types

13.3.1 Insurance risk

PZU and PZU Życie manage the insurance risk using the following tools:

- calculation and monitoring of the adequacy of technical provisions;
- tariff strategy, current estimate monitoring and premium adequacy assessment;
- underwriting;
- reinsurance.

The provisioning policy is based on:

- the prudence principle with respect to determining the value of technical provisions;
- the going concern principle, which assumes that the methodology of creating technical provisions should not be changed unless significant circumstances occur, which would justify such change.

Technical provisions are estimated under the supervision of key actuaries.

The purpose of the rating policy carried out by PZU and PZU Życie is to guarantee an adequate premium level. Simulations concerning the projected technical result in the following years are carried out when preparing premium rates. At the same time, regular premium adequacy and portfolio profitability analyses are carried out based on various types of analyses and lists, such as evaluation of the technical result of a given product for a given financial year.

PZU introduced an underwriting process which is independent of the sales function, involving risk assessment and taking risk acceptance decisions for SMEs and corporate clients.

The objective of the reinsurance program at PZU is to secure its core business by mitigation of risk that may have an adverse impact on the financial position of the Company. The above goal is achieved mainly through obligatory reinsurance contracts with additional facultative reinsurance.

The basis for obligatory coverage of PZU are non-proportional contacts, characteristic of insurers with high capitals, which protect reassured portfolios against effects of large one-off losses or accumulation of numerous losses resulting from a single event.

13.3.2 Market risk

Market risk in PZU and PZU Życie results from two key sources:

- activities related to matching assets and liabilities (the ALM portfolio); and
- activities related to strategic asset allocation, i.e. determining optimal mid-term asset structure (SAA portfolios).

Market risk management is based on the management functions independence of the risk control function, implementing and maintaining close risk controls and independence of the decision and reporting function. The investing principles approved by the Supervisory Board of PZU constitute the basis for investment activities. Detailed market risk management standards and principles have been defined in the Investing Activities Manual, PZU Market Risk Management Policy and Investment Purposes and Guidelines.

Market risk is measured using Value at Risk or scenario analysis. Risk measurement is compliant with Solvency II. In order to effectively manage market risk, the Company determines limits in the form of capital amounts allocated to a given market risk and limits for particular market risk factors (BPV limits for interest rate risks and exposure limits to stock risk).

As part of PZU AM management of the SAA PZU and PZU Życie portfolio, the risk is measured based on the VaR method.

Just as in BSK the functions related to portfolio management and risk control are assigned to two separate PZU AM entities. The risk control functions are exercised by the Risk Control Office at PZU AM.

13.3.3 Credit risk

The exposure of PZU and PZU Życie to credit risk results directly from investing activities, activities in the financial insurance and guarantees segment, reassurance contracts and bancassurance activities. The PZU Group distinguishes three types of credit risk exposure:

- the risk of bankruptcy of the issuer of financial instruments acquired or traded by PZU, e.g. corporate bonds.
- the risk that a PZU contractor fails to perform its obligations related to reassurance or derivatives not traded on stock exchange, bancassurance activities, etc.;
- the risk that a PZU contractor fails to perform its obligation towards a third party, e.g. cash receivable insurance, insurance guarantees.

Exposure concentration limits are set for credit risk resulting from the PZU Group investment activities. The said limits are determined using:

- internal ratings - for facilities granted to companies and local authorities
- exposure limits - for banks.

The table below presents credit risk ratios used to calculate the credit risk.

Standard&Poor's rating	AAA	AA	A	BBB	BB	No rating
(%) ratio for 2010	0.82	0.74	1.97	5.6	17.45	30.82
(%) ratio for 2009	0.70	0.70	1.70	4.40	14.60	30.40

**In the case of exposure to mortgages with no rating, the ratio of 2% was adopted.*

Threshold exposures are defined for insurance and guarantees. The assessment is based on:

- simulation models used for estimating VaR and TVaR for guarantees and insurance of cash receivables.
- scoring sheets.

13.3.4 Operational risk

Operating risk management in PZU and PZU Życie is decentralized and it is carried out by all organizational units.

Strategic management with respect to operational risk is carried out by the Management Boards of PZU and PZU Życie.

In order to streamline the process of identifying and determining the scale and importance of operational risk, in April 2009 the event base for operational risk was implemented. Operational risk events are recorded in the base if the related loss exceeds PLN 1000.

Operational Risk Coordinators have been appointed in all branches and they are responsible for the process of collecting and reporting data concerning operational risk from controlled units.

13.3.5 Liquidity risk

Liquidity risk involves inability to settle liabilities to customers or counterparties at maturity.

Financial liquidity risk of PZU and PZU Życie may result from three types of events:

- shortages of liquid funds versus current needs;
- illiquidity of financial instruments held by the Company;
- a structural gap between the maturity of assets and liabilities.

In the liquidity risk management process, PZU and PZU Życie SA control liquidity in the short, medium and long term.

The level of liquidity risk at PZU is measured by estimating the shortages of cash required for liability payments.

PZU applies asset and liabilities management (ALM) measures aimed at matching the structure of financial investments which cover technical provisions to the nature of such provisions and at minimizing the related risks.

13.3.6 Strategic risk

Strategic risk results from changes in business environment, disadvantageous strategic decisions, inappropriate implementation of business strategies and lack of reaction to changes in business environment. Strategic risk management is carried out along with preparing and updating the strategy of the PZU Group. Changes and factors affecting business objectives and environment of the PZU Group are identified in the process of strategic analyses.

13.3.7 Reputation risk

Reputation risk is the risk of an event or action which will adversely affect the Company image among its customers and business partners, therefore weakening the PZU Group's ability to operate effectively. Reputation risk is limited by defined principles, which, if followed, ensure the Company reliability for its customers and business partners. The process is additionally supported by activities aimed at early detection of potential problems, which may lead to reputation loss.

13.4 Risk sensitivity

PLN million

Sensitivity of the asset portfolio	Change in risk factor	2010 Impact on net financial profit/loss	2010 Impact on equity	2009 Impact on net financial profit/loss	2009 Impact on equity
Interest rate risk	down by 100 bp.	156	299	88	238
	up by 100 bp.	-149	-283	-83	-227
Currency risk	up by 20%	167	167	152	152
	down by -20%	-167	-167	-152	-152
Risk of equity instrument prices	up by 20%	283	416	231	371
	down by -20%	-283	-416	-239	-379

The above table sums up the results of the sensitivity analysis of the net profit/loss and equity to changes in the interest rate risk, currency risk and the risk of changes in the prices of equity instruments. The analysis does not present the effect of changes in the measurement of investments on the net financial profit/loss or equity which are taken into consideration while determining the value of the provision.

An increase in the sensitivity to the interest rate risk at the end of 2010 compared to the end of 2009 resulted from an increase in the duration of the debt security portfolio and higher exposure to derivatives with interest rate risk.

Financial assets exposed to the currency risk include investments and debt securities. They secure expenditure due to technical provisions denominated in foreign currencies, exposure to equity instruments quoted on stock Exchange other than WSE, exposure to derivatives denominated in foreign currencies and financial assets of consolidated insurance companies in Lithuania and Ukraine. An increase in sensitivity to the currency risk as of the end of 2010 compared to 2009 results mainly from higher exposure to investments (derivatives, listed shares) denominated in foreign currencies which do not cover technical provisions.

An increase in the sensitivity of the portfolio of financial assets to changes in the measurement of listed equity instruments at the end of 2010 compared to 2009 results from higher exposure to equity instruments with other price risk.

13.5 Stress tests

To comply with the requirement imposed by the Polish Financial Supervision Authority (KNF) on insurance companies, PZU conducted stress tests relating to financial data reported as of 31 December 2009 in line with KNF guidelines and submitted their results by the end of July 2010. The stress tests showed that PZU had sufficient capitals to safely continue as a going concern if adverse events with considerable financial implications occur in their business environment.

