



**MANAGEMENT BOARD REPORT
ON THE ACTIVITIES OF
POWSZECHNY ZAKŁAD UBEZPIECZEŃ SPÓŁKA
AKCYJNA
in 2009**

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Table of Contents

1. THE ACTIVITIES AND PERFORMANCE OF THE COMPANY IN 2009 - SUMMARY	2
2. BUSINESS ENVIRONMENT IN 2009	3
2.1 Economic situation in Poland in 2009	3
2.2 Position of PZU SA in the property insurance market in 2009	3
3. FACTORS INFLUENCING THE ACTIVITIES AND PERFORMANCE OF THE COMPANY IN 2009	5
3.1 Key activities of the Company's Management Board in 2009	5
3.2 Corporate governance at PZU SA	6
4. FINANCIAL POSITION OF THE COMPANY IN 2009	7
4.1 Income statement	7
4.2 Balance sheet and performance ratios	8
5. ACTIVITIES OF THE COMPANY IN 2009	9
5.1 Insurance activity	9
5.2 Investments	18
5.3 Staff and employee issues	22
5.4 Marketing and advertisement	24
5.5 Development projects	25
6. DIRECTIONS FOR DEVELOPMENT IN 2010	26
7. RISK FACTORS AND THREATS	27
8. GENERAL INFORMATION ABOUT THE COMPANY	27
8.1 Company's Shareholders	27
8.2 Scope of activity	28
8.3 Organization Units	29
8.4 Composition of the Company's Management Board	30

1. THE ACTIVITIES AND PERFORMANCE OF THE COMPANY IN 2009 - SUMMARY

Key factors affecting the performance and activities of the Company

- consistent implementation of the Strategy of the PZU Group for the years 2009-2011;
- continued conservative investment policy;
- slower growth rate of the insurance market;
- decrease in the written premium in comprehensive car insurance and third-party liability motor insurance mainly due to deepening crisis in the automotive industry;
- improved condition of the capital markets translating into better results on the investing activities of companies operating in the financial sector;
- higher claims ratio, lower total technical result of the Company - increased payments under third-party liability motor insurance and property insurance.

Financial performance

- gross written premium: PLN 7,791.2 million (decrease by 5.2% compared to 2008);
- share in the property insurance market: 38.5% as of the end of Q3 2009 (-3.1 p.p. compared to three quarters of 2008);
- technical result: PLN 166.3 million (lower by 76.8% compared to 2008);
- net profit: PLN 2,510.4 million (lower by 17.1% compared to 2008);
- return on equity: 17.0% (higher by 0.3 p.p. compared to 2008);
- solvency margin ratio: 617.1%;
- total assets: PLN 28,937.0 million - lower by 11.6% compared to 2008.

Other material events

- Settlement Agreement concluded by the State Treasury, EUREKO B.V, PZU SA and Kappa SA on 1 October 2009. The Agreement ended a long-lasting dispute between the main shareholders in PZU SA;
- advance payment against dividend – PLN 12,749.9 million;
- an “A” rating by S&P maintained in October 2009 (forecast of a stable rating confirmed despite payment of a considerable dividend);
- restructuring project in the Head Office of the Company completed.

2. BUSINESS ENVIRONMENT IN 2009

2.1 Economic situation in Poland in 2009

In 2009, Poland was the only EU country to avoid recession, which for most developed economies turned out to be the most painful crisis since World War II. In such conditions the increase in the real GDP in Poland amounted to ca. 1.6%-1.7% in 2009, compared to 5% in 2008. The economic growth was possible mainly thanks to significant improvement in the balance of trade. The value of imports dropped much faster than that of exports, giving space for domestic production. The deterioration of gross investments in fixed assets was not as significant as expected thanks to infrastructure investment projects financed by the EU.

Thanks to a flexible reaction of companies and trade unions, a significant increase in the unemployment rate was avoided - in 2009, registered unemployment rate increased to 11.9% (9.5% at the end of 2008). The increase in the average nominal remuneration in the national economy fell down to ca. 5.1% (projection) compared to 10.1% in 2008.

As the value of the Polish zloty decreased considerably, the results of which could be observed in the first months of 2009, and the administered prices and the prices of energy and food increased in the first half of the year, inflation drop was not possible in 2009, despite slower economic growth and the deterioration of the situation in the labour market. In 2009 average annual inflation (CPI) dropped to 3.5%, compared to 4.2% in 2008.

The world financial markets anticipated the rebound in the global economy. In mid February 2009, Polish stock exchange indexes were the lowest in this cycle, but afterwards they started to grow rapidly. The trend was maintained until the end of the year. In 2009, the WIG index increased by 46.9%, and WIG20 by 33.5%. Very low interest rates maintained by the central banks worldwide was another factor leading to the growth in the world stock exchange indexes. Stabilization in the global financial markets and lower risk aversion was accompanied by gradual growth in yield on bonds in base markets. In Poland the yield on long bonds grew significantly at the beginning of 2009 and since that time it has remained relatively stable.

In the first half of 2009, the zloty fell which reflected the higher risk aversion to investments in assets in Central and Eastern Europe. In the second half of the year, the zloty started to strengthen, thanks to stabilizing financial markets and spectacular reduction in the Polish deficit in the balance of payments and related reduction in liquidity risk in foreign currency settlements.

2.2 Position of PZU SA in the property insurance market in 2009

In 2009, the property and other personal insurance market, measured as gross written premium in direct and indirect insurance increased by 4.3% (data for Q3 2009), which shows a market growth rate decrease by 8.9 p.p. compared to the year before. The share of the key segment - motor insurance market (third party liability motor insurance and comprehensive car insurance) - decreased by 3.9 p.p. (share in the market after three quarters of 2009 was 57.2%). The key reason for the slower rate

of growth of the insurance market was the crisis in the automotive industry (new and second-hand cars).

In 2009, the market of motor insurance for individual customers remained at the same level as in 2008 as a result of a slow-down in the automotive market, i.e.

- lower number of imported second-hand cars;
- decrease in sales of new cars in the domestic market (which led to a relative decrease in the average value of cars in the entire market);
- lower value of new cars (earlier sale of cars at the end of 2008 which should have taken place at the beginning of 2009 and many special offers at the beginning of 2009);
- difficulties in obtaining loans.

In the case of motor insurance for business entities (classes 3 and 10 - compulsory), in the three quarters of 2009 the market decreased by 3.7% as a result of:

- much lower share (compared to 2008) of company's purchases financed by lease companies;
- longer periods of use of vehicles by companies (purchases postponed to later dates);
- limited size of the company car fleets;
- customer bankruptcy.

In the case on non-motor insurance, the high growth of the market in the three quarters of 2009 (14.8%) was mainly the result of:

- marketing of subsidized compulsory agricultural insurance;
- development of residential insurance (completed construction, continued insurance related to contracted loans, purchases of cooperative flats for PLN 1);
- renewed long-term contracts;
- greater tendency to conclude property insurance contracts in the time of crisis.

Table 1. Structure of the insurance market in section II – other personal insurance and property insurance after three quarters of 2009, total gross written premium

Insurance companies (with the largest share in the market)	Market share (%)		
	Q3 2009	Q3 2008	change
Total	100.0	100.0	-
PZU SA	38.5	41.6	-3.1 p.p.
STU Ergo Hestia SA	9.9	8.8	1.1 p.p.
Warta SA	8.9	9.8	-0.9 p.p.
TU Allianz Polska SA	7.5	7.9	-0.4 p.p.
HDI Asekuracja TU SA	3.9	4.3	-0.4 p.p.
UNIQA TU SA	3.6	3.1	0.5 p.p.
Interrisk TU SA Vienna Insurance Group	3.5	3.6	-0.1 p.p.
Other	24.2	20.9	3.3 p.p.

