PZU Group's Annual Report | 2002

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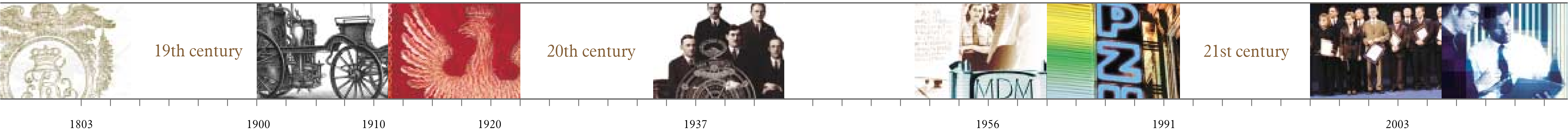
The story of the company through the centuries



Index

Dear readers,

It is with satisfaction that we hereby convey to you the 2002 consolidated annual report for the PZU Group, which is one of the largest insurance and financial groups in Europe.

Last year was exceptional for the PZU Group. The PZU Group's consolidated net profit exceeded PLN 1.24 billion, which strengthened PZU's position among the largest financial institutions in Poland.

The PZU Group's equity increased by more than 40% over the previous year, while investments and assets grew by nearly 20%. Its very good financial results and its unchallenged leadership position on the Polish insurance market confirm the accuracy of the business decisions made and provide conditions for further safe development.

The outlook for the insurance market's development and the changes on the Polish financial market prior to European Union integration represent new challenges for the PZU Group. We are increasingly better prepared to face them and we are not afraid of change. Our major objective is still to maintain our dominant position on the insurance and financial service market in Poland.

We are striving to adapt the PZU Group companies fully to the conditions and requirements of the European Union market. We are consistently implementing a new operating philosophy, whose primary tenet is customer orientation, which entails steady enhancement of the quality of service, developing and modernizing the product offer and customizing it to the increasingly more differentiated expectations of our customers, while also unifying the type and level of services in all of the PZU Group's organizational units. We are aware that these goals may be achieved only by the PZU Group's employees demonstrating the greatest commitment and professionalism.

The PZU Group's annual report is being published at a special moment in the history of Polish insurance. This year is the 200th anniversary of the establishment of the first insurance company on Polish soil, namely: Towarzystwo Ogniowe dla Miast w Prusach Południowych (Fire Insurance Company for the Cities of Southern Prussia). The PZU Group is the heir to this tradition and it is to this event that the PZU Group refers in its genealogy. Jubilee celebrations will be taking place throughout the year.

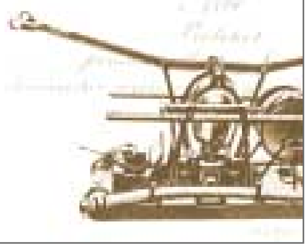
In conveying the PZU Group's 2002 annual report to you, we are certain that the Polish insurance market will meet all the challenges associated with European Union integration. We are also convinced that PZU, as the oldest Polish insurance company with 200 years of tradition, a firm formed by people with passion and experience for people who expect certainty and safety from insurance products will continue to be a guarantee of the Polish insurance market's stability and rapid growth.

Respectfully,

Cezary Stypułkowski CEO of PZU SA	Bogusław Kasprzyk CEO of PZU Życie SA	Jakub Tropiło CEO of PTE PZU SA

19th century

1803



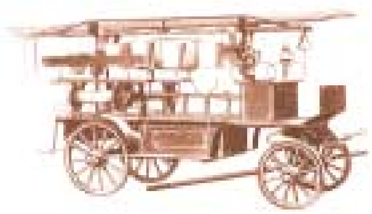
PZU Group's structure and equity links

PZU is the largest insurance group and one of the largest financial institutions in Poland. Its traditions stem back to 1803 when the first insurance company was founded on Polish soil, namely: Towarzystwo Ogniowe dla Miast w Prusach Południowych (Fire Insurance Company for Cities in Southern Prussia). The PZU Group, as the heir to 200 years of tradition of Polish insurance, has been providing comprehensive insurance coverage for many years in all the most important areas of private, public and economic life. In addition to insurance activity, the PZU Group also manages a pension fund, investment funds and savings programs as well as the assets of National Investment Funds.

The PZU Group consists of PZU SA and PZU Życie SA as well as six subsidiaries:

Powszechny Zakład Ubezpieczeń SA

PZU SA is the mother company of the PZU Group. The domain of this firm's activity is property and casualty insurance. It has been operating as a joint stock company since December 1991 after its transformation from being Państwowy Zakład Ubezpieczeń (State-owned Insurance Company) into two treasury-owned joint stock companies: non-life and life.



Powszechny Zakład Ubezpieczeń na Życie SA

PZU Życie SA is a life insurance company. Its offer also includes juvenile, annuity, accident and investment insurance concluded in the form of individual or group agreements. In terms of equity, PZU Życie SA is a subsidiary of PZU SA. This company launched operations in 1991 when it was spun off from Państwowy Zakład Ubezpieczeń.

Powszechne Towarzystwo Emerytalne PZU SA

PTE PZU SA manages Otwarty Fundusz Emerytalny PZU "Złota Jesień" (PZU Złota Jesień Open-end Pension Fund) within the framework of the second pillar of the social security system. PTE PZU SA was established in 1998. It is a subsidiary of PZU Życie SA.

Towarzystwo Funduszy Inwestycyjnych PZU SA

TFI PZU SA manages three open-end investment funds called Polonez, Mazurek and Krakowiak. In 2002 it also manage a closed-end fund called Kujawiak N+. TFI PZU SA offers investment products and services to individual and institutional clients as well as additional savings programs within the framework of the third pillar of the social security system. In terms of equity, this company, established in 1999 is a subsidiary of PZU Życie SA.

PZU Asset Management SA

PZU Asset Management SA was incorporated in the PZU Group in 2001. Its task is to optimize the benefits resulting from integrating the investment activity conducted by the individual PZU Group companies.

PZU NFI Management Sp. z o.o.

PZU NFI Management Sp. z o.o. renders services in the field of managing the assets of the following National Investment Funds: Drugi NFI SA, NFI Progress SA, NFI im. E. Kwiatkowskiego SA. It buys and subscribes ownership interests or shares and other securities in entities registered and operating in Poland or abroad. It exercises the rights attached to shares, ownership interests and other securities; it also prepares programs and analyses to restructure economic agents. This company has been operating within the PZU Group since 1999.

Centrum Informatyki Grupy PZU SA

(known as PZU-CL Agent Transferowy SA up to 12 May 2003)

CI Grupy PZU SA is a company that was formed to conduct auxiliary activity associated with servicing insurance and pension and disability funds. It keeps registers and settlements of investment and pension funds. It renders IT-related services, including advisory services concerning hardware, software, data analysis, building and processing databases. It has been operating in the PZU Group structure since June 1998.

PZU Tower Sp. z o.o.

PZU Tower Sp. z o.o. is a company that conducts activity entailing the purchase and sale of real estate, construction services, real estate management and administration as well as space rental for office purposes. It was established in August 1998.

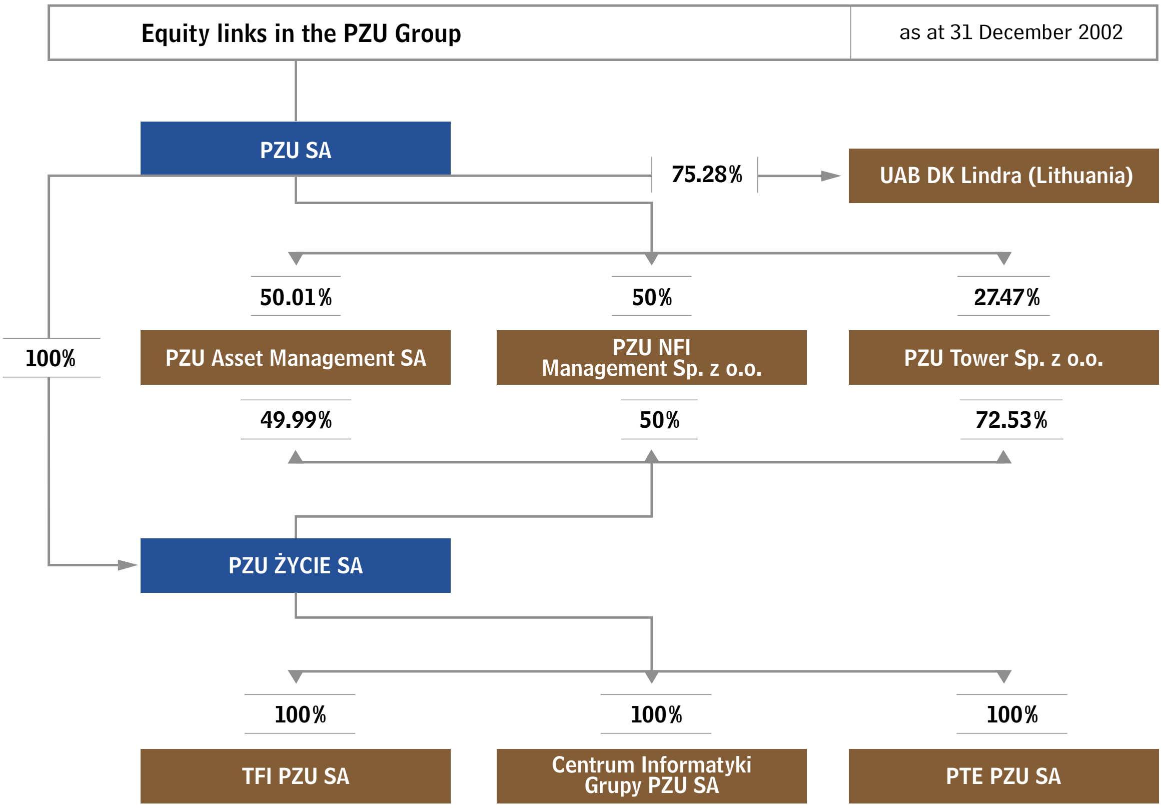
PZU Group's consolidated financial statements are drawn up on the basis of the data originating from the individual financial statements of the following companies[1]:

- Powszechny Zakład Ubezpieczeń SA as the parent company of the PZU Group,
- Powszechny Zakład Ubezpieczeń na Życie SA as a subsidiary subject to full consolidation,
- Powszechne Towarzystwo Emerytalne PZU SA as a subsidiary subject to full consolidation,
- Centrum Informatyki Grupy PZU SA as a subsidiary subject to full consolidation,
- PZU Tower Sp. z o.o. as a subsidiary subject to full consolidation.

These entities meet the criteria prescribed by the Accountancy Act of 29 September 1994. According to the provisions of this statute, only those companies that discharge a specific function for the entire PZU Group and that are financed by the PZU Group units are included in the consolidated financial statements.

The results of the PZU Group companies presented in this report originate from their individual financial statements. The results of the entire PZU Group originate from the consolidated financial statements of the companies. This report discusses the results of four Group companies conducting activity in financial services.

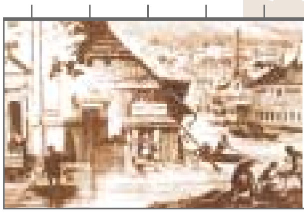
[1] Furthermore, the results of the following two companies are included in the PZU Group's consolidated financial statements: Krakowska Fabryka Armatur SA as a subsidiary shown in the consolidated financial statements according to the equity method; Fabryka Wyrobów Precyzyjnych VIS SA as a subsidiary shown in the consolidated financial statements according to the equity method.



Count Fryderyk Skarbek,
President of the Insurance Management Authority in the Kingdom of Poland from 1842 to 1855.
A leading representative of Polish economic thinking in the time of the Kingdom of Poland, the precursor of the field of insurance, an editor and a writer; a long-term activist (and president as of 1854) for the Head Welfare Board running charitable institutions.

1860

19th century



Shareholding structure

In 2002 the State Treasury was the majority shareholder of PZU SA, while the consortium of Eureko BV and Bank Millennium SA (formerly BIG Bank Gdański SA) was the institutional investor. The ownership structure of the employee shares in PZU SA experienced dynamic changes throughout 2002. Most shares were traded on the basis of civil law contracts. The number of employee shares fell by nearly 1% in the shareholding structure of PZU SA.

PZU SA's stake in PZU Życie SA increased last year from 99.99% to 100%.

Shareholding structure at PZU SA

(as at 31 December 2002)

- State Treasury – 55.09%
- Eureko B.V. – 20.91%
- BIG BG Inwestycje SA (subsidiary of Bank Millennium SA) – 10%
- Other shareholders (employee shares) – 14%

Shareholding structure at PZU Życie SA

(as at 31 December 2002)

- PZU SA – 100%

Shareholding structure at PTE PZU SA

(as at 31 December 2002)

- PZU Życie SA – 100%

Shareholding structure at TFI PZU SA

(as at 31 December 2002)

- PZU Życie SA – 100%

Governing bodies of the major PZU Group companies

PZU SA

Management Board composition

(from 1 January to 18 February 2002)

Zygmunt Kostkiewicz
CEO

Antonio Martins da Costa
Deputy CEO

Krzysztof Kluzek
Management Board Member

Piotr Kowalczewski
Management Board Member

Marcin Moskalewicz
Management Board Member

(from 18 February to 31 December 2002)

Zdzisław Montkiewicz
CEO

Antonio Martins da Costa
Deputy CEO
(until 10 October 2002)

Piotr Kowalczewski
Management Board Member

Leszek Moskwiak
Management Board Member
(until 31 October 2002)

Kazimierz Ortyński
Management Board Member
(as of 1 November 2002)

Józef Piskorz
Management Board Member
(until 31 July 2002)

Włodzimierz Soiński
Management Board Member
(as of 1 August 2002)

Supervisory Board composition

(from 1 January to 31 December 2002)

Jerzy Sablik*
Supervisory Board Chairman

Elżbieta Niebisz
Supervisory Board Deputy Chairwoman

Ernst Jansen
Supervisory Board Deputy Chairman

Maciej Bednarkiewicz
Supervisory Board Secretary

Wojciech Dąbrowski
Supervisory Board Member

Arnold Hoevenaars
Supervisory Board Member
(as of 30 January 2002)

Jakub Kaliński
Supervisory Board Member

Bogusław Kott
Supervisory Board Member

Jan Szczęsny*
Supervisory Board Member

João Talone
Supervisory Board Member
(until 30 January 2002)

*We are saddened to announce the deaths of Jerzy Sablik and Jan Szczęsny. Both gentlemen served on the Supervisory Board with commitment and integrity.

PZU Życie SA

Management Board composition

(from 1 January to 28 January 2002)

Krzysztof Mastalerz
CEO

Michał Górski
Deputy CEO

Frederik Hoogerbrug
Deputy CEO

(from 28 January to 18 July 2002)

Ireneusz Nawrocki
CEO

Michał Górski
Deputy CEO

Frederik Hoogerbrug
Deputy CEO

(from 1 August to 31 December 2002)

Bogusław Kasprzyk
CEO

Frederik Hoogerbrug
Deputy CEO

Józef Piskorz
Deputy CEO
(until 31 October 2002)

Jerzy Kochański
Deputy CEO
(as of 31 October 2002)

Supervisory Board composition

(from 1 January to 7 June 2002)

Paweł Witkowski
Supervisory Board Chairman

João Manso Neto
Supervisory Board Deputy Chairman

Zofia Jamińska
Supervisory Board Secretary

Joyce Deriga
Supervisory Board Member

Katarzyna Domalewska
Supervisory Board Member

Krystyna Pawłowicz
Supervisory Board Member

Marek Szmelter
Supervisory Board Member

(from 7 June to 31 December 2002)

Andrzej Wieczorkiewicz
Supervisory Board Chairman
(as of 24 July 2002)

João Manso Neto
Supervisory Board Deputy Chairman

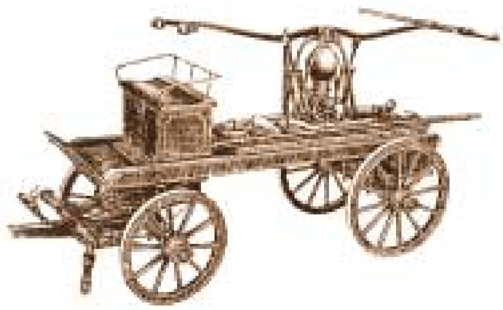
Witold Góralski
Supervisory Board Secretary

Joyce Deriga
Supervisory Board Member

Bolesław Samoliński
Supervisory Board Member

Marek Szmelter
Supervisory Board Member

Jerzy Tomaszewski
Supervisory Board Member



PTE PZU SA

Management Board composition

(from 1 January to 31 December 2002)

Jakub Tropiło
CEO

Dariusz Adamiuk
Deputy CEO

Monica Maria d'Orey da Cunha Santiago
Deputy CEO
(until 1 June 2002)

Manuel Valdemar Gonçalves Duarte
Deputy CEO
(as of 1 June 2002)

Supervisory Board composition

(from 1 January to 31 December 2002)

Wojciech Topiński
Supervisory Board Chairman

Zygmunt Kostkiewicz
Supervisory Board Deputy Chairman

Michał Górski
Supervisory Board Secretary

Urszula Brochocka
Supervisory Board Member

Piotr Kowalczewski
Supervisory Board Member

Grzegorz Sawicki
Supervisory Board Member
(until 28 February 2002)

Jan Szomburg
Supervisory Board Member

Janusz Zawiła-Niedźwiecki
Supervisory Board Member

TFI PZU SA

Management Board composition

(from 1 January to 31 December 2002)

Czesław Gawłowski
CEO

Magdalena Jagiełło-Szostak
Management Board Member

Henryk Krzywda Kieszkowski, co-founder of the Mutual Fire Insurance Company in Cracow, an outstanding insurance activist in Galicia, Trustee of the Florianka Mutual from 1897 to 1950.

Supervisory Board composition

(from 1 January to 5 February 2002)

Krzysztof Mastalerz
Supervisory Board Chairman
(until 28 January 2002)

Michał Górski
Supervisory Board Deputy Chairman

Frederik Hoogerbrug
Supervisory Board Member

Krzysztof Kilian
Supervisory Board Member

Aleksander Kotłowski
Supervisory Board Member

Grzegorz Sawicki
Supervisory Board Member
(until 28 January 2002)

Harlan Zimmerman
Supervisory Board Member

(from 5 February to 31 December 2002)

Marek Żytniewski
Supervisory Board Chairman

Michał Górski
Supervisory Board Deputy Chairman

Frederik Hoogerbrug
Supervisory Board Member

Krzysztof Kilian
Supervisory Board Member

Aleksander Kotłowski
Supervisory Board Member
(until 10 July 2002)

Grzegorz Szymański
Supervisory Board Member
(from 5 March 2002 to 10 July 2002)

Harlan Zimmerman
Supervisory Board Member

20th century

1903

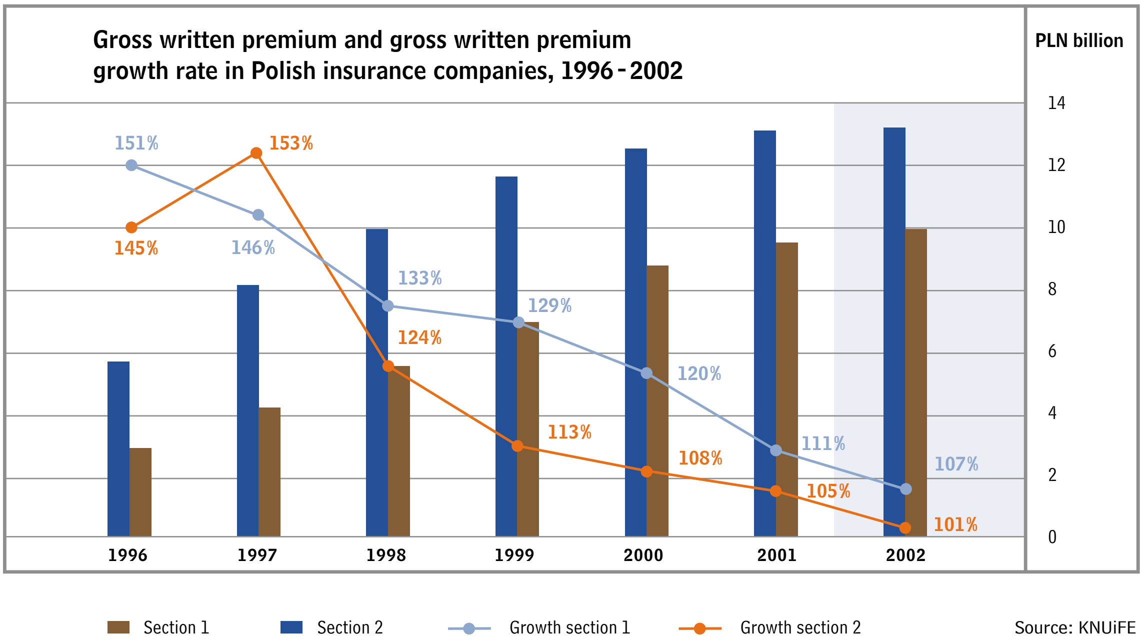
Polish insurance market and the pension and investment fund markets in 2002

Polish insurance market

In 2002, 72 domestic insurance companies and two main branches of foreign insurance companies (one company in each section of insurance) held a permit from the Finance Minister to underwrite business in Poland. 70 insurance companies and the two main branches of foreign companies sold insurance policies. These included 35 life insurance companies and 35 other property and casualty insurance companies (including one reinsurance company).

Last year, there were two companies in the property and casualty section, which were in the organization stage.

In 2002, the overall gross written premium for all insurance companies reached PLN 23.1 billion and was PLN 754.4 million higher than it was in 2001. However, the insurance market recorded the lowest premium growth rate for 10 years. Gross premium written in property insurance increased a mere 1%, while growth of 7% was recorded in life insurance.



Source: KNUiFE

22 of the 72 insurance companies operating in Poland experienced market share constriction in 2002. The PZU Group remained a dominating company, holding more than half of the Polish insurance market. Gross premium written in 2002 in the PZU Group companies totaled PLN 12.3 billion, increasing by 0.5% over the previous year.

In 2002, as in previous years, the insurance market was characterized by a large degree of concentration in both sections. In 2002 the five largest insurance companies collected 82.1% of gross premium in property and casualty insurance and 88.7% of gross premium in life insurance.

As it was the case in previous years, the largest share of the property and casualty insurance portfolio (section 2), at 66%, was held by motor insurance (groups 3 and 10). Third party liability (TPL) insurance increased 0.2 percentage points over the previous year, while the share of motor own damage (MOD) insurance decreased by 2 percentage points. Property insurance (groups 8 and 9), with a 18.7% share, ranked second in the section 2 insurance portfolio, while accident and sickness insurance (groups 1 and 2) were ranked third with a 5.8% share. The gross written premium structure in section 1 insurance was dominated by classic life insurance (group 1) with a share of 48.1%. The share of modern unit-linked life insurance (group 3) reached 32.3%. Accident and sickness insurance (group 5) was ranked third with a share of 18%.

In 2002, insurance companies paid out gross claims and benefits in the amount of PLN 12.1 billion. This amount was 9.4% higher than in 2001. Gross claims paid in the property and other casualty insurance section totaled PLN 7.8 billion, increasing by a mere 0.6% over 2001. Gross claims worth PLN 4.3 billion were paid in the life insurance section (35.7% of all claims paid in the insurance sector), experiencing a growth of 30% compared to the same period of 2001. The main reason for the large increase in life insurance claim payments is the higher lapse rate on insurance policies, especially unit-linked policies. The overall number of policies cancelled in the reporting period was 733 thousand. This was caused by the fact that at the beginning of 2002 clients obtained the right to surrender their policies, i.e. cash out the amassed assets without any fiscal consequences.

The balance of gross insurance-specific reserves held by insurance companies at the end of 2002 reached PLN 44.8 billion, marking an increase of 19% over the previous year. The balance of gross insurance-specific reserves in the other property and casualty insurance section was PLN 17.6 billion at the end of 2002, constituting an increase of 10.5% compared to the balance as of 31 December 2001.

In 2002, insurance companies posted an overall positive technical result of PLN 563.4 million. A loss of PLN 189 million was recorded in the property and casualty insurance section, while the technical result in life insurance amounted to PLN 752.4 million. A total technical profit of PLN 233.2 million was generated by eight property insurance companies. In that section, 27 companies posted a total negative technical result of PLN 422.2 million. In life insurance, seven insurance companies achieved a total technical profit of PLN 1,070.7 million. 28 companies posted a combined loss of PLN 318.3 million. In 2002, accident and sickness insurance proved the most profitable – in section 1 and 2 as well. Property insurance companies achieved a positive technical result on insuring other physical claims, and insurance companies incurred the highest losses in the Motor Own Damage insurance group.

At the end of 2002, the balance of investments was PLN 50.3 billion, and was 20.8% higher than the balance posted in the previous year. Investments in section 2 reached PLN 19.2 billion (increase of 14%), and PLN 31.1 billion in section 1 (increase of 25.4%). The structure of investments of both insurance sections was similar. Debt securities made up over three-fourths of investments. Their share in past years increased steadily, while the share of bank deposits and equities declined.

The combined financial result of all insurance companies increased in 2002 by 42.6%, reaching PLN 1.5 billion. In section 2, the net financial result was PLN 0.9 billion. Last year, 21 property insurance companies achieved a profit of ca. PLN 1.1 billion. A financial loss with a net cumulative amount of PLN 0.2 billion was posted by 14 section 2 companies. The net financial result of section 1 was PLN 0.6 billion. 10 life insurance companies achieved a net profit of PLN 0.9 billion. The loss recorded by 25 section 1 companies reached PLN 0.3 billion. Total profits posted by insurance companies last year were almost four times higher than the total posted losses.