NOTES

14. Shares or rights to shares held by members of management or supervisory bodies of PZU as of the date of providing the annual report

Lp.	Name	Number of shares held by as of 15 November 2010	Number of shares held by as of 17 March 2011	Change between dates
	Management Board			
1	Andrzej Klesyk	0	0	X
2	Witold Jaworski	0	0	X
3	Przemysław Dąbrowski	0	0	X
	Group Directors			
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
5	Krzysztof Branny	30	30	X
	Supervisory Board			
1	Marzena Piszczek	0	0	X
2	Waldemar Maj	30	30	x
3	Piotr Kamiński	0	0	X
4	Grażyna Piotrowska-Oliwa	0	0	X
5	Zbigniew Ćwiąkalski	0	0	X
6	Krzysztof Dresler	0	0	X
7	Dariusz Filar	0	0	X
Total		**60**	**60**	**x**

15. Other information

15.1 Remuneration of members of management and supervisory bodies of the PZU Group

Remuneration paid to members of the Management Board, top management and members of the Supervisory Board of PZU

Salaries and other short-term employee benefits paid by PZU	1 January – 31 December 2010	1 January – 31 December 2009
Management Board:	**2 462**	**1 183**
Andrzej Klesyk	1 090	295
Witold Jaworski	789	295
Przemysław Dąbrowski	-	n/a
Dariusz Filar	188	n/a
Magdalena Nawłoka	24	298
Rafał Stankiewicz	371	295
Top management (Directors of the PZU Group) *:**	**3 411**	**n/a**
Krzysztof Dominik Branny	248	n/a
Przemysław Dąbrowski	951	n/a
Rafał Grodzicki	850	n/a
Dariusz Krzewina	760	n/a
Mariusz J. Sarnowski	602	n/a
Supervisory Board:	**677**	**343**
Zbigniew Ćwiąkalski	94	-
Krzysztof Dresler	68	-
Dariusz Filar	41	-
Piotr Kamiński	85	-
Waldemar Maj	86	-
Grażyna Piotrowska-Oliwa	99	-
Marzena Piszczek	128	10
Maciej Bednarkiewicz	-	32
Alferd Bieć	4	40
Tomasz Gruszecki	22	40
Ernst Jansen	-	32
Joanna Karman	-	30
Marcin Majeranowski	21	40
Michał Nastula	-	32
Tomasz Przesławski	4	40
Gerard Van Olphen	3	40
Jurgen Stegmann	17	-
Marco Vet	5	7

Salaries and other short-term employee benefits paid by other entities in the PZU Group	1 January – 31 December 2010	1 January – 31 December 2009
Management Board:	**964****	**950***
Andrzej Klesyk	302	239
Witold Jaworski	387	359
Przemysław Dąbrowski****	-	n/a
Rafał Stankiewicz	275**	352*
Top management (Directors of the PZU Group) *:**	**2 027**	**n/a**
Krzysztof Dominik Branny	55	n/a
Przemysław Dąbrowski	404	n/a
Rafał Grodzicki	550	n/a
Dariusz Krzewina	755	n/a
Mariusz J. Sarnowski	263	n/a

Total estimated amount of non-cash benefits granted by PZU and its subsidiaries	1 January – 31 December 2010	1 January – 31 December 2009
Management Board:	**370**	**491**
Andrzej Klesyk	119	107
Witold Jaworski	147	136
Przemysław Dąbrowski	-	n/a
Magdalena Nawłoka	25	105
Rafał Stankiewicz	79	143
Top management (Directors of the PZU Group) *:**	**525**	**n/a**
Krzysztof Dominik Branny	6	n/a
Przemysław Dąbrowski	149	n/a
Rafał Grodzicki	177	n/a
Dariusz Krzewina	153	n/a
Mariusz J. Sarnowski	40	n/a
Supervisory Board:	**42**	**14**
Tomasz Gruszecki	42	14

* The indicated amount includes the equivalent of UAH 429,766 translated into PLN at the average currency rate of 31 December 2009 as published by the National Bank of Poland (NBP).

** The indicated amount includes the equivalent of UAH 40,000 translated into PLN at the average currency rate of 31 December 2010 as published by the National Bank of Poland (NBP).

*** Positions of high level managers were established in 2010 and since then their holders are treated as related parties; therefore, the above table does not include their remuneration for 2009, when they held different positions in PZU Group companies.

**** Amounts paid to Przemysław Dąbrowski are presented in the section regarding high level management since he joined the Management Board on 21 December 2010.

Salaries paid to members of the Management Boards and Supervisory Boards of other consolidated companies in the PZU Group

Item	1 January - 31 December 2010	1 January - 31 December 2009
Members of the Management Boards	8 540	9 655
Members of the Supervisory Boards	2 600	2 771

15.2 Issues, redemption and repayment of debt and equity securities

During the 12-month period ended 31 December 2010, PZU did not issue, redeem or repay any debt or equity securities.

15.3 Agreement concerning stabilization of the market price of PZU shares

On 16 April 2010, Credit Suisse Securities (Europe) Limited, the stabilization manager, and PZU concluded a stabilization agreement (“Stabilization Agreement”) whereby during the period of 30 days after the first quotation of PZU shares on the primary market of WSE, the stabilization manager could acquire PZU shares on such market to support the market price of PZU shares at a level which would be higher than the one without such transactions. Pursuant to the Stabilization Agreement, due to the steps which could be taken by the stabilization manager, PZU provided the stabilization manager with the put option on the Company’s shares (“Put Option”). Based on the Put Option, the stabilization manager was entitled to sell to PZU not more than 2,590,569 Company’s shares, however, not more than 15% of PZU shares sold in the initial public offering, for the price per one share equal to the price paid by the stabilization manager at WSE for shares under the Put Option, which could not exceed the price of shares for institutional investors in the initial public offering, with the reservation that the total price which PZU would pay for shares under the Put Option increased by the total fee of the stabilization manager would not exceed PLN 683,340 thousand.

The authorization to acquire own shares by PZU under stabilization transactions has been concluded in the resolution of the Extraordinary Shareholders' Meeting of the Company of 16 March 2010 adopted based on Article 362.1.5 of the Code of Commercial Companies of 15 September 2000 (Journal of Laws No. 94 of 2000, item 1037 as amended, "Code of Commercial Companies") and Article 8 of the By-laws of PZU. In the resolution, the Extraordinary Meeting of PZU authorized the Management Board of the Company to acquire not more than 2,590,569 PZU shares from investor or investors carrying out stabilization activities, with the view to their redemption; the price of shares may not exceed the price of shares in the initial public offering of PZU shares to institutional investors. Pursuant to the resolution, PZU shares would be acquired to be redeemed, however, such acquisition could take place only to the extent the remuneration of a shareholder (the price of PZU shares) would be paid from the amount which in line with Article 348.1 of the Code of commercial companies could be allocated for distribution between shareholders.

During 30 days of the first day of quotation of the PZU shares in the WSE primary market, the stabilization manager did not carry out any stabilization transactions with respect to the Company shares and the Put Option was not exercised.

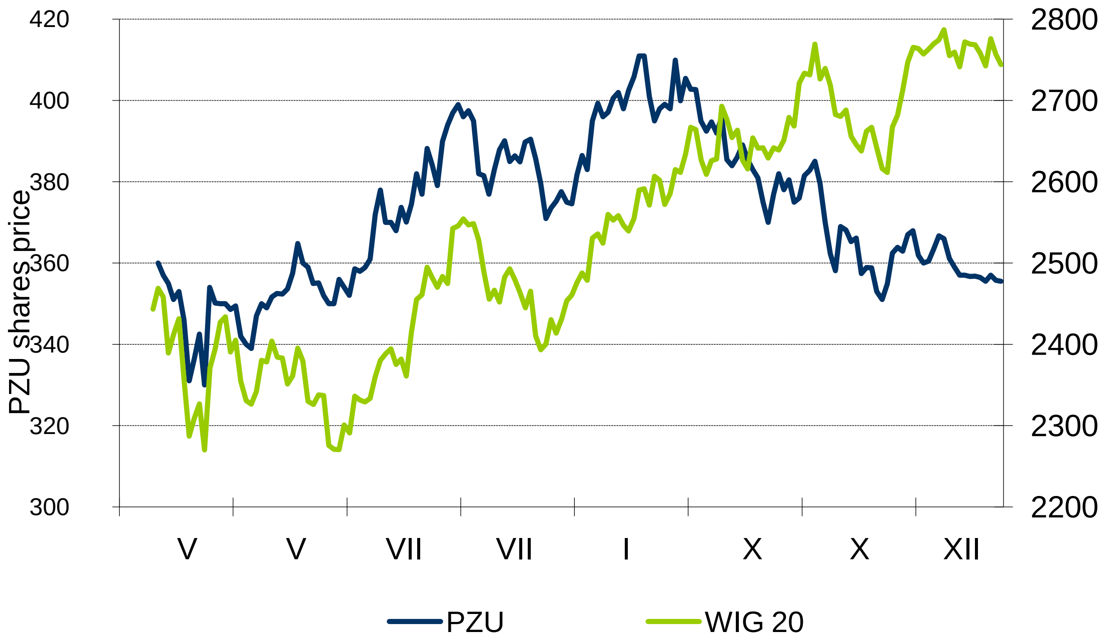
15.4 Price of PZU's shares

The shares of PZU were first traded on GPW S.A. on 12 May 2010. The Company shares are continuously traded in the primary market of WSE. On 17 May 2010 the Company's shares were included in the WIG20 index.