Source: Market reports of the Polish Financial Supervision Authority

In 2009 the written premium of PZU SA fell (data for Q3 2009). The written premium in comprehensive car insurance fell by 17.9% compared to the 2.8% increase the year before. Written premium in the third party liability motor insurance fell by 7.7% compared to a 6.7% increase after three quarters of 2008.

3. FACTORS INFLUENCING THE ACTIVITIES AND PERFORMANCE OF THE COMPANY IN 2009

3.1 Key activities of the Company's Management Board in 2009

In 2009, one of the key activities of the Management Board was implementation of the development strategy adopted in September 2008 (Strategy of the PZU Group for the years 2009-2011), which aims at stable development and maintenance of the leading position in the insurance market. This will not be possible if the negative trends, such as the fall in the share of PZU SA in the market and falling profitability in the area of insurance activity, are not reversed. One of the elements of the strategies implemented in 2009 were activities related to improvement of costs and creation of an image of a modern and 'pro-customer' company due to strong price pressure exerted by the competition.

Other key activities in 2009 include:

- Establishment of PZU Pomoc which will support activities related to sales of assistance products.
- Activities focused on improvement of the technical result for corporate insurance - tariffs were changed and the underwriting policy was tightened (e.g. the risks of poor quality were eliminated and insurance terms and conditions were tightened).

- Implementation of pilot offices of the PZU Group agencies compliant with the new design that has been developed.
- Completed implementation of the segmentation model and management of the agency network under the New Era of Sales project (Nowa Era Sprzedaży).
- Update of strategic activities in the next few years and commencement of work on the projects centralizing the back-office functions.
- Implementation of the process of employment improvement in the Head Office by way of group redundancies.
- Reduction of running costs both in PZU SA and PZU Życie SA.
- Unification of management structures in the PZU Group (mainly PZU Życie) to ensure better coordination of activities and benefit from the synergy.
- Improvement of the corporate governance in the PZU Group to strengthen the transparency of the PZU Group in the area of management and supervisory standards.

3.2 Corporate governance at PZU SA

The Management Board of PZU SA follows the corporate governance principles. The Management Board makes best efforts to ensure that all shareholders have equal access to information about the company and their rights are respected regardless of the number of shares they hold.

PZU has adopted a “Code of Good Insurance Practice” which was passed on 8 June 2009 by the General Meeting of the Polish Chamber of Insurance (“PIU”) which is an organization for insurance companies operating in the Polish market. The document is the code of conduct for insurance companies specifying their relationship 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.

Application of the rules specified in the document is controlled by the Council for Good Insurance Practice at PIU.

Moreover, the Company adopted internal regulations and codes applying to individual groups of employees, in particular, “Regulations for application of good practices in financial and equity investments by PZU employees” and “Code of Ethics for Auditors and Internal Controllers”. The Company has also adopted “Code of ethics for members of management and supervisory boards of companies whose shares are held by the PZU Group companies, recommended by the PZU Group companies”.

PZU SA, which is the holding company of the capital group, exercises ownership supervision over its subsidiaries and whenever possible uses the economy of scale and synergy.

4. FINANCIAL POSITION OF THE COMPANY IN 2009

The financial position of the Company is very good. It meets all the security requirements imposed by the act on insurance activity and the Polish Financial Supervision Authority. On 2 October 2009, a day after signing the agreement between the State Treasury and the largest shareholder in PZU SA, the rating agency Standard&Poor's confirmed that the highest rating ("A") granted to the PZU Group in July that year was maintained. S&P analysts also confirmed that the rating outlook is stable. The rating of the PZU Group was the highest rating given to financial institutions in this part of Europe, even though the possibility of payment of a high dividend agreed in the settlement was considered. The decision concerning payment of dividend did not change the rating of the financial strength and long-term credit rating of the insurer.

The stable rating outlook of PZU confirms that the Company's position is strong, it has high levels of equity and remains a competitive company in the insurance market.

Poorer profitability ratios in 2009 result mainly from an increase in claims accompanied by a slight fall in earned premium (consequences of a rapid fall in written premium in 2009).

4.1 Income statement

The net profit generated by PZU SA in 2009 was PLN 2,510.4 million compared to PLN 3,026.8 million in 2008. Excluding the dividend received from PZU Życie SA in the amount of PLN 1,419.1 million, the net result generated by PZU SA in 2009 amounted to PLN 1,091.3 million which was 27.0% higher than in 2008 (in 2008: PLN 859.5 million) - due to very good results on investments (a 126.0% increase, excluding the dividend received from PZU Życie SA).

In 2009, the technical result on insurance activity was PLN 166.3 million, i.e. 76.8% less than in 2008. Lower total technical result of the Company was mainly the effect of higher costs of claims and benefits caused by increased payments under third-party liability motor insurance and property insurance. The decrease in the technical result in the analyzed period was also caused by release of provisions for catastrophe risk in the previous year.

In 2009, the written premium of PZU SA was by 5.2% lower than in 2008 (fall by PLN 426.6 million). Compared to the previous year, premium earned on motor insurance was lower.

The decrease in the written premium in comprehensive car insurance and third-party liability motor insurance was mainly due to the deepening crisis in the automotive industry: lower number of imported passenger cars, decrease in the sales of new cars in the domestic market, fall in the value of new vehicles resulting from numerous special offers as well as special package rates, difficulties in obtaining loans and lower share of purchases financed by lease companies.

The costs of insurance activity increased by 6.7% compared to 2008 (excluding the loss adjustment expenses included in claims), mainly due to higher acquisition costs (high one-off fee in bancassurance and gradual increase in commission rates) and administrative expenses (higher expenses for marketing campaigns and sales support, one-off special award, revaluation of employee

provisions). Higher costs result mainly from expenses supporting business development and one-off activities (detailed description of the reasons has been presented in chapter 5.1).

The investment income generated by the Company in 2009 (excluding the effect of the dividend received from PZU Życie SA in 2009 in the amount of PLN 1,419.1 million) was 126.0% higher compared to the income earned in 2008 (excluding the effect of the dividend received from PZU Życie SA in 2008 in the amount of PLN 2,167.3 million) - from PLN 627.6 million in 2008 to PLN 1,418.3 million in 2009). The increase in investment income was mainly caused by higher prices of shares on WSE - in 2009 the WIG index increased by 46.9%.

4.2 Balance sheet and performance ratios

As of the end of 2009, the balance sheet total was PLN 28,937.0 million, which denoted an 11.6% decrease during the reporting period. Due to the high dividend payment, the value of the Company's investments fell by 12.1% to PLN 26,765.8 million. Equity fell by 45.6%, and as of the end of 2009 amounted to PLN 10,411.5 million. However, it still substantially exceeds the required solvency margins for insurance companies.

Table 2. Selected items of the income statement and balance sheet of PZU SA (in PLN million)

Item	2009	2008	change (%)
Gross written premium	7 791.2	8 217.8	-5.2%
Technical result	166.3	718.3	-76.8%
Result on investment activities	2 837.4	2 794.9	1.5%
Net financial result	2 510.4	3 026.8	-17.1%
Assets	28 937.0	32 725.5	-11.6%
Investments	26 765.8	30 451.4	-12.1%
Equity	10 411.5	19 151.6	-45.6%

Despite the dividend and lower technical profitability ratio, PZU SA maintained very high solvency ratios.

As of the end of 2009, the ratio of technical provisions and assets was 112.1% (190.9% as of the end of 2008). The solvency margin and the value of the guarantee fund of the Company remained at the same level compared to 2008 and amounted to PLN 1,338.8 million and PLN 446.3 million, respectively.