As was the case in the previous year, the PZU Group companies had the largest share in the sector's net profit and significant importance for results generated by the entire Polish insurance industry. Their combined profit in 2002 exceeded PLN 1.24 billion. The total net financial result of the PZU Group exceeded last year's results by over 15%, and of the largest Group company – PZU SA – by 28.5%.

At the end of 2002, the value of assets of all insurers was PLN 57.5 billion PLN, i.e. 21.6% more than their balance at the end of the previous year. Assets of the property and casualty insurance section amounted to PLN 24.4 billion, recording an increase of 16.6%. Assets in the life insurance sector increased by 25.6% compared to last year's balance, and reached PLN 33.1 billion. Investments formed the largest share in the combined assets of all insurance companies, reaching almost 90%.

The increased value of equity was a positive occurrence on the Polish insurance market in 2002. The value of equity was PLN 10.9 billion, i.e. 28.3% more than it was in the previous year. Almost 26% of the assets of insurance companies were financed with equity. This ratio was higher in property and casualty insurance than in life insurance.

The overall amount of share capital as of 31 December 2002 was PLN 4.1 billion, which marked an increase of 10.3% over the previous year. In both insurance sections, the value of share capital was similar, and was approximately PLN 2.1 billion. The share capital grew a little faster in section 1.

Insurance-specific reserves constituted the majority of liabilities. At the end of 2002, their share was 78%. Net insurance-specific reserves constituted almost three-fourths of liabilities (71.1%).

Last year, direct foreign investments in the insurance sector amounted to almost PLN 3 billion. There were 50 insurance companies on the Polish market with amajority of foreign capital, and 20 companies with a majority held by Polish capital. German capital prevailed in 21 companies.

Bolesław Chomicz with family.
Lawyer by profession, employee and later President of Mutual Insurance of Buildings from Fire in the Kingdom of Poland, co-father of the St. Florian's Association in the years 1921-24 President of the Management Board of the Polish Directorate of Mutual Insurance.

Open-end pension funds

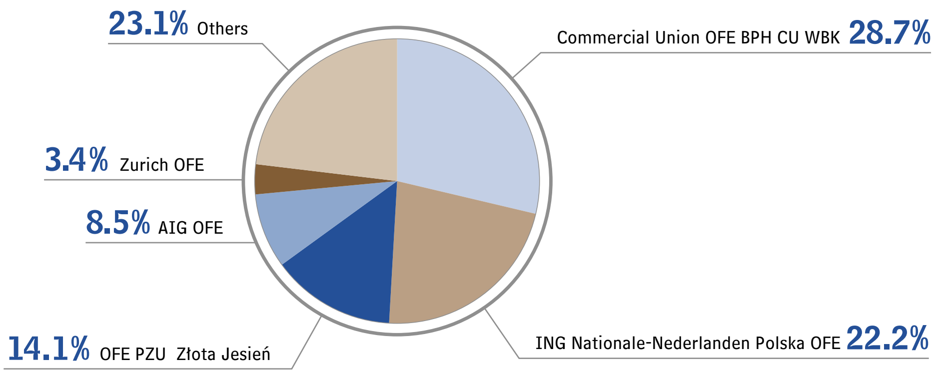
In 2002, 17 companies operated on Poland's three year-old pension fund market. As of 31 December 2002, 10,989,816 persons were registered as OFE members. Commercial Union OFE BPH CU WBK had the most members (2,588,545 persons). ING Nationale-Nederlanden Polska OFE (with 1,832,793 members) and OFE PZU Złota Jesień (with 1,786,728 members) held the next two places, according to the number of fund members. As was the case the year before, the funds with the most members maintained the highest market share, measured by the value of assets, and achieved the highest rates of return, while maintaining a stable average asset growth rate. They also had a similar structure of investment portfolios, based on treasury bonds and shares of companies listed on the regulated stock exchange market.

As of 31 December 2002, the overall assets of all funds were PLN 31.6 billion. Commercial Union OFE BPH CU WBK, with assets of PLN 9.1 billion, had the leading market share measured by assets under management. ING Nationale-Nederlanden Polska OFE, with net assets of PLN 7 billion, was ranked second, and OFE PZU Złota Jesień with assets of PLN 4.5 billion was ranked third. At the end of 2002, the total net asset value of the three largest companies totaled 65% of the combined net asset value of OFEs.

The overall average growth of net assets in 2002 was 62.6%. Sub-average growth rates were recorded by 11 pension funds. OFE Ergo Hestia, ranked 12th according to net asset value, achieved the highest growth of assets in 2002, at 98.9%. The lowest asset growth compared to the 2001 balance, 49.9%, was recorded by OFE Zurich.

OFE SAMPO achieved the best 2-year rate of return performance (26.65%), and was closely followed by ING Nationale Nederlanden Polska OFE (25.7%), OFE PZU Złota Jesień (25.4%) and Commercial Union OFE BPH CU WBK (22.7%). In comparison with the situation from the previous year, ING Nationale Nederlanden Polska OFE and Commercial Union OFE BPH CU WBK maintained their position in 2002. OFE Polsat was pushed out of the top four funds. OFE PZU Złota Jesień changed its position from 8th place in 2001 to 3rd in 2002.

Share in the OFE market by net asset value in 2002 %



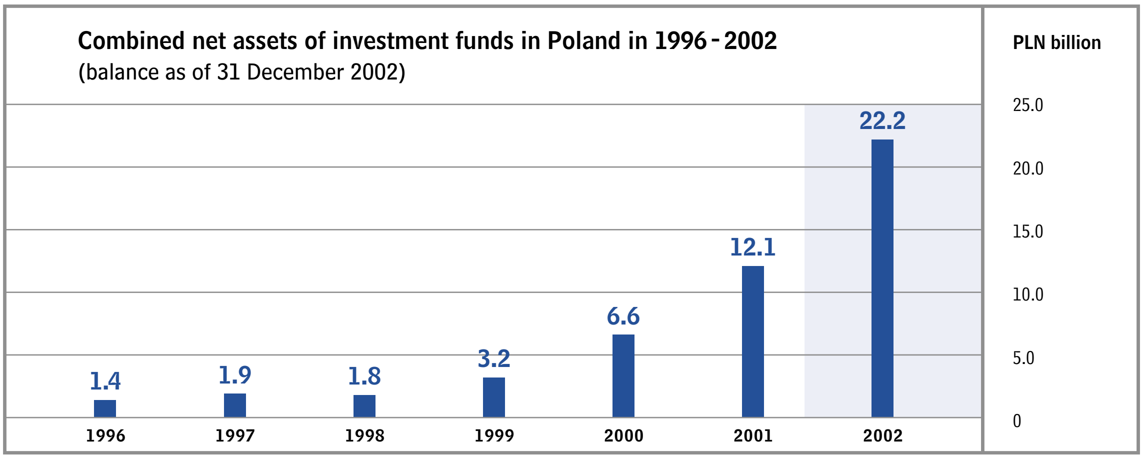
Source: KNUiFE

Investment funds

In 2002, there were 18 investment fund companies operating in Poland managing more than one hundred investment funds. The total asset value held by all investments funds reached PLN 22.2 billion at the end of December 2002. Three companies: Pioneer/Pekao, PKO/CS and ING had at their disposal assets exceeding half of all investment fund assets. Last year, the Polish market for investment funds was still perceived as an attractive market with growth potential. Banks with foreign capital were the major shareholders of the dominating investment fund companies.

At the end of 2002, assets of bond and money market funds constituted 82% of all fund assets, while 12% of funds were invested in stock and hybrid funds.

The fastest increase of net assets in 2001–2002 was recorded by companies with the largest number of customer service outlets, including proprietary, bank and non-bank outlet networks, with varied access to customers, such as PKO/CS, Pioneer/Pekao, ING. Pioneer/Pekao and PKO/CS, with an immense network of bank outlets, achieved the largest market shares measured by assets under management (24.5% and 23.2%, respectively). Further ranked competitors included ING, Skarbiec and DWS. The five largest investment funds had a 75% market share measured by net asset value.



Source: STFI

Fire Brigade exercises, 1920s

Discussion of the PZU Group's activity in 2002

Economic standing and PZU Group's activity

The PZU Group achieved record-high performance in 2002 thanks to its successful investment activities, despite the unfavorable investment conditions prevalent on the market. The continuing difficult economic conditions, reflected by e.g. a low GDP growth rate, high unemployment, or bankruptcies of large industrial companies and related group layoffs, had an adverse effect on core insurance business, especially in group and motor insurance. Due to the Poles' declining propensity for saving, customers of insurance companies tended to resign from previously-concluded life insurance agreements.

Amendments to insurance regulations and the Accountancy Act, which became effective in 2002, as well as the related harmonization processes regarding insurance activity, including the change in the valuation of investments, had a significant influence on the PZU Group's activities in the previous year. The financial results of PTE PZU SA, and consequently, of the entire group, were also impacted by delays in the transfer of contributions from ZUS (Social Security Company) to open-end pension funds.

Accurate investment and operating decisions contributed to the PZU Group's financial succes in 2002 despite the difficult economic conditions.

Changes to the PZU Group's activity

In connection with the introduction of a new, three-tier political subdivision of the country, the decision was made in 2002 to adjust the geographical jurisdiction of PZU SA Inspectorates to the political borders of townships. This created optimum conditions for cooperation between regional structures and local state and self-government administration centers, and facilitated consistent and focused prevention and sponsoring activities.

Using the experience of PZU Życie SA, the PZU SA Head Office launched the Enterprise Resource Planning system, forming part of the concept to reorganize the PZU Group's finance division. Its purpose is to improve the quality of financial information and increase its availability, permanently reduce the time necessary to close accounting ledgers and increase the flexibility of processes and records, from which the entire PZU Group will benefit.

In 2002, the PZU Życie SA sales divisions were reorganized. Unified individual sales structures were incorporated into structures of field organizational units. The purpose of the reorganization was to adjust the sales model to the growing market competition. Regarding compensation for sales representatives, commissions are no longer calculated on the basis of written premium; collected premium is used instead. A joint structure was created for running sales activities targeting new customers – both individual and institutional (agency network), which operates besides the company's own sales and service organization targeting current customers.

PZU Group's new strategy

In 2002, work started to formulate a new PZU Group strategy. In the first half of the year, the analysis of initiatives planned and performed by the Group was ordered. A dozen or so projects were selected from the list of almost 100, which due to their scale and the scope of the main objectives were considered as strategic for the PZU Group's further growth.

As a result of the review, the following were identified as the PZU Group's key strategic objectives: the process of augmenting the leading position on the Polish insurance and financial markets, keeping the position of the largest insurance company in Central and Eastern Europe and growing shareholder value.

It was assumed that in order to achieve strategic objectives, it is necessary to implement a uniform operating model in the PZU Group, by modernizing and integrating its companies in respect of management and operating activity. This objective will be furthered by the construction of the Corporate Center, planned in the previous year, which would be responsible for strategic planning and monitoring the Group's performance.

It was considered that reorganization and modernization of the existing sales network should become another important task for the PZU Group, which would allow customers to access all the products of the companies via unified sales channels for the entire Group, in a faster and easier manner. Consequently, the two separate sales networks operated by PZU SA and PZU Życie SA should be unified and their management – centralized. The new operating model will considerably improve the organization of sales, customer service level, and work organization. It is expected that following improvements in the management process and unification of internal operating procedures, operating expenses will be greatly reduced.

It was assumed that organizational changes in the PZU Group should be accompanied by the parallel implementation of cutting-edge IT solutions, which play a fundamental role in supporting the operating activity of Group companies. For this purpose the process of selecting the provider of IT services by the PZU Group started in November 2002.

The PZU Group's most important strategic objectives: to bolster its leadership position, to remain the largest insurer in Central and Eastern Europe, to grow the company's value and to be client-focused by ensuring easier access to the companies' products through uniform sales channels.

Employees of the Mutual Insurance Company in Kraków, 1922

Asset management

Last year, the main objective of the PZU Group asset management process was to maximize the rate of return on investment, at the assumed risk level for each PZU Group company. The asset structure of respective companies was determined by the need to cover insurance-specific reserves with adequate assets, match assets to liabilities, and the need to cover the solvency margin with shareholder funds and take into account each company's financial liquidity risk.

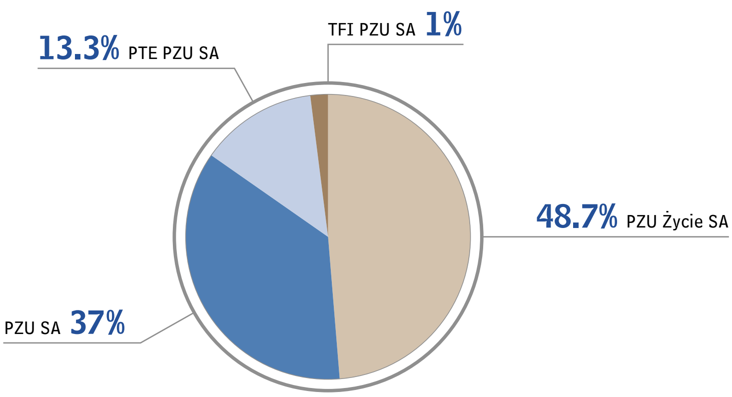
In 2002, the total value of assets managed by the four main PZU Group companies - PZU SA, PZU Życie SA, PTE PZU SA and TFI PZU SA – was PLN 33 billion, of which: PLN 12.2 billion was managed by PZU SA, PLN 16.1 billion by PZU Życie SA, PLN 4.4 billion by PTE PZU SA and PLN 0.3 billion by TFI PZU SA. At the end of 2002, the structure of the assets managed by the PZU Group was dominated by debt securities issued by the State Treasury, which constituted 82.9% of the portfolio. The share of equities listed on regulated markets was 7.5%, while equities not listed on regulated markets and ownership interests in limited liability companies stood at 2.7%. The other assets managed by the PZU Group totaled 6.9% of the investment portfolio.

Integrated rules for managing each financial risk type were in place in PZU SA and PZU Życie SA, with particular emphasis on price and credit risk. Similar rules were used to set prudential limits for investment activity, and the same rules for setting exposure limits to credit risk-based instruments. Some solutions used in these insurance companies were also binding in other PZU Group companies.

The PZU Group's Asset and Liability Committee (ALCO) established in 2001, served an important role in the process of managing the PZU Group's assets. ALCO's key tasks entailed defining the strategic allocation of assets for each portfolio managed by PZU SA and PZU Życie SA according to financial models created for the needs of each company, defining model portfolios for each asset class, defining unified financial risk management principles in each PZU Group company, defining rules for monitoring investment activities in Group companies, and defining rules for its cooperation with financial institutions.

In 2002, the PZU Group intensified work on integrating the process of managing the assets of Group companies in PZU Asset Management SA. The first stage of this process was the integration of asset management principles in PZU SA, PZU Życie SA and TFI PZU SA. Ultimately, PZU Asset Management SA is to manage the assets of the PZU Group.

Assets under management in each company stated as a percentage of the total assets managed by the PZU Group at the end of 2002 %



Reinsurance activity

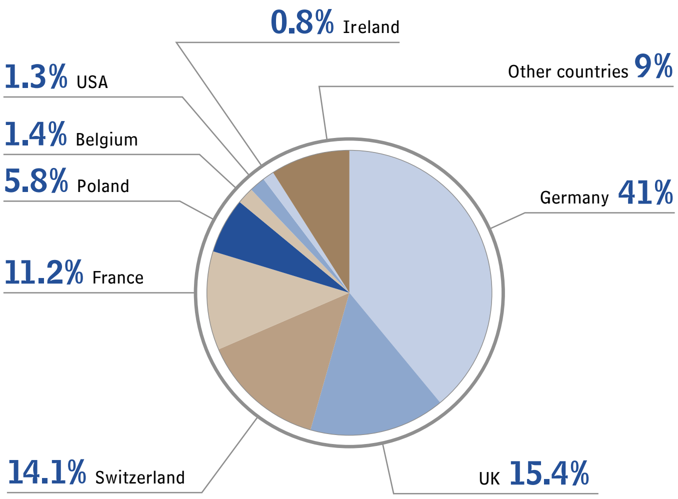
The main objective of the PZU Group's reinsurance policy in 2002 was to ensure security of operations and the market position of companies in a changing social, economic and insurance environment. Numerous external conditions, such as floods in the Czech Republic, Germany and Austria, terrorist attacks, economic recession and bankruptcies of large corporations resulted in bankruptcies or suspensions of activity of many insurance and reinsurance companies, and financial distress of companies previously considered to be stable. For this reason, reinsurers introduced more stringent requirements regarding the terms and conditions of reinsurance coverage and its cost. The scope of reinsurance coverage was narrowed down, new exclusions and clauses were introduced along with the obligation to obtain special approvals from reinsurers.

In 2002, PZU SA continued its work on restructuring reinsurance treaties, i.e. giving up the previously-applied proportional treaties in favor of non-proportional treaties, which – if the company's financial condition is good – are better priced and provide better protection against results of large claims.

Regarding inward insurance, just as in previous years, the company supported domestic insurance companies, mainly by facultative reinsurance, and was the reinsuring party in several foreign inward reinsurance treaties.

PZU Życie SA did not conduct inward reinsurance or retrocession activity in 2002. The company was a party to two outward reinsurance treaties.

PZU SA's reinsurance portfolio (excluding maintenance agreements) in 2002 (according to countries where reinsurers' headquarters are located)	%



Enlargement of the product portfolio

In 2002, PZU Group offered its customers the broadest range of products on the Polish insurance market. Within the framework of its core insurance activity, including property insurance, life insurance and other casualty insurance, PZU Group clients had a range of almost 140 types of insurance from which to choose. Additionally, the Group actively operated on the market for open-end pension funds and investment funds. In 2002, motor insurance, group life insurance and pension insurance had the largest share in the Group's product structure.

PZU SA offered almost 120 insurance products in 18 insurance groups, e.g. property insurance, agricultural, third party liability, accident, sickness, travel and financial. The PZU SA offer includes insurance products composed of several insurance components, such as: "Bezpieczny Dom" (Safe Home) comprehensive property insurance for natural persons, "Bezpieczne Gospodarstwo" (Safe Farm) comprehensive insurance of farm personal property, and "Bezpieczna Firma" (Safe Business) comprehensive insurance for small businesses.

In 2002, compulsory and voluntary motor insurance had the highest share in gross premium income at PZU SA. Their share in the company's portfolio was 74.7%. Property insurance was 12.1%, voluntary accident and sickness insurance 5.5%, and agricultural insurance 4.5% of collected premium.

In order to enlarge the product offer steadily and to boost service competitiveness, in 2002 PZU SA introduced four new insurance products: compulsory TPL insurance for architects and construction engineers, all risk insurance for loss of earnings (ARLOP), motor own damage for rail vehicles and compulsory TPL insurance for entities providing certification services and for detectives. In 2002, PZU Życie SA offered almost 20 group and individual types of coverage and investment insurance. The structure of the PZU Życie SA portfolio was dominated by group insurance. Clients could benefit from insurance and savings programs designed especially for certain professional groups, considering their specific nature, needs and adjusted to the vocational risk (e.g. policemen, firemen, military personnel, customs officers, prison guards and border patrol officers, etc). Individual insurance included life insurance, unit-linked life insurance, juvenile insurance, accident insurance and sickness insurance as a rider.

In 2002, the Health Insurance Department in PZU Życie SA launched pilot sales of a new health insurance in Łódź, Kraków and Gdańsk. In these cities group and individual customers were offered health care and health prophylactics insurance. The program will allow for a more comprehensive verification of customer expectations, and it will foster the development of this part of the insurance market. Last year, preparations started to launch insurance for borrowers, covering the risk of job loss or accidental disability.

In 2002, PZU Życie SA conducted active acquisition activities in the area of employee pension plans in the form of "Pogodna Przyszłość" group life insurance. At the end of the previous year, 16 pension plans were registered.

Powszechne Towarzystwo Emerytalne PZU SA, as was the case the year before, offered membership in the PZU Złota Jesień Open-end Pension Fund, operating in the 2nd pillar of the reformed social security system.

Towarzystwo Funduszy Inwestycyjnych PZU SA offered its customers four investment funds in 2002, targeted at both individual and institutional customers.

The PZU Group has the broadest product offering on the Polish insurance market fitted to meet the needs of various client groups.

Development of the distribution network and channels

PZU Group has the best-developed outlet network on the Polish insurance market. Apart from providing basic insurance services, the network is also prepared to perform special tasks, resulting from unexpected events, such as natural disasters and cataclysms.

Last year, the largest Group company, PZU SA, offered insurance products to its customers via a network of 14 district branches and 352 agencies and inspectorates throughout the country. In its activity, PZU SA cooperated with 6,822 tied agents, 2,686 multiagents, 895 permanent representatives and 1,628 insurance brokers.

PZU Życie SA products were available in almost 380 outlets throughout Poland. Individual insurance could be purchased through 3,889 tied agents, almost 200 insurance brokers and a network of multiagencies. A membership agreement with PZU Złota Jesień Open-end Pension Fund could be concluded in each PZU SA and PZU Życie SA outlet and via canvassers. Participation units in funds managed by TFI PZU SA were sold in the TFI headquarters in Warsaw and in every branch of the Bank Handlowy Brokerage House and the Polonia Net Brokerage House.

PZU Group is in the vanguard of offering bancassurance services on the Polish market. Last year, in cooperation with Bank Millennium, the PZU Group offered five insurance products of PZU SA and three products of PZU Życie SA in the bank branches. As a result of the cooperation with Bank Millennium, insurance with a total premium value of PLN 1.34 million was sold.

As a result of the agreement between the PZU Group and Bank Millennium, clients could purchase the following PZU SA insurance products in this bank's network: "Podróż" (Travel) group accident insurance with travel luggage insurance, "Wypłata" (Payment) group accident insurance with installment-based claim payments, collective apartment insurance - standard version, collective insurance of residential buildings and apartments for persons with a mortgage loan, and "Biznes" (Business) collective business insurance.

Starting in 2002, PZU Życie SA has been offering the following bancassurance products: life insurance for borrowers, "Biznes Menedżer" (Business Manager) life insurance and "Pogodna Jesień" pension insurance.

Since last year, the clients may also buy bank products in the sales network of the PZU Group. Work is in progress to market a co-branded Millennium Visa PZU credit card, entitling cardholders to obtain discounts on selected insurance products offered by the PZU Group.

Insurance agreements may be concluded in the PZU Group's network of more than 700 outlets or with the intermediacy of more than 16 thousand agents, multi-agents and insurance brokers selling all types of insurance.

The **PZU Group** strengthened its position in Central and Eastern Europe by acquiring a majority stake in 2002 in UAB DK Lindra, a Lithuanian insurance company.

Investment in Lithuania

Last year, the PZU Group started the process of strengthening its position in Central and Eastern Europe. In January 2002, the PZU SA Supervisory Board agreed for PZU SA to acquire shares in the UAB DK Lindra insurance company. In February 2002, an agreement was signed, by virtue of which PZU SA became the owner of 75.3% of the share capital of UAB DK Lindra, and subscribed a new issue of Lindra shares, increasing its share capital to LTL 9 million (PLN 9.5 million). New Boards of Directors with PZU Group representatives were appointed in UAB DK Lindra and UAB DK Lindra Gyvybes Draudimas (Lindra Life) – a subsidiary of UAB DK Lindra handling life insurance sales.

At the end of 2002, the share held by UAB DK Lindra in the Lithuanian property insurance market, measured by gross written premium was 7.3%, an increase of 2 percentage points compared to 2001. In 2002, premium written by UAB DK Lindra amounted to LTL 44.2 million, constituting growth of almost 137% over the previous year, almost double the average growth rate in the Lithuanian insurance market. UAB DK Lindra offered 57 insurance products, of which MOD and TPL insurance for motor vehicle owners had the largest share in the portfolio. The Company employs over 250 persons, and cooperates with almost 1,000 insurance agents. The network of field units is made up of nine branches in all major Lithuanian cities, 44 agencies and 10 border outlets.


Jan Dębski,
folk activist, teacher, member of parliament,
reporter of the state insurance act, 1921.

Promotional, prevention and charitable activity

For many years, the PZU brand has been one of the most recognizable trademarks in Poland. Spontaneous recognition of PZU oscillates around 87% while supported recognition surges to 97%[2]. PZU is valued for its long tradition and Polish origin, experience and reliability, strong financial position and easy access to outlets and agents.

The main purpose of the promotional strategy executed in 2002 by the PZU Group was to augment PZU's positive image and take sponsoring activities to support the PZU image as the nation's largest insurer in the context of major cultural and social events.

Additionally, the PZU Group performed prevention tasks to boost the confidence placed by the Poles in PZU – as a company that is socially active, predictable, increasing the safety of citizens with its activities. The Group conducted active charitable activity. The purpose of the PZU Charitable Foundation, established one year earlier, is to provide financial assistance to sick and disabled persons in difficult life circumstances, as a consequence of various types of misfortune.

In 2002, the PZU Group made the decision to become a sponsor of two major, international cultural events: the Four Culture Dialog Festival in Łódź and the Eagle and Three Crowns exhibition presented at the Royal Palace in Warsaw. The PZU Group's participation as the sponsor of these events was justified by their exceptional cultural importance, referring to the best Polish tradition. The sponsoring activity had a good influence on the Group's image, emphasizing its national character and experience resulting from many years of tradition.

The PZU Group's main advertising campaign in 2002 was the advertising campaign called "Do we know each other?" organized by PZU Życie SA. The purpose of the campaign was to show the image of the insurer as a company open to new challenges, dynamic, modern and focused on meeting its customers' personal needs.