The offering covered 25,819,337 shares of PZU. Under the Offer, the Company shares were granted to 255,541 investors, including 251,288 individual investors (7,058,491 shares), 1,629 authorized persons (73,938 shares) and 2,624 institutional investors (18,686,908 shares).

The IPO ended a 10-year conflict of two largest shareholders, i.e. the State Treasury and the Dutch Eureko B. V.

Price of PZU shares compared to WIG20 in 2010



Key data concerning the price of the Company's shares in GPW w Warszawie S.A.

	unit	2010
Number of shares	item	86 352 300
Closing price on the last trading day in the year	PLN	355.5
Closing balance of market value of the Company	PLN	30 698 242 650
Highest closing price in the year	PLN	411
Lowest closing price in the year	PLN	330
Average trading volume per session	item	317 391
Dividend paid in the current year from previous year profit distribution	PLN/share	158.56

The year 2010 was the first year when shares of PZU were traded on Giełda Papierów Wartościowych w Warszawie. After a successful debut (the increase in the closing share price amounted to 15.2% versus the offer price) the price of PZU shares were going up and reached PLN 417.50 on 21 September 2010.

Starting from October 2010, apart from market trends, the price of shares of PZU was still under the pressure of excess supply of Eureko B.V. On 18 November, after the share lockup period, Eureko sold a block of shares of the Company constituting 12.9999% of the share capital of the entity. The sales price in the process of accelerated book-building was determined as PLN 365.

Since the high-price period, the prices of PZU shares dropped by over 13% at the end of 2010. At the last session the price was PLN 355.5. Investors that acquired shares at the issue price

(PLN 312.5) on WSE and sold them on 31 December 2010 got a 17,25% rate of return including the dividend paid in 2010 (PLN 10.91).

Average daily turnover of PZU shares in 2010 amounted to 317 391 shares and the highest level (7,225,362 shares) was reported on the day of the IPO (12 May 2010).

Capital market indicators

Capital market indicators as of 31 December 2010	**Indicator value**
P / BV (C / WK) *Market price/book value*	2.40
BVPS *Book value per share*	148.23
P / E (C / Z) *Price/Earnings per share*	12.58
EPS (PLN *Net profit (loss)/number of shares*	28.25
DY (5 *Dividend yield (%)= dividend per one share/share price*	3.07%
DPS (PLN) *Dividend per share*	10.91
TSR *Total shareholder return = (market price of shares at the end of the year – market price of shares in the offering + dividend paid in 2010) / market price of shares in the offering*	17.25%

15.5 Dividend

On 26 March 2010, the Management Board of PZU adopted a resolution concerning the proposed distribution of profit for 2009 of PLN 2,510,380 thousand:

- 1.692.505 thousand to dividends, subject to making an advance payment towards dividend expected at the end of the 2009 financial year, described below;
- 10.000 thousand to appropriations to the Company's Social Benefits Fund;
- 807.875 thousand to reclassification to the supplementary capital.

Additionally, in the resolution, the Management Board recommended to allocate an additional amount of PLN 11,999,516 thousand from the reserve capital as payment of dividend for 2009, to finance advance payments against expected dividend. The amount may be used by the Management Board, however, it has to make an advance payment against dividend expected at the end of the 2009 financial year, described below.

As a result of the advance payment towards the 2009 dividend of 26 November 2009 of PLN 12,749,917 thousand comprising:

- 750.401 thousand from the net profit for the first half of 2009 recognized in the audited financial statements of PZU prepared as of 30 June 2009;

- 11.999.516 thousand from the reserve capital to finance advance payments towards expected dividend at the disposal of the Management Board,

the dividend still to be paid for the year ended 31 December 2009 was PLN 942,104 thousand, i.e. PLN 10.91 per share.

On 10 June 2010 the General Meeting of Shareholders of PZU adopted a resolution on profit distribution and dividend payment for the year ended 31 December 2009, sanctioning the above recommendation of PZU's Management Board.

The General Shareholders' Meeting decided that the total amount of dividend for the year ended 31 December 2009 would be PLN 13,692,021 thousand, however PLN 12,749,917 thousand was paid on 26 November 2009 as an advance payment against dividend expected at the end of the 2009 financial year. The remaining dividend to be paid is PLN 942,104 thousand, i.e. PLN 10.91 per share. The record date was 25 August 2010 and the dividend was paid on 9 September 2010.

By the date of signing these consolidated financial statement, the Management Board of PZU had not adopted a resolution concerning distribution of profit for 2010.

Appropriations of net profit in the financial year	**2010**	**2009**
Appropriations of net profit in the financial year (by basis):	-	750 401
appropriation of net profit for the first half of 2009 for advance payment of dividend	-	750 401
Total appropriations of net profit in the financial year	**-**	**750 401**

15.6 Executed and terminated credit facility agreements

In accordance with the agreement on 22 April 2010 funds under the closed repo transaction (debt repayment) were transferred to BHW SA and BGK:

- BHW SA – PLN 992,980,574.00; transaction concluded on 22 October 2009 (4.05%)
- BGK – PLN 3.813.840.684,00; transaction concluded on 22 October 2009 (3.95%)

15.7 Originated loans, including those to the issuer's related parties

On 17 February 2010, PZU originated a loan of PLN 16,900 thousand with the initial interest rate of 8,16% p.a. to Polskie Linie Lotnicze LOT SA ("LOT"). The repayment deadline was set at 31 May 2010. The loan tranches of PLN 10,600 thousand and PLN 6,300 thousand, respectively, were made available on 18 February 201 and 11 March 2010.

The loan is collateralized on the contractual cap mortgage up to PLN 33,800 thousand on the perpetual usufruct of real property comprising a plot and a building with a separate ownership title, located in Warsaw, at 17 Stycznia 43.

The loan repayment deadline was further postponed to: 30 November 2010, 11 February 2011 and 5 March 2011, with modified interest, ranging from 9.16% to 12.16% p.a. The debtor repaid the interest within the above deadlines.

15.8 Guarantees and sureties extended and received with respect to credit facilities and loans, including those granted to the issuer's related parties

During the 12-month period ended 31 December 2010, neither PZU nor its subsidiaries gave credit facility/loan collateral or guarantees - to one entity or a subsidiary of such an entity - if the total value of the existing collateral or guarantees constituted the equivalent of at least 10% of the equity of PZU.

Under the guarantee line agreement No. 118154408 of 26 September 2008 between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and performance bonds) to PZU entities participating in procurement proceedings for insurance services.

In accordance with the agreement, the guarantee line is PLN 10 million and is open for one year. Upon appropriate notice, the agreement is extended for further 12-month periods - the current line is valid between 29 September 2010 to 27 September 2011.

As of 31 December 2010, there were 30 active guarantees of the total amount of PLN 8,353,166.64.

15.9 Evaluation of financial resources management including the ability to repay liabilities and definition of possible threats and activities, undertaken or planned by the issuer to counteract these threats

The financial position of the Issuer is very good. It meets all the security requirements imposed by the act on insurance activity and the Polish Financial Supervision Authority. A stable rating outlook of PZU confirms that the Issuer has a strong business position, high levels of equity and is a competitive entity in the insurance market.

Considering the strong competitive position and very good financial condition of the Issuer, the Management Board of PZU SA does not see any threats to the Issuer's business.

The Issuer has own funds sufficient to guarantee that all liabilities to their customers will be repaid.

15.10 Related party transactions

During the 12-month period ended 31 December 2010, PZU did not conclude any related party transactions which could be considered significant (individually or jointly) and would be concluded on non-arm's length basis.

15.11 Seasonal or cyclical business

Operations of the PZU Group are not seasonal or cyclical to the extent that would justify application of the suggestions presented in the International Accounting Standards.

15.12 Significant events after the end of the reporting period

On 17 February 2011 the Supervisory Board adopted a resolution to open qualification proceedings regarding the position of the Chairman of the Management Board and six Members of the Management Board for the new term of office. Apart from this information, there were no significant events that would not be included in the report on the activities.

15.13 Significant events pertaining to previous years and disclosed in the financial statements for the current reporting period

Until the date of preparation of this report on the activities, there had been no significant events pertaining to previous years that would not be included in this report on the activities.

15.14 Business Combination

During the period covered by this report on the activities PZU did not enter into any business combination transactions.

15.15 Agreements significant for the operations of the PZU Group, including those concluded between shareholders

By the date of submitting this report on the activities there were no agreements (including those concluded after the end of the reporting period), which could result in future changes in proportions of shares held by the existing shareholders.