Table 3. Profitability and solvency ratios

Item	2009	2008	Change
Profitability of technical activity <i>(technical result / premium earned net of reinsurance) x 100%</i>	2.1%	8.9%	-6.9 p.p.
Return on Equity <i>(net financial result/average equity) x 100%</i>	17.0%	16.7%	0.3 p.p.
Return on Assets <i>(net financial result/average assets) x 100%</i>	8.1%	9.6%	-1.5 p.p.
Assets to provisions ratio <i>(assets for provision coverage/technical provisions) x 100%</i>	112.1%	190.9%	-78.8 p.p.
Solvency margin (in PLN million)	1 338.8	1 338.8	-
Equity to required solvency margin ratio	617.1%	1 241.3%	-622.2 p.p.
Guarantee fund (in PLN million)	446.3	446.3	-
Equity to guarantee fund ratio	1 851.3%	3 724.0%	-1 872.7 p.p.

Table 4: Efficiency ratios

Item	2009	2008	Change
Acquisition costs ratio <i>(acquisition costs net of reinsurance / premium earned net of reinsurance)</i>	15.6%	14.2%	1.4 p.p.
Administrative expenses ratio <i>(administrative expenses / premium earned net of reinsurance)</i>	12.3%	11.7%	0.6 p.p.
Ratio of costs of insurance activity <i>(costs of insurance activity/ premium earned net of reinsurance)</i>	27.9%	25.9%	2.0 p.p.
Claims ratio <i>(claims net of reinsurance / premium earned net of reinsurance)</i>	69.0%	63.1%	5.9 p.p.
Combined ratio <i>(claims + costs of insurance activity / premium earned net of reinsurance) x 100%</i>	96.9%	89.0%	7.9 p.p.

5. ACTIVITIES OF THE COMPANY IN 2009

5.1 Insurance activity

Sales and insurance products

Motor insurance products accounted for 62.9% of the premium collected, i.e. 4.6 percentage point less than in 2008. A substantial increase in the share in the written premium structure compared to 2008 was observed in property insurance, whose share rose from 13.5% to 15.2% of the total premium. Agricultural insurance accounted for 6.5%, whereas accident and sickness insurance for 6.7% of the total written premium. The structure of written premium by insurance types has been presented in table 5.

Table 5. Gross written premium in insurance products in 2008-2009

(PLN million)

Item	2009	2008	Change	Structure 2009	Structure 2008
TPL motor insurance	2 586.0	2 838.6	-8.9%	33.2%	34.5%
Comprehensive car insurance	2 210.2	2 653.5	-16.7%	28.4%	32.3%
Other motor insurance	108.1	58.5	84.6%	1.4%	0.7%
Property insurance	1 183.4	1 112.1	6.4%	15.2%	13.5%
Other TPL insurance	459.5	418.8	9.7%	5.9%	5.1%
Accident insurance	522.4	527.0	-0.9%	6.7%	6.4%
Agricultural insurance	504.4	469.8	7.4%	6.5%	5.7%
Financial insurance	217.2	139.5	55.7%	2.8%	1.7%
TOTAL	7 791.2	8 217.8	-5.2%	100.0%	100.0%

In June 2009, the offer of lump-sum TPL /comprehensive car insurance packages (“packages”) for new cars was expanded to include vehicles in the second year of use which allowed to stop the decrease in the share in the insurance products sold via dealers. New products were marketed: PZU Auto Pomoc (the most comprehensive motor assistance package available in the market, including services rendered by an entity operating within the structure of the PZU Group – PZU Pomoc SA) and PZU AutoSzyba (insurance of car glass). Considering strong price pressure in the market of motor insurance for retail customers, various product and sales initiatives were launched with the objective to reduce the number of clients choosing competition and to increase the number of new customers acquired.

In 2009, the activities in the Corporate Customer Division focused on improvement of the technical result at the same level of sales. In the case of motor insurance for corporate customers, premium rates for third party liability insurance for owners of motor vehicles were changed (the biggest change was increasing the premium in third party liability insurance for owners of motor vehicles in the so-called “heavy equipment” category), the underwriting policy was tightened in the case of higher-risk fleets (e.g. transport industry, goods and passenger carriers, sales representatives) and prices were changed (mainly with respect to third party liability insurance for owners of motor vehicles, but also in the comprehensive car insurance for corporate customers) for insurance of lease and car fleet management companies - introduced in September 2009 (the biggest change concerned higher premiums for the so-called “heavy equipment”).

In the case of non-motor insurance, profitability was improved by:

- elimination of bad risks from the point of view of the quality or risk and claims record;
- tighter insurance terms and conditions for clients with unfavourable claims record (higher rates and larger scope/introduction of franchise);
- higher number of risk inspections and emphasis on post-inspection recommendations followed by customers to improve the quality of risk.

Additionally, the Company adopted countrywide uniform Rules of technical and engineering risk assessment (Underwriting Manual).

Apart from the Underwriting Manual which specifies the current policy as regards non-motor products, in 2009 the Company introduced new General Terms and Conditions of the Third Party Liability Insurance for corporate customers including premiums in the insurance (common rates for the Corporate Customer Division and SP) and guidelines, underwriting guidelines for third party liability insurance of domestic carriers and third party liability insurance of international carriers as well as guidelines for the rules of functioning and maintenance of the CAR/EAR insurance.

For the first time, responsibility for the technical result has been introduced to the terms and conditions of granting bonuses to employees in the Corporate Customer Division.

In the area of property insurance for individual customers, sales of the “PZU Dom” and “PZU Dom Plus” comprehensive packages, which had been so well received by the market, were continued. Insurance of summer homes was reorganized and a new group version of a residential insurance product for co-operatives, housing communities and companies was marketed.

Key events in the group of agricultural insurance in 2009:

- the PLN 0.5 billion threshold in written premium was exceeded and the technical result increased considerably compared to the year before;
- sales of crop insurance with premium subsidized by the state treasury kept increasing rapidly (by 34%) and the financial equilibrium was maintained.

PZU SA kept its dominant position in the agricultural insurance market (nearly 80% of the market share).

The group accident insurance was also modified – the key changes included freeing of the sums insured, introduction of the assistance benefits and expansion of the circle of people qualifying for the insurance coverage. Despite growing competition, PZU SA maintained its dominant position in accident insurance for school children.

In 2009, the range of products for small and medium enterprises (SME) was expanded to include:

- Insurance against fire and natural forces;
- TPL for individual customers and small and medium entrepreneurs;
- and the following products were modified:
 - TPL of a domestic carrier;
 - TPL of an international carrier;
 - Private life TPL insurance.

Modifications consisted mainly in offer updates, expansion of the scope and changes of the rates and were aimed at adjustment of the offer to the market requirements accompanied by profitability improvement.

Additionally, the area of sales underwent a number of development projects, e.g.:

- implementation of the Titus Plus system supporting the work of agents (by the end of the year, 80% of the tied agents network were introduced to the system);
- implementation of a modern model of segmentation and management of the agency network (completed in December, related to implementation of the strategy of the PZU Group for the years 2008-2011);
- launch of shared sales and service offices of PZU SA and PZU Życie SA (four test offices offering a full range of products of the PZU SA Group with services; launched in December in Poznań);
- an incentive system for the motor insurance sales force in the dealer channel;
- development of the direct sales channel (sales of motor insurance via an Internet platform).

Loss Adjustment

In 2009 the Company carried out work aimed at streamlining the claims adjustment process and improving the quality of customer service:

- crisis procedure for loss adjustment facilitating fast adjustment to increased amount of claims in the case of mass losses, including the Mobile Office – a modern tool used for catastrophe and mass claims ensuring loss adjustment support on the spot and temporary help for the injured;
- customer service standards – new rules based on the concept of PZU Pomoc were developed and all employees dealing directly with customers were trained;
- VPN for MEK and MEM – a tool facilitating communication of Mobile Experts from outside the PZU offices;
- pilot door-to-door services - a new option of the comprehensive car insurance ensuring full service for the injured;
- implementation of a simplified property loss adjustment in COLS and a pilot process of simplified motor loss adjustment;
- implementation of the concept of PZU Pomoc through active support of the injured;
- implementation of electronic loss files;
- further simplification of procedures for all types of losses;
- implementation of the Loss Communication Platform – a tool facilitating automatic data exchange with repair shops;
- simplification of the process of asserting recourse claims by development and implementation of the “Agreement concerning mutual recognition of recourse claims in motor insurance” (13 insurance companies).