Last year, promotional activities of PTE PZU SA were focused on strengthening its connections with members of OFE PZU Złota Jesień and informing them about the Company's current activities.

The PZU Group's most important prevention activities last year focused on increasing road traffic safety. A second edition of the national "Odblaskowe pierwszaki" (Reflective First-graders) campaign, with the purpose of protecting the youngest users of roads was held. The campaign again proved to have an important educational function.

In October 2002, the PZU Group, the Polish Insurance Chamber and the Police signed an agreement about co-financing the "Report 2001" program for increasing road safety. In other prevention activity, the PZU Group provided financial support to the Fire Brigade, assisting in the purchase of modern rescue equipment, to be used to liquidate and prevent acts of God. During the summer holidays, PZU Życie SA carried out a special educational campaign called "Plaża+Zdrowie+Uśmiech=Życie" (Beach+Health+Smile=Life), which aimed at increasing the safety of persons spending their holidays on the water.

Within the framework of last year's activity, the PZU Charitable Foundation provided financial assistance to a dozen or so institutions, and to persons in difficult life circumstances. The Foundation was the intermediary in providing financial assistance to the Foundation Against Leukaemia to organize bone marrow transplants for children with lymphoblastic leukaemia, the Foundation for Disabled Children to purchase rehabilitation equipment and the Stanisław Pigoń Memorial Fund at the Jagiellonian University to fund scholarships for talented youth from rural areas. During this period, the PZU Charitable Foundation has also helped persons injured in road accidents, who have no hope of receiving material assistance from any other source.

[2] Reserch entitled "Private person insurance audit" performed by PENTOR under an engagement from PZU SA, June 2003.

Reforming the motor claims handling system

In 2002, work was continued on restructuring the motor claims handling process in PZU SA. It was agreed that the main assumption for reforming the motor claims handling system should be transferring substantive analysis of road events from the current inspectorates and outlets to specially-prepared, larger organizational units, numbering a dozen or so, in which specialized Claims Handling Centers would be established. Similar tasks will be performed by Claims Handling and Risk Assessment Centers in all the PZU SA regional branches. State-of-the-art IT solutions will be introduced in PZU SA organizational units throughout the country, which will allow inspectorates and other smaller field units to provide complete claim documentation to Claims Handling Teams. They, on the other hand, will focus on developing insurance sales and increasing the direct service level.

Permanent or temporary vehicle inspection points will still operate in all inspectorates in Poland, where PZU clients will be able to report claims and collect indemnification. PZU employees in reporting points are to serve as advisors and account managers, which – apart from selling insurance products – will provide them with necessary information when claims are reported. The number of ”mobile experts” is slated to increase. In response to customer requests, mobile experts will travel to the places indicated by customers to inspect vehicles.

Implementation of the new claims handling system, whose assumptions were developed in 2002, will reduce customer service time and simplify the data transmission system. In the simplest claims, where there is no problem in determining liability, the claim payment should be made in a few days after reporting the claim. In simple claims, the claim handling period should not exceed 14 days, and in complex road accidents (except for bodily injury claims) – not more than 30 days of the reporting date. Implementation of the reform will reduce the insurer’s operating cost and reduce fraudulent reports of undue claims.

Thanks to the reform of the motor claims handling system at PZU SA, the procedures in place to date will be shorter and simpler.

PZU Employees

The PZU Group is one of the largest employers in Poland's financial services sector. At the end of 2002, PZU Group companies employed a total of 17,160 persons. Last year, the implementation of the new integrated human resource model was launched in the two leading PZU Group companies: PZU SA and PZU Życie SA. The reform assumed that e.g. a joint Director of the Human Resource Department would be appointed in both companies. Another goal of the PZU Group is to develop a uniform human resource management system in all Group companies. New HR policy projects included competence-based employee assessment system aiming to improve the processes of recruiting new employees and verifying the current ones and the Oracle financial support system, whose introduction is to increase the quality of financial service of employees.

Trade unions play a considerable role in shaping the HR management strategy. In 2002, negotiations were held regarding the Company's Collective Bargaining Agreement, which was then signed in April 2003. An agreement was concluded in 2002 on restructuring salaries in the PZU SA Head Office for years 1997-2001, and on the average monthly salary growth.

PZU is one of the largest employers in the financial service sector in Poland. Approximately 17 thousand people are working for the PZU Group's financial success.

Employees of the Mutual Insurance Company, 1950

In 2002, the PZU Group took third place in the Rzeczpospolita daily's top 500 companies. The fifth annual congress of insurance brokers awarded the "Fair Play" award to the PZU Group.

PZU Academy

Organization of insurance management and finance training systems was an important part of the PZU Group's activity, serving the purpose of increasing employee qualifications and competence. In November 2001, an innovative project called the PZU Academy was launched to educate PZU Group employees.

The first edition of post-graduate studies in the PZU Academy was organized by the PZU Group with the Małopolska Administration College of the Cracow Economic Academy. The curriculum included lectures and consultations run by high-class experts and practitioners in law, insurance, economics, management, sociology and marketing. In the academic year of 2001/2002, the Academy educated the PZU Group companies' top 100 employees selected from among 1,200 candidates. Additionally, the 20 best graduates of the Cracow Economic Academy became students of the Academy. Last year, six graduates were employed in PZU Group companies. PZU Academy studies are fully funded by PZU. The decision has been made to organize more editions of the PZU Academy.

PZU employees also participated in management training courses organized by Eureko.

Leading positions in the rankings

The PZU Group's activity on the Polish insurance and financial market was confirmed by numerous independent rankings and contests. In 2002, the PZU Group was ranked 3rd in the prestigious ranking of the largest companies, the "top 500" list published by the Rzeczpospolita daily.

PZU SA has also been awarded the golden statue of "Trusted Brand 2002" – for the brand enjoying the greatest trust among Reader's Digest readers, and the main award in the "Insurance Company" category. Additionally, PZU SA received the "Fair Play" award in the 5th edition of the Brokers' Congress, and holds the "Cracow Culture Patron" statue awarded by the Mayor of Cracow, and the "Cultural Patron" awarded for special achievements in supporting the culture of the Silesia region.

1950

Discussion of the financial results generated by the PZU Group and its individual companies

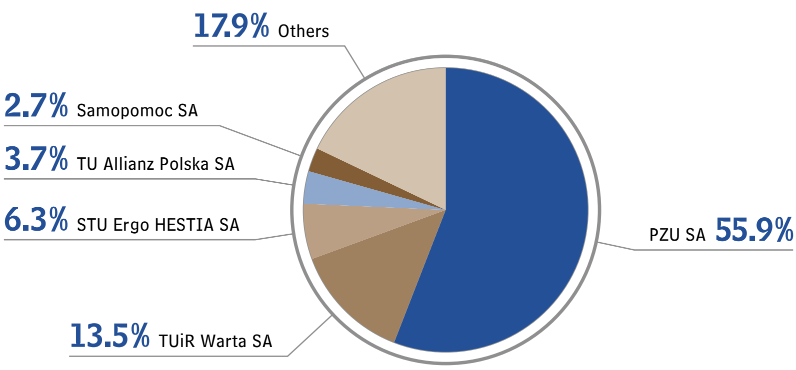
PZU Group's share of the Polish insurance market

According to preliminary estimates, at the end of 2002, the combined market share of PZU SA and PZU Życie SA measured by the gross written premium was 53.1%[3] and had declined by approximately 1.5 percentage points over the previous year.

PZU SA's share in the property and casualty insurance market measured by gross written premium was 55.9% in 2002, declining by ca. 1.4 percentage points compared to last year. PZU Życie SA's share in the life insurance market was 49.5%, i.e. 1.4 percentage points lower than last year.

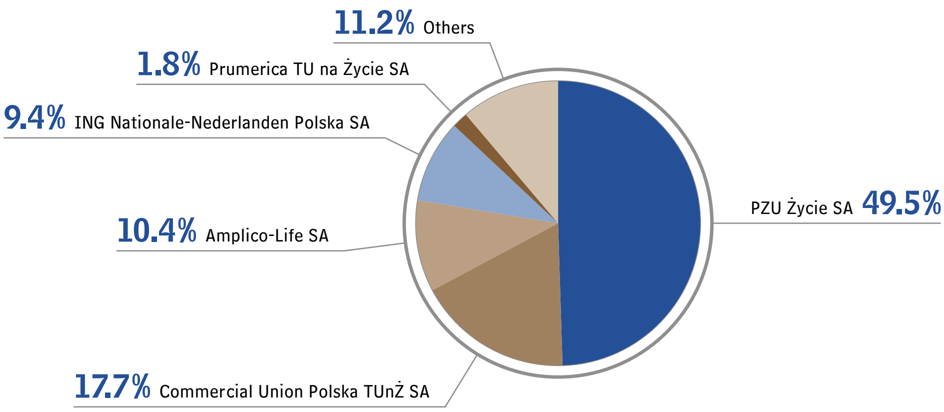
The share of OFE PZU Złota Jesień in the market of open-end pension funds at the end of 2002, measured by the number of fund members in the pension fund managed by the company was 16.3%.

PZU SA's share in the Section 2 insurance market according to gross written premium at the end of 2002 %

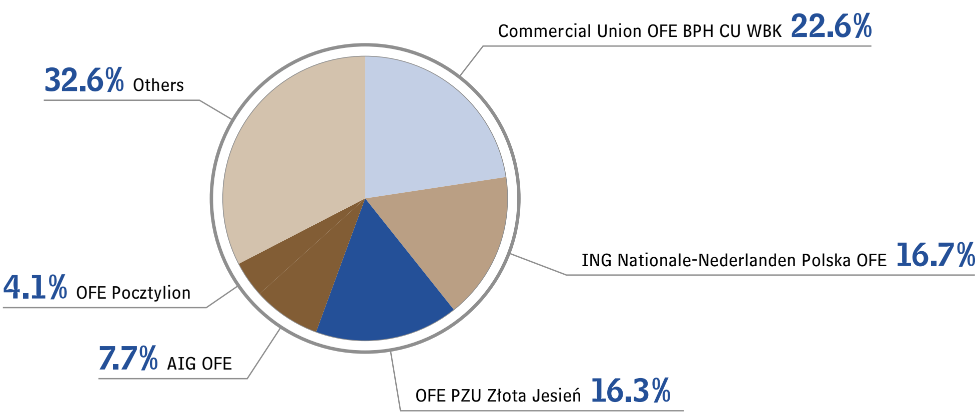


[3] Source: KNUiFE - unverified data

PZU Życie SA's share in the Section 1 insurance market according to gross written premium at the end of 2002	%



Pension insurance market share according to the number of OFE members on 31 December 2002	%



The **PZU Group's** net profit reached the record level of PLN **1.24 billion** in 2002.
This was also the best financial result in the history of Polish insurance.

Gross written premium

In 2002, the gross written premium posted by the PZU Group in life insurance and other property and casualty insurance, after consolidation adjustments, was PLN 12,289.6 million, i.e. 0.5% higher than the year before.

In 2002, the gross premium written by PZU SA in direct insurance was PLN 7,382.6 million, which marked a decline of 1.8% compared to the previous year. The reduced premium was influenced mostly by the 6.2% reduction of premium written in MOD insurance and the 2.1% reduction in motor TPL insurance. The main cause of the declining motor insurance premium is considered to be the steady decline in car sales.

Written premium increased in all other insurance groups. The highest growth in 2002 was recorded in assistance: 119.1% and financial insurance: 116.8%.

Motor insurance, with a share of 74.7% preserved its dominant position in the structure of the PZU SA premium portfolio, despite the share decreasing by 1.7 percentage points. Other insurance experienced an increased share in the portfolio in 2002.

The number of insurance agreements concluded in 2002 was PLN 47.9 million, i.e. 2% higher than in 2001. The highest growth rate in the number of insurance agreements was recorded in compulsory TPL insurance – 165.9% (excluding motor TPL) and voluntary TPL insurance – 120.6%. The increase in the overall number of concluded insurance agreements may cause a considerable increase in the written premium amount if economic conditions improve.

The average premium value declined by 3.7% compared to 2001, reaching PLN 154.1.

Premium written in indirect insurance concluded in 2002 was PLN 11.6 million and increased PLN 7.4 million over the previous year.

The gross premium income at PZU Życie SA increased in 2002 to PLN 4,898.3 million, marking an increase of 4% compared to the 2001 numbers, i.e. PLN 4,711.7 million.

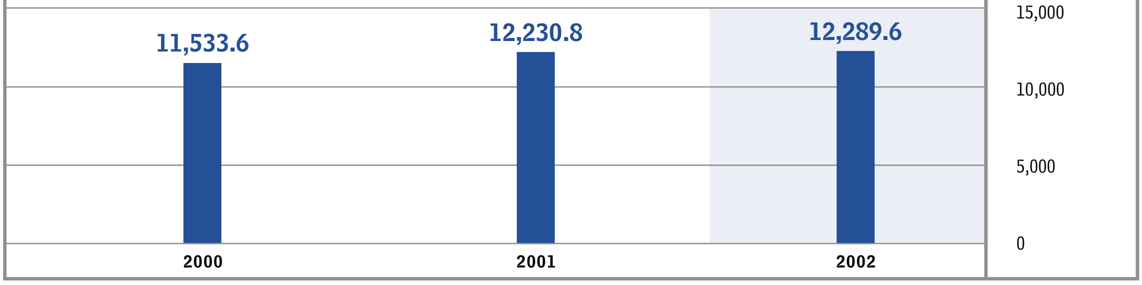
Traditional group and continued insurance had the largest share in the structure of products sold ("P" group employee insurance, "P" continued group employee insurance, continued "D" and accident insurance) with riders (surgery, hospitalization, critical illness), which constituted 80.7% of total written premium (PLN 3,953.2 million). 12.4 million persons held this insurance coverage.

Premium written for the new type of group insurance (Pogodna Jesień group pension insurance, Życie group life insurance, Firma endowment insurance, Pogodna Przyszłość unit-linked group life insurance) was PLN 426.9 million in 2002, thus reaching 8.7% of all sales. The total number of persons covered with this insurance reached 895 thousand.

Premium written in individual insurance increased as well in 2002 (individual endowment insurance with a growing sum and premium, term insurance, individual Pogodna Jesień, Mocna Przyszłość, Credo) up to PLN 515.6 million. This insurance constituted 10.5% of all premium written, and covered over 480 thousand persons.

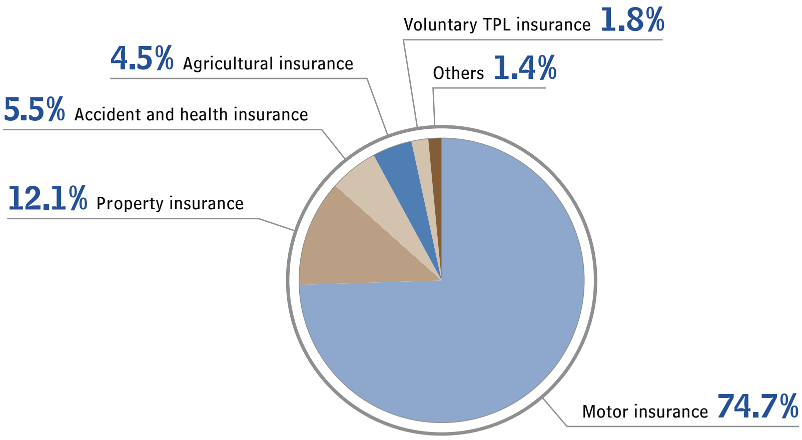
Old portfolio insurance, for which gross premium income decreased from PLN 3.3 million in 2001 to PLN 2.8 million in 2002, constituted a mere 0.05% of all premium written. The number of agreements in that portfolio decreased from 444 thousand in 2001 to 389 thousand in 2002.

Gross written premium in the PZU Group in 2000 - 2002



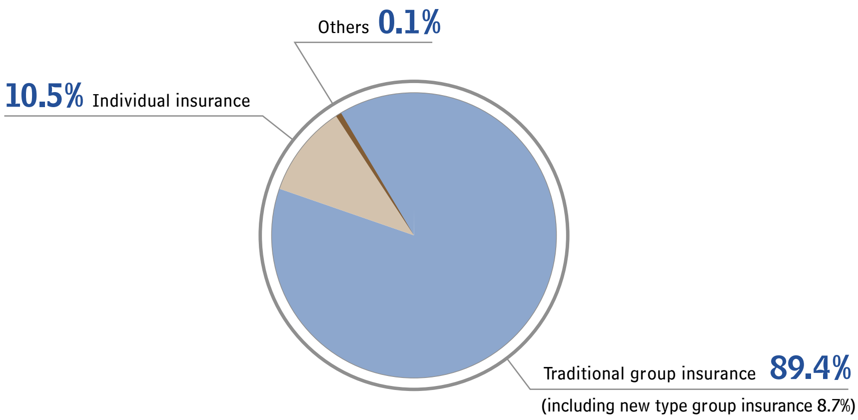
Structure of gross written premium in PZU SA by type in 2002

%



Structure of gross written premium at PZU Życie SA in 2002

%



Claims paid

The PZU Group paid net claims of PLN 7,556.2 million in 2002. The gross amount of claims and benefits paid by the PZU Group in direct insurance and inward reinsurance, handling costs included, was PLN 7,506.6 million, 7% more than the amount paid out in the previous year.

The amount of claims and benefits paid by PZU SA, claims handling costs included, was PLN 4,471.8 million, i.e. 0.5% more than the year before. This amount included direct insurance claims and benefits of PLN 4,220 million, experiencing a decrease of 0.4% over 2001. The largest reduction in claim payments was recorded in financial insurance, voluntary agricultural, property and MOD insurance. Increased claims were recorded in TPL insurance, compulsory agricultural, assistance, accident and sickness, and TPL for motor vehicle owners (including Green Card).

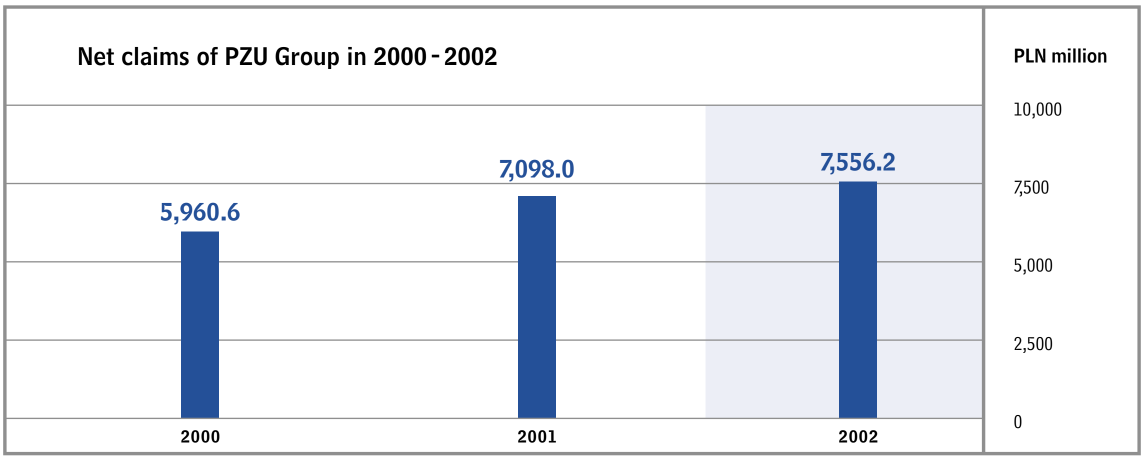
The structure of claims paid by PZU SA in 2002 did not change significantly compared to the previous year. The main position was still motor insurance, with the share of 82.1% of the entire portfolio. The claims paid to written premium ratio was 57.2%, i.e. 0.8 percentage points more than it was last year. The number of claims and annuities increased to 1.5 million, i.e. by 6.1%. This increase resulted mainly from compulsory agricultural insurance, compulsory TPL and financial insurance. Improved claims handling procedures meant that the average claim value in 2002 was PLN 2,862.4, declining by ca. 6.1% compared to last year.

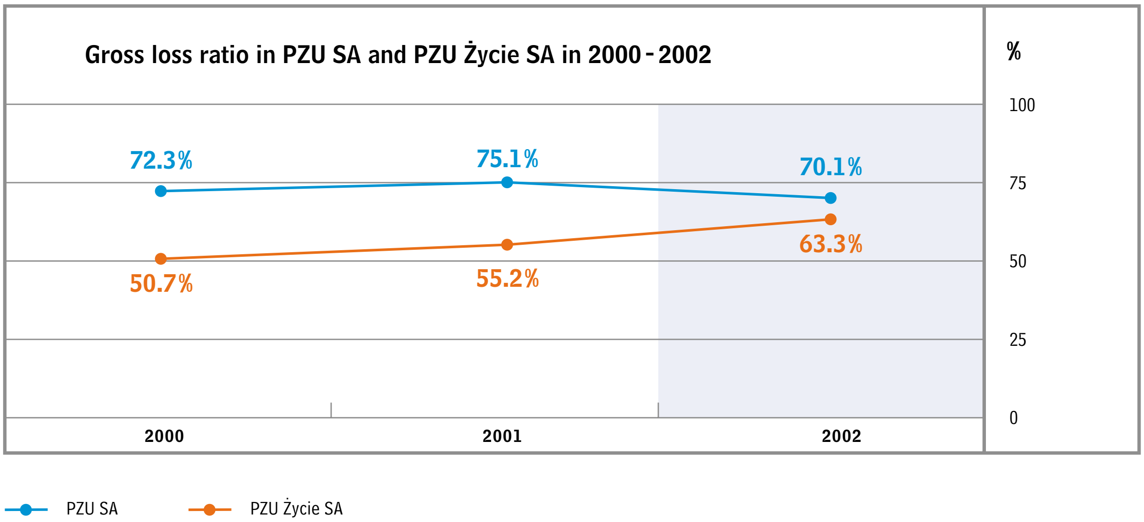
In 2002, a significant reduction of loss ratios was recorded in direct and indirect insurance. The gross loss ratio (calculated as the ratio of claims and benefits with handling costs, plus the change of reserves for unpaid gross claims and benefits to gross collected premium) was 70.1%, while the net loss ratio was 69.6% These ratios in 2001 were 75.1% and 74.5%, respectively.

PZU Życie SA paid gross benefits of PLN 3,035.4, recording an increase of 18.3% over PLN 2,566.5 million in claims paid in 2001.

The largest position in the structure of gross benefits paid was traditional group insurance – 76.6%, followed by new type group insurance – 13.6%. Benefits in individual insurance constituted 9.8% of all benefits paid.

In 2002, the gross loss ratio was 63.3%, climbing 8.1 percentage points over the previous year. Such high growth was related mainly to the increase in the loss ratio in new type group insurance. This resulted from the fact that some of the PZU Życie SA customers used the opportunity to surrender Pogodna Jesień group pension insurance. Increased surrenders were caused mostly by the fact that in the beginning of 2002, some customers acquired the right to surrender the accumulated funds (five years after concluding the agreement).





"April is the month of insurance"

Insurance-specific reserves

At the end of 2002, the balance of PZU Group reserves was PLN 25,797.5 million, thus constituting 209.9% of gross written premium. At the end of 2002, the balance of PZU Group's net reserves reached PLN 23,899.2 million, i.e. 202.9% of net written premium. Therefore, it was 16.9% higher than on 31 December 2001.

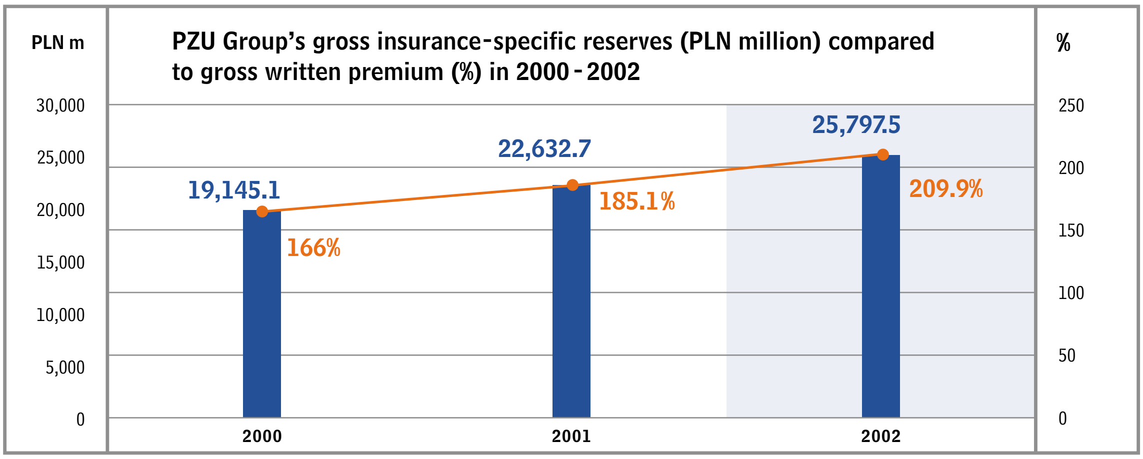
The balance of gross insurance-specific reserves established by PZU SA increased in 2002 by 9.2%, to reach PLN 11,145.8 million at year-end. The share of reserves in gross written premium increased to 150.7%, which reflects high security of payment on account of possible claims and benefits. At the same time, the cost of changing the balance of insurance-specific reserves decreased by 28.3%, amounting to PLN 936 million at the end of 2002.

The balance of net insurance-specific reserves increased 15.4% and stabilized at PLN 9,247.6 million, which corresponded to 134.2% of net written premium. The cost of changing the balance of net insurance-specific reserves was PLN 1,232.3 million, thus constituting 17.9% of net written premium.

The balance of gross insurance-specific reserves of PZU Życie SA amounted to PLN 14,652 million on 31 December 2002, i.e. PLN 2,229.3 million more than in 2001.