15.16 Agreements on audit and review of financial statements

On 12 May 2010 the Supervisory Board of PZU appointed Deloitte Audyt Sp. z o. o. with its registered office in Warsaw, Al. Jana Pawła II 19, recorded by the National Chamber of Statutory Auditors in the list of entities authorized to audit financial statements under number 73, as the entity authorized to audit the financial statements of PZU, prepared in line with the Accounting Act and the consolidated financial statements of the PZU Group for 2010 prepared in line with International Financial Reporting Standards.

The agreement on the audit of separate financial statements of PZU and consolidated financial statements of the PZU Group for the year ended 31 December 2010 was concluded on 30 November 2010 and regarded only audit of the financial statements for 2010.

The agreement on the audit of condensed separate financial statements of PZU and condensed consolidated financial statements of the PZU Group for the period of six months ended 30 June 2010 was concluded on 9 July 2010 and regarded only audit of the financial statements mentioned herein.

Information about the fee of the authorized entity can be fund in the financial statements of PZU for 2010 - point 31.1.

REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU

16. Representation concerning corporate governance

16.1 Corporate governance principles

In its business activities, the Management Board of PZU SA follows the highest corporate governance standards and ethical principles. The company confirms compliance with the highest corporate governance and corporate social responsibility standards by aligning the internal regulations with the provisions of law and ethical standards applied in the insurance market as well as adopted codes and internal regulations.

PZU SA follows the corporate governance rules laid down in "Good practices of companies listed on WSE" adopted on 19 May 2010 by resolution of Giełda Papierów Wartościowych w Warszawie S.A. No. 17/1249/2010, in force since 1 July 2010. The whole document is available at the official website of Giełda Papierów Wartościowych w Warszawie S.A.: www.corp-gov.gpw.pl.

The Management Board of PZU SA applies and follows Good practices of companies listed on WSE with utmost due diligence, as they increase the Company value for shareholders.

Apart from the aforementioned corporate social responsibility principles the Company applies Ethical standards and other corporate social responsibility principles presented in the following documents:

- Code of Good Insurance Practice adopted on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance ("PIU") which is an organization associating insurance companies operating in the Polish market. The document is the code of conduct for insurance companies specifying their relationships with customers, insurance intermediaries, supervisory body and the Insurance Ombudsman as well as media; governing the relationships between the insurers and setting standards of operation of insurance companies which participate in public trading in securities. The document is available at the PIU website: http://piu.org.pl/zasady-dobrych-praktyk/project/132/pagination/1
- Good Practices at PZU. The document emphasizes the role of ethical standards applicable to all aspects of PZU operations presenting sound business practices at PZU. It promotes the culture of compliance with the law, decision-making based on ethical standards and responsibility for taken decision. The document is available at the Company website: http://www.pzu.pl/c/document_library/get_file?uuid=f430d2f3-0ffa-4b72-add8-c53f3668c66a&groupId=10172

Application of "Good practices of companies listed on WSE"

Since the IPO, the Management Board of PZU SA strives to ensure access to Company information to all shareholders, to respect their rights regardless of the number of shares held. To ensure transparent operations and compliance with ethical standards, PZU SA adopted "Good practices of companies listed on WSE" constituting an appendix to the resolution No. 12/1170/2007 of the Board of WSE of 4 July 2007.

The By-laws of PZU SA adopted by the General Shareholders' 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 SA's compliance with the corporate governance principles laid down in "Good practices of companies listed on WSE". Similar changes introduced to the Regulations of the Supervisory Board of PZU SA on 4 March 2010 reflect, among others, the provisions of the Good Practices applicable to powers and independence of Supervisory Board Members as well as activities of the committees appointed by the Supervisory Board of PZU SA.

From the IPO to the end of Q2 2010, PZU SA issued one announcement regarding non-compliance with selected principles laid down in "Good practices of companies listed on WSE" concerning recommendations indicated in items II.1, II.2 and III.1.

"Good practices of companies listed on WSE" not applied by 30 June 2010.

Principle II.1 of Good practices concerning the content of the corporate website and II.2 of Good practices concerning the English version of the website were not fully complied with, as the Company had only a Polish language website, where it placed selected documents and statements specified in principle II.1 of Good practices. The website did not provide the following information: regulations of the Management Board, regulations of the Supervisory Board, professional resumes of members of the Supervisory Board, annual reports on the activities of the Supervisory Board, including works of its committees with the evaluation of operations of the Supervisory Board provided by the Supervisory Board and the evaluation of the internal controls and key risk management in the Company and relations of a Member of the Supervisory Board with a shareholder controlling more than 5% of the total number of votes in the General Shareholders Meeting. Only a part of the Company's corporate website concerning investors relations has been translated into English.

It should be stressed that the principles II. 1 and II. 2 were not fully applied, as the shares of the Company were not admitted to trading on a regulated market and the Company was not obliged to apply Good practices. After the Company shares were admitted for public trading, works aimed at completing information presented at the corporate website of the Company to include the data required in Good practices were not finalized.

Principle III.1 of Good practices, concerning preparation and presentation of the Supervisory Board's assessment of the situation of the company to the General Shareholders' Meeting was not followed. Based on the Company By-laws and regulations of the Supervisory Board, the Supervisory Board presents a brief assessment of the situation of the Company including internal controls and key risk management to the Ordinary Shareholders Meeting but it is not obliged to carry out and present the assessment of its works to the Ordinary Shareholders Meeting. The Supervisory Board takes a decision concerning compliance with the said rule.

As of 1 July 2010 the Company started to apply principle II.1 and II.2 set forth in "Good practices of companies listed on WSE" with respect to running a corporate website. Furthermore, as the Supervisory Board of PZU SA 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.

As the revised Good practices of companies listed on WSE came into force, since 1 July 2010 PZU SA followed the corporate governance principles set forth in Good practices of companies listed on WSE, subject to recommendations stipulated in I.5. and I.9 of Good practices. The announcement on non-compliance with selected provisions of these Recommendations was not issued in line with the exclusion of the obligation to publish issuers' reports referred to in Article 29.3 of the Regulations of WSE with respect to corporate governance principles set forth in part I of Good practices of companies listed on WSE, in accordance with the resolution No. 1014/2007 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. dated 11 December 2007.

As for principle I.5 of Good practices, concerning the policy of remunerating members of management and supervisory bodies, remunerations of members of the Supervisory Board are determined by the General Shareholders' Meeting of PZU SA and those of the Management Board are set based on a resolution of the Supervisory Board.

Remunerations of members of the Supervisory Board are finally determined in the resolution of the General Shareholders' Meeting. The remuneration depends on the function held in the Supervisory Board and is not due for a month when a member of the Supervisory Board did not attend a meeting of the Supervisory Board without a justified reason. The Supervisory Board determines if the absence of a member of the Supervisory Board is justified or not by adopting an applicable resolution.

The principles of remunerating members of the Management Board were determined by the Supervisory Board. The remuneration of members of the Management Board has a few components and includes the base salary, benefits and annual bonus, payable once a year and dependent on the decision of the Supervisory Board taken in the form of a resolution based on business and financial performance in a give financial year.

The policy of remunerating members of the management and supervisory bodies does not include all elements indicated in the Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by Commission Recommendation of 30 April 2009 (2009/385/EC). Moreover, the Company did not present a declaration presenting remuneration policy on its corporate website. The decision concerning future compliance with the said rule will be taken by the Supervisory Board and the General Shareholders' Meeting.

Principle I.9 of Good practices concerning the balance of sexes in the managing bodies of the Company came into force during the term of office of the Management Board and the Supervisory Board, therefore it was not taken into account at the time of appointing members of the Company bodies. The composition of the Management and Supervisory Board is determined based on a decision of the Supervisory Board or a General Shareholders' Meeting, respectively. Competences, not the sex are factors considered in appointing members of the Management and Supervisory Board.

16.2 General Shareholders' Meeting and the rights of the shareholders

An Ordinary Shareholders' Meeting should be held within 6 months from the end of each financial year.

The Extraordinary Shareholders' Meeting is called immediately in all events stipulated in the Code of Commercial Companies, Act on insurance activity, the By-laws and when the Company's bodies and persons authorized to call the Extraordinary Shareholders' Meeting deem it justified.

In accordance with the By-laws the Supervisory Board calls:

- the Ordinary Shareholders' Meeting if the Management Board failed to do so by the defined deadline;

- the Extraordinary Shareholders' Meeting, when necessary;
- the Extraordinary Shareholders Meeting, if the Management Board failed to do so upon request of an authorized shareholder, authorized shareholders or the Supervisory Board within 14 days from the date of submitting the request.

According to the By-laws, the shareholders representing at least a half of the share capital and a half of the number of votes in the Company may call the Extraordinary Shareholders' Meeting. The shareholders appoint a chairman of such Extraordinary Shareholders' Meeting.