In 2009 the number of reported claims increased by over 3% (44.2 thousand). The increase in the number of claims was mostly the result of mass claims resulting from flood, hurricane and rainstorm at the end of July and the beginning of August. Mass claims applied to the Southern and Central Poland. The increase in the number of reported claims was also the effect of an advertising campaign of the PZU POMOC product.

Table 6. Number of reported claims

Item	2009	2008	change (%)	Difference	Structure 2009	Structure 2008
TPL motor insurance	334 033	359 953	-7.2%	-25 920	23.5%	26.1%
Comprehensive car insurance	348 420	351 955	-1.0%	-3 535	24.5%	25.5%
Other motor insurance	93 776	57 826	62.2%	35 950	6.6%	4.2%
Property insurance	191 222	169 069	13.1%	22 153	13.4%	12.3%
Other TPL insurance	77 356	61 739	25.3%	15 617	5.4%	4.5%
Accident insurance	322 271	317 294	1.6%	4 977	22.6%	23.0%
Agricultural insurance	51 672	60 009	-13.9%	-8 337	3.6%	4.4%
Financial insurance	482	111	334.2%	371	0.0%	0.0%
Other financial insurance	4 368	1 418	208.0%	2 950	0.3%	0.1%
TOTAL	1 423 600	1 379 374	3.2%	44 226	-	-

In 2009 the amount of paid claims was PLN 4,625.1 million which is 11% more than the year before. Compared to the year before, the claims paid increased by PLN 462.3 million. The higher result of paid claims is mainly the result of:

- higher number of paid claims resulting from the mass claims described above;
- payment of several large claims (fires in industrial plants);
- increase in the average motor claim resulting from higher workshop rates;
- increase in the prices of spare parts resulting from higher exchange rates;
- payments under personal insurance: compensation after the death of the injured and payments due to settlements with the injured (resulting in an expiry of any future claims towards the insurer);
- higher number of claims under other third party liability, mainly in residential insurance and general third party liability insurance both for the mass and corporate customer by 25%.

In 2009 the value of claims paid due to the risk of drought in agricultural insurance fell by 36.6% (by PLN 114.7 million).

Table 7. Total payments in direct insurance

(PLN million)

Item	2009	2008	change (%)	Difference	Structure 2009	Structure 2008
TPL motor insurance	1 740.5	1 568.4	11.0%	172.0	37.6%	37.7%
Comprehensive car insurance	1 661.5	1 559.1	6.6%	102.4	35.9%	37.5%
Other motor insurance	46.5	36.1	28.8%	10.4	1.0%	0.9%
Property insurance	624.2	435.1	43.5%	189.1	13.5%	10.5%
Other TPL insurance	201.6	120.1	67.9%	81.5	4.4%	2.9%
Accident insurance	137.7	124.4	10.7%	13.3	3.0%	3.0%
Agricultural insurance	198.4	313.1	-36.6%	-114.7	4.3%	7.5%
Financial insurance	3.3	2.2	50.0%	1.1	0.1%	0.1%
Other financial insurance	11.4	4.3	165.1%	7.1	0.2%	0.1%
TOTAL	4 625.1	4 162.8	11.1%	462.3	-	-

Gross claims and benefits by type of insurance have been presented in table 8.

Table 8. Gross claims and benefits paid in direct insurance

(PLN million)

Item	2009	2008	change (%)	Difference	Structure 2009	Structure 2008
TPL motor insurance	1 877.5	1 713.3	9.6%	164.2	39.3%	39.7%
Comprehensive car insurance	1 661.5	1 559.1	6.6%	102.4	34.8%	36.1%
Other motor insurance	48.6	37.9	28.4%	10.7	1.0%	0.9%
Property insurance	624.2	435.1	43.5%	189.1	13.1%	10.1%
Other TPL insurance	207.5	126.3	64.3%	81.2	4.3%	2.9%
Accident insurance	137.7	124.4	10.7%	13.3	2.9%	2.9%
Agricultural insurance	199.7	314.4	-36.5%	-114.7	4.2%	7.3%
Financial insurance	14.8	6.5	126.0%	8.3	0.3%	0.2%
TOTAL	4 771.6	4 317.0	10.5%	454.6	100.0%	100.0%

In 2009 the structure of payments changed due to the increase in property claims. A 3% increase in property insurance was set off by a nearly 3% decrease in agricultural insurance (no claims due to drought).

Loss adjustment expenses (direct and indirect) increased by 3.3% (PLN 15.2 million) from PLN 458.4 million to PLN 473.6 million. The increase is related to the payment of interest for a prior year loss. Once the above interest is eliminated, it should be assumed that the loss adjustment expenses were lowered in 2009.

Reinsurance

In 2009 the reinsurance scheme at PZU SA consistently secured the basic operations of the Company, reducing the risk of catastrophic events which could have a negative impact of the financial position of PZU SA. This was mainly achieved by obligatory non-proportional contracts and optional

contracts. In 2009 the reinsurance scheme comprised 8 obligatory contracts and ca. 80 optional contracts and a service contract.

As part of works related to the project of accumulation of catastrophe risk implemented at PZU SA in 2009, the Company continued an analysis of the exposure of its insurance portfolio to the risk of flood and hurricane. The results of the work were used in the renewal process.

As in previous years, PZU SA worked with leading reinsurance companies (including Hannover Re, Munich Re, Scor Swiss Re, Lloyd's). In 2009, obligatory reinsurance contracts were placed with over 30 reinsurance companies. Approx. 97% of the reinsurance premiums were ceded to reinsurers with Standard & Poor's rating of "A" or above. The costs of outward reinsurance in 2009, calculated as a percentage of premiums ceded to gross written premium was maintained below 2% at the level of 1.6%.

In the area of inward reinsurance, as in previous years, in 2009 PZU SA supported domestic insurance companies, mainly via optional reinsurance. The Company also continued its involvement in reinsurance of subsidiaries as their reinsurer.

Technical provisions

The PZU SA policy of creating technical provisions is characteristic of a cautious approach, including foreseeable events which may contribute to an increase in liabilities (e.g. development of insurance awareness, future economic and legislative changes). The provisions meet the requirements of the Polish law as regards coverage of current and future liabilities and expenses that may arise under concluded insurance contracts.

The provisions are created in line with the prudence principle, pursuant to the provisions of Article 7 of the Accounting Act and internal regulations for creating technical provisions which are included in "Regulations for creation of technical provisions at PZU SA". Their level is verified annually by an independent auditor.

The technical provisions which may be created in the Company include:

- provision for unearned premiums;
- provision for unexpired risks;
- provision for outstanding claims and benefits including provision for capitalized value of annuity;
- equalization provision;
- provision for catastrophic claims and exceptional risk;
- provision for bonuses and rebates.

As of the end of 31 December 2009, the balance of gross technical provisions was PLN 12,789.4 million, i.e. by 1,0% more than at the beginning of the reporting period. The balance of technical provisions net of reinsurance was PLN 12,035.0 million, i.e. by 2.2% more than at the beginning of the reporting period.

Key events in the area of technical provisions in 2009:

- higher provision for capitalized value of annuity, which, net of reinsurance, increased in 2009 by PLN 384,3. The reasons for the increase have been the same for a long time: increase in annuities as well as emergence of new higher annuities. Additionally, in 2009, the number of court cases concerning demands for annuity or its increase was unexpectedly high. In December 2009 only, a provision of PLN 89 million was created for new annuities. It included a provision for court cases of PLN 60 million (in December 2008 it was only PLN 13 million). In 2009 the discount factor did not change as was still 0%.
- first provision for bonuses and rebates created in December 2009 (PLN 4.2 million)
- a provision of PLN 77 million was released in March 2009, once a long lasting court case finished (general third party liability claim from 1992) and the claim was paid.