At the end of 2002, PZU Życie SA had assets covering insurance-specific reserves of PLN 15,876 million, which compared to gross reserves, yields an insurance fund coverage ratio of 108.4%. The same ratio at the end of 2001 was 102.2%.

The PZU Group gives a guarantee of the highest level of security in its insurance services thanks to the growth in the gross insurance-specific reserves.



Insurance activity expenses

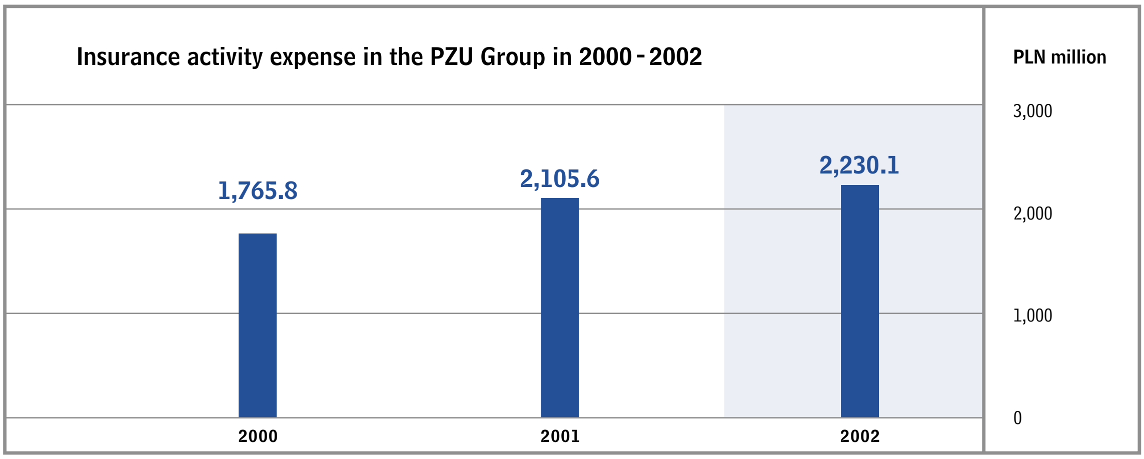
The insurance activity expenses in the PZU Group were PLN 2,230.1 million in 2002, i.e. 5.9% more than in 2001.

The life insurance and other property and casualty insurance cost in the PZU Group was PLN 2,412.2 million. Its share in gross written premium was 19.6%, of which acquisition costs were 9.3%, and administrative costs were 10.4% of gross written premium. In 2001, these cost items constituted 9.7% and 9.9% of gross written premium, respectively.

The acquisition and administrative costs incurred by PZU SA in 2002 amounted to PLN 1,619.5 million, marking an increase of 2.8% over the previous year. The share of this cost in gross written premium was 21.9%, i.e. one percentage point more than in 2001. Administrative costs constituted 12.6% of all premiums, while acquisition costs constituted 9.3%.

Direct insurance acquisition costs and administrative costs at PZU Życie SA were PLN 845.3 million in 2002, marking an increase of 1.2% compared to the previous year. The share of cost incurred in gross written premium was 17.2%, including administrative costs of 8%, and acquisition costs of 9.2%.

Continuation of the company's restructuring process had a significant influence on the company's costs and their increase in 2002. This process covered the modernization and integration of IT systems within the PZU Group, increase of payroll expenses, utilization of services provided by independent intermediaries and the steady increase of prices paid for these services, resulting from market conditions, introduction of projects aimed at improving the efficiency and organization of the claims handling process, and establishment of a wide repair network for PZU customers.

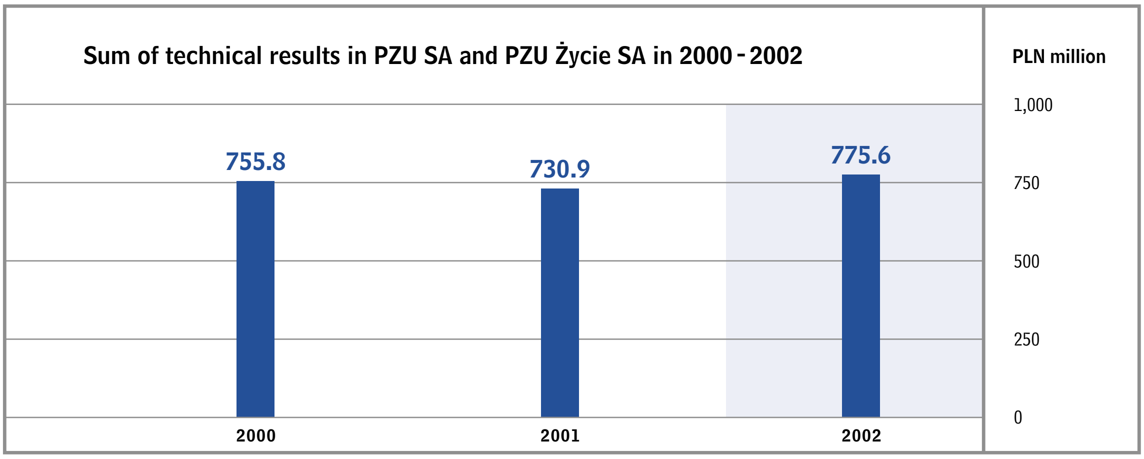


Technical result

The positive technical result of PLN 775.6 million[4] was transferred to the consolidated non-technical profit and loss account of PZU SA in 2002.

2002 was another year in which PZU SA achieved an excellent technical result, which amounted to PLN 252.4 million. This was 3.9% more than recorded in 2001. A positive technical result was achieved in all groups in the portfolio, except for MOD and voluntary TPL insurance.

The technical account at PZU Życie SA closed in 2002 with a positive amount of PLN 400.2 million, which constitutes a decrease of 16.9% compared to the previous year. The positive technical result was recorded in group 1 (life insurance) and group 5 (accident and sickness insurance, which are riders to the insurance in groups 1-4).




2nd athletic meeting of the PZU employees, 1974

[4] Due to the specific nature of the companies forming the PZU Group, the consolidated technical insurance account was prepared separately for life insurance and for other property and casualty insurance.

Investing activity

The balance of PZU Group investments at the end of 2002 was PLN 27,426.3 million, 20.5% over the 2001 level.

The PZU Group's investment income increased 14% over the previous year, to PLN 3,497.8 million.

The balance of PZU SA investments at the end of 2002 increased 19.2% to PLN 12,186.4 million. Important changes took place in the structure of the company's investments. PZU SA's investing activity was focused on treasuries. The share of treasury bonds and bills in the entire portfolio increased to 87.5%, 7.5 percentage points over the 2001 level. Shares of bank deposits and stock listed on the Warsaw Stock Exchange increased as well, while the share of loans, real estate, private equity and ownership interests in limited liability companies and other securities decreased.

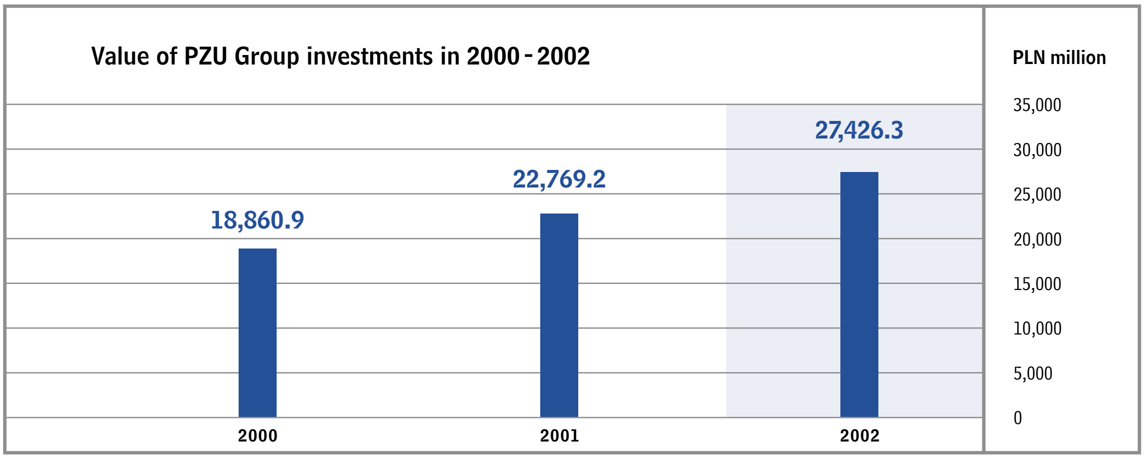
At the end of 2002, investment income (including unrealized investment gains) increased to PLN 1,375.7 million, by 6.3%. On the other hand, the cost of investment activity declined considerably by 26.4%, down to PLN 236.6 million.

Net investment income was PLN 1,139.1 million, increasing 17.1% over 2001. The average yield on the company's investments in 2002 was 10.2%.

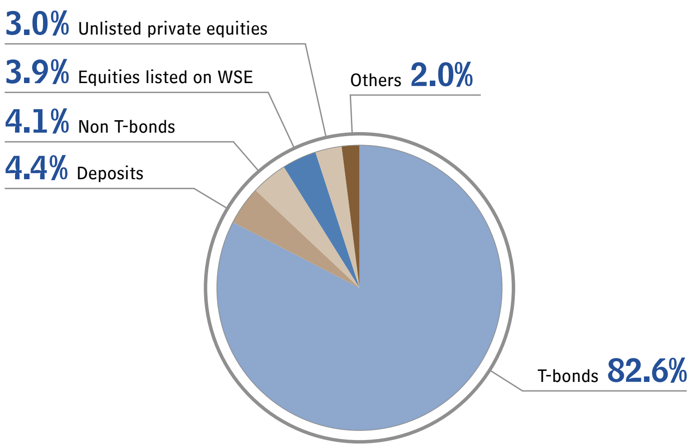
The balance of PZU Życie SA investments at the end of 2002 was PLN 16,140.6 million, increasing PLN 2,603.8, or 19.2% over 2001. The main area of the company's investing activity in 2002 was the market of treasury debt securities. The share of treasury securities in the company's investment portfolio was 85.2%, and increased three percentage points over the previous year. The share of other investment types in the investment portfolio declined in these financial market segments in 2002 due to the limited activity of the PZU Group.

In 2002 PZU Życie SA generated PLN 1,683.9 million of income on financial investments and real estate, which increased 16.7% compared to the previous year.

In 2002, both companies developed internal regulations regarding new financial instruments in which investments could be made. This applied in particular to mortgage bonds and derivatives. These regulations opened new investment opportunities and the possibility to hedge interest rate risk on the company's cash positions. Similar regulations will be developed in the near future for non-treasury debt securities, which will allow PZU Życie SA to re-launch its operations in that market segment.

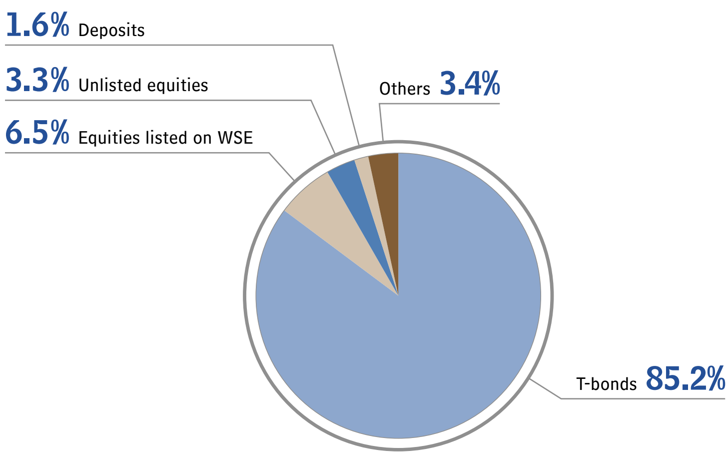


Structure of PZU SA investments on 31 December 2002	%



The **PZU Group's** gross financial result amounted to PLN 1.78 billion, which means that it was more than 20% higher than one year ago. This was the best result in the history of the company and the Polish insurance market.

Structure of PZU Życie SA investments on 31 December 2002	%



Financial result

In 2002, the PZU Group recorded a record-high gross financial result in the history of the company and the Polish insurance market. It amounted to PLN 1,782.4 million, i.e. 20.1% more than last year. This translated directly into increased net profit for the PZU Group in 2002, which amounted to PLN 1,240.8 million.

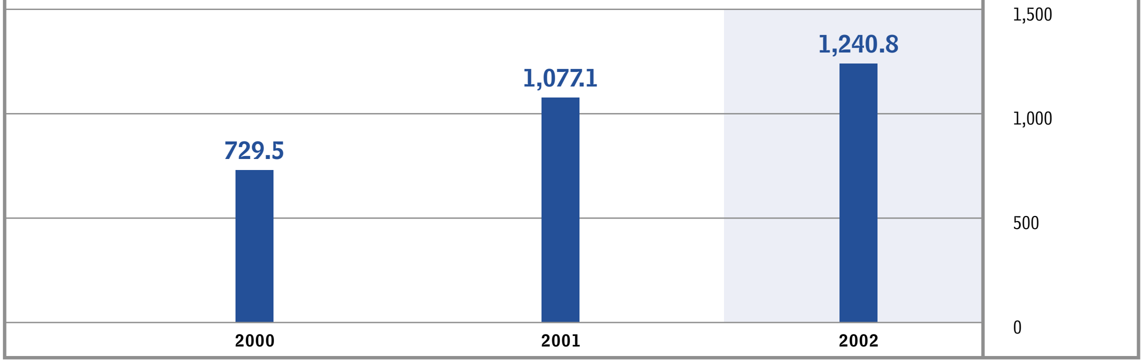
In 2002, PZU SA achieved a gross financial result of PLN 1,248.3 million, PLN 277.6 million over the previous year. Net profit increased by 28.5% to PLN 871.1 million. The company's excellent performance was strongly influenced by its investment income. The PZU SA Shareholders' Meeting made the decision to allocate 15% of last year's profit to shareholder dividends.

Gross profit at PZU Życie SA amounted to PLN 481.3 million, decreasing 14.7% from 2001. The company's net profit was PLN 302.4 million, down by PLN 89 million from 2001. The PZU Życie SA Shareholders' Meeting allocated the Company's entire net profit to reserve capital.

We should note that 2002 was a turning point for the financial performance of PTE PZU SA in its 3-year history. The company achieved its first net profit of PLN 4.4 million.

The financial performance of the PZU Group was composed of the following (PLN million):	31 December 2001	31 December 2002
Technical result	730.9	775.6
Investment income	1,287.5	1,372.6
Balance of other operating income and expenses	(101.1)	(41.2)
Balance of extraordinary gains and losses	(0.2)	(0.3)
Gross financial result	1,483.5	1,782.4
Tax	410.5	550.4
Profit on stakes held in subsidiaries consolidated using the equity method	4.1	8.8
Net financial result	1,077.1	1,240.8

PZU Group's net profit in 2000-2002



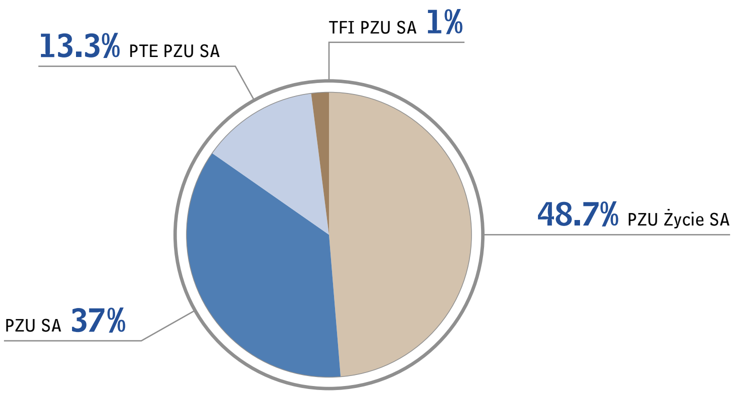
Balance sheet structure

The consolidated balance sheet as at 31 December 2002 was closed with total assets of PLN 30,975.4 million, up 18.6% from the end of December 2001. The equity of the PZU Group increased 40.3% over the end of 2001, reaching PLN 4,964.5 million at the end of 2002. Investment remained the main asset item, amounting to 84.6% of total assets. Insurance-specific reserves, at 83.3%, remained the largest liability item (net: 77.2%).

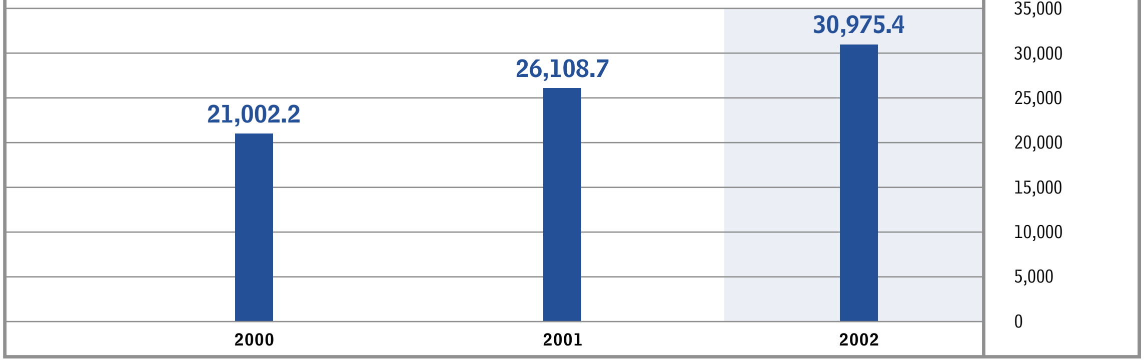
Total liabilities and equity at PZU SA on 31 December 2002 reached PLN 14,381.6 million, of which equity was PLN 3,551.1 million. The overall increase of liabilities and equity by 18.5% compared to the previous year was also due to the increase of equity by PLN 1,042.1 million.

Total liabilities and equity at PZU Życie SA on 31 December 2002 amounted to PLN 17,159.8 million. At the end of 2002, the equity of PZU Życie SA had increased from PLN 1,685.9 million at the end of 2001 (on a pro-forma basis) to PLN 1,997.8 million.

Assets under management in each company stated as a percentage of the total assets managed by the PZU Group at the end of 2002 %



PZU Group's assets in 2000 - 2002 PLN million



Solvency margin coverage

The solvency margin of PZU SA was PLN 1,042 million at the end of 2002. The solvency margin coverage with shareholder funds increased 83.5 percentage points up to 339.8%.

On 31 December 2002, the solvency margin of PZU Życie SA was PLN 1,324.9 million, and was covered with shareholder funds amounting to PLN 1,948.7 million. The surplus shareholder funds for solvency margin coverage amounted to PLN 623.8 million. According to the decision made by PUNU (National Insurance Regulatory Authority) on 17 April 2001, the company was obligated to consider, in its solvency margin calculation method, benefits to be paid out on account of the death of the co-insured, and the possibility of additional benefits for beneficiaries in the event of the insured's death, supporting its decision with the Finance Minister's Ordinance of 17 October 1995. In June 2001, the company changed the method for calculating the solvency margin, adjusting it to regulatory requirements.

The **PZU Group** improved its balance sheet structure last year by closing the consolidated balance sheet with a positive figure nearly 20% higher than one year earlier while growing equity by more than 40% over the balance at the end of the previous year.

Leaflet campaign conducted by the "Solidarni" Resistance Groups prior to the June 4 elections at the intersection of Świętokrzyska and Marszałkowska in Warsaw in May 1989.

Discussion of the results of OFE PZU Złota Jesień

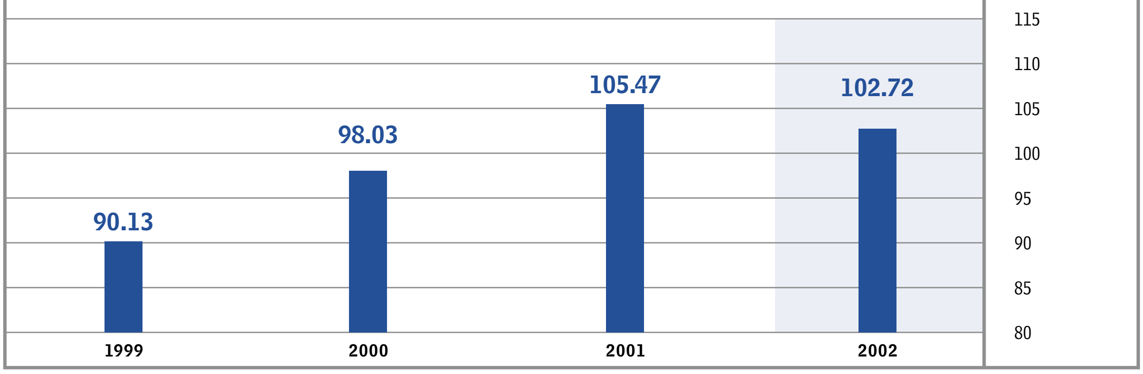
Since the beginning of its activity, OFE PZU Złota Jesień has been among the leaders of the open-end pension funds in Poland. In 2002, OFE PZU Złota Jesień confirmed and strengthened its market position, ranked third according to membership and asset volume. On 31 December 2002, the net asset value of OFE PZU Złota Jesień amounted to PLN 4,448.6 million. The financial result of OFE PZU Złota Jesień for 2002 was PLN 480.8 million, up PLN 223 million from 2001 (PLN 257.2 million in 2001).

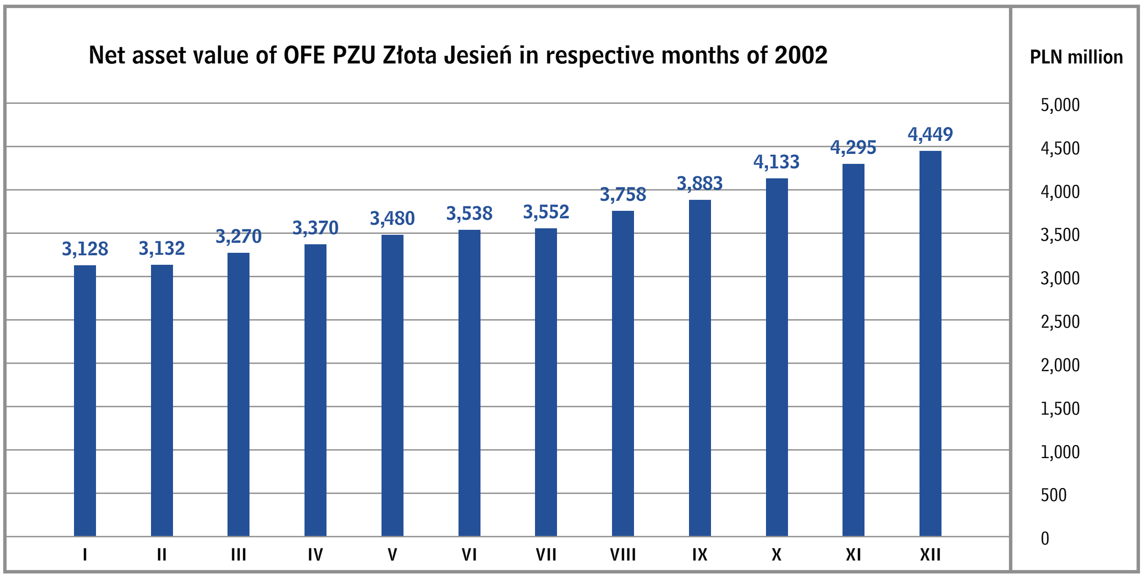
At the end of the previous year, OFE PZU Złota Jesień ran 1,786,728 accounts, giving it a 16.3% market share.

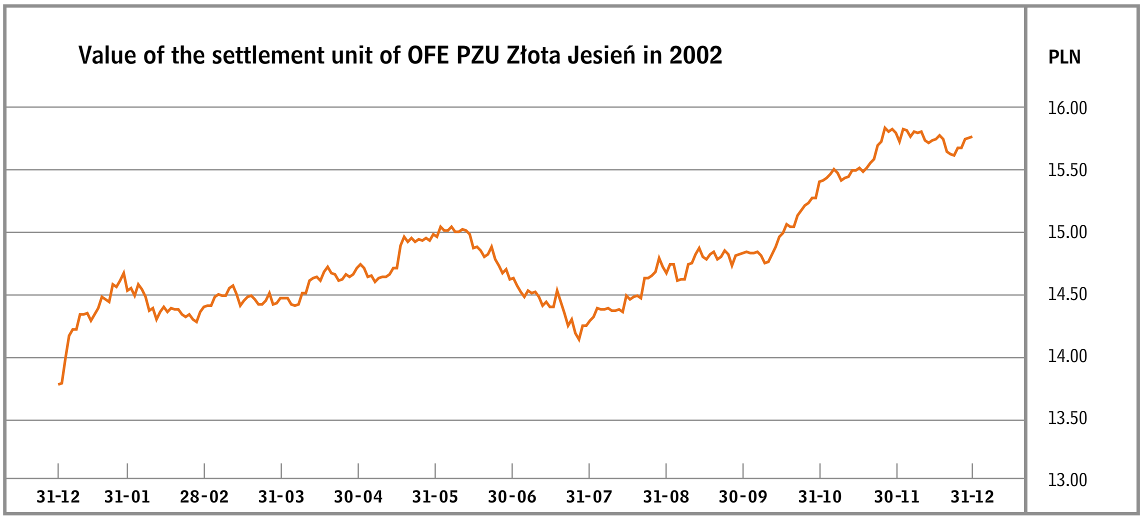
On the last valuation day in 2002, the settlement unit was worth PLN 15.73. The return on the investment, measured by the change in the settlement unit value, was 14.4%, and was the fourth best result on the market.