Shareholder or shareholders of the Company representing at least one twentieth of the share capital may demand calling the Extraordinary Shareholders' Meeting and putting appropriate items on the agenda. If the Extraordinary Shareholders' Meeting is not called within two weeks from the date of presenting the order to the Management Board, the registration court may authorize the requesting shareholders to call the Extraordinary Shareholders' Meeting. The chairman of the meeting is appointed by court.

The Supervisory Board and a shareholder or shareholders of the Company representing at least one twentieth of the share capital may demand putting appropriate items on the agenda of the next General Shareholders' Meeting. The demand should include the justification and the resolution draft concerning the proposed item on the agenda and it should be presented to the Management Board at least twenty one days before the planned date of the General Shareholders' Meeting. The Management Board is obliged to immediately announce all changes in the agenda introduced by the shareholders, however, not later than 18 days before the planned date of the meeting. The announcement is placed on the Company website in accordance with the method of providing current information specified in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies, i.e. in the form of current reports.

Before the date of the General Shareholders' Meeting, a shareholder and shareholders of the Company representing at least one twentieth of the share capital may provide the Company with resolution drafts in writing or via electronic mail concerning items on the agenda of the Shareholders' Meeting or items which will be added to the agenda. The Company immediately places resolution drafts on its website. During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

A General Shareholders' Meeting is called by placing an appropriate announcement on the Company website in accordance with the method of providing current information specified in the Act on public offering, conditions governing the introduction of financial instruments to organized trading, and public companies, i.e. in the form of current reports. Such announcement should be made not later than 26 days before the date of the General Shareholders' Meeting.

Duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares. The shareholders cannot adopt resolutions which are not on the agenda, unless the entire share capital is represented on the General Shareholders' Meeting and none of those present raise objection to the resolution. The Company's By-laws do not include a contrary statement.

The General Shareholders' meeting takes place in Warsaw.

Only persons who were shareholders of the Company 16 days before the date of the General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting).

The entity keeping the securities account will issue a certificate of the right to participate in the General Shareholders' Meeting for a specified person upon a request of a person authorised under dematerialized shares of the Company filed not earlier than after calling the General Shareholders' Meeting and not later than on the first business day after the day of registration of attendance at the Meeting.

The certificates of the right to attend the General Shareholders' Meeting issued by the entity keeping the securities account will constitute the basis for preparing the report to be provided to the National Depository for Securities (KDPW), i.e. the entity depositing securities. On such basis, KDPW will prepare the list of persons authorised to attend the General Shareholders' Meeting due to the shares held. The list prepared by KDPW will be sent to the Company and it will constitute the basis for the Company to prepare the list of persons authorised to attend the Shareholders' Meeting due to the shares held.

The shareholder of the Company may transfer shares in the period between the date of registration of attendance in the General Shareholders' Meeting and the date of completing the General Shareholders' Meeting.

Each share gives the right to one vote at the General Shareholders' Meeting. The shareholder has the right to vote in a different manner under each share held. The Company's shareholders may attend the General Shareholders' Meeting and exercise the right to vote personally or through a proxy. If the proxy on the General Shareholders' Meeting is a member of the Management Board, Supervisory Board, liquidator, Company's employee of a member of appropriate bodies or the employee of a controlled company or cooperative, the power of attorney may authorize to representation only at one General Shareholders' Meeting. The proxy is obliged to inform the shareholder of the circumstances indicating the existence or possibility of a conflict of interests. Further power of attorney is impossible. The proxy – Member of the Management Board, Supervisory Board, liquidator, employee of the Company or member of appropriate bodies or the employee of a controlled company or cooperative votes in line with instructions provided by the Company shareholder.

The General Shareholders' Meeting is a body authorized to take decisions, by way of resolutions and decisions concerning issues related to organization and operations of the Company. Resolutions of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies or the By-laws. In accordance with the By-laws, resolutions of the General Shareholders' Meeting concerning: (i) changes in the By-laws, (ii) decrease in the share capital, (iii) disposal and lease of the enterprise or its organized part or establishment of a limited property right and (iv) liquidation of the Company require a qualified majority of three fourths of votes, unless it is adopted under Article 397 of the Code of commercial companies, when an absolute majority of votes is enough.

The most important powers of the General Shareholders' Meeting specified in the Code of commercial companies and the By-laws include:

- examination and approval of a management board report on the company's operations, financial statements for the previous financial year and acknowledgment of the fulfilment of duties by members of the company's authorities;
- taking the decision concerning profit distribution or loss coverage;
- taking the decision concerning convertible bonds, bonds with priority rights or subscription warrants;
- setting the record date, i.e. the date used to determine the list of the Company's shareholders entitled to the dividend for the previous financial year and the date of dividend payout;
- appointing and dismissing members of the Supervisory Board, subject to the right granted to the Treasury to appoint and dismiss one member of the Supervisory Board starting from the time when the share of the Treasury dropped below 50% of all issued shares;
- taking the decision to change the By-laws;
- taking the decision to increase or decrease the share capital of the Company;
- taking the decision to redeem shares;
- taking the decision to deprive the Company's shareholders of the pre-emptive right in part or in whole;
- taking the decision to dispose of the enterprise or its organized part or its lease or establishment of a limited property right;
- taking the decision concerning a significant change in the Company's scope of business;
- taking the decision to liquidate the Company or transfer its registered office abroad;
- choosing the Company's liquidators;
- taking the decision concerning division of the Company, its combination with a different company or companies, its liquidation, termination of transformation;
- taking the decision concerning financing by the Company of acquisition or assumption of shares it issues;
- taking the decision concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;
- creating reserve capitals and taking the decision whether to use them and if so, how; and
- establishing the rules of remunerating members of the Supervisory Board.

The shareholder of the Company may review the list of shareholders authorized to participate in the General Shareholders' Meeting and demand a copy of the list and a refund of the costs of its preparation.

The shareholder of the Company may demand that the list of shareholders be sent to them free of charge via e-mail, specifying the address to which the list should be sent.

Each shareholder of the Company may demand a copy of motions related to matters on the agenda at the next General Shareholders' Meeting within a week before the General Shareholders Meeting. The demand should be filed to the Management Board.

Immediately after election of the chairman of the General Shareholders' Meeting a list of attendees should be created and include all persons participating in the General Shareholders' Meeting, the number of shares they hold and number of votes they are entitled to. The list of attendees should be signed by the chairman of the General Shareholders' Meeting and displayed during the meeting.

On request of the shareholders holding one tenth of the share capital represented during the General Shareholders' Meeting, the list of attendees should be checked by a specially appointed committee comprising at least three persons. The requesting shareholders may choose one member of the committee.

On request of the shareholders representing at least one fifth of the share capital of the Company, members of the Supervisory Board should be elected at the next General Shareholders' Meeting by a vote in separate groups, even if the By-laws provide for a different manner of electing the Supervisory Board. Persons representing at the General Shareholders' Meeting the portion of shares which is the aggregate number of Shares represented at the Meeting divided by the number of members of the Supervisory Board (in the case of the Company - five members of the Supervisory Board) may form a separate group in order to elect one member of the Supervisory Board. However, such persons do not participate in the election of other members of the Supervisory Board. Vacancies in the Supervisory Board not filled by a group of shareholders formed in accordance with the above mode will be filled by way of voting with the participation of all shareholders who did not cast their votes in the election of members of the Supervisory Board elected by a vote in separate groups. If the shareholders representing at least one fifth of the share capital of the Company file a motion for election of members of the Supervisory Board by a vote in separate groups, the provisions of the By-laws providing for a different manner of appointing members of the Supervisory Board do not apply to such method of election of the Supervisory Board, however, with the reservation that if any member of the Supervisory Board has been appointed by an entity specified in a different act, the election applies only to the other members of the Supervisory Board.

During the General Shareholders' Meeting, the Management Board is obliged to provide any shareholder, on their request, with information about the company, if it is necessary for evaluation of the matter on the agenda of the General Shareholders' Meeting. The Management Board refuses to reveal information if it could harm the Company, its related party or controlled company or cooperative, in particular by revealing technical, trade or organizational secrets. A member of the Management Board may refuse to reveal information, if the information could provide basis for their criminal, civil and law or administrative liability. The answer is granted if relevant information is available at the Company's website, at a place designated for questions from and answers to the shareholders. In response to the request of a shareholder, the Management Board may give an answer in writing outside the General Shareholders' Meeting, if there are important reasons to do so. The Management Board is obliged to provide the information not later that within 2 weeks of the date of the request during the General Shareholders' Meeting. If a shareholder files the request for information about the Company outside the General Shareholders' Meeting, the Management Board may provide the shareholder with information in writing considering the limitations of the possible harm described above. The documentation submitted by the Management Board during the next Shareholders' Meeting should in writing reveal the information provided to the shareholder outside the General Shareholders' Meeting, including the date when it was revealed and the person who has received the information. The information presented to the next General Shareholders' Meeting may not include information made public and given during the Meeting.