Insurance management costs

The costs of insurance activity, comprising acquisition costs, loss adjustment expenses and administrative expenses, incurred in 2009 amounted to PLN 2,740.6 million which was more than in 2008 by 4.3%. Detailed data about changes in specific types of costs have been presented in table 9.

Table 9. Insurance management costs – by divisions
(PLN million)

Item	2009	2008	change (%)	Structure 2009	Structure 2008	change (p.p.)
Acquisition costs	1 287.6	1 230.0	4.7%	47.0%	46.8%	0.2 p.p.
Loss adjustment expenses	473.6	458.5	3.3%	17.3%	17.4%	-0.1 p.p.
Administrative expenses	979.4	939.3	4.3%	35.7%	35.7%	0.0 p.p.
TOTAL	2 740.6	2 627.8	4.3%	100.0%	100.0%	x

The increase in the costs of insurance activity was mainly the effect of higher gross acquisition costs which increased by PLN 57,6 million (4,7%) compared to 2008. The increase comprises mainly higher direct acquisition costs (including deferred costs) - a PLN 53.8 million increase related to an increase in the costs of commissions.

The increase in commission is related to:

- standardization of commission rates between Branches - New Era of Sales. The commission system divided agents between segments which were also related to additional components of remuneration for meeting sales plans and support packages.
- implementation of a bancassurance remedial programme for group insurance of borrowers as a result of which outstanding written premium concerning settlements with banks in 2007-2008 of PLN 67.9 million and commissions of PLN 67.7 million were recorded.

Apart from the acquisition costs, the increase in the costs of insurance activity was significantly affected by administrative expenses which increased by PLN 40.1 million (4.3%) compared to the year before. The increase in the costs (as part of fixed costs) was mainly the result of:

- higher expenditure for marketing and sales support resulting from intensified marketing activities – large campaigns of PZU Pomoc, motor insurance, agricultural insurance and PZU dla Firm (corporate insurance).
- one-off bonus for the employees of PZU SA charged to administrative expenses;
- higher demand for advisory services related to staff restructuring at the Head Office, IPO and the settlement with Eureko;
- higher prices of toners, cleaning and security services as well as postage fees.

The 3.3% increase in the loss adjustment expenses is related to payment of interest for claims under general third party liability insurance filed in 1992. Other loss adjustment expenses (including recourse claims) are similar to the year before.

Prevention

As part of its prevention activities PZU has been carrying out numerous activities aimed at reducing threats to people's lives and health and at protecting their property.

In 2009, just as before, the prevention activities of PZU SA focused on improving road safety, both with respect to drivers and pedestrian.

In 2009, the main preventative activity of PZU in the media (TV, radio, outdoor advertising and the Internet) was the participation in the preventive campaign "Użyj wyobraźni" initiated by the National Police Headquarters which in an evocative way draw attention to the issue of road safety. The campaign comprised 3 phases addressed to motorcyclists, young drivers and pedestrians. Użyj wyobraźni was a country-wide non-profit campaign whose objective was to draw attention to road dangers. The purpose of the campaign was also to prevent dangerous driving among drivers and thus reduce the number of car accidents and their consequences. A part of the campaign was a website: www.uzyjwyobrazni.pl. The National Council of Road Safety (KRBRD) was a partner of the campaign.

The preventative activity of PZU SA includes continuation of the long-term cooperation with the Voluntary Mountain Rescue Service (GOPR) and the Tatra Voluntary Mountain Rescue Service (TOPR). Like in the preceding years, PZU used its prevention funds to provide financing for the statutory objectives of GOPR and TOPR, i.e. improving public safety in the mountains. The PZU Group also participated in the 100 anniversary of TOPR.

In 2009 PZU SA carried out a prevention programme for SME clients, under which the Company distributed several thousand first-aid kits in Polish companies.

Moreover, PZU carries out intensive prevention actions locally in the Branches. PZU closely cooperates with local businesses, health centres, educational institutions and public safety institutions such as the police, city guards, border guards and State and Volunteer Fire Services.

Sponsoring

As the heir to a 200-year tradition, feeling corporate social responsibility, PZU SA is a sponsor and partner of major cultural and educational events in Poland.

With Polish culture and arts in mind, PZU has been supporting numerous cultural initiatives and institutions. One of the most important sponsoring projects is related to the Royal Castle in Warsaw. Since 1996, PZU has been supporting the activities of the Castle and insuring its assets. Nearly 150 exhibitions, concerts, festivals and other cultural events were organized thanks to the cooperation with the institution. PZU is the Patron of the National Museum in Cracow. The Museum not only stores, carries out research and restores priceless Polish art heritage it has been entrusted, but also popularizes it through permanent and current exhibitions in Poland and abroad and wide-scale publishing and educational activities. The Museum applies modern techniques, however, it has deep respect for the tradition. The activities are supported by PZU. PZU, as a sponsor of the Warsaw Royal Castle and the National Museum in Cracow, was nominated to the award of the COMMITMENT TO EUROPE Arts & Business Foundation.

PZU was also the Main Sponsor of the European Basketball Championships EUROBASKET 2009 Poland. We acted as a partner of the basketball matches played on 7 largest halls in Poland and took an active part in all fringe events.

In 2009 the Company actively participated in numerous events, such as economic and business forums, such as: Baltik Business Forum, International Yalta Forum, Polish Economic SME Forum or the 20th anniversary of the package of laws prepared by Professor Leszek Balcerowicz.

PZU carries out extensive local sponsoring activities. Local PZU offices (Branches) are actively involved in the activities of local communities, participating in projects organized by local authorities and businesses.

5.2 Investments

In 2009, like in previous years, the investment activities of PZU SA focused on matching the structure of its assets to the structure of equity and liabilities with the right level of security, profitability and liquidity of investments.

In 2009, like in previous years, the investment activities of PZU SA included mainly securities issued by the State Treasury, i.e. treasury bills and bonds. At year end, the total percentage share of those instruments was 59.2% of the value of the investment portfolio of PZU SA compared to 68.6% as of the end of 2008. The change is the result of smaller portfolio of investments due to the advance payment against dividend for 2009 for the shareholders of PZU SA.

The Company was also active in the listed stock market. The percentage share of listed stock in the investment portfolio of PZU SA increased compared to 2008 and amounted to 3.9% (2.4% in the previous year). The growth in the stock market in 2009 along with gradual growth in the portfolio contributed to the increase.

Shares in controlled entities as well as other shares, including shares in PZU Życie SA, which amounted to PLN 7,375.8 million as of 31 December 2009 (95.7% of the portfolio of unlisted shares held by PZU SA) accounted for a major part of the investment portfolio of PZU SA. As of the end of 2009, unlisted shares accounted for 28.8% of the investment portfolio (an increase compared