The average premium in 2002 was PLN 102.7.

Average premium contribution without interest, transferred to OFE PZU Złota Jesień for each contribution period in 1999 - 2002




Net asset value of OFE PZU Złota Jesień in respective months of 2002
PLN million
5,000
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
3,128
3,132
3,270
3,370
3,480
3,538
3,552
3,758
3,883
4,133
4,295
4,449
I
II
III
IV
V
VI
VII
VIII
IX
X
XI
XII


Value of the settlement unit of OFE PZU Złota Jesień in 2002
PLN
16.00
15.50
15.00
14.50
14.00
13.50
13.00
31-12
31-01
28-02
31-03
30-04
31-05
30-06
31-07
31-08
30-09
31-10
30-11
31-12

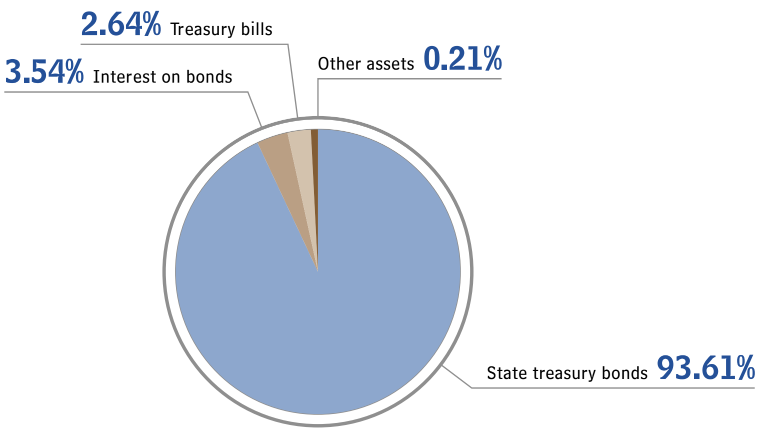
2002

Discussion of the results of the TFI PZU SA investment funds

At the end of December 2002, Towarzystwo Funduszy Inwestycyjnych PZU SA, managed three open-end funds, which started operations on 25 October 1999. From December 2000 to November 2002, TFI PZU SA managed one additional closed-end fund with a definite period of activity (the fund was liquidated in December 2002). At the end of 2002, the net asset value of the open-end TFI PZU SA funds was PLN 267 million. TFI PZU SA was ranked 13th among the investment fund companies according to collected assets, with a market share of 1.2%.

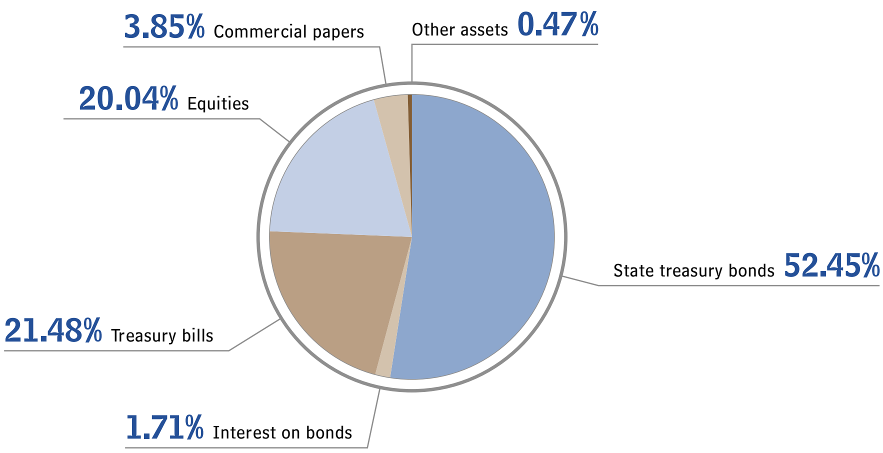
The proper structure of the investment portfolio was the basis for good performance achieved by the PZU Polonez Debt Fund throughout 2002. The second half of 2001 and all of 2002 witnessed regular interest rate cuts. The reference rate, which was 11.5% at the end of 2001, plunged to 6.7%. Market rates and yields offered by debt securities and money market instruments issued by the State Treasury and corporates decreased considerably. In such conditions, the annual rate of return on investments in participation units in the PZU Polonez Debt Fund for 2002, at 15.8%, was a very good result, the fund was ranked 5th among 16 debt funds on the market.

Portfolio of the PZU Polonez Debt Fund on 31 December 2002 %



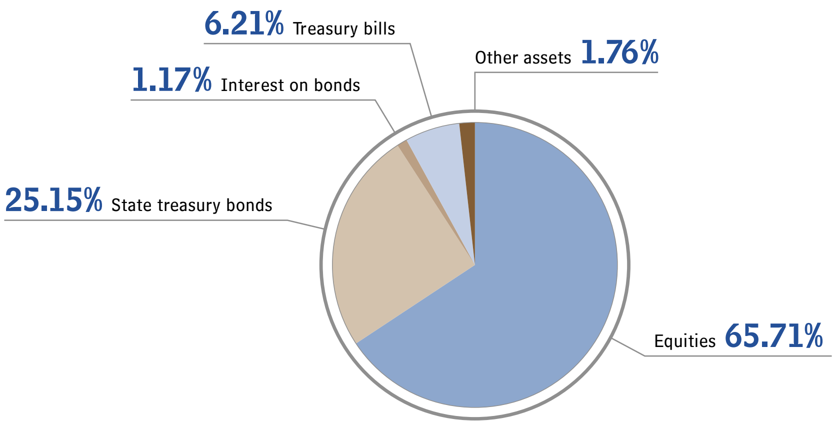
In 2002, the investment target was also met by the PZU Mazurek Stable Growth Fund. The 9% yield achieved in 2002 means that the investment in the fund's participation units ensured, in line with the declared target and the investment policy described in the fund's articles of association, growth in the participation unit's value exceeding the growth recorded by the stock market indices.

Portfolio of the PZU Mazurek Stable Growth Fund on 31 December 2002 | %



The PZU Krakowiak Equity Fund achieved the rate of return of 4.8%, exceeding the growth recorded by the WIG index, and gave it fifth place among funds investing on the stock market. This performance confirms the high quality of management of third party assets.

Portfolio of the PZU Krakowiak Equity Fund on 31 December 2002 | %



PZU Group's Annual Report 2002

Financial statements and chartered accountants' opinions

1. Composition of the Powszechny Zakład Ubezpieczeń SA Capital Group and the scope and method of consolidation

The Powszechny Zakład Ubezpieczeń SA Capital Group ("PZU Capital Group", "PZU Group") consists of the following companies:

- Powszechny Zakład Ubezpieczeń SA ("PZU", "parent company") as the parent company,
- Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie") as a subsidiary subject to consolidation by the full method,
- Powszechne Towarzystwo Emerytalne PZU SA ("PTE PZU") as a subsidiary subject to consolidation by the full method,
- PZU Tower Sp. z o.o. ("PZU Tower") as a subsidiary subject to consolidation by the full method,
- PZU-CL Agent Transferowy SA ("PZU-CL Agent Transferowy") as a subsidiary subject to consolidation by the full method as of 1 December 2001,
- Krakowska Fabryka Armatur SA ("KFA") as a subsidiary shown in the consolidated financial statements by the equity method in light of the clauses in art. 51 of the Regulation issued by the Finance Minister on 10 December 2001 on the detailed accounting rules for insurance companies (Journal of Laws, Number 149/2001, Item 1671, hereinafter referred to as the "Finance Minister's Accounting Regulation for Insurance Companies"), starting as of 1 January 2002,
- Fabryka Wyrobów Precyzyjnych VIS SA ("VIS") as an affiliate shown in the consolidated financial statements by the equity method in light of the clauses in art. 51 of the Finance Minister's Accounting Regulation for Insurance Companies, starting as of 1 January 2002.

According to art. 4 section 2 of the Accountancy Act of 29 September 1994 (Journal of Laws, Number 76/2002, Item 694 as amended, hereinafter "Accountancy Act"), events, including economic operations, are captured in accounting ledgers and are shown in the financial statements in compliance with their economic content. In these consolidated financial statements, this applies in particular to the method of consolidating the companies that were established for the purpose of discharging a specific function in favor of the parent company and the entire PZU Capital Group ("special purpose entity") and that are financed by PZU Capital Group units. One may then speak of spinning off a part of the parent company's activity to other legal entities, in which case a material percentage of the sales revenues generated by the so-established entities originates from the parent company and other member companies in the PZU Capital Group. Accordingly, units like PZU Tower Sp. z o.o. and PZU-CL Agent Transferowy SA were consolidated using the full method, since, according to the parent company, only such a presentation will ensure an accurate and clear representation of the PZU Capital Group's financial and asset standing.

The other units, with the exception of Uniprom SA, were not consolidated on account of the fact that their financial data are immaterial with respect to the parent company's financial data in light of the criteria prescribed by art. 4 sections 1 and 4 of the Accountancy Act.

Uniprom SA was not consolidated as at 31 December 2002 on account of the permanent loss of control as a result of its declaration of bankruptcy by the decision handed down by the Regional Court for the Capital City of Warsaw on 8 October 2002. As at 31 December 2002 the investment value in the equities of Uniprom SA is fully included in the impairment charge; consequently, the value of the shares of Uniprom SA carried in the consolidated financial statements is equal to zero.

1.1 Powszechny Zakład Ubezpieczeń SA

PZU SA (hereinafter "PZU") is a joint stock company with its registered offices in Warsaw at Al. Jana Pawła II 24. It was established by transforming Państwowy Zakład Ubezpieczeń into a treasury-owned joint stock company by the power of art. 97 of the Insurance Activity Act of 28 July 1990, uniform text in the Journal of Laws, Number 11/1996, Item 62 as amended (hereinafter "Insurance Activity Act"). PZU assumed the entirety of activity in the area of property and casualty insurance, while the life insurance portfolio was transferred to PZU Życie SA, a subsidiary established in 1991 in which PZU, as at 31 December 2002 held 100.00% of the share capital.

The procedure and the principles for effecting the transformation and the assumption of the liabilities of the former Państwowy Zakład Ubezpieczeń were regulated in the Finance Minister's regulation of 18 December 1991 (Journal of Laws, Number 119/1991, Item 522). The formal and factual transformation of Państwowy Zakład Ubezpieczeń into a treasury-owned joint stock company took place on 23 December 1991 according to notary deed Rep. A-III-21516/91.

On 27 December 1991 Powszechny Zakład Ubezpieczeń Spółka Akcyjna – a company wholly-owned by the State Treasury was entered into the Commercial Register in the Regional Court for the Capital City of Warsaw at the Economic Court in the 16th Business Registration Division in section B under file number 30314.

On 30 April 2001 PZU was entered into the National Court Register in the Regional Court for the Capital City of Warsaw at the 19th Business Division of the National Court Register in the register of entrepreneurs under file number KRS 0000009831.

On 10 November 1999 the State Treasury sold a 30% stake to the Consortium of Eureko and BIG BG Inwestycje SA, a subsidiary of BIG Bank Gdański SA (currently Bank Millennium SA).

On 25 November 1999 the PZU Management Board announced the commencement of the process of gratuitously selling 1,295,284 shares of series A registered stock with a par value of PLN 10 each in PZU (12,952,840 shares after the stock split) to eligible current and former employees.

The parent company's shareholding structure as at 31 December 2002 according to the share book kept by PZU may be depicted as follows:

Shareholder	% of votes at the General Meeting
State Treasury	55.09%
Eureko B.V.	20.91%
BIG BG Inwestycje SA	10.00%
Other shareholders	14.00%
Total	100.00%

PZU's line of business as provided for in its articles of association is to organize and conduct the following:

- direct and indirect (reinsurance) insurance activity in Poland and abroad,
- prevention activity to prevent the occurrence of claims and to limit their extent,
- emergency adjustment activity, i.e. determine the extent of claims, secure recourse claims, pursue claims and perform other claims handling activities based on agreements or engagement with other insurance companies,
- other services associated with insurance and reinsurance activity,
- sales activity in favor of open-end pension funds on the basis of the provisions concerning the organization and operation of pension funds.

Insurance activity is conducted in the area of property and other casualty insurance (Section II of the attachment to the Insurance Activity Act).

According to the European Business Activity Classification system, insurance (EKD 66.03) is PZU's core business.

1.2 Powszechny Zakład Ubezpieczeń na Życie SA

PZU Życie SA (hereinafter "PZU Życie") is a joint stock company with its registered offices in Warsaw at Al. Jana Pawła II 24 established on 18 December 1991 and entered in the Commercial Register on 20 December 1991 in the Regional Court for the Capital City of Warsaw at the Economic Court in the 16th Business Registration Division in section B under file number RHB 30260.

On 26 July 2001, by the power of the decision handed down by the Regional Court for the Capital City of Warsaw at the 19th Business Division, PZU Życie obtained an entry into the register of entrepreneurs in the National Court Register under file number KRS 0000030211.

PZU Życie's line of business is to organize and conduct insurance and insurance-related activity in the groups of insurance specified in Section I entitled "Life insurance" of the attachment to the Insurance Activity Act:

- life insurance,
- juvenile insurance,
- unit-linked life insurance,
- insurance annuities,
- accident and sickness insurance if they are riders to the insurance enumerated in groups 1-4.

According to its articles of association, PZU Życie is also entitled to conduct activity in the field of inward and outward reinsurance and retrocession.

According to the European Business Activity Classification system, life insurance (EKD 66.01) is PZU Życie's core business. On 18 September 1998 PZU Życie obtained a permit to conduct sales activity in favor of open-end pension funds.

1.3 Powszechne Towarzystwo Emerytalne PZU SA

PTE PZU SA (hereinafter "PTE PZU") was established by notary deed on 6 August 1998 and registered with the Regional Court for the Capital City of Warsaw in the Economic Court in the 16th Business Registration Division on 8 December 1998.

On 8 December 2001 PTE PZU was entered into the National Court Register in the Regional Court for the Capital City of Warsaw at the 19th Business Division of the National Court Register in the register of entrepreneurs under file number KRS 0000040724.

On 31 December 2002 the registered offices of PTE PZU were located in Warsaw at Al. Jana Pawła II 24.

PTE PZU's line of business is as follows:
- establishing an open-end pension fund,
- managing the established, open-end pension fund and representing it with respect to third parties in the manner prescribed by the articles of association and managing more than one open-end pension fund in the events and according to the terms and conditions set forth in the Act of 28 August 1997 on the Organization and Operation of Pension Funds (Journal of Laws, Nr 139/1997 item 934 as amended).

PTE PZU manages PZU Złota Jesień Open-end Pension Fund ("OFE PZU"), which was established on the basis of the permit issued by the Pension Fund Regulatory Authority ("UNFE"), currently called the Commission for Insurance and Pension Fund Oversight ("KNUiFE"), issued on 26 January 1999 and it was entered in the pension fund register kept by the District Court in Warsaw on 3 February 1999 under file number Rfe6.

According to the European Business Activity Classification system, auxiliary activity associated with insurance and pension and disability funds (EKD 67.20) is PTE PZU's core business.

1.4 PZU Tower Sp. z o.o.

PZU Tower Sp. z o.o. (hereinafter "PZU Tower") with its registered offices in Warsaw at Al. Jana Pawła II 24 was established by notary deed (Repertorium A number 4499/98) on 25 August 1998 for an unlimited term.

On 27 August 1998 PZU Tower was entered in the Commercial Register kept by the Regional Court for the Capital City of Warsaw in the 16th Business Registration Division under file number RHB 54506.

On 2 July 2001 PZU Tower was entered into the National Court Register in the Regional Court for the Capital City of Warsaw at the 19th Business Division of the National Court Register in the register of entrepreneurs under file number KRS 0000021844.

According to the articles of partnership, PZU Tower's line of business includes the following:
- managing and selling real estate for its own account,
- buying and selling real estate for its own account,
- leasing real estate for its own account,
- managing residential real estate,
- managing non-residential real estate,
- intermediacy in buying, selling, leasing and appraising real estate,
- advertising activity,
- clearing facilities,
- activity associated with the organization of fairs.

According to the European Business Activity Classification system, buying and selling real estate, intermediacy in buying and selling real estate and administering real estate (EKD 70.11) are PZU Tower's core business.

1.5 PZU-CL Agent Transferowy SA

PZU-CL Agent Transferowy SA (hereinafter "PZU-CL Agent Transferowy") was established by notary deed on 29 June 1998. On 26 September 2001 PZU-CL was entered into the National Court Register kept by the Regional Court for the Capital City of Warsaw in the 20th Division of the National Court Register under file number KRS 0000043026.

As at 31 December 2002 the registered offices of PZU-CL Agent Transferowy were located in Warsaw at ul. Matuszewska 14.

According to the articles of association, PZU-CL Agent Transferowy's line of business is as follows:
- auxiliary activity associated with insurance and pension and disability funds (PKD 67.20) and performing other functions associated with servicing investment funds and settling life and pension insurance (PKD 67.13),
- advisory services concerning computer hardware (PKD 72.10), activity concerning software (PKD 72.20), data processing (PKD 72.30) and activity related to databases (PKD 72.40),
- performing other functions associated with servicing investment funds (PKD 67.13),
- conducting all commercial and service activity for its own account, also in corroboration and cooperation with other entities in the following areas:
  a) wholesale and retail commerce on commodities with the exception of commodities whose trading is licensed on the basis of the provisions on economic activity,
  b) imports and exports of commodities whose trading is licensed on the basis of the provisions on economic activity (PKD 51.52).

1.6 Krakowska Fabryka Armatur SA

Krakowska Fabryka Armatur (hereinafter "KFA") was transformed from a state-owned enterprise into a joint stock company on the basis of the notary deed drawn up on 6 October 1997 under file number Repertorium A-18495/97. KFA was established for an unlimited term.

KFA was entered into the Commercial Register (currently the National Court Register) on 11 December 1997 kept by the Regional Court for the city of Kraków – Śródmieście in the VIG/R Division under file number H/B 7696.

As at 31 December 2002 the registered offices of KFA were located in Kraków at ul. Zakopiańska 72.

In 1999 PZU Życie purchased 21,600 thousand shares of KFA stock from the State Treasury for PLN 34,266 thousand, representing 80.00% of KFA's share capital.

KFA's line of business during the financial year was as follows:
- manufacturing bathroom and kitchen fixtures, taps and valves,
- light metal foundry,
- metal processing and coating metals,
- manufacturing plastic and rubber goods,
- manufacturing heaters and central heating boilers,
- wholesale, retail and consignment commerce.

1.7 Fabryka Wyrobów Precyzyjnych VIS SA

Fabryka Wyrobów Precyzyjnych "VIS" SA (hereinafter "VIS") was transformed from a state-owned company into a joint stock company on the basis of the notary deed drawn up on 22 March 1996 under file number A-4945/96. VIS was established for an unlimited term.

The basis for establishing VIS was the act of transforming the state-owned company called Kombinat Przemysłu Narzędziowego "VIS" into a joint stock company pursuant to the State-owned Company Commercialization and Privatization Act of 30 August 1996. VIS was entered into the Commercial Register (currently the National Court Register) on 30 April 1996 under file number RHB 46865 in the Regional Court in Warsaw.

As at 31 December 2002 the registered offices of VIS were located in Warsaw at ul. Kasprzaka 29/31.

In 1999, as a result of the agreement concluded with the State Treasury, PZU Życie purchased 646 thousand shares of VIS stock for PLN 23,253 thousand, representing 37.995% of VIS's share capital.

PZU Życie formed a consortium with the 4th National Investment Fund Progress SA ("NFI Progress") to make an investment to enhance VIS's value and to execute its proprietary investment plans.

VIS's line of business during the financial year was as follows:
- manufacturing metal tools to cut metal, diamond tools, craftsmanship tools and aids, sandpaper materials and tools,
- manufacturing catalog and special-order tools, devices and plastic goods,
- manufacturing apparatus to measure mechanical values with a mechanical and electronic scale,
- manufacturing spare parts and equipment,
- manufacturing wooden goods,
- service activity in the area of thermal, galvanic and paint processing, carpentry services and other services in the Company's line of business,
- service activity in the area of promotion, marketing and advertising, organizing commercial exhibitions and commercial advisory services in the Company's line of business,
- service activity in the area of rents and leases, recreation and relaxation, health protection and environmental protection using its base,
- commercial activity in Poland and abroad in the Company's line of business and concerning other industrial articles.

2. Specification of the sources of information forming the grounds for drawing up the PZU Capital Group's consolidated financial statements

The PZU Capital Group's consolidated financial statements for the year ending 31 December 2002 were drawn up by the parent company on the basis of the data from the consolidation documentation. The consolidation documentation is kept according to the Accountancy Act and the Finance Minister's Accounting Regulation for Insurance Companies.

The financial data from the individual financial statements of PZU Tower, PTE PZU and PZU-CL Agent Transferowy were allocated for consolidation purposes to the appropriate line items in the financial statements of the insurance companies.

The format of the PZU Capital Group's consolidated financial statements for the year ending 31 December 2002 ("consolidated financial statements") included in this document and the scope of disclosed information comply with the following provisions:
- Accountancy Act, (Journal of Laws, Number 76/2002, Item 694),
- Finance Minister's Accounting Regulation for Insurance Companies.

The financial year of the units whose financial statements were consolidated overlaps with the parent company's financial year. The financial year in the consolidated financial statements began on 1 January 2002 and ended on 31 December 2002.

Unless otherwise noted, all the amounts presented in these financial statements are stated in thousands of Polish zloty.

3. Ongoing concern assumption

The PZU Capital Group's consolidated financial statements have been drawn up under the assumption that the PZU Capital Group member companies will be ongoing concerns for at least 12 months after the balance sheet date, in other words, after 31 December 2002. The PZU Management Board has not ascertained, as at the date of signing the consolidated financial statements, any facts or circumstances that would indicate a threat to PZU's ability to continue its activity over the 12 months after the balance sheet date as a result of an intentional or an induced discontinuation or a material curtailment of its hitherto activity.

4. List of the units in the PZU Capital Group and their financial highlights

The following information has been presented below:

- list of the units in the PZU Capital Group as at 31 December 2002 along with their financial highlights for the financial year ended 31 December 2002,
- table depicting the percentage of the share capital and the percentage of votes held directly or indirectly by PZU in the individual PZU Capital Group member companies as at 31 December 2002 and as at 31 December 2001 along with the lines of business of these companies.

Item	Unit's equity, including:						Liabilities and special funds, including:	Long-term	Unit's receivables, including:	Long-term	Unit's total assets	Sales revenues	Value of the shares/ownership interests unpaid by the issuer
	Share capital	Contributions due to equity (negative figure)	Reserve capital	Other equity, including:	Retained earnings (uncovered losses) carried forward	Net profit (loss)							
Subsidiaries consolidated by the full method as at 31 December 2002:	738 500	–	1 674 650	(92 589)	(331 987)	235 648	615 307	399 931	366 785	160 086	17 945 685	5 152 226	–
1. PZU Życie[5]	295 000	–	1 209 697	493 058	186 923	302 385	170 390	545	346 031	159 732	17 159 783	4 898 333	–
2. PTE PZU	32 000	–	288 000	(229 046)	(233 471)	4 425	2 762	–	7 545	354	102 796	114 893	–
3. PZU-CL Agent Transferowy	500	–	17 953	2 165	1 641	524	7 820	–	11 301	–	37 052	64 747	–
4. PZU Tower	411 000	–	159 000	(358 766)	(287 080)	(71 686)	434 335	399 386	1 908	–	646 054	74 253	–
Subsidiaries carried using the equity method as at 31 December 2002:	57 000	–	–	(13 541)	(17 180)	3 639	6 682	–	10 637	–	55 092	86 797	–
5. Krakowska Fabryka Armatur SA (KFA)	57 000	–	–	(13 541)	(17 180)	3 639	6 682	–	10 637	–	55 092	86 797	–
Unconsolidated subsidiaries as at 31 December 2002:	51 854	–	18 693	(26 656)	(34 008)	4 046	44 927	–	28 260	22	130 305	94 276	–
6. PZU NFI Management SA[1]	400	–	–	5 899	–	5 899	1 161	–	2 414	–	8 210	18 973	–
7. SYTA Development Sp. z o.o. (in liquidation)[1/2]	792	–	5 187	(8 000)	(7 809)	168	14 374	–	5 588	–	28 111	7 720	–
8. TFI PZU SA[1]	10 000	–	3 562	(1 711)	(4 988)	3 277	297	–	479	–	12 256	7 663	–
9. Polska Grupa Usług Finansowych SA (PGUF)[1]	9 500	–	–	(10 592)	(9 050)	(1 542)	2 780	–	1 407	–	2 249	8 954	–
10. Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS)[1]	192	–	122	158	(6)	61	251	–	163	–	723	2 105	–
11. Sigma Investments Sp. z o.o.[1]	50	–	–	29	(5)	34	–	–	–	–	79	–	–
12. PZU Asset Management SA	4 000	–	1 500	(3 179)	(2 090)	(1 089)	24	–	36	22	2 491	36	–
13. Grupa Inwestycyjna Centrum Sp. z o.o. (GIC)[1]	1 200	–	247	(357)	(17)	(340)	227	–	523	–	1 318	(2)	–
14. CERPO Sp. z o.o. (in liquidation)[1]	40	–	–	(4 710)	(4 703)	(7)	4 690	–	–	–	20	–	–
15. Grupa Multimedialna SA	15 300	–	–	(6 917)	(5 527)	(1 390)	1 173	–	3 523	–	9 871	–	–
16. UAB DK Lindra	10 380	–	8 075	2 724	187	(1 025)	19 950	no data	14 127	no data	64 977	48 827	–
Affiliates carried by the equity method as at 31 December 2002:	17 000	–	397	(13 760)	(27 000)	13 240	42 424	30 337	19 392	7 779	58 066	21 342	–
17. Fabryka Wyrobów Precyzyjnych VIS SA	17 000	–	397	(13 760)	(27 000)	13 240	42 424	30 337	19 392	7 779	58 066	21 342	–
Unconsolidated affiliates as at 31 December 2002:	203 302	–	754 320	(308 056)	(183 681)	(53 475)	202 132	19 594	92 300	–	992 165	282 431	–
18. Polskie Towarzystwo Reasekuracyjne SA (PTR)[1/5]	105 180	–	1 143	3 082	–	3 082	7 887	no data	42 869	no data	267 723	148 591	–
19. Laktopol Sp. z o.o.[3]	10 000	–	388	3 064	(2 787)	(4 618)	34 574	1 129	33 381	–	no data	77 296	–
20. PPW Uniprom SA[3]	47 000	–	–	(55 117)	(15 278)	(39 838)	129 944	7 365	8 460	–	155 473	48 373	–
21. IX NFI im. Kwiatkowskiego SA[4]	3 006	–	327 036	(82 556)	(26 139)	(4 828)	2 586	–	3 108	–	251 761	8 929	–
22. Kolej Gondolowa Jaworzyna Krynicka SA[1]	30 394	–	–	(17 326)	(15 396)	(1 936)	20 960	11 100	274	–	34 356	6 266	–
23. ICH Center SA	510	–	322	870	–	440	340	–	676	–	2 263	3 271	–
24. Nadwiślańska Agencja Ubezpieczeniowa SA[1]	1 200	–	863	59	–	59	169	–	140	–	2 292	1 645	–
25. IV NFI Progress SA[4]	3 006	–	237 870	(96 811)	(64 955)	(7 653)	4 348	–	1 296	–	150 251	(7 186)	–
26. II NFI SA[4]	3 006	–	186 698	(63 321)	(59 126)	1 817	1 324	–	2 096	–	128 046	(4 754)	–
Total	**1 067 656**	**–**	**2 448 060**	**(454 602)**	**(593 856)**	**203 098**	**911 472**	**449 862**	**517 374**	**167 887**	**19 181 313**	**5 637 072**	**–**

[1] Data not audited by a chartered accountant.