A shareholder who has been refused requested information during the General Shareholders' Meeting and who raised an objection to the minutes may file a motion to the registry court for obliging the Management Board to reveal the information. Such motion should be filed within a week of the end of the General Shareholders' Meeting during which such information was refused. A shareholder may also file a motion to the registry court for obliging the Management Board to reveal information given to another shareholder outside the General Shareholders' Meeting. In accordance with the Report Ordinance, the Company will be obliged to prepare a Current Report with information revealed to a shareholder following an order of the registry court obliging the Management Board to reveal the information in the following situations:

Any resolution of the General Shareholders' Meeting which is in conflict with the provision of the By-laws or good practice and detrimental to the Company's interest or aimed at harming a shareholder may be appealed against by filing a statement of claim against the Company for repealing such resolution. The right to file a statement of claim for repealing a resolution of the General Shareholders' Meeting is vested in: (i) a shareholder who voted against such resolution and, upon the adoption thereof, requested that his objection be recorded in the minutes, the requirement of having cast a vote does not apply to a holder of a non-voting share, (ii) a shareholder who was prevented from participating in the General Shareholders' Meeting without a sound reason, (iii) a shareholder who was absent from the General Shareholders' Meeting, only in the event of a defective convening of the general meeting or adoption of a resolution on a matter not included in the agenda. A statement of claim for repealing a resolution of the General Shareholders' Meeting should be filed within one month of receipt of information on the resolution, however, not later than three months after the adoption of such resolution.

The shareholders authorized to file a statement of claim for repealing a resolution of the General Shareholders' Meeting may file a statement of claim against the Company for declaring the resolution of the General Shareholders' Meeting adopted in breach of the law invalid. A statement of claim for declaring a resolution adopted by the General Shareholders' Meeting should be filed within thirty days of the announcement, however, no later than one year after the adoption of such resolution.

The appeal against a resolution of the General Shareholders' Meeting as described above does not halt the registration procedure before the registry court. The registry court may, however, suspend the registration procedure after having conducted a trial. In the event of filing a clearly groundless claim the court may, at the request of the Company, adjudicate from the plaintiff an amount representing up to ten times the value of court fees and the fee of one advocate or attorney-at-law. This does not exclude the right to pursue a claim for damages on general terms.

16.3 Managing and supervisory bodies of the Company and their committees

Management Board of PZU SA

In accordance with the By-laws of the Company, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years.

Members of the Management Board, including the Chairman of the Management Board, are appointed and dismissed by the Supervisory Board, however, members of the Management Board are appointed and dismissed by the Supervisory Board at the request of the Chairman of the Management Board. The Chairman of the Management Board of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board of the new term before the end of the current term.

Management Board of PZU SA from 1 January 2010 to 31 December 2010:

Positions in the Management Board of PZU SA as of 1 January 2010:

- Andrzej Piotr Klesyk - Chairman of the Management Board of PZU SA;
- Rafał Iwo Stankiewicz - Member of the Management Board of PZU SA;
- Witold Stanisław Jaworski - Member of the Management Board of PZU SA.

On 27 September 2010, Rafał Stankiewicz resigned from the position of a Member of the Management Board of PZU SA.

Composition of the Management Board of PZU from 28 September 2010:

- Andrzej Piotr Klesyk - Chairman of the Management Board of PZU SA;
- Witold Stanisław Jaworski - Member of the Management Board of PZU SA.

On 30 September 2010, the Supervisory Board of PZU SA transferred a Member of the Supervisory Board, Dariusz Filar, to temporarily hold the position of a Member of the Management Board of PZU SA. Dariusz Filar assumed the position on 1 October 2010.

Composition of the Management Board of PZU from 1 October 2010:

- Andrzej Piotr Klesyk - Chairman of the Management Board of PZU SA;
- Witold Stanisław Jaworski - Member of the Management Board of PZU SA;
- Dariusz Filar – Member of the Supervisory Board of PZU SA transferred to hold the position of a Member of the Management Board of PZU SA.

On 21 December 2010, the Supervisory Board of PZU SA appointed Przemysław Dąbrowski to the position of a Member of the Management Board of PZU SA. At the same time, as of 21 December 2010, the resolution of the Supervisory Board of PZU SA concerning the transfer of Dariusz Filar to the Management Board of PZU SA expired.

Composition of the Management Board of PZU from 21 December 2010:

- Andrzej Piotr Klesyk - Chairman of the Management Board of PZU SA;
- Witold Stanisław Jaworski - Member of the Management Board of PZU SA;
- Przemysław Dąbrowski – Member of the Management Board of PZU SA.

The current term of the Management Board of PZU SA started on 27 June 2008 and will end on 27 June 2011. The mandates of members of the Management Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term.

Functioning and powers of the Management Board derived from the By-laws

The Management Board exercises all management rights which have not been reserved by the provisions of law or provisions of the By-laws for the General Shareholders' Meeting or the Supervisory Board.

The Management Board adopts its regulations which are approved by the Supervisory Board. The work of the Management Board is administered by the Chairman of the Management Board who defines the scope of responsibility of each member of the Management Board. Resolutions of the Management Board are adopted only in the presence of the Chairman of the Management Board or a person designated to administer the work of the Management Board during their absence and if the meeting is attended by at least half of the members of the Management Board.

The Management Board adopts its regulations which are approved by the Supervisory Board. The work of the Management Board is administered by the Chairman of the Management Board who defines the scope of responsibility of each member of the Management Board. Resolutions of the Management Board are adopted only in the presence of the Chairman of the Management Board or a person designated to administer the work of the Management Board during their absence and if the meeting is attended by at least half of the members of the Management Board. Resolutions of the Management Board are adopted by an absolute majority of votes and in the event of a voting tie, the Chairman of the Management Board has the casting vote. The Management Board, upon consent of the Chairman, may adopt circular resolutions, on paper or in an e-form (i.e. using means of distant communication and a qualified electronic signature. The by-laws also provide that the meetings of the Management Board may be held using means of direct distant communication. The Company may be represented by two members of the Management Board acting jointly or one member of the Management Board acting with a commercial proxy.

Functioning and powers of the Management Board derived from the Regulations of the Management Board

The regulations of the Management Board were adopted by the Management Board of 23 February 2010 and approved by a resolution of the Supervisory Board of 4 March 2010.

The regulations of the Management Board specify: (i) the powers of the Management Board and activities requiring consent or approval of the Supervisory Board; (ii) the powers of the Chairman of the Management Board and other Members of the Management Board; (iii) the rules and organization of work of the Management Board, including organization of meetings and the manner of taking decisions; and (iv) the rights and obligations of resigning members of the Management Board.

In accordance with the regulations of the Management Board, resolutions of the Management Board are especially required for:

- adoption of a long-term plan for development and operations of the Company;
- adoption of an action and development plan for the PZU Group;
- adoption of an annual financial plan and a report on its implementation;
- approval of the financial statements for the previous financial year and the management report on the activities of the Company;

- approval of a motion concerning profit distribution or loss coverage;
- determination of premiums in the compulsory and voluntary insurance and general voluntary insurance terms and conditions;
- determination of the scope and size of outward reinsurance and the tasks for inward reinsurance;
- adoption of an annual audit and control plan and a report on its implementation with conclusions;
- determination of the terms and conditions of investments, prevention and sponsoring;
- giving sureties and guarantees (excluding insurance operations) and taking out and giving credit facilities or loans by the Company (excluding credit facilities and loans given from the Company's Social Benefits Fund); and
- appointment of a commercial representation.

In accordance with the Regulations, meetings of the Management Board are held at least once a fortnight. The work of the Management Board is administered by the Chairman of the Management Board whose powers include in particular:

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;
- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the Chairman.

The Chairman of the Management Board makes decisions in the form of orders and official instructions. Other members of the Management Board administer the operations of the Company within the scope specified by the Chairman of the Management Board.

The By-laws of PZU SA do not provide for any special rights of the Management Board concerning decisions to issue or redeem shares.

Supervisory Board

The Supervisory Board is composed of seven to nine members. The number of members is specified during the General Shareholders' Meeting. Members of the Supervisory Board are appointed by the General Shareholders' Meeting for a shared term which includes three consecutive full financial years. Additionally, at least one member of the Supervisory Board should meet the independence criteria specified in the By-laws (Independent Member) concerning e.g. professional and personal relations, especially with members managing or supervising the Issuer and entities in the PZU Group. The Independent Member is obliged to present the Company with a written statement that all independence criteria provided for in the By-laws have been met and inform the Company if the criteria are no longer met. Additionally, the By-laws provides the Treasury with the right to appoint and dismiss one member of the Supervisory Board by way of a written statement submitted to the Management Board, if the share of the State Treasury in the Company falls below 50% of all the Company's shares. The right will expire once the State Treasury ceases to be the Company's shareholder.