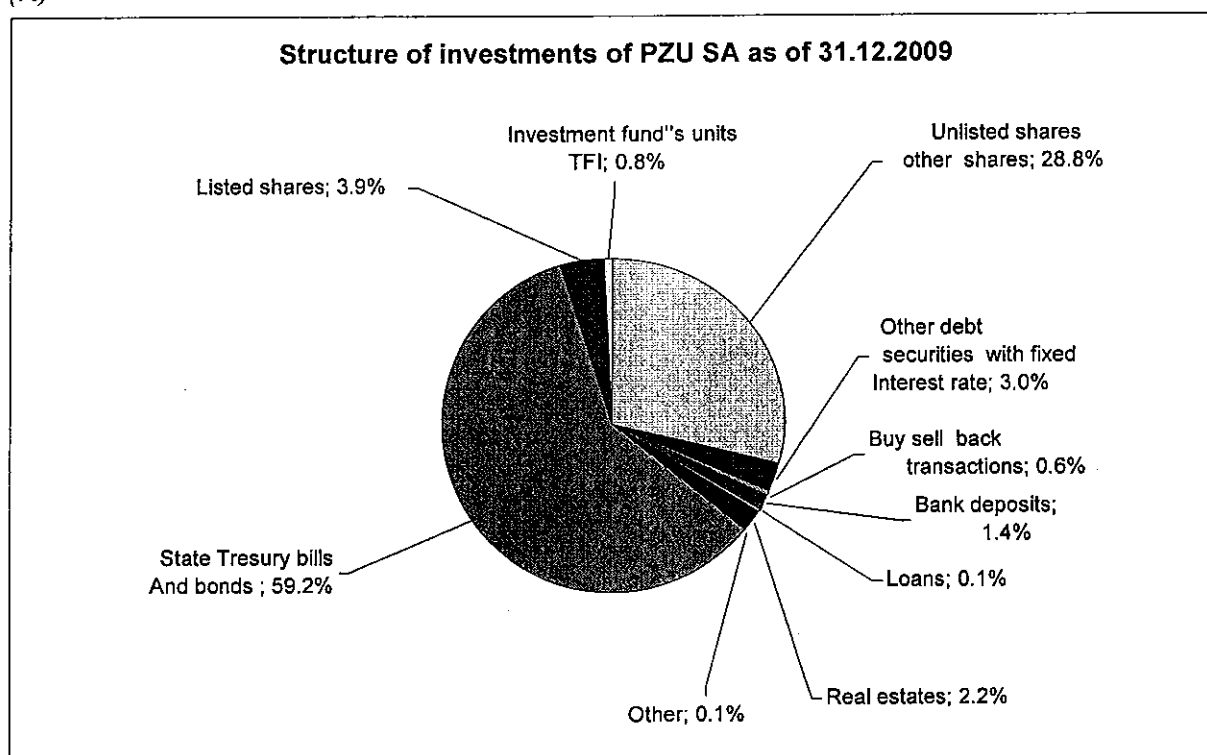
to 20.7% as of the end of 2008). The increase resulted mainly from higher value of shares in PZU Życie SA.

In 2009 the exposure to other debt securities with a fixed rate of return increased compared to 2008 and accounted for 3.0% of the investment portfolio (0.8% as of the end of 2008). The increase resulted from replacement of bank deposits in the portfolio of investment for coverage of technical provisions denominated in foreign currencies with bills, mainly treasury bills of the eurozone countries and Polish eurobonds.

As of the end of 2009, the value of term deposits (bank deposits and buy sell back transactions) accounted for 2.0% of the total value of the investment portfolio (4.7% in 2008).

Share of individual classes of assets in the portfolio of investments of PZU SA as of 31 December 2009:

Chart 1 – structure of investments of PZU SA
(%)



The investment income generated by the Company in 2009 (excluding the effect of the dividend received from PZU Życie SA in 2009 in the amount of PLN 1,419.1 million) was 126.0% higher compared to the income earned in 2008 (excluding the effect of the dividend received from PZU Życie SA in 2008 in the amount of PLN 2,167.3 million) - from PLN 627.6 million in 2008 to PLN 1,418.3 million in 2009). The increase in investment income was mainly caused by higher prices of shares on WSE - in 2009 the WIG index increased by 46.9%.

Detailed information about the results of investment activities in 2009 has been presented in Table 10.

Table 10. Results of the investment activity of PZU SA in 2009
(PLN million)

Item	2009	2008	change (%)
Balance of investments	26 765.8	30 451.4	-12.1%
<i>including real property</i>	<i>600.1</i>	<i>602.7</i>	<i>-0.4%</i>
Total investment income*	1 721.0	1 374.6	25.2%
<i>including unrealized gains on investments</i>	<i>104.9</i>	<i>13.3</i>	<i>688.7%</i>
Total costs of investment activity	302.7	747.0	-59.5%
<i>including unrealized losses on investments</i>	<i>59.4</i>	<i>464.7</i>	<i>-87.2%</i>
Investment income*	1 418.3	627.6	126.0%

* *excluding dividend received from PZU Życie SA in 2009 (PLN 1,419.1 million) and in 2008 (PLN 2,167.3 million)*

Financial instruments in price risk and credit risk

The value of debt instruments exposed to interest rate risk (treasury securities in the available-for-sale and held-for-trading portfolio) as of the end of 2009 was PLN 7,621.2 million. In 2009 the Company reduced the risk by:

- buying and selling derivatives;
- diversifying the portfolio by buying instruments with various maturity dates.

The value of equity instruments exposed to price risk (quoted shares, rights issue and rights to shares in available-for-sale and held-for-trading portfolio) was PLN 1,048.7 million as of the end of 2009, compared to PLN 745.1 million as of the end of 2008. Higher exposure resulted from an increase in the prices in capital markets (valuation) and an increase in the portfolio of quoted shares. In 2009, just as before, the Company limited the risk by setting limits on the maximum exposure in quoted shares.

PZU SA also followed a restrictive credit risk policy. The strategy of the Company limited the possibilities of investment in debt securities to instruments in the case of which the investment rating of issuers or underwriters was at least BBB- according to Standard&Poor's or were quoted on a stock exchange (with limited individual risk exposure). All plans of acquiring securities underwent an internal scoring process.

The Company managed the credit risk exposure for individual banks. The value of deposits in particular banks was subjected to limits set on the basis of financial results, rating and other ratios characteristic of banks.

The Company's policy as regards mortgages, stipulated that they will be granted only to subsidiaries or indirect subsidiaries.

In 2009, the Company did not apply hedge accounting.

Changes in investments in subsidiaries

Sale of shares in PTR

On 12 January 2009, PZU sold all shares (12,500 thousand) in an associate, PTR, for PLN 20,000 thousand, i.e. PLN 1.60 per share, and the transaction increased the gross financial result for 2009 by PLN 7,221 thousand.

PZU Pomoc

A notarized deed incorporating PZU Pomoc was signed on 24 February 2009. The share capital of PZU Pomoc is PLN 3,000 thousand and it is divided into 300,000 A series shares with the nominal value of PLN 10.00 each. PZU is the sole founder and shareholder of the Company. The capital was fully paid up on 4 March 2009. PZU Pomoc was entered in the Register of Entrepreneurs on 18 March 2009, by the Registry Court for the capital city of Warsaw, XII Business Division of the National Court Register.

PZU Pomoc has been operating since 8 May 2009, and the scope of its activities includes mainly assistance and medial services.

On 18 December 2009, the Extraordinary Shareholders' Meeting of PZU Pomoc adopted a resolution on increasing the share capital of the Company by PLN 865 thousand by means of issuing 86,500 ordinary registered shares, B series, with the nominal value of PLN 10 each. The issue price was PLN 91.60 per share, i.e. PLN 7,923 thousand in total. Pursuant to the agreement for acquisition of all shares by PZU, concluded between PZU and PZU Pomoc on 21 December 2009, PZU made a payment for the shares on 23 December 2009.

Ipsilon

A notarized deed incorporating Ipsilon was signed on 24 February 2009.

The share capital of the Company is PLN 50 thousand and it is divided into 1,000 shares with the nominal value of PLN 50 each. PZU is the sole founder and shareholder. The capital was fully paid up on 18 March 2009.

By the date of signing the financial statements, Ipsilon had not started operation.

Change in the legal form of Ukrainian insurance companies

The Ukrainian Joint-Stock Companies Act, which came into force on 30 April 2009, changed the classification of joint-stock companies. The act replaced the existing division into open and closed joint-stock companies and introduced public and private companies.

On 16 November 2009, the Extraordinary Shareholders' Meetings of OJSC IC PZU Ukraine and OJSC IC PZU Ukraine Life Insurance adopted resolutions to change the organization of the entities

from open joint-stock companies to private joint-stock companies. Since the day of registration of changes in the articles of association on 17 November 2009, the companies have been operating under the following business names:

- Private Joint-Stock Insurance Company PZU Ukraine (PrJSC IC PZU Ukraine);
- Private Joint-Stock Insurance Company PZU Ukraine Life Insurance (PrJSC IC PZU Ukraine Life Insurance).