[2] Data for the period from 2 April 2002 to 31 December 2002.

[3] Data for the 9 months from 1 January to 30 September 2002.
The value of the shares in Uniprom SA carried in the consolidated financial statements is equal to zero.

[4] In the case of NFI, the line item "sales revenues" includes investment income and realized and unrealized investment gains (losses).

[5] Sales revenues understood to mean gross written premium.

	Company name	Seat	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU		Line of business
			31 Dec. 2001	31 Dec. 2002	31 Dec. 2001	31 Dec. 2002	
	Subsidiaries consolidated using the full method as at 31 December 2002:						
1.	PZU Życie SA	Warsaw	99.99%	100.00%	99.99%	100.00%	Life insurance
2.	PTE PZU SA	Warsaw	99.99%	100.00%	99.99%	100.00%	Establishing and managing an open-end pension fund
3.	PZU-CL Agent Transferowy	Warsaw	99.99%	100.00%	99.99%	100.00%	Auxiliary activity associated with insurance and pension funds
4.	PZU Tower Sp. z o.o.	Warsaw	100.00%	100.00%	100.00%	100.00%	Buying, operating, renting and selling real estate
	Subsidiaries carried by the equity method as at 31 December 2002:						
5.	Krakowska Fabryka Armatur SA (KFA)	Kraków	8540%	90.53%	85.40%	90.53%	Manufacturing bathroom and kitchen fixtures
	Unconsolidated subsidiaries as at 31 December 2002:						
6.	PZU NFI Management SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Purchasing and subscribing shares and ownership interests as well as financial and advisory activity in the area of exercising ownership rights to shares and ownership interests
7.	SYTA Development Sp. z o.o. (in liquidation)	Warsaw	100.00%	100.00%	100.00%	100.00%	Buying and selling real estate, intermediacy in buying and selling real estate, administering real estate
8.	TFI PZU SA	Warsaw	99.99%	100.00%	99.99%	100.00%	Establishing, representing and managing investment funds
9.	Polska Grupa Usług Finansowych SA (PGUF)	Warsaw	99.14%	100.00%	99.14%	100.00%	Insurance intermediacy and insurance service
10.	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS)	Warsaw	79.15%	79.17%	79.15%	79.17%	Administer claims handling under contract from insurance companies
11.	Sigma Investments Sp. z o.o.	Warsaw	99.99%	100.00%	99.99%	100.00%	Investment activity. Buying and selling the shares of public companies, bonds and other publicly-traded securities
12.	PZU Asset Management SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Managed account services
13.	Grupa Inwestycyjna Centrum Sp. z o.o. (GIC)	Warsaw	99.97%	100.00%	99.97%	100.00%	Financial and advisory activity in the area of exercising ownership rights to shares and ownership interests
14.	CERPO Sp. z o.o. (in liquidation)	Gliwice	100.00%	100.00%	100.00%	100.00%	Provision of services in the area of collecting and processing information concerning vehicle records
15.	Grupa Multimedialna SA	Warsaw	99.35%	99.35%	96.82%	96.82%	Investment activity in the technology-media-telecommunication sector
16.	UAB DK Lindra	Vilnius (Lithuania)	0.00%	75.28%	0.00%	74.33%	Property insurance
17.	Sindbad SA	Opole	65.00%	0.00%	65.00%	0.00%	Tourist activity
	Affiliates carried using the equity method as at 31 December 2002:						
18.	Fabryka Wyrobów Precyzyjnych VIS SA	Warsaw	38.00%	38.00%	38.00%	38.00%	Manufacturing tools, apparatus, spare parts
	Unconsolidated affiliates as at 31 December 2002:						
19.	Polskie Towarzystwo Reasekuracyjne SA (PTR)	Warsaw	23.76%	23.76%	23.76%	23.76%	Organizing and conducting indirect insurance activity (reinsurance)
20.	Laktopol Sp. z o.o.	Warsaw	29.89%	29.89%	29.89%	29.89%	Milk and milk-derivative raw material processing
21.	PPW Uniprom SA	Warsaw	21.28%	21.28%	21.28%	21.28%	Publishing activity and service activity associated with printing; manufacturing paper and cardboard packaging
22.	IX NFI im. Kwiatkowskiego SA	Warsaw	23.96%	23.96%	23.96%	23.96%	Financial activity, managing NFI assets
23.	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	35.48%	35.97%	35.48%	35.97%	Conducting ski and tourist lifts
24.	ICH Center SA	Warsaw	26.00%	26.00%	26.00%	26.00%	Claims handling under Greed Card
25.	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	30.00%	30.00%	30.00%	30.00%	Service insurance
26.	IV NFI Progress SA	Warsaw	20.27%	20.27%	20.27%	20.27%	Financial activity, managing NFI assets
27.	II NFI SA	Warsaw	20.13%	20.13%	20.13%	20.13%	Financial activity, managing NFI assets
28.	Zakłady Papiernicze w Krapkowicach SA	Krapkowice	21.85%	0.00%	21.85%	0.00%	Manufacturing paper goods

As at 31 December 2001 the PZU Capital Group's consolidated financial statements included five consolidated companies using the full method. They were as follows: PZU, PZU Życie, PZU Tower, PTE PZU and PZU-CL Agent Transferowy, where in 2001 PZU-CL Agent Transferowy was included in the consolidated financial statements for 11 months according to the equity method, and then as a result of increasing the shareholding, it was consolidated according to the full method.

4.1 Type and impact exerted by changes to the composition of the units in the consolidated financial statements

With respect to last year, changes have occurred in the composition of the units included in the consolidated financial statements. Starting from 1 January 2002, on account of the materiality with respect to the parent company's financial data (according to the criteria prescribed by art. 4 sections 1 and 4 of the Accountancy Act) the consolidated financial statements include Krakowska Fabryka Armatur SA and Fabryka Wyrobów Precyzyjnych VIS SA, which are captured therein by using the equity method.

These companies were not included by the equity method in the consolidated comparable data for 2001.

If they had been included in the consolidated financial statements for 2001, the impact on the approved consolidated financial statements for 2001 would have been as follows:

- the consolidated balance sheet amount would have been lower by PLN 10,964 thousand,
- the net consolidated financial result would have been lower by PLN 10,964 thousand,
- the consolidated equity would have been lower by PLN 10,964 thousand.

5. Fundamental accounting principles (policy)

In all the member units of the PZU Capital Group the asset and liability valuation methods comply with the provisions of the Accountancy Act and the Finance Minister's Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and the method of presenting financial instruments (Journal of Laws, Number 149/2001, Item1674), while, additionally, at PZU and PZU Życie they comply with the Finance Minister's Accounting Regulation for Insurance Companies.

5.1 Consolidation rules

In the financial year ended 31 December 2002 the consolidated financial statements included 4 subsidiaries of the parent company using the full method and 2 entities carried by using the equity method.

The PZU Capital Group's consolidated financial statements include the balances of the parent company and the subsidiaries after eliminating mutual transactions and after recognizing minority interest in these subsidiaries.

For the purpose of drawing up the consolidated financial statements, the following consolidation exclusions were made with respect to the data of the units consolidated by the full method:

- balance sheet value of the parent company's investments in each subsidiary,
- share capital of the subsidiaries,
- other equity of the subsidiaries paid in before 1 January 1995,
- mutual receivables and liabilities of the consolidated units,
- income and expenses for operations carried out between consolidated units,
- unrealized gains or losses from the Capital Group's point of view on operations carried out between consolidated units but which are set forth in the consolidation values,
- dividends paid to the parent company.

Within the framework of the corporate valuation using the equity method, a line item entitled "Ownership interests in subsidiaries valued according to the equity method" was separated from the non-current assets in the consolidated balance sheet, whereby the ownership interests are carried at purchase price adjusted by the difference between the purchase price of the ownership interests and the value of these ownership interests in these units' equity as well as in the PZU Group's consolidated profit and loss account as a result of the units valued by the equity method.

The difference between the purchase price of the ownership interests and their value in the equity of these units is determined and carried in a separate line item of the consolidated balance sheet and refers to the consolidated profit and loss account.

Moreover:

- the minority shareholders' interest in the profit was specified and captured in the Group's net consolidated profit,
- the minority shareholders' interest in equity was specified and captured in the consolidated balance sheet in a separate line item from the parent company's equity.

Consolidation goodwill is determined with respect to subsidiaries in the event that the fair value of the net assets of the acquired unit differs from the purchase value of the ownership interests. This difference is appropriately carried in the line item “Goodwill of subsidiaries” or “Negative goodwill” and is written off over a period of five years in the non-technical consolidated profit and loss account.

On account of the uncertainty concerning the future ability to grow the value of the companies valued by the equity method, as at 31 December 2002, which is the first balance sheet date in which these companies were valued according to the equity method, goodwill was not recognized and the surplus ownership interest value over their respective portion of net assets valued according to fair value was wholly expensed as a single item to the consolidated non-technical profit and loss account for the 12 months ended 31 December 2002.

5.2 Intangible assets

Intangible assets are recognized if it is probable that they will lead to economic benefits that may be directly linked to these assets and that they include economic rights purchased by the PZU Group companies and included among non-current assets fit for economic utilization with a foreseeable period of economic utility exceeding one year, earmarked for utilization by the PZU Group companies, especially: software, economic copyrights, licenses and franchises.

Intangible assets are valued at purchase price or manufacturing costs, or revaluation value (after revaluation of fixed assets) minus depreciation charges, as well as impairment charges.

Intangible assets are depreciated using the linear method over a pre-determined period of usage, according to the depreciation plan accepted by the PZU Group companies, which complies with the provisions of the Accountancy Act and corresponds to the estimated period of their economic utility.

Software, licenses and other economic rights are depreciated over a period up to five years.

Intangible assets with an initial value below PLN 3,500 are depreciated by making a single charge at the time they are accepted for usage.

5.3 Investments

Investments are valued and carried in the financial statements in the following way:

5.3.1 Real estate investments

Real estate investments include investments in land, right of permanent usufruct, buildings and structures, cooperative ownership right to residential or non-residential premises, construction investments and down payments towards construction investments; real estate not used by the PZU Capital Group for its own purposes is included, provided that it was purchased or built for the purpose of generating benefits in the form of growing value incrementally or generating rental revenue or other benefits.

Proprietary land is carried at purchase prices – by the power of the provisions of the Accountancy Act land is not subject to depreciation, while buildings and structures are carried at purchase price or manufacturing cost or revaluation value, minus accumulated depreciation determined as at 31 December 2001.

The right of permanent usufruct to land, the cooperative ownership right to residential premises and the cooperative ownership right to non-residential premises forming investments are carried in the accounting ledgers at purchase price or manufacturing costs minus accumulated depreciation determined as at 31 December 2001.

In accordance with Polish provisions, buildings and structures are subject to revaluation by using the rates published by the President of the Central Statistics Office (GUS). The last revaluation was conducted on 1 January 1995.

Construction investments and advance payments for such investments are carried at purchase price or manufacturing cost.

Real estate is carried at purchase price or manufacturing cost minus accumulated depreciation while giving consideration to impairment.

Real estate forming investments since 1 January 2002 is not subject to depreciation according to the stance presented in the letter written by KNUiFE and agreed upon with the Finance Ministry [letter NA/430/1/02] of 5 June 2002 containing an interpretation of the provisions in the Finance Minister's Accounting Regulation for Insurance Companies.

5.3.2 Shares and ownership interests in unconsolidated affiliates

Shares and ownership interests in publicly-traded unconsolidated affiliates are carried at fair value.

Shares and ownership interests in unconsolidated affiliates that are not publicly-traded are carried at purchase price minus the impairment charges.

Shares and ownership interests are classified to the following investment portfolios:
- marketable investment portfolio (short-term) and
- available for sale investment portfolio (short and long-term).

The basis for classifying securities to a given investment portfolio is the investment objective.

5.3.3 Shares and ownership interests in units

Shares and ownership interests in other publicly-traded units classified either to the short-term or long-term portfolio are valued at fair value.

Shares and ownership interests in other units that are not publicly-traded are carried at purchase value minus impairment charges.

5.3.4 Debt securities

Debt securities are classified to the following investment portfolios:
- marketable investment portfolio (short-term),
- available for sale investment portfolio (short and long-term) and
- held-to-maturity investment portfolio (short and long-term).

The basis for classifying securities to a given investment portfolio is the investment objective.

Debt securities listed on a regulated market classified to the marketable investment portfolio or the available for sale investment portfolio are valued at fair value, while the ones classified to the held-to-maturity investment portfolio are valued at adjusted purchase value.

Debt securities not listed on a regulated market are carried at purchase value adjusted by the accrued interest, discount rate, premium, no higher than the net sales price, while giving consideration to their impairment.

Treasury bills are carried at their purchase price plus the exponentially smoothed discount rate.

Income on repurchase transactions on debt securities are settled linearly over the term of validity of the transaction.

5.3.5 Loans

Loans are carried at the required payment amount while observing the rule of conservative valuation and taking into account impairment.

5.3.6 Term deposits in credit institutions

Term deposits in credit institutions are carried at their par value. FX term deposits are carried in Polish zloty at the buy exchange rate in the bank whose services the PZU Group uses, but no higher than the average exchange rate set for a given currency by NBP on the balance sheet date.

5.3.7 Participation units in open-end investment funds

Participation units in open-end investment funds are valued at purchase price while taking into account impairment.

5.3.8 Investment certificates

Investment certificates listed on a regulated market are valued at fair value.

5.3.9 Life insurance investments on the policyholder's account and risk

Life insurance investments on the policyholder's account and risk are valued at fair value determined on the balance sheet date.

5.3.10 Deposit receivables from ceding companies

Deposits with ceding companies include claim and premium deposits retained by the insurance companies to which PZU grants reinsurance coverage. They form part of the premium due to PZU, but which has been retained as collateral for claims for indemnification.

5.4 Receivables and liabilities

Receivables and liabilities are carried at the amount of the required payment. Receivables are carried after subtracting impairment charges. The PZU Group companies establish charges for uncollectible or doubtful receivables based on analysis of the financial standing of debtors and analysis of the age structure of receivables, whereby they evaluate the payment probability.

5.4.1 Receivables on direct insurance

Receivables on direct insurance include receivables from policyholders by virtue of premiums paid in installments and overdue premiums, receivables from insurance intermediaries, i.e. insurance brokers and agents, as well as recourse claim receivables. These receivables are carried at the required payment amount after subtracting the impairment charges. The revaluation charges for direct insurance receivables are classified as other net technical expenses.

5.4.2 Receivables on reinsurance

Receivables on reinsurance include receivables on settlements with ceding companies, reinsurers and reinsurance brokers under inward and outward reinsurance and retrocession. These receivables apply in particular to the reinsurers' share of the claims paid by the insurer, reinsurance commissions and profit-sharing, retained premium or claim deposits. Reinsurance receivables are carried at their net amount after subtracting the impairment charges. The revaluation charges for reinsurance receivables are classified as other net technical expenses.

5.4.3 Other non-insurance receivables

Other receivables are carried at the required payment amount minus revaluation charges. Revaluation charges to receivables are classified as other operating expenses.

5.5 Tangible asset components

Tangible asset components include tangible non-current assets and their equivalents with a foreseeable period of economic utility exceeding one year and that are complete and fit for usage and are earmarked for the needs of the PZU Group companies.

Non-current assets are valued at purchase price or manufacturing expenses or revaluation value (after revaluation) minus depreciation charges and impairment charges. Revaluation takes place on the basis of separate provisions of law. The most recent revaluation took place on 1 January 1995. The revaluation result is shown in the revaluation reserve. After the sale of a fixed asset, the remaining amount in the revaluation reserve is transferred to reserve capital.

Fixed assets are depreciated by using the linear method for a pre-determined period of usage, according to the depreciation plans accepted by the PZU Group companies, which comply with the provisions of the Accountancy Act. The depreciation period accepted by the PZU Group companies corresponds to the estimated period of economic utility of a given asset component.

The PZU Group companies use the following annual depreciation rates for fixed assets:

Permanent usufruct right to land	Set proportionately to the period over which the Group companies hold the rights
Cooperative ownership right to residential premises and cooperative right to non-residential premises	2.5%
Buildings and structures	2.5 – 4.5%
Technical equipment and machinery	8.5 – 30%
Means of transportation	17 – 20%
Other fixed assets	5 – 20%

Asset components whose initial value is lower than PLN 3,500 are expensed as a single item at the time they are commissioned for usage.

For fiscal purposes, the depreciation rates in the Corporate Income Tax Act of 15 February 1992 as amended are used. With respect to the fixed assets purchased and included in the records prior to 1 January 2000, the rates are used that were published in the Finance Minister's Regulation of 17 January 1997 on depreciating fixed assets and amortizing intangible assets.

5.6 Cash

Cash is carried in the accounting ledger at face value. The value of cash in foreign currencies is set by using the buy exchange rate used on the balance sheet date by the bank whose services the PZU Group companies use, but which is no higher than the average exchange rate set for a given currency by NBP for a given day.

5.7 Prepayments, deferred income and accruals

PZU Group companies make settlements of deferred income and prepaid expenses to allocate them to the right reporting period. Prepayments and accruals include expenditures for periods later than the ones in which they were incurred and they include, among others, deferred acquisition costs.

Deferred income and accruals include expenses for the current reporting period that are incurred in a later period, in particular outward reinsurance.

Moreover, the PZU Group companies make settlements of income to allocate it to the right reporting period. Prepayments and accruals include, among others, receivables for the income posted on term deposits and rents.

Deferred income includes, among others, deferred reinsurance commissions and premiums paid for policies whose insurance term commences after the balance sheet date.

At the Capital Group level, the costs of sales commissions paid for the conclusion of membership agreements with OFE PZU are settled over a period of two years, commencing with the month in which the membership agreement is signed with OFE PZU. Deferred acquisition costs are carried in the line item "Other prepayments and accruals". On the balance sheet date that part of the deferred acquisition costs that applies to agreements, which will not generate income for the Capital Group in the future is provisioned.

5.8 Equity

Equity is captured in the accounting ledgers at par value with a split by type and according to the principles prescribed by the provisions of law and the provisions of the parent company's articles of association.

The equity line items in subsidiaries besides share capital, to the extent that the parent company is the owner of the subsidiary, were added to the parent company's relevant equity line items.

The results of revaluing the investments classified as long-term investments, causing their value to grow to market prices, increase the revaluation reserve. A reduction in the investment value previously revalued to the amount by which the revaluation reserve was increased for this reason, if the revaluation difference has not been settled by the valuation date, decreases the revaluation reserve. In the other cases the results of reducing investment value are classified as unrealized investment losses. The growth in the value of a given investment directly linked to its prior value reduction classified as unrealized investment losses is captured as unrealized investment gains at the amount of such expenses.

If the value of a sold investment classified as a long-term investment was previously revalued or marked to market, or at purchase price, depending on which one was lower, while the results of this valuation were captured as described above, then the revaluation surplus is determined and is settled through the revaluation reserve.

5.9 Consolidation goodwill

Consolidation goodwill applies as at 31 December 2002 to PZU Życie and PZU-CL Agent Transferowy. The parent company has determined the consolidation goodwill according to the net book value of the Transfer Agent's assets as at 30 November 2001 and for PZU Życie as at 12 November 2002, pro rata to the share of capital held by the Group on that day in the Transfer Agent and PZU Życie, respectively.

Consolidation goodwill is charged to the non-technical consolidated profit and loss account for a period of five years, starting with the month after the month in which the value of the consolidation goodwill was determined.

5.10 Minority shareholders' equity

Minority shareholders' equity is that part of a subsidiary's net assets that belongs to shareholders from outside the Capital Group.

That part of a subsidiary's result that belongs to shareholders from outside the Capital Group forms the minority shareholders' result (profit or loss).

5.11 Insurance-specific reserves

Insurance-specific reserves are established to cover the current and future liabilities that may result from concluded insurance agreements.

The insurance-specific reserves have been established in accordance with the binding articles of association of the Capital Group's insurance units, the Insurance Activity Act, the internal bylaws for establishing insurance-specific reserves and the Finance Minister's Accounting Regulation for Insurance Companies.

5.11.1 Premium reserve

Property and casualty insurance

The premium reserve is created as the gross written premium for future reporting periods pro rata to the period for which the premium is written, where in the event of insurance agreements whose risk is not evenly distributed over the insurance term, the reserve is created pro rata to the anticipated risk in the next reporting periods.

The premium reserve is designated to cover the risks and the costs of managing them in the period subject to insurance coverage between the end of the reporting period and the end of the insurance term. The premium reserve is determined at the end of each reporting period by the individual method, with exactitude to one day.

For insurance in a package for which the written premium was posted cumulatively, whereby the premium reserve was not set by the individual method, the premium reserve is calculated by the flat rate method, whereby the premium reserve is stated as the same percentage of the premium for the insurance under examination as the premium reserve calculated by the individual method in posted premium, where it is the premium written for the entire package.

The reinsurers' share of the premium reserve is calculated according to the regulations in the pertinent reinsurance treaties.

In 2002, pursuant to the provisions in the Finance Minister's Accounting Regulation for Insurance Companies, the principle for creating the premium reserve was altered, i.e. for premium written after the Regulation's effective date. When creating the premium reserve, the direct acquisition costs are not subtracted from the written premium. If at the end of 2001 one were to have accepted the principles for creating the premium reserve in force at the end of 2002, the gross premium reserve carried in the balance sheet would have been higher by PLN 226,023 thousand, while the amount of deferred acquisition costs would have been higher by the same amount, i.e. PLN 226,023 thousand. At the same time, the change in the balance of capitalized acquisition costs and the change in the balance of the gross premium reserve carried in the technical account for property and casualty insurance in 2001 would have been higher by PLN 25,669 thousand.

Life insurance

Life insurance reserves are set by using actuarial methods in the following way:
- employee group insurance and individual continued insurance – the reserve is formed based on the prospective actuarial method entailing the determination of a reserve for each insurance agreement separately,
- unit-linked insurance – cumulatively as a percentage of the fund value to cover the life risk according to the general terms and conditions for this type of insurance,
- other insurance – by the prospective actuarial method for each insurance agreement individually.

For the individual and annuity insurance portfolio assumed from PZU, the life insurance reserve also encompasses the impact of the policy revaluation carried out by PZU Życie.

5.11.2 Unpaid claim reserves

Property and casualty insurance

5.11.2.1 Unpaid claim reserves

The unpaid claim reserve includes a reserve for unpaid indemnification and benefits for incurred and reported losses and accidents, a reserve for incurred but not reported losses and accidents and a reserve for claims handling expenses.

The reserve for reported claims that have not been handled and the handled claims that have not been paid (hereinafter referred to as reserve I) is designated to cover indemnification and benefits that:
- have been reported but where the information held does not enable one to evaluate their amount (unadjusted claim),
- have been reported and where the information held does enable one to evaluate their amount (adjusted claim). A claim is recognized as adjusted at the time of its appraisal by a claims adjuster.

The reserve is set and updated in PZU's operating units at the end of every reporting period by individual evaluation or adjustment of claims and benefits. During the financial year, it is permissible to establish a reserve for unpaid claims as the difference between the opening balance of this reserve and the claims paid from this reserve in the reporting period under examination.

The reserve for incurred but not reported claims and accidents (hereinafter referred to as reserve II) is created for claims and benefits that are not reported until the date of the periodic report.