Composition of the Supervisory Board of PZU SA as of 1 January 2010:

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

On 5 January 2010 Tomasz Przesławski i Alfred Bieć were dismissed from the Supervisory Board of PZU SA following a decision of the Minister of Treasury. On the same date Piotr Maciej Kamiński and Grażyna Piotrowska – Oliwa were appointed to the Supervisory Board of PZU SA. Composition of the Supervisory Board of PZU SA from 5 January 2010:

- Tomasz Gruszecki Chairman;
- Marcin Majeranowski Vice-Chairman;
- Waldemar Maj Member;
- Piotr Maciej Kamiński Member;
- Marco Vet Member;
- Grażyna Piotrowska-Oliwa Member;
- Marzena Piszczek Member.

On 12 January 2010, the Eureko B.V. and Bank Millenium SA dismissed Marco Vet from the Supervisory Board of PZU SA and appointed Jurgen B. J. Stegmann. Composition of the Supervisory Board of PZU SA from 12 January 2010:

- Tomasz Gruszecki Chairman
- Marcin Majeranowski Vice-Chairman
- Waldemar Maj Member
- Piotr Maciej Kamiński Member
- Jurgen B.J. Stegmann Member
- Grażyna Piotrowska-Oliwa Member
- Marzena Piszczek Member

On 9 June 2010 the Company received a resignation of Jurgen Stegmann from the position of a member of the Supervisory Board of PZU SA and a resignation of Marcin Majeranowski from the position of a member and Vice-Chairman of the Supervisory Board. On 10 June 2010, the General

Shareholders' Meeting of PZU dismissed Tomasz Gruszecki, the Chairman, from the Supervisory Board and appointed Zbigniew Ćwiąkalski, Krzysztof Dresler and Dariusz Filar as members of the Supervisory Board of PZU SA.

Composition of the Supervisory Board of PZU SA from 10 June 2010:

- Zbigniew Ćwiąkalski Member
- Krzysztof Dresler Member
- Dariusz Filar Member
- Waldemar Maj Member
- Piotr Maciej Kamiński Member
- Grażyna Piotrowska-Oliwa Member
- Marzena Piszczek Member

On 16 June 2010 the Supervisory Board of PZU SA was established. The Supervisory Board decided to appoint Marzena Piszczek the Chairpersons, Zbigniew Ćwiąkalski the Vice-Chairman and Grażyna Piotrowska-Oliwa, the Secretary of the Board.

On 30 September 2010, following resignation of Rafał Stankiewicz from the position of a Member of the Management Board of PZU SA, the Supervisory Board transferred Dariusz Filar, to temporarily hold the position of a Member of the Management Board of PZU SA. Dariusz Filar assumed the position on 1 October 2010. He held the position until 21 December 2010, when the Supervisory Board of PZU appointed Przemysław Dąbrowski a member of the Management Board of PZU SA.

Between 1 October and 21 December 2010 Dariusz Filar did not participate in the work of the Supervisory Board of PZU SA.

The current term of the Supervisory Board of PZU SA started on 17 December 2008 and will end on 17 December 2010. The mandates of members of the Supervisory Board expire not later than on the date of the General Shareholders' Meeting approving the financial statements for the last full financial year of their term, i.e. on the date of the General Shareholders' Meeting in 2011.

Functioning and powers of the Supervisory Board derived from the By-laws

The Supervisory Board exercises constant supervision over the company's activities in all aspects of its business.

In accordance with the By-laws, the powers of the Supervisory Board include:

- review of the Management report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;

- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities - the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;
- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during general shareholders' meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie, combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the Company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the Company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3 million.
- conclusion of a material agreement as understood by the Report Ordinance by the Company and its related party, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities (consent will be required on the date of the first listing of WSE);

- conclusion of the agreement with the underwriter referred to in Article 433.3 of the Code of commercial companies;
- advance payment against expected dividend;
- creation and closing of branches.

The Supervisory Board adopts the regulations specifying its organization and the manner of performing activities. The By-laws stipulate that the Supervisory Board should meet at least once every quarter. The Supervisory Board may delegate its members to fulfil specific supervising activities on their own and to this effect appoint temporary committees. The scope of responsibility of a delegated member of the Supervisory Board and the committee is specified in a resolution of the Supervisory Board.

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and circular vote. Additionally, the By-laws stipulate that a vote may be cast in writing throughout another member of the Supervisory Board. In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning delegation of members of the Supervisory Board to temporarily fill in for members of the Management Board and for appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

Functioning and powers of the Supervisory Board derived from the Regulations of the Supervisory Board

The regulations of the Supervisory Board have been adopted by the Supervisory Board on 4 March 2010. The regulations of the Supervisory Board specify the composition of the Supervisory Board and the way in which its members are appointed, the tasks and the scope of activities of the Supervisory Board and the manner of calling the Supervisory Board and conducting debates.

The Supervisory Board elects the Chairman and Vice-Chairman of the Supervisory Board out of its members. In accordance with the Regulations of the Supervisory Board, apart from appointing the IPO committee, audit committee and promotion and compensation Committee, provided for in the By-laws to properly perform its supervision, the Supervisory Board may appoint other permanent advisory and consultative committees whose competencies, composition and way of work is specified by regulations adopted by the Supervisory Board. The regulations of the Supervisory Board stipulates that the Supervisory Board and the appointed committees may use the services of experts and advisory companies. Members of the Management Board (invited by the Supervisory Board) and employees of the Company competent for the discussed issue selected by the Management Board, may take part in the meetings of the Supervisory Board, however, they cannot cast votes. In specific cases, the Supervisory Board of PZU SA may also invite members of the management board of a supervisory board of a different company in the PZU Group. Moreover, members of the Supervisory Board, upon consent of the Supervisory Board, may select one advisor authorized to take part in the meetings of the Supervisory Board devoted to reports and financial statements, and give their advice, provided that such persons respect confidentiality and signs a confidentiality statement.

Committees within the Supervisory Board

IPO Committee

In accordance with the By-laws and the Settlement Agreement, on 19 January 2010 the Supervisory Board of the Company appointed an IPO Committee composed of three persons by delegating members of the Supervisory Board to individually perform supervisory activities. The Committee has been appointed for the period until the Company shares are listed on a regulated market as understood by the Act on trading in financial instruments of 29 July 2005, i.e. until 7 May 2010. Detailed tasks and terms and conditions of appointing members of the IPO Committee and its functioning have been specified in a resolution of the Supervisory Board.

The IPO Committee was responsible for supervising the activities of the Company's Management Board relating to the initial public offering and providing the Company's Supervisory Board with opinions concerning the issues related to the initial public offering.

The Committee comprised: Waldemar Maj (Chairman of the Committee - Member of the Supervisory Board, an Independent Expert), Piotr Maciej Kamiński (Member of the Committee, Member of the Supervisory Board appointed by the State Treasury), Jurgen B. J. Stegmann (Member of the Committee - Member of the Supervisory Board recommended by Eureko). The composition of the Committee did not change.

Audit Committee

The By-laws provide for appointing an audit committee by the Supervisory Board. The Committee is composed of three members, including at least one independent members qualified in accounting or auditing. Detailed tasks and terms and conditions of appointing members of the Audit Committee and its functioning have been specified in a resolution of the Supervisory Board, which views relevant competencies and experience of the candidates for members of the Committee.

In accordance with the Regulations of the Audit Committee adopted by a resolution of the Supervisory Board, the Audit Committee is an advisory and consultative body to the Supervisory Board and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board. Moreover, the Audit Committee may apply to the Supervisory Board for commissioning specific controls in the Company to be exercised by an internal or external entity.

The Audit Committee was appointed by a resolution of the Supervisory Board on 3 June 2008. As of 31 December 2010 its members included: Marzena Piszczek (Chairperson of the Committee), Dariusz Filar (Member of the Committee) and Grażyna Piotrowska-Oliwa (Member of the Committee). Grażyna Piotrowska-Oliwa was appointed by the Supervisory Board as an independent member, qualified in accounting and auditing as understood by Article 86.4 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649).

Promotion and Compensation Committee

In accordance with the By-laws, once the Company's shares are listed on a regulated market, as understood by the Act on trading in financial instruments of 29 July 2005, the Supervisory Board my appoint a promotion and compensation committee. Detailed tasks and the method of appointing members of the promotion and compensation committee, the way it works and remuneration are specified in a resolution of the Supervisory Board. The Committee should include at least one independent member. If the Supervisory Board includes five members elected in a vote in groups, the promotion and compensation committee is not appointed and its tasks are carried out by the entire Supervisory Board.