5.3 Staff and employee issues

Staff development and hiring

In 2009, PZU SA took a series of steps aiming at reorganizing the HR issues in the Company (job description) and improving employee qualifications both among the management and lower level employees. They included:

- continuation of works on the “Integrated Competence Management System” project; the Company prepared job descriptions on an on-going basis and took steps aimed at developing HR assumptions and tools under four key parts of the project: recruitment and selection, job appraisal, training and development and carrier paths. Job descriptions are constantly changed, in line with the changing structure of the organization. At present, job descriptions have been prepared for the operational staff in the regional offices, but also for the support staff in the branches and the head office. The majority of jobs within PZU SA have been described. In 2010 the job descriptions in the head office will be amended following changes. Next, all regional job descriptions will be reviewed and amended, however, not earlier than after restructuring. In 2009 PZU SA carried out a number of assessment processes aimed at adjusting to new roles in the organization;
- management coaching to support Top Management in team and change management;
- a series of lectures for employees as part of the “Expert Day” initiative devoted to selected areas within the organization. So far, the lectures concerned financial insurance, insurance fraud and marketing issues. The initiative will be continued in 2010;
- as part of the “Future organization” programme, Polish authorities in the social and economic issues carried out a series of lectures devoted to change management and creation;
- the Company supported the education of employees by financing their university courses and foreign language classes;
- training projects for all staff in particular in retail sale and customer service;
- the “Office Agencies” project designed for PZU SA agents was continued; the objective of the project is to develop the sales network and improve the quality of customer service;

- steps were taken to acquire funds from the European Social Fund to co-finance training of employees working at the Head Offices of PZU SA and PZU Życie SA as part of cooperation with Combidata. The training is to start in February 2010.
- in June 2009 the Company continued the “Management Skills Academy” project for middle management. The training programme for a group of employees selected based on competence tests was carried out by Instytut Rozwoju Biznesu.

Payroll and employment

As a result of negotiations with the trade unions, in 2009 the base pay growth ratio in PZU SA was set at 1.3%. Additionally, all staff employed as of 31 March and 1 November 2009 obtained a one-off bonus of PLN 1,000.

In December 2009 the Company paid a special Christmas bonus equal to 100% of the base pay, but not more than PLN 2,000.

In 2009, the average number of staff in the Company fell by 367 FTE from 11,483 FTE (as of 31 December 2008) to 11,116 FTE (as of 31 December 2009). The change results mainly from the staff restructuring the Head Office, completion of the reorganization in the Loss Adjustment Division started in 2008 and acquisition of the employees of Centrum Szkoleniowo-Wypoczynkowe by Ogrodowa-Inwestycje. Average annual employment calculated as FTE includes permanent intermediaries and the Management Board and does not include unpaid leaves.

Group redundancies

On 5 August 2009, the Management Board of PZU SA and the Trade Unions concluded a Lay-off agreement. Pursuant to the arrangements, from 20 August to 18 September 2009, the Head Office of the Company underwent employment restructuring related to the lay-off. The restructuring involved up to 500 employees at the PZU Head Office and at the PZU Życie Head Office (in the end, the restructuring involved 217 of the PZU Head Office employees). Termination conditions offered to the dismissed employees 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 – Dz. U. No. 90 of 2003, item 844).

Moreover, a special 3-month outplacement programme prepared by HRK experts was carried out for the laid off employees. It was one of the major programmes of supporting dismissed staff run in Poland last year.

Relocation benefits

In November 2005, the Management Board of PZU SA decided to grant additional compensation - relocation benefits - to employees who changed their place of work due to organizational changes which took place in the Company.

Such policy was continued in 2009 and was considered by the Management Board of PZU SA as a long-term policy of compensation for higher commuting expenses or changed place of residence of the employees, resulting from a change of the place of work initiated by the employer. In 2009, the Company’s employees were granted 28 relocation benefits due to organizational changes in the Company and 125 relocation benefits due to projects carried out by the Company.

5.4 Marketing and advertisement

In 2009 PZU SA conducted advertising campaigns in four areas: motor insurance, PZU Pomoc, agricultural insurance and corporate insurance.

In 2009, the greatest emphasis was laid on PZU Pomoc which was advertised locally and on a nationwide scale. The activities started in March with an advertising campaign which aimed at building awareness of PZU Pomoc. The quality advantage of motor insurance of PZU SA was also still improved. The nationwide advertising campaign was also run for marketing of PZU Pomoc cards. The campaign lasted from August to mid-September and was replaced by yet another campaign of PZU Pomoc promoting the number 0 801 102 102 and assistance offered via telephone to the customers of PZU and the competition. Part of the PZU Pomoc campaign was a road show of the bus of the PZU Pomoc Mobile Office - the activities of the Mobile Office were promoted in six locations; they included a series of training events devoted to fire safety on the road and at home.

Motor insurance was given traditionally strong marketing support. PZU SA carried out three nationwide motor insurance campaigns to change the opinion about the prices of motor insurance at PZU and acquire new customers. The first campaign promoted PZU as the leader in the Rzeczpospolita ranking, the second was aimed at a radical change of the perception of prices at PZU (campaign: "Przeprosiny" – "Lepsza cena OC w PZU"), while the third also referred to the Rzeczpospolita ranking (the "Gazeciarze" campaign). Since September the Company carried out local marketing events in the selected regions where new, lower prices were offered.

For a few years now, PZU has been carrying out intensive marketing activities addressed to farmers, to maintain the leading position in agricultural insurance. In 2009, agricultural insurance products were for the first time advertised in agricultural magazines, but also on television (at the time of agricultural programmes). In 2009, PZU SA took part in the XI International Agricultural Exhibition Agro Show 2009.

The year 2009 was also a critical year in terms of communication with the corporate customer - at the end of November and the beginning of December PZU SA and PZU Życie SA carried out a wide scale advertising campaign of corporate insurance in which we promoted a special offer of insurance packages for SME valid until the end of the year. SME was also the target of the press campaign advertising insurance guarantees which takes place in September and October.

The year 2009 saw the first wide-scale promotion of the insurance of flats and houses under PZU Dom. A series of events promoting the image and sales was held and cooperation with the Black Red White chain and real estate agency Emmerson was launched.

Once again, together with the Sales Office, the Company organized the summer promotion of Wojazer and announced a competition for the best holiday photo which was enthusiastically received by our customers.

In 2009 the Marketing Office initiated changes in the general appearance of the offices. A new office design was prepared to respond to the needs of the Group Agency project in order to emphasize the new approach to customer service. A lot of effort was made to improve external visualization

of the offices. New types of visual identity were developed for own and agency offices as well as the Loss Adjustment Centre and the Repair Network.

5.5 Development projects

In 2009 PZU SA followed the strategic objectives set in 2008 in the Strategy of the PZU Group for the years 2009-2011 and all development initiatives were related to implementation of the adopted strategy. Projects carried out in 2009, in the first place supported accomplishment of two strategic objectives: growth in the Polish market and strengthening of the position of PZU as a customer-oriented organization.

In terms of development initiatives aimed at increasing the share of PZU on the Polish market, the most intensive work was carried out in sales. The pilot programme of shared sales and service offices of PZU SA and PZU Życie SA in Poznań and the agglomeration introduced a new quality of sales at PZU SA. Improvement of the key distribution channel - the tied agency network - involved completion of the nationwide implementation of a modern model of agency network segmentation and management as part of the New Era of Sales. In addition implementation of the Titus Plus system, which assists agents in their work, was continued and agents starting to use the tool were appropriately trained.

A series of tactical campaigns was carried out for motor insurance to keep clients when their policies expire. Additionally, the Company combined its growth targets with customer-orientation and it launched a pilot programme of developing offers dedicated to special clients selected based on the data in the product systems (analytical CRM) and introduced a pilot programme of using the potential of cross selling within the PZU Group by offering property insurance to selected group customers in life insurance.