At the end of every financial year, reserve II is calculated in the PZU Head Office by using the claims triangle analysis methods: the Bornhuetter-Ferguson method, the Chain Ladder method and the Cape Cod method depending on the type of insurance and the breakdown into the years claims were incurred. During the financial year the value of reserve II for claims and accidents incurred in the financial year is set by the flat rate method as a set earned premium charge, separately for individual groups (types of insurance). For claims incurred in previous years the current value of reserve II is calculated as the difference between the value of reserve II as the opening balance of a given financial year and the claims paid, for which reserve I was not established in the opening balance of a given financial year, minus the value of reserve I for claims reported in the financial year.

The claims handling expense reserve is calculated in the PZU Head Office. The value of this reserve is directly proportional to the reserves for unpaid indemnification and benefits. The proportional co-efficient is equal to the quotient of the claims handling expenses and the value of the claims paid. The claims handling reserve is determined with a split into the year claims were incurred. During the financial year, it is permissible to create the claims handling expense reserve as the difference between the opening balance of this reserve and the claims handling expenses incurred in the reporting period under examination (no less, however, than zero).

The reinsurers' share in the unpaid claim reserves is set at the amount complying to the terms and conditions of the pertinent reinsurance treaties.

5.11.2.2 Capitalized annuities under third party liability insurance

The capitalized annuity reserve encompasses benefits payable periodically in the form of annuities by virtue of third party liability insurance. This reserve is set at the end of each reporting period.

The reserve is determined individually for each beneficiary in the form of a capitalized annuity giving consideration to the anticipated increase in the annuity benefits and the service expenses by using actuarial methods.

A capitalized annuity reserve is also created at the end of each reporting period for the claims incurred after 31 December 1990 but not disclosed to the date of the report as annuities (annuity IBNR).

The annuity IBNR reserve is established separately for term annuities and lifetime annuities as the product of the following:
- anticipated number of claims,
- average amount of the anticipated claim, and
- average co-efficient from the relevant tariff weighted by the sums of annual disbursements for individual age groups (for lifetime annuities) or periods (for term annuities) according to the balance at the end of the reporting period.

At the end of every reporting period the amount of the additional reserve is set to cover the liabilities resulting from increasing the old portfolio annuity benefits. This revaluation is made for those annuitants for whom a similar reserve was calculated at the end of 1997, whose benefits have not reached a satisfactory level at the end of a given period. The satisfactory level of benefits has been assumed to be a fixed percentage of the average current value of remuneration in 1960 – 1990. For the difference between satisfactory and factual benefits, the capitalized benefit is calculated according to the binding rules, where, additionally, there is a linear process leading up to the satisfactory level.

At the end of every reporting period a revaluation is also made of the reserve for the capitalized value of annuities, using statistical methods, resulting from the surplus of factual disbursements over the amount of the annual disbursements declared in the information technology system used to administer annuity benefits.

The reinsurers' share of the reserve for the capitalized value of annuities is set at the level complying with the terms and conditions of the pertinent reinsurance treaties.

5.11.2.3 Unpaid claim reserve, including the capitalized annuity reserve

The unpaid claim reserve is created independently for the following:
- reported but unpaid claims,
- incurred but not reported claims.

The reserve for reported but unpaid claims is created for reported claims that have not been paid by the last day of the reporting period. The reserve for reported but unpaid claims is created by using the individual method, or if it is not possible to evaluate the claim amount, if the occurrence of claims is a mass phenomenon, by the average claim value method from the most recent quarter preceding the reporting period.

The reserve for incurred but not reported claims up to the balance sheet date is created for each type of claim by the flat rate method as a percentage of the claims paid over the most recent twelve months.

The unpaid claim reserve also encompasses the claims handling expense reserve.

5.11.3 Other reserves in property and casualty insurance

5.11.3.1 Unexpired risk reserve

The unexpired risk reserve is created as an addition to the premium reserve to cover future indemnification, benefits and costs under insurance agreements that do not expire on the last day of the reporting period.
The unexpired risk reserve is set in the PZU Head Office for all groups (types) of insurance for which the loss ratio in the financial year is greater than 100%.

The unexpired risk reserve is set by the flat rate method as the difference between the product of the premium reserve and the loss ratio in the financial year (quotient of the liabilities resulting from the accidents incurred in a given financial year and the earned premium), and the premium reserve – for the same term of insurance.
The reinsurers' share in the unexpired risk reserve is set according to the regulations set forth in the pertinent reinsurance treaties.

5.11.3.2 Loss ratio (risk) equalization reserve

The loss ratio (risk) equalization reserve is created in property and casualty insurance at a level that is supposed to ensure the equalization of fluctuation in the loss ratio in the future – for all groups of insurance with the exception of group 14 of section II. For group 14 section II the loss ratio equalization reserve is formed according to method number 1 as presented in attachment number 6 to the Finance Minister's Accounting Regulation for Insurance Companies.

5.11.3.3 Reserve for catastrophic losses and exceptional risks.

The reserve for catastrophic losses and exceptional risks is created centrally in property and casualty insurance using the flat rate method. This reserve is created to cover the losses resulting from catastrophic and mass phenomena. At the end of every reporting period, for selected groups of insurance, the reserve balance is enlarged by a determined percentage charge to the net earned premium in these groups. The amount of the reserve cannot exceed the set level depending on the earned premium in a financial year. The charge is calculated on the basis of historical information concerning the amount and frequency of catastrophic losses in the insurance in PZU's portfolio. In the event of a disbursement of indemnification for losses resulting from catastrophic events (that jointly exceed a specified value), these disbursements are subtracted from the reserve after giving consideration to the reinsurers' share.

At the end of 2002, PZU made a change to the method of estimating the amount of the charge to the reserve for catastrophic losses and exceptional risks, whereby the basis for calculating the charge ratios is the indexed historical data concerning the disbursements of indemnification for catastrophic losses. This change caused the net reserve for catastrophic losses and exceptional risks to grow by an additional PLN 73,029 thousand. The necessity of changing the method for estimating the charge ratios was caused by the growth in PZU's insurance portfolio observed over consecutive years and by the changes to the reinsurance program with respect to the coverage of catastrophic losses, which, consequently, enlarges PZU's exposure to losses resulting from catastrophic events.

5.11.4 Other life insurance reserves

Life insurance reserves are set by actuarial methods in the following way:

- employee group insurance and individual continued insurance – this reserve is created based on the prospective actuarial method entailing the determination of a reserve for each insurance agreement separately,
- unit-linked insurance – cumulatively as a percentage of the fund value in order to cover the life risk according to the general terms and conditions for this type of insurance,
- other insurance – by the prospective actuarial method for each insurance agreement separately.

For the individual insurance and the annuity insurance portfolio assumed from PZU, the life insurance reserve also encompasses the impact exerted by PZU Życie restating the values of these policies.

5.11.4.1 Life insurance reserve where the policyholder bears the investment risk

The life insurance reserve where the policyholder bears the investment risk is set as the amount equal to the sum of the value of the shares in the funds on the insureds' accounts valued at fair value on the balance sheet date.

5.11.4.2 Insurance-specific reserves specified in PZU Życie's articles of association

The insurance-specific reserves specified in PZU Życie's articles of association include the following:

- reserve to restate the benefits from individual life insurance and annuities assumed from PZU (referred to as the old portfolio),
- reserve for the litigation in progress and the benefits in connection with court decisions (pursuant to art. 358 §3 of the Civil Code) in the matter of a change in the amount or the method of fulfilling a pecuniary performance,
  [the reserves mentioned above for litigation correspond to the anticipated value of the additional benefits resulting from litigation based on the information held by PZU Życie concerning the trends in the settlements made and the completed court trials]
- low interest rate reserve associated with the investment income from the insurance fund for insurance with a guaranteed rate of return.

The low interest rate reserve associated with the insurance fund's investment income for insurance with a guaranteed rate of return on individual life insurance, individual life insurance with a growing sum insured and premium, type Firma group insurance and annuities is created by the actuarial method for each insurance agreement individually as the amount corresponding to the difference between the following:

- the amount of the mathematical reserves set by using the appropriate mathematical formulas and by applying modified technical interest rates giving consideration to their reduction in the future and,
- the amount of the mathematical reserves set according to the binding regulations for setting reserves.

5.11.4.3 Reserves for bonuses and rebates for insureds

This reserve corresponds to the predicted amounts of profit-sharing with the insurance company posted on the balance sheet date, which will be awarded after the conclusion of the settlement period.

5.12 Other reserves

The line item entitled other reserves is used to carry reserves for the risk known to the PZU Group companies, certain or highly probable future liabilities, whose amount may be credibly estimated, especially for losses on economic operations in progress, including granted guarantees, sureties, credit operations, the effects of litigation in progress not associated with insurance agreements.

The deferred income tax reserve is also carried in the line item entitled other reserves.

5.13 Deposit liabilities towards reinsurers

Deposit liabilities towards reinsurers are carried in the ledgers at the par value of the retained deposit according to the concluded reinsurance treaties.

5.14 Investment activity income and expenses

5.14.1 Interest income on deposits in credit institutions

The PZU Group companies recognize the interest income on deposits in credit institutions on an accrual basis according to which the accounting ledgers show all the interest due to the PZU Group companies for a given reporting period notwithstanding the date of its receipt. If the investment's date of maturity takes place after the balance sheet date, the interest is accrued on an accrual basis pro rata to the elapse of time from the date of opening the investment up to the balance sheet date, inclusively.

5.14.2 Income and expenses on debt securities

The revaluation result on debt securities classified as being in the short-term marketable investment portfolio and the short-term available for sale investment portfolio – i.e. the difference between the fair value and the purchase value – is captured in the line item entitled "Unrealized investment gains/losses".

In the event of debt securities (besides investments covering the reserves for capitalized annuity benefits, bonuses and rebates on property and casualty insurance as well as other life insurance reserves) classified as being in the long-term available for sale investment portfolio, the difference between the adjusted purchase value and the purchase value is carried:

- in the line item entitled "Revaluation reserve" for a valuation increasing the investment value (if a reduction in value was not previously recorded in the profit and loss account),
- for a valuation decreasing the investment value, in the profit and loss account in the line item entitled "Unrealized investment gains/losses", under the assumption that no revaluation reserve was previously created under a prior valuation of the security subject to valuation. A reduction in investment value previously revalued to an amount by which the revaluation reserve was increased shall first cause the revaluation reserve to be reduced, and then the effects of reducing the investment value shall be recorded in unrealized investment losses. The growth in the value of a given investment directly linked to a prior reduction in its value recorded as unrealized investment losses shall be captured in these costs as unrealized investment gains.

Income on repo transactions concerning debt securities are settled linearly over the duration of the transaction.

The adjusted purchase value is the purchase price at which the security was entered for the first time into the accounting ledgers minus the payment of the par value adjusted by the accumulated discounted difference between the security's initial value and its value at maturity, calculated as an effective interest rate, minus the revaluation charges.

The effects of revaluating investments classified as being in the short and long-term, held to maturity investment portfolio are charged to the profit and loss account and are captured in the line item entitled "Unrealized investment gains/losses".
The income realized on the sale/redemption of debt securities is carried in the line item entitled "Realized investment gain/loss".

The income on investments covering the reserves for capitalized annuity benefits and bonuses and rebates in property and casualty insurance is carried in the technical insurance account.
The income on investments covering life insurance reserves is captured in the technical life insurance account and is then broken down into its technical and non-technical parts. The method of settlement is depicted in item 5.14.5.

5.14.3 Real estate income

Income on real estate treated as investments comes from lease payments received, rental fees and other fees associated with real estate management.

Income on real estate treated as investments is carried in the line item entitled "Real estate investment income".

5.14.4 Income and expenses on shares and ownership interests

The income and expenses on the revaluation of shares and ownership interests in the short-term portfolio are recognized as the difference between the fair value and the purchase price or the balance sheet value at the end of the previous financial year (if they were purchased in previous years) in the line item entitled “Unrealized investment gains/losses”.

Unrealized income on the revaluation of shares in the long-term available for sale investment portfolio is carried in equity in the line item entitled “Revaluation reserve” as the difference between the fair value and the purchase value.

The income and expenses on the sale of shares are recorded in the line item entitled “Realized investment gains/losses”.

Income is increased by the dividend received in a given period. Dividend income is recorded as the gross dividend awarded.

The income on investments covering life insurance reserves is captured in the technical life insurance account and is then broken down into its technical and non-technical part. The method of settlement is depicted in item 5.14.5.

5.14.5 Presentation of investment income in life insurance

PZU Życie invests shareholder funds and the insurance fund’s assets jointly without distinguishing investments, with the exception of investments of the life insurance fund for the policyholder’s account and risk and investments treated as investments made from the Company’s shareholder funds that are stated separately.

The income on the investments covering the insurance-specific reserves, the unrealized gains on these investments, the investment activity expenses and the unrealized losses on these investments are broken down into the technical part captured in the technical life insurance account and the non-technical part captured in the non-technical profit and loss account. The income on investments of the insurance fund for the policyholder’s account and risk is recorded directly in the technical life insurance account.

The investment income posted to income in the non-technical profit and loss account is calculated as the product of the following:

- the total investment income and the unrealized income minus the investment activity expenses (respectively excluding the investment income, unrealized investment income and investment activity expenses on life insurance investments on investment risk agreements and investments made with shareholder funds),
- and the ratio of the total average investment value (excluding investments made with shareholder funds and investments at the policyholder’s risk) and the mean value of cash minus the insurance-specific reserves to the sum of the mean investment value (excluding investments made with shareholder funds and investments at the policyholder’s risk) and the mean value of cash.

The mean value shall in this case denote the sum of the opening and closing balances for a given reporting period divided by two.

The derived posted income amount is adjusted by collected income, unrealized gains, incurred expenses and the gains and losses on the sales of investments associated with investments made with shareholder funds but which is captured separately in the accounting ledgers and is transferred to the non-technical profit and loss account to the line item entitled “net investment income after including costs, transferred from the technical life insurance account”.

The amount transferred to the non-technical account is the result of the principle of making separate settlements of investments using insurance funds and shareholder funds. The positive result to be transferred, calculated according to the insurance fund investment principle amounted to PLN 55.2 million. It was adjusted by the negative result on the shareholder fund investment in the amount of PLN 25.7 million. The negative result on shareholder fund investments in 2002, compared with 2001, follows from higher impairment charges for equities and ownership shares in subsidiaries, co-subsidiaries and affiliates. In 2001, these impairment charges stood at PLN 85.0 million, while in 2002, they amounted to PLN 118.0 million (including PLN 111.7 million for PZU Tower Sp. z o.o.).

The split of investment income and investment activity expenses in the technical life insurance accounts into the individual groups of insurance (except for the income and expenses of investments of the life insurance fund for the policyholder’s account and risk) is made on the basis of the percentage structure of the insurance fund.

5.15 Income on the sales of insurance services in property and casualty insurance and life insurance

5.15.1 Property and casualty insurance

The records of written premium income are kept by the due and payable date, which in the area of direct insurance means the date of the first day of the insurance term specified in the insurance agreement (policy), but no earlier than the premium payment date, if the insurance agreement makes PZU's liability dependent upon the payment of the premium. The foregoing requirement for recording premium income is deemed to be met if the premium income is registered in the month in which the date of the premium coming due and payable occurs. According to the Finance Ministry's interpretation, a premium paid in the period up to the last day of the reporting period (inclusively), for policies with an insurance term from the first day of the next month is carried as deferred income as of the date ending the reporting period.

The reinsurers' share in the premium has been determined for those groups of insurance for which there is reinsurance coverage to the extent to which the premium is subject to cession according to the pertinent insurance treaties in force in a given insurance term.

5.15.2 Life insurance

The written premiums captured in the technical life insurance account include amounts due during the reporting period by virtue of the concluded insurance agreements notwithstanding whether these amounts refer to the next reporting period in full or in part. Premiums are adjusted by the change in the premium reserve balance during the reporting period and are reduced by the premiums due to reinsurers.

5.16 Other technical income and expenses in property and casualty insurance

The capitalized annuity benefits on third party liability insurance at PZU has been increased by the income on investments covering this reserve. Since the insurance company's shareholder funds and the insurance fund's assets have been invested jointly and since these investments are not distinguished from one another, the investment income to be transferred from the non-technical profit and loss account to the technical insurance account in the reporting periods has been calculated as the product of the following:

- the quotient of the investment income (except for real estate and defined equities and bonds) at the end of the reporting period and the annual average net balance of insurance-specific reserves,
- the net balance of the capitalized annuity benefits on the third party liability insurance at the beginning of the period under examination.

The annual average net balance of insurance-specific reserves is equal to the arithmetic mean of the net balance of insurance-specific reserves at the beginning and end of the reporting period.

5.17 Expenses of claims paid

5.17.1 Property and casualty insurance

The indemnification and benefits on direct insurance are recorded on the date of disbursement notwithstanding the date when the claim occurred and was registered. The amount of indemnification and benefits presented in the technical account for property and casualty insurance is captured as the amount factually disbursed after deducting all refunds, recourse claims and salvage values and increasing it by the claims handling expense.

The reinsurers' share in indemnification and benefits has been set for these groups of insurance for which there is reinsurance coverage, to the extent to which reinsurers participate in the indemnification and benefits according to the pertinent reinsurance treaties prevailing in a given insurance term.

5.17.2 Life insurance

The value of disbursed indemnification and benefits is captured as the amount factually disbursed after deducting refunds and reimbursements (with the exception of outward reinsurance refunds), plus the change in the balance of the net unpaid claim reserve at the end and beginning of the reporting period, and minus the reinsurers' share in the claims paid and the reserves.

The claims handling expenses encompass the direct and indirect costs of showing the duties that aim to examine and close reported claim cases or support the duties that aim to examine and close reported claims cases.

5.18 Insurance activity expenses

5.18.1 Property and casualty insurance

Acquisition costs encompass only the costs associated with concluding insurance agreements. In particular, acquisition costs include the following: the commission of intermediaries, commission costs of economic agents, costs of postal, bank and telecommunication fees and the usage of forms and other materials associated with acquisition and the written premium, incurred for the purpose of concluding insurance. Acquisition costs also include costs indirectly linked to acquiring and concluding insurance, including advertising costs and overhead to examine proposal forms and to issue insurance policies, as well as other payroll costs besides agency commissions.

Acquisition costs are calculated on an accrual basis. The acquisition costs incurred with respect to future reporting periods are subject to settlement over time and are carried in prepaid expenses and accruals in the line item entitled "Capitalized acquisition costs".

Administrative expenses include insurance activity expenses not classified as acquisition costs, indemnification and benefits or investment activity expenses, associated with the collection of premiums, managing the insurance agreement portfolio, reinsurance treaties and overall management of the insurance company.

Insurance activity expenses are adjusted by the value of the reinsurance commissions and shares in the profits of reinsurers and retrocessionaires received from brokers and reinsurers within the framework of outward reinsurance and retrocession activity.

5.18.2 Life insurance

Commission costs are captured in the period in which the premium forming the basis for paying the commission is due. The acquisition costs are adjusted by the change in the balance of the capitalized acquisition costs.

5.19 Expenses associated with administering the real estate owned by the Group and used for the Group's proprietary needs

The expenses of maintaining real estate used for the proprietary needs of the PZU Capital Group companies are carried in the consolidated technical account for property and casualty insurance and in the consolidated technical account for life insurance.

The expenses of maintaining the real estate called Tower including, among others, the operating expenses of PZU Tower, but especially the depreciation of buildings, external services and the consumption of materials and energy are carried in the consolidated technical accounts for property and casualty insurance and life insurance as well as in the consolidated non-technical profit and loss account pro rata to the space used by a given PZU Group company.

5.20 Marketing and advertising expenses

Marketing and advertising expenses are recorded as expenses at the time when they are incurred.

5.21 Income and expenses associated with the pension fund company's activity

The costs incurred in connection with the acquisition in favor of OFE PZU are settled over the two year period from signing the agreement and are charged to the line item entitled "Other operating expenses" in the Capital Group's consolidated non-technical income statement. Deferred costs are captured in the Capital Group's consolidated balance sheet in the line item entitled "Other prepayments and accruals". All other income and expenses associated with the activity of PTE PZU are shown in the Capital Group's consolidated non-technical income statement in the line items entitled "Other operating expenses" and "Other operating income" and they encompass the following line items, respectively:

5.21.1 Management fee

PTE PZU receives remuneration for managing OFE PZU of no more than 0.05% of the net asset value under management per month according to Attachment number 3 to the Articles of Association of OFE PZU. In 2002 and in previous years PTE PZU SA charged a management fee of 0.05%.

5.21.2 Distribution fee

PTE PZU charges a distribution fee to the contributions transferred by the ZUS Social Security Company ("ZUS") to OFE PZU in the amount specified by the Articles of Association of OFE PZU. According to the Articles of Association of OFE PZU, the distribution fee is:
- 9% of every contribution made by an OFE PZU member during the first two years after the date of obtaining membership,
- 7% of the contribution amount in the period from the beginning of the third year to the end of the fifteenth year after the date of obtaining membership in OFE PZU,
- 3% of every contribution made by an OFE PZU member in the period starting from the beginning of the sixteenth year after the date of obtaining membership in OFE PZU.

The distribution fee is recognized as PTE PZU income in the month in which OFE PZU receives the contribution, from which the distribution fee is due.

5.21.3 Transfer payment fees at PTE PZU

Transfer payment fees are charged according to the articles of association of OFE PZU and are shown in the months in which the transfer payment settlement dates take place.

5.21.4 Contributions to the Insurance and Pension Funds Supervisory Commission (KNUiFE) and the Insureds' Ombudsman

PTE PZU pays a fee to KNUiFE in the amount of 0.12% of the total contributions paid in 2002 to OFE PZU managed by PTE PZU (in 2001 the fee to UNFE amounted to 0.01%) and to the Insureds' Ombudsman in the amount of 0.0066% of the total contributions paid in 2002 to the fund (in 2001 PTE PZU did not incur any such costs).

5.21.5 Contributions to the Indemnity Fund

PTE PZU is obligated to make contributions to the Indemnity Fund. The amount of the contributions to the Indemnity Fund is 0.1% of the net asset value of OFE PZU. The previous payments plus the benefits resulting from their investment minus the remuneration due to the National Securities Depository ("KDPW") are counted towards every subsequent contribution.

5.21.6 Contributions to the reserve account

PTE PZU is obligated to make contributions to the reserve account in OFE PZU. The assets accumulated on the reserve account should constitute the equivalent of 1.5% of the assets accumulated on the accounts of all OFE PZU members.

PTE PZU has embraced the principle of recording the contributions to the reserve account as costs at the time of posting the payment due to the reserve account.

5.21.7 Fees paid to the National Securities Depository (KDPW)

PTE PZU is obligated to pay a fee to KDPW to reimburse the costs of performing the duties associated with handling transfer payments. This fee is 1% of the minimum salary specified by the Minister of Labor and Social Policy according to art. 774 of the Labor Code (“minimum salary”).

5.21.8 Fees paid to the Social Security Company (ZUS)

PTE PZU is obligated to pay a fee to ZUS for the costs incurred in collecting and pursuing the payment of contributions which fee amounts to 0.8% of the contributions transferred by ZUS.

PTE PZU is also obligated to remit a fee to ZUS as reimbursement for the performance of the duties associated with a member joining another open-end pension fund, entailing the registration of the membership agreement of the person joining a new fund. This fee is 1% of the minimum salary.

5.22 FX transactions

Assets denominated in foreign currencies are converted into Polish zloty at the buy exchange rate used on this day by the bank whose services are used by the PZU Group companies, but no higher than the average exchange rate set for a given currency by NBP on the balance sheet date.

Liabilities denominated in foreign currencies are converted into Polish zloty at the sell exchange rate used on this day by the bank whose services are used by the PZU Group companies, but no lower than the average exchange rate set for a given currency by NBP on the balance sheet date.

The operations of selling or buying foreign currencies denominated in foreign currencies and the payment of receivables or liabilities are captured in the accounting ledgers at the buy or sell exchange rate for the foreign currencies used by the bank whose services are used by the PZU Group companies.

On other operations, the PZU Group companies use the average exchange rate set by NBP for a given currency, on the date of executing the operation, unless some other exchange rate was set in the customs declaration or in some other binding document.

5.23 Taxation

The current corporate income tax liabilities are calculated according to Polish fiscal provisions.

In connection with the temporary differences between the asset and liability value carried in the accounting ledgers and their tax value as well as the tax loss that may be deducted in the future, the PZU Group companies create a reserve and determine the deferred income tax assets where these companies are payers of income tax.

The tax value of assets is the amount leading to a reduction in the taxable base of income tax when economic benefits are obtained from them, whether directly or indirectly. If obtaining economic benefits from the specified assets does not reduce the taxable base for income tax purposes, then the tax value of these assets is the book value. The tax value of liabilities is their book value minus the amounts that will reduce the income tax base.

The PZU Group companies set the deferred income tax assets as the amount envisaged in the future for deduction from income tax in connection with negative temporary differences that will reduce the taxable base for income tax purposes and the deductible tax loss set while following the principle of prudence. The PZU Group companies create a deferred income tax reserve as the amount of income tax to be paid in the future in connection with positive temporary differences, i.e. differences that will increase the taxable base for income tax purposes.

The deferred income tax reserve and assets are set using the prevailing income tax rates in the year of the tax duty. The deferred income tax reserve and assets concerning operations settled via equity are also recorded in equity.

5.24 Employee leave expenses

The employees of the PZU Group companies are vested with the right to leave according to the terms and conditions prescribed by the provisions of the labor code. The companies recognize the cost of employee leave on the accrual basis by using the liability method. The liability for employee leave is determined based on the difference between the factual status of the employees' utilization of leave and the status that would exist if the leave was used pro rata to the elapse of time in the period for which the employees are vested with this leave.

5.25 Retirement and disability severance pay and jubilee awards

According to the remuneration principles in force in the Group, employees have the right to jubilee awards after having worked for a specified number of years; and to retirement and disability severance pay at they time they retire or take disability. The amount of the benefit hinges upon the length of employment and the average monthly remuneration.

The costs of the jubilee awards and the retirement and disability severance pay are estimated by using actuarial methods and are recognized on the accrual basis. The liabilities and costs resulting from the specified benefits are calculated by using a method to predict individual entitlements. According to the method for predicting individual entitlements, the value of the benefit is increased in every subsequent period of employment by an additional unit to which the employee has obtained the right and every other unit is accrued until reaching the following benefit amount. The value of the specific benefit forms the current value of the estimated future cash flow for the same.

5.26 Embedded derivatives

Separate embedded derivatives are carried as other receivables/liabilities. They are valued at fair value and changes thereto are captured in the non-technical profit and loss account in the line items entitled "other operating income" or "other operating expense". The PZU Capital Group recognized embedded derivatives for the first time as at 1 January 2002, in accordance with the relevant temporary provisions of law.

6. Changes made to the method of drawing up the financial statements and the accounting principles since the previous reporting period

6.1 Changes resulting from the amendment to the Accountancy Act and other provisions of law

The changes to the method of drawing up the financial statements for the year ending 31 December 2002 in comparison with the financial statements for 2001 result from the amendment to the Accountancy Act, the provisions of the Finance Minister's Accounting Regulation for Insurance Companies and the Finance Minister's Regulation of 12 December 2001 on the detailed principles of recognition, valuation methods, scope of disclosure and method of presenting financial instruments. The asset and liability valuation principles and the principles for determining the financial result have been depicted in item 5 of the introduction to the financial statements: the basic accounting principles (policy).

To ensure the comparability of financial data in the financial statements for the year ending 31 December 2002, the PZU Capital Group converted the closing balance of 2001 into the opening balance of 2002 while giving consideration to the changes in the accounting principles. The adjustments made by the PZU Capital Group companies and by the PZU Group were of a presentation nature and affected the financial result, equity and balance sheet amount for 2001.

All the adjustments that would have exerted an impact on the results in the years preceding 2001, if at that time the accounting principles accepted by the PZU Capital Group companies and the PZU Group in the 2002 financial statements would have been in force were captured in the line item entitled "Profit (loss) brought forward".

6.1.1 Intangible assets, real estate investments and tangible asset components

The amended Accountancy Act requires that the cooperative ownership right to premises and the right of permanent usufruct to use land be classified as tangible asset components, or to investments. Furthermore, the line item entitled "Real estate" does not capture that part of the real estate that is used for an insurance company's proprietary needs. Such real estate is depicted in the line item entitled "Tangible asset components".

According to the requirements of the Accountancy Act and the Finance Minister's Accounting Regulation for Insurance Companies, the PZU Capital Group has reclassified the intangible assets and real estate to the relevant balance sheet line items.

6.1.2 Publicly-traded marketable equities

Equities classified as belonging to the marketable investment portfolio have been valued at fair value using the prices on the Warsaw Stock Exchange ("WSE") on the balance sheet date, while they are stated in the approved 2001 financial statements ("historical statements") at the lower of two values: purchase price or stock exchange share price. The revaluation difference resulting from applying the new method of valuation has increased the balance sheet value of the equities and, after adjustment for the deferred tax impact, it has been stated accordingly:

- in the line item entitled "Profit (loss) brought forward" in reference to the equity revaluation in the years preceding 2001,
- in the line item entitled "Unrealized investment gains/losses" in reference to the revaluation of 2001 for the data presented hereunder in the financial statements for 2001.

6.1.3 Publicly-traded long-term equities

Equities classified as belonging to the long-term investment portfolio have been valued at fair value using the prices on the Warsaw Stock Exchange on the balance sheet date, while in the historical statements they are shown at the lower of two values: purchase price or stock exchange share price. The revaluation difference for long-term equities that does not exceed the negative value of the revaluation expensed to the non-technical profit and loss account in previous years was shown after adjusting for deferred tax in the line item entitled "Profit (loss) brought forward". The income tax assets and the income tax reserve were stated in net terms in the line item entitled "Deferred income tax reserve".

6.1.4 Publicly-traded bonds

Treasury bonds listed on a regulated market classified as being in the available for sale portfolio were valued in the opening balance at fair value specified according to the Warsaw Stock Exchange's quotations on 31 December 2001. The revaluation surplus, after adjustment by the influence exerted by the deferred income tax, was transferred to the revaluation reserve.

6.1.5 Receivables and liabilities split by affiliates and other entities

According to the amended Act, the presentation of the line items entitled "Receivables from policyholders", "Receivables from insurance intermediaries", "Other receivables", "Reinsurance receivables" and "Other receivables" requires that the receivables from related and unrelated entities be shown separately. Similarly, the method of presenting other liabilities gives consideration to the split of liabilities into related and unrelated entities.

6.1.6 Reinsurers' share of the insurance-specific reserves

The reinsurers' share in the line item entitled "premium reserve and unexpired risk reserve" in section C of the liabilities has been transferred in the balance sheet according to the amended Accountancy Act to a line item in section D of the liabilities. Moreover, the reinsurers' share in the line item entitled "Unpaid claim reserve" in section C of the liabilities has been reclassified to a line item in section D of the balance sheet liabilities.

6.1.7 Reserve for retirement severance pay and jubilee awards

The PZU Capital Group has also made an adjustment to the presentation of the reserve for retirement severance pay and jubilee awards. According to the amended Accountancy Act, this reserve should be carried in the line item entitled "Reserve for retirement benefits and other compulsory employee benefits".

6.1.8 Acquisition costs

According to the amended Accountancy Act, the presentation of prepaid acquisition costs has been altered. They are not presented in the line item entitled "Other prepaid expenses and accruals" (assets), but in line item VII.2. of the assets "Prepaid expenses and accruals": "Capitalized acquisition costs". Moreover, indirect acquisition costs are currently carried in the line item entitled "VII.1. Acquisition costs" of the technical property and casualty insurance account, as opposed to hitherto practice which used the line item entitled "Administrative expenses".

As of 1 January 2002 the PZU Capital Group has accepted new principles for settling over time acquisition costs in life insurance. Costs that are not attributed to income in the form of premium or the insurance term are capitalized and will be settled in subsequent periods.

6.1.9 Investment revaluation result and unrealized investment gains (losses)

As a result of making the adjustment described in item 6.1.2 the line item entitled "Unrealized investment gains" has changed as opposed to the figure depicted in the financial statements for the year ending 31 December 2001. Moreover, the unrealized profits and losses shown in 2001 in the line item entitled "Result on investment revaluation" were transferred to the line item entitled "Unrealized investment gains (losses)".

6.1.10 Real estate income and real estate maintenance expenses

To preserve the comparability of data in 2001 with the data in the 2002 financial statements, the real estate income and expenses not classified as investments were adjusted. The real estate income and expenses not classified as investments in 2002 were transferred in the data for 2001 to the item "Other operating income" and "Administrative expenses".

6.1.11 Embedded derivatives

According to the binding provisions of the law, the PZU Capital Group companies have identified all the agreements containing embedded derivatives, which is when the terms and conditions of a concluded agreement mean that some or all cash flow changes in a manner similar to the way in which a derivative instrument would act independently.

6.1.12 Transfer of net investment income from the non-technical profit and loss account

The amended provisions of law have modified the method of presenting investment income to cover the reserves for the capitalized value of annuity benefits. Currently, they are presented in the line item "Net investment income after considering the costs transferred from the non-technical profit and loss account", instead of in the line item entitled "Other net technical income".

6.1.13 Deferred tax asset/reserve

The effects of changing the accounting principles described in items 6.1.2, 6.1.3, 6.1.11 are treated as temporary differences from the point of view of the fiscal provisions and have formed the grounds for calculating the deferred tax asset/reserve.

6.1.14 Other net technical income and expenses and operating income and expenses

In 2002 the PZU Capital Group modified the principles for recording and presenting income and expenses in the financial statements concerning revaluation charges for direct insurance and reinsurance receivables and FX gains on reinsurance.

In 2002 the income and expenses on revaluation charges for receivables and FX gains are carried in the technical insurance account in the line items entitled "Other net technical expenses" and "Other net technical income" as opposed to 2001 when they were carried in the non-technical profit and loss account in the line items entitled "Other operating income" and "Other operating expenses", respectively.

6.1.15 FX gains

On the balance sheet date asset (liability) components denominated in foreign currencies are valued at the buy (sell) exchange rate used on that day by the bank whose services the unit uses, but no higher (lower) than the average exchange rate set for a given currency by the National Bank of Poland for that day.

According to the rules in force up to 31 December 2001 ownership interests in other units and long-term securities denominated in a foreign currency were carried on the balance sheet date at the exchange rate at which they were purchased, but at a level no higher than the average exchange rate in force at the end of the year as set by the Governor of NBP. The other assets and liabilities denominated in foreign currency were revalued on the balance sheet date at the average exchange rate set for a given currency by the Governor of NBP for that day.

The FX gains arising from the valuation on the balance sheet date of other assets and liabilities besides cash, shares, securities and settlements and investment credits recorded according to the prevailing rules as at 31 December 2001 as deferred income, unrealized as at 31 December 2002, were transferred from the line item entitled “deferred income and accruals” to the profit and loss account.

6.1.16 Costs of establishing a joint stock company (PZU-CL Agent Transferowy)

According to the rules in force this year, the costs of establishing and developing a joint stock company do not meet the criteria for them to be recognized as intangible assets. Accordingly, the costs of establishing and developing a joint stock company have been presented in the line item containing prepaid costs and accruals.

6.1.17 Deposit for credit card settlements (PTE PZU)

The deposit for credit card settlements was shown as a receivable while according to the rules in force as at 31 December 2001, these amounts were presented as term deposits in credit institutions.

6.1.18 Activity-Based Cost Accounting (PZU Życie)

In 2002 PZU Życie, according to the Finance Minister’s Regulation on Insurance Companies’ Accounting, introduced new wording for the definition of sales, claims handling and administrative expenses.

For the purpose of applying the aforementioned Regulation, Activity-Based Cost Accounting was introduced. Its rules:
- are based on the interpretation given by the President of KNUiFE as expressed in his letter dated 21 March 2002 and they form a development thereupon,
- were developed after analyzing the solutions employed in other countries (with special emphasis given to the EU) and they incorporate the trends of change in the provisions of law in the global insurance industry,
- make it possible to reflect the business nature of sales and claims handling expenses in the financial statements,
- assume that the criterion for identifying sales and claims handling expenses are the objective and economic content of the cost-generating activities, notwithstanding their type or formal attribution to individual cost centers.

6.1.19 Extraordinary gains and losses

The amended Accountancy Act has materially narrowed the definition of extraordinary gains and losses, which denote extraordinary gains and losses resulting from events that are hard to predict, outside a unit’s operating activity and unrelated to the general risk of its conduct.

In the previous year, extraordinary gains and losses included many events occurring by chance fitting within the general risk of conducting activity.

6.1.20 Expenses associated with administering the real estate owned by the Group through PZU Tower

The expenses of maintaining the real estate called Tower including inter alia the operating expenses of PZU Tower, especially the depreciation of buildings, external services and the consumption of materials and energy are carried in the consolidated technical accounts for property and casualty insurance and life insurance as well as in the non-technical profit and loss account according to the ratio of space used by a given PZU Group company.

In the previous year, the real estate maintenance expenses were carried in the line item "Real estate maintenance expenses".

6.1.21 Impact exerted by the new accounting rules on assets and the 2001 result

The changes to the presentation of comparable data for 2001 resulting from the amendment to the Accountancy Act exerted the following impact:

- net assets grew by PLN 282,693 thousand,
- net result grew by PLN 13,843 thousand.

6.2 Changes in the presentation of comparable data for 2001 caused by the adjustments resulting from the amendment to the Accountancy Act

These PZU Group consolidated financial statements contain comparable data. These data were converted from the approved consolidated financial statements for the year ending 31 December 2001 in a way that ensures their comparability by using uniform accounting principles (policy) complying with the accounting principles (policy) used by the PZU Capital Group when drawing up the consolidated financial statements for the year ending 31 December 2002 with the exception of the impact exerted by the following changes:

6.2.1 Change to the recognition principles, valuation methods, scope of disclosure and method of presentation of embedded derivatives

This change has been captured as an adjustment to the result from years brought forward as at 1 January 2002, without converting the data resulting from the previously drawn up financial statements, presented as comparable data, despite the change in the accounting principles (policy).

6.2.2 Change to the principles for establishing the premium reserve

In 2002, pursuant to the provisions in the Finance Minister's Regulation on Insurance Companies' Accounting, the principle for establishing the premium reserve was altered, i.e. for the premium written as of the Regulation's effective date. When establishing the premium reserve, the direct acquisition costs are not deducted from the written premium. If, at the end of 2001, one were to accept the principles for establishing the premium reserve in force at the end of 2002, the gross premium reserve carried in the balance sheet would have been higher by PLN 226,023 thousand, while the deferred acquisition costs would have been higher by the same amount, i.e. PLN 226,023 thousand. At the same time, the change in the balance of capitalized acquisition costs and the change in the balance of the gross premium reserve carried in the technical property and casualty insurance account in 2001 would have been higher by PLN 25,669 thousand.

6.2.3 Change to the principles for capturing unrealized FX gains by valuation of settlements

The surplus unrealized FX gains over the FX losses was shown in the opening balance as deferred income and no adjustment was made to re-post the FX gains to the result brought forward.

6.2.4 Change to the balance of the net insurance-specific reserves for life insurance if the policyholder bears the investment risk

PZU Życie made an adjustment to the presentation and it shows the amount of the change in the balance of net insurance-specific reserves for life insurance if the policyholder bears the investment risk in a separate line item, while in 2001 these amounts were presented as a constituent element of the line item entitled "life insurance reserves".

6.3 Other changes to the method of drawing up the financial statements

6.3.1 Reinsurance settlements

In 2002 PZU changed the rules for recording reinsurance settlements with respect to the rules in force in 2001. At present, receivables and liabilities concerning the reinsurers' share in premiums, commissions and claims are recorded separately. Until the end of 2001 these receivables and liabilities were recorded together, i.e. with respect to individual reinsurance treaties the receivables were netted with liabilities. If in 2002 combined records of reinsurance receivables and liabilities were to be applied on individual reinsurance treaties, then the reinsurance receivables and liabilities would be lower by PLN 53,925 thousand.

6.3.2 Change in the method of estimating deferred acquisition costs

In 2002 PZU curtailed the scope of deferred acquisition costs. Since 1 January 2002 only those acquisition costs are deferred that apply to future reporting periods and whose amount directly hinges upon the gross written premium, i.e. the commission expenses for concluding insurance. The payroll expenses of administrative employees working in the sales division are not subject to deferral (commissions and social security contributions on commissions).

If in 2001 the scope of deferred acquisition costs would have been the same as in 2002, then the acquisition costs charged to the financial result in 2001 would have been higher by PLN 24,486 thousand.

7. Information about major events concerning previous years captured in the consolidated financial statements

Up to the date of drawing up the financial statements for the financial year, no events occurred that were not captured in the financial year's accounting ledgers even though they should have been.

8. Information about major events that happened after the balance sheet date but were not incorporated in the consolidated financial statements

Up to the date of drawing up the financial statements for the financial year, no events occurred that were not captured in the financial year's accounting ledgers even though they should have been.

9. Result on discontinued activity

During 2002 the PZU Capital Group units included in the consolidated financial statements did not discontinue any type of activity.

2002

consolidated financial statements

PZU Capital Group

I. Opinion of the Independent Auditor

To the Supervisory Board of Powszechny Zakład Ubezpieczeń SA

1. We have conducted an audit of the consolidated financial statements for the financial year ending 31 December 2002 of the Powszechny Zakład Ubezpieczeń SA Capital Group ("PZU Group") with its registered offices in Warsaw at Al. Jana Pawła II 24, encompassing the following:

   - introduction to the consolidated financial statements,
   - consolidated balance sheet drawn up as at 31 December 2002 showing total assets and liabilities of PLN 30,975,413 thousand (say: thirty billion nine hundred seventy-five million four hundred thirteen thousand Polish zloty),
   - consolidated technical life insurance account for the period from 1 January 2002 to 31 December 2002 showing a positive technical life insurance result to be transferred to the non-technical profit and loss account in the amount of PLN 499,453 thousand (say: four hundred ninety-nine million four hundred fifty-three thousand Polish zloty),
   - consolidated technical property and casualty insurance account for the period from 1 January 2002 to 31 December 2002 showing a positive technical property and casualty insurance result to be transferred to the non-technical profit and loss account in the amount of PLN 276,103 thousand (say: two hundred seventy-six million one hundred three thousand Polish zloty),
   - consolidated non-technical profit and loss account for the period from 1 January 2002 to 31 December 2002 showing a net profit of PLN 1,240,798 thousand (say: one billion two hundred forty million seven hundred ninety-eight thousand Polish zloty),
   - statement of change in the consolidated equity for the period from 1 January 2002 to 31 December 2002 showing an increase in the balance of equity by the amount of PLN 1,425,096 thousand (say: one billion four hundred twenty-five million ninety-six thousand Polish zloty),
   - consolidated cash flow account for the period from 1 January 2002 to 31 December 2002 showing an increase in the net cash balance by the amount of PLN 32,338 thousand (say: thirty-two million three hundred thirty-eight thousand Polish zloty),
   - statement of off-balance sheet line items,
   - notes and explanations.

2. The parent company's Management Board is responsible for the accuracy, correctness and clarity of the consolidated financial statements, as well as for the correctness of the accounting ledgers. Our task was to audit the consolidated financial statements and to express an opinion, on the basis of the audit, on whether the consolidated financial statements correctly, accurately and clearly present, in all material aspects, the PZU Group's assets and financial standing as well as its financial result.

3. We conducted the audit of the financial statements in accordance with the following provisions in force in Poland:

   - chapter 7 of the Accountancy Act of 29 September 1994 ("Act"),
   - standards for performing the profession of an auditor as issued by the National Council of Auditors,

   in such a way so as to obtain rational certainty that the consolidated financial statements do not contain material irregularities. In particular, this audit encompassed an examination – largely on a test basis – of the documentation, from which the amounts and the information set forth in the consolidated financial statements follow. This audit also included an evaluation of the correctness of the accounting rules accepted and used by the PZU Group and the significant estimates made by the parent company's Management Board, as well as of the overall presentation of the consolidated financial statements. We believe that the audit we have conducted has provided us with sufficient grounds to express an opinion about the consolidated financial statements treated as a whole.

4. The consolidated financial statements for the previous financial year ending 31 December 2001 were the subject matter of an audit by an auditor operating for another entitled entity, which issued an opinion on 27 February 2002 about those consolidated financial statements.

5. In our opinion, the consolidated financial statements, in all material aspects:

   - accurately and clearly present all information of material significance for evaluating the financial result of the economic activity for the period from 1 January 2002 to 31 December 2002, as well as the PZU Group's assets and financial standing as at 31 December 2002,
   - were drawn up in compliance with the accounting principles prescribed by the aforementioned Act and the provisions of law issued on its basis,
   - comply with the provisions that affect its content: namely, the aforementioned Act and the provisions of law issued on its basis.

6. Without qualifying our opinion, we hereby draw attention to the following issue. On 1 January 2002 the Act of 9 November 2000 amending the Accountancy Act became effective. The PZU Group has accordingly introduced changes to the applied accounting principles (policy) as has been presented in more detail in note 6 to the introduction to the consolidated financial statements. The presented consolidated financial data for the year ending 31 December 2001 contain the effects of these changes.

7. We have familiarized ourselves with the PZU Group's Activity Report for the period from 1 January 2002 to 31 December 2002 ("activity report") and we have acknowledged that the information resulting from the consolidated financial statements complies with it. The information set forth in the activity report takes into consideration the provisions of art. 49 section 2 of the Act and §47 section 2 of the Finance Minister's regulation of 10 December 2001 on the detailed accounting principles for insurance companies.

   In our opinion, the information presented in the published, abridged version of the consolidated financial statements on pages 80 to 89 of this annual report has been correctly presented in all material aspects concerning the aforementioned audited consolidated financial statements for the year ending 31 December 2002, on whose basis it was written. The consolidated financial statements forming the subject matter of our audit contain notes that were not presented in full in the attached, abridged consolidated financial statements. To obtain full and accurate information about the PZU Group as at 31 December 2002 and about the results on the activity conducted by it for the period from 1 January 2002 to 31 December 2002, it is necessary to familiarize oneself with the full version of the consolidated financial statements containing all the disclosures required by the Accountancy Act and the provisions issued on its basis.

On behalf of
Ernst and Young Audit Sp. z o.o.
ul. Emilii Plater 53, 00-113 Warsaw
Record number 130

Duleep Aluwihare
Auditor
Record number
90015/215

Tomasz Bieske
Auditor
Record number
9291/6975

Warsaw, 5 July 2003

PZU Group's consolidated balance sheet

(000s of PLN)

	Assets	31 Dec. 2001	31 Dec. 2002
A.	**Intangible assets**	**94 264**	**63 709**
1.	Goodwill	–	–
2.	Other intangible assets and advance payments towards intangible assets	94 264	63 709
B.	**Goodwill of subordinated entities**	**9 127**	**7 346**
C.	**Investments**	**21 693 969**	**26 208 336**
I.	Real estate	316 592	266 940
1.	Own land and the right of usufruct to land	87 795	87 740
2.	Buildings, structures and cooperative ownership right to premises	207 256	169 163
3.	Construction investments and advance payments towards such investments	21 541	10 037
II.	Investments in affiliated entities	191 667	192 109
1.	Ownership interests or shares in affiliated entities	174 094	187 767
2.	Loans granted to related entities and debt securities issued by these entities	17 573	4 342
3.	Other investments	–	–
III.	Other financial investments	21 181 492	25 744 895
1.	Ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	1 347 412	1 314 902
2.	Debt securities and other fixed-income securities	19 258 274	23 668 671
3.	Ownership interests in joint investment ventures	4 550	50
4.	Mortgage-backed loans	47 696	8 750
5.	Other loans	–	–
6.	Term deposits in credit institutions	523 560	751 520
7.	Other investments	–	1 002
IV.	Deposits with ceding companies	4 218	4 392
D.	**Investments of life insurance assets for which the policyholder bears the investment risk**	**1 075 263**	**1 217 994**
E.	**Receivables**	**1 272 909**	**1 431 474**
I.	Receivables on direct insurance	1 030 256	1 018 707
1.	Receivables from policyholders, including:	1 012 480	981 420
1.1.	from affiliated entities	284	26
1.2.	from other entities	1 012 196	981 394
2.	Receivables from insurance intermediaries, including:	4 077	25 073
2.1.	from affiliated entities	–	7 926
2.2.	from other entities	4 077	17 147
3.	Other receivables	13 699	12 214
3.1.	from affiliated entities	–	–
3.2.	from other entities	13 699	12 214
II.	Reinsurance receivables, including:	48 353	110 175
1.	from affiliated entities	–	–
2.	from other entities	48 353	110 175
III.	Other receivables	194 300	302 592
1.	Receivables from the budget	80 427	149 879
2.	Other receivables, including:	113 873	152 713
2.1.	from affiliated entities	5 230	840
2.2.	from other entities	108 643	151 873
F.	**Other asset components**	**1 530 921**	**1 486 094**
I.	Tangible asset components	1 311 686	1 239 003
II.	Cash	208 787	241 125
III.	Other asset components	10 448	5 966
G.	**Prepayments and accruals**	**432 200**	**560 460**
I.	Deferred income tax assets	80 303	88 337
II.	Capitalized acquisition expenses	327 971	446 727
III.	Posted interest and rents	343	777
IV.	Other accruals	23 583	24 619
	Total assets	**26 108 653**	**30 975 413**

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
A.	**Equity**	**3 539 431**	**4 964 527**
I.	Share capital	86 352	86 352
II.	Payments due to share capital (negative figure)	–	–
III.	Treasury stock (negative figure)	–	–
IV.	Reserve capital (fund)	2 304 119	3 120 874
V.	Revaluation reserve (fund)	109 188	469 260
VI.	Other reserve capital	–	–
VII.	FX gains on converting subordinated units	–	–
1.	FX gains	–	–
2.	FX losses (negative figure)	–	–
VIII.	Profit (loss) carried forward	(37 303)	47 243
IX.	Net profit (loss)	1 077 075	1 240 798
X.	Charges to net profit during the financial year (negative figure)	–	–
B.	**Negative goodwill of subordinated entities**	**–**	**–**
C.	**Minority capital**	**6**	**–**
D.	**Subordinated liabilities**	**–**	**–**
E.	**Insurance-specific reserves**	**22 632 709**	**25 797 534**
I.	Premium reserve and unexpired risk reserve	3 125 922	3 269 106
II.	Life insurance reserve	10 424 967	12 439 805
III.	Unpaid claim reserve	6 660 610	7 336 183
IV.	Reserve for bonuses and rebates for the insureds	4 587	4 316
V.	Loss ratio (risk) equalization reserve	514 100	572 700
VI.	Other insurance-specific reserves	827 162	953 394
VII.	Insurance-specific reserves for life insurance if the policyholder bears the investment risk	1 075 361	1 222 030
F.	**Reinsurers' share in insurance-specific reserves (negative figure)**	**(2 194 687)**	**(1 898 358)**
I.	Reinsurers' share in the premium reserve and unexpired risk reserve	(523 146)	(180 163)
II.	Reinsurers' share in the life insurance reserve	(156)	(150)
III.	Reinsurers' share in the unpaid claim reserve	(1 671 385)	(1 718 045)
IV.	Reinsurers' share in the reserve for bonuses and rebates for