The promotion and compensation committee is an advisory and consultative body to the Supervisory Board for matters related to establishing the management structure, including organizational issues, remuneration system and the amount of remuneration and selection of properly qualified staff.

The Supervisory Board decided that the promotion and compensation committee will be composed of four persons. As of 16 June 2010 members of the Promotion and Compensation Committee appointed by the Supervisory Board included: Zbigniew Ćwiąkalski (Chairman of the Committee), Dariusz Filar (Member of the Committee), Piotr Maciej Kamiński (Member of the Committee) and Marzena Piszczek (Member of the Committee). As of 31 December 2010 the composition of the Promotion and Compensation Committee had not changed. The Committee is dissolved once five members of the Supervisory Board are elected in a vote in groups and its rights are then taken by the entire Supervisory Board.

Strategy Committee

The Supervisory Board may appoint permanent advisory and consultative committees to perform its supervision in the Company. As of 29 July 2010 the Supervisory Board appointed a strategy committee comprising: Waldemar Maj (Chairman of the Committee), Krzysztof Dresler (Member of the Committee), Marzena Piszczek (Member of the Committee) and Grażyna Piotrowska – Oliwa (Member of the Committee). As of 31 December 2010 the composition of the Strategy Committee had not changed.

The job of the Strategy Committee is to give opinions about all strategic documents presented to the Supervisory Board by the Management Board (in particular the development strategy of the Company) and present the Supervisory Board with recommendations concerning planned investment with material impact on the Company's assets.

Group Directors

In January 2010, as part of implementation of the new management model of the PZU Group the following positions were established:

- Director in the PZU Group for Management of the Group Branches in PZU Head Office (appointment of Dariusz Krzewina on 1 February 2010);
- Director in the PZU Group for Development of the Group Offices in PZU Head Office (appointment of Rafał Grodzicki on 1 February 2010);
- Director in the PZU Group for Finance in PZU Head Office (appointment of Przemysław Dąbrowski on 30 January);

- Director in the PZU Group for Operations in PZU Head Office (appointment of Mariusz J. Sarnowski on 30 January).

On 12 August 2010 Krzysztof Branny was appointed to a new position of Director in the PZU Group for Human Resources Management in PZU Head Office (effective from 1 September 2010).

On 6 October 2010, names of the positions were altered from "Director in the PZU Group for" to "PZU Group Director".

On 2 January 2011 Przemysław Dąbrowski resigned from the position of the PZU Group Director, and on 24 January 2011 he was dismissed from the position by the Management Board and replaced by Tomasz Tarkowski on 1 February 2011.

Except for Tomasz Tarkowski, all the persons referred to above are members of PZU Życie Management Board.

16.4 Key features of internal control and risk management used by the issuer with respect to preparation of the financial statements and consolidated financial statements

Financial statements are prepared within the PZU Finance Division controlled by the Member of the Management Board of PZU.

The elements which facilitate completing the process are the accounting principles (policy) and the chart of accounts with a commentary specifying the key rules of recording business events in PZU and dedicated reporting systems.

Data is prepared in the source systems using formal operating and acceptance procedures which specify the powers of individual persons.

PZU monitors the changes in the external regulations concerning e.g. the accounting policy (procedures) and reporting requirements of insurance undertakings and carries out appropriate adaptation processes.

The accounting records are closed and financial statements are prepared in accordance with detailed schedules, including the key activities and control points with assigned liability for timely and correct completion.

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with the PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions;

- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.

The separate and consolidated financial statements of PZU are:

- reviewed by a certified auditor - in the case of six-month statements;
- audited by a certified auditor – in the case of annual statements.

In accordance with the by-laws of PZU, the Supervisory Board of PZU appoints an audit committee composed of three members, with at least one of them qualified in accounting or auditing as understood by the Act on statutory auditors and their self-governing body, auditing firms and on public oversight of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649). The Audit Committee is an advisory and consultative body to the Supervisory Board of PZU and is appointed to improve the effectiveness of the supervision of the correctness of financial reporting of PZU, effectiveness of internal control, including internal audit and risk management, exercised by the Supervisory Board of PZU.

Consolidated Financial Reporting

Activities within the consolidated financial reporting are coordinated through the organizational structure of the Finance Division in the PZU and PZU Życie Head Offices which is shared, i.e. organized based on a personal union and with persons important for financial reporting of the majority of consolidated entities with their registered office in Poland, employed for a FTE fraction. PZU controls all the consolidated subsidiaries through Management Boards and Supervisory Boards of the companies.

Consolidated financial reporting is governed by a number of internal regulations concerning the accounting principles (policy) adopted by the PZU Group and applied accounting standards and detailed schedules including the key activities and control points with assigned liability for timely and correct completion.

16.5 PZU shareholders holding directly or indirectly significant blocks of shares

As of 31 December 2010 and the date of submission of the report, the sole shareholder of the Company with a significant block of shares is the State Treasury. The Treasury holds 39,020,483 shares which accounts for 45.1875% of the share capital of the Company.

Other shareholders held less than 5% of the share capital - the total of 47,331,817 shares which accounted for 54.8125% of the share capital of the Company.

The share capital of the Issuer is divided into 86,352,300 ordinary shares with the face value of PLN 1 each, giving right to 86,352,300 votes on the General Shareholders' Meeting.

Shareholding structure in 2009-2010

Shareholder	As of 31 December 2009		
	Number of shares	Interest in the share capital	Share in votes at the General Shareholders' Meeting

State Treasury	43 338 098	50.19%	50.19%
Eureko B.V.	19 856 968	23.00%	23.00%
Kappa SA	12 866 492	14.90%	14.90%
Other shareholders	10 290 742	11.92%	11.92%
Total	86 352 300	100.00%	100.0%

Shareholder	As of 31 December 2010		
	Number of shares	Interest in the share capital	Share in votes at the General Shareholders' Meeting
State Treasury	39 020 483	45.19%	45.19%
Other shareholders	47 331 817	54.81%	54.81%
Total	86 352 300	100.00%	100.00%

As part of the IPO which took place on 12 May 2010, the shares of the Company were sold by the following shareholders: Kappa S. A. (12,866,492 sold shares, 14.9% of the share capital of PZU), Eureko B. V. (8,635,230 sold shares, 10% of the share capital of PZU) and the Treasury (4,317,615 sold shares, 5% of the share capital of PZU).

On 18 November 2010 Eureko BV sold 11,223,818 shares of the Company accounting for 12.9999% of the share capital of PZU. This way the share capital of Eureko B.V. in PZU dropped by approx. 0.002%. At the time of the sale Eureko B.V. announced that the lockup period for shares which were not sold and also for the 3,575,488 shares of PZU held by JP Morgan Chase Bank, NA, subject to the swap transaction concluded with Eureko, will be 90 days, and for 39,020,483 shares held by the Treasury will be 180 days.

The Management Board of the Company has no knowledge about concluded agreements which may result in changes in the proportion of shares held by the shareholders.

16.6 Holders of securities with special control rights and a description of the rights

PZU has not issued any securities which would give the shareholders special control rights.

16.7 Voting restrictions

The By-laws of PZU do not provide for any restrictions of the voting rights as well as for separation of the equity rights resulting from securities and held securities.

16.8 Restrictions on transfers of the title to securities

The By-laws of PZU do not provide for any restrictions on transferring the titles to securities issued by the company.

16.9 Rules of changing the By-laws of PZU

The By-laws of PZU may be changed by the General Shareholders Meeting by a three-fourth majority of votes, consent of the Polish Financial Supervision Authority in the events specified in the Act on insurance activity and an entry in the National Court Register. Based on the By-laws of PZU, the Supervisory Board can approve the unified amended text of the Company By-laws.

17. Correctness and reliability of presented financial statements

To the best knowledge of the Management Board of PZU, the report on the activities of the Powszechny Zakład Ubezpieczeń Spółka Akcyjna Group presents a true picture of the development and achievements of the Issuer, including a description of basic threats and risk.

18. Selection of the entity authorized to audit financial statements

The Management Board of PZU represents that the entity authorized to audit financial statements - Deloitte Audyt Sp. z o. o. - which audited the annual financial statements was selected in accordance with the provisions of law and that the entity and certified auditors which audited the financial statements met the requirements to express an unbiased and independent opinion on the audited annual financial statements, in accordance with the applicable provisions of law and professional standards.

Date	Name and surname	Position/Function
15 March 2011	Andrzej Klesyk	Chairman of the Management Board of PZU
15 March 2011	Witold Jaworski	Member of the Management Board of PZU
15 March 2011	Przemysław Dąbrowski	Member of the Management Board of PZU