A special part of the development projects was development and implementation of an innovative concept of insurance of PZU Pomoc. The idea is to associate the activities of the PZU Group with actual and tangible help offered to the customers. The existing assistance offer was significantly improved - the new product has a wider range of more comprehensive road assistance services and a significantly higher standard of services. Cooperation with the external repair service was maintained, but the Company started development of its own light network of tow vehicles.

The new offer was accompanied by building of awareness among consumers of easier access to high-standard assistance services, available also to those who are not PZU customers. The Company started work on development of a new assistance offer for other areas of life, e.g. home or travel.

In 2009, the Company carried out extensive development works in the area of loss adjustment in order to better respond to the customer needs and make PZU a more customer-oriented organization. It implemented solutions which shortened the process of loss adjustment based on a dedicated IT system SLS (New Loss Adjustment Organization) and introduced a pilot solution centralizing and improving personal loss adjustment (New Loss Adjustment Organization). The enhancements which were introduced allowed for improvement of the effectiveness of Mobile Experts adjusting losses who can now use the VPN technology. An e-loss project was implemented to enable the customers of PZU SA to report claims via the Internet. The Company started works on implementation of the system allowing for voice registration of data by mobile loss adjusters in agricultural insurance.

In order to reach the aforementioned strategic objectives, the Company carried out development works in the area of PZU brand management. The entity developed a strategy to refresh and enhance the brand image and prepared an implementation plan, which will be followed in 2010. It also prepared an action plan aimed at improving customer experience.

Along with the development projects, in 2009 the Company implemented a number of infrastructure initiatives, such as development and introduction of the pilot centralization of operational and insurance accounting functions under the Mikro 2 project, implementation of a shared PZU SA and PZU Życie non-insurance accounting centre as well as further stages of the implementation of the service bus and a shared payroll and HR system.

6. DIRECTIONS FOR DEVELOPMENT IN 2010

One of the key initiatives planned by PZU SA in 2010 will be activities related to the initial public offering of the Company's shares.

The processes accompanying the IPO include those planned to be carried out with the objective to satisfy the flotation requirements and ensuring fast flow of information as well as effective communication with the investors.

The key objectives of the business activities of PZU SA in 2010 resulting mainly from the Strategy adopted in 2008 and the current market situation include:

- slowing down the decrease in the share in the Polish insurance market (long-term objective) through:
 - price changes aiming at improvement of the rates in sales where most customers are lost;
 - new insurance packages for vehicles;
 - cooperation with the dealer channel;
 - distinctive marketing campaigns;
 - cross-selling of property insurance and motor insurance;
- better use of the potential of the customers of the PZU Group, i.e. use of the PZU Życie customer data base to sell the products of PZU and create opportunities for systematic cross-selling and up-selling of products;
- continued restrictive policy of improving the technical result in insurance for corporate customers and elimination of claim-related risks from the portfolio;
- maintenance of a conservative investment and technical provisioning policy;
- maintenance of cost discipline with the objective to limit the fixed cost increase;

- implementation of projects aimed at centralizing the support functions and streamlining the Company's operations.

7. RISK FACTORS AND THREATS

Key risks that can affect the Company's performance in 2010:

- unemployment rate expected to remain at the 2009 level, translating into lower demand for insurance products;
- slowdown in the growth rate of individual consumption;
- new interpretation of the Public Procurement Law;
- stronger position of insurance brokers;
- higher activity and competitiveness of insurance companies with capital relations with banks in the area of bancassurance;
- changes in the financial brokerage, reduced growth in popularity of independent financial advisory services thus limiting the number of sales channels of the Company;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy, lower profitability may result in worse investment profitability and the need to change technical rates applied in the Company.
- situation in the capital market in 2010, in particular on the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on market trends;
- growing competition and reduced market concentration resulting in an increase in the share of smaller entities in the market of property and other personal insurance at the expense of PZU SA;

8. GENERAL INFORMATION ABOUT THE COMPANY

8.1 Company's Shareholders

Shareholding structure as in the Share Register as of 31 December 2009:

- State Treasury 50.1875 %
- Eureko BV 22.9953 %
- Kappa SA 14.9000 %
- Other shareholders – 11.9172 %.

Advance payment against dividend for PZU shareholders expected at the end of 2009

As a result of the Settlement Agreement, on 1 October 2009, the Extraordinary Shareholders' Meeting of PZU SA adopted a resolution concerning creation of a reserve capital to finance advance dividends to be used to this effect by the Management Board and an increase in the capital by means of an appropriation of PLN 11,999,516 thousand from the supplementary capital.

The Extraordinary Shareholders' Meeting also authorized the Management Board to increase the advance dividend expected at the end of 2009, which may be paid to the shareholders of PZU based on profit generated by the end of the preceding financial year, by the funds from the reserve capital described above.

In the resolution of 1 October 2009, the Management Board of PZU SA decided to make an advance payment against dividend expected at the end of 2009 in the total amount of PLN 12,749,917 thousand.

The amount included:

- PLN 750,401 thousand of the net profit of PLN 2,189,458 thousand generated in the first half of 2009;
- PLN 11,999,516 thousand of the reserve capital.

8.2 Scope of activity

The scope of statutory activities of the Company includes organizing and carrying out:

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

Insurance activity concerns other personal and property insurance (Section II of the Attachment to the Act of 22 May 2003 on insurance activity (Dz. U. No. 124 of 2003, item 1151, "Insurance Act").

The basic scope of the Company's business in accordance with the Statistical Classification of Economic Activities in the European Community is insurance (NACE 6603).

8.3 Organization Units

As of 31 December 2009, PZU SA comprised the following organizational units:

- head office;
- central organizational units:
- regional organization units:
 - branches and their organizational units: inspectorates, loss adjustment centres.

The head office of PZU SA is an organizational unit of the Company appointed to support the Management Board in management of the Company's activities, responsible for central planning, organization, coordination and control with respect to the entire Company and selected areas.

Its organizational units are appointed to carry out specialized activities at the level of the Company as a whole.

At present, head office organizational units are present in: finance and accounting, HR, payroll, administration, financial insurance management, insurance operations, foreign loss adjustment and other losses adjusted at the head office level and the contact centre.

A branch is a regional organizational unit of PZU SA appointed to carry out insurance activities of the Company in a selected area of Poland.

An inspectorate is an operational organizational unit of a branch responsible for direct insurance activities within the area of the branch's operations. An Inspectorate may comprise smaller operational structures: Client Service Centres (COK) and Client Service Points (POK) which belong to the Inspectorate, yet are located outside its premises.

A Loss Adjustment Centre is an organizational unit of a Branch responsible for loss adjustment in a specific area of the Branch. The Centre comprises operational structures, i.e.: a Branch of the Loss Adjustment Centre and Notification and Inspection Points.

On 29 December 2009 the Management Board adopted a resolution changing the loss adjustment centres into regional loss adjustment centres (RCLS).

8.4 Composition of the Company's Management Board

Composition of the Management Board as of 1 January 2009:

- Andrzej Klesyk Chairman of the Board;
- Magdalena Nawłoka Vice-Chairman of the Board;
- Witold Jaworski Member of the Board;
- Rafał Stankiewicz Member of the Board.

On 1 October 2009, the consortium comprising Eureko B.V. and Bank Millenium SA dismissed Magdalena Nawłoka from the position of Vice-Chairman of the Board.

Consequently, since 1 October 2009 to the date of signing these financial statements, the Management Board of PZU comprised:

- Andrzej Klesyk Chairman of the Board;
- Witold Jaworski Member of the Board;
- Rafał Stankiewicz Member of the Board.

Signatures of members of the Management Board of PZU SA:

Andrzej Klesyk – Chairman of the Board

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(signature)

Rafał Stankiewicz – Member of the Board

.....
(signature)

Witold Jaworski – Member of the Board

.....
(signature)

Warsaw, 7 March 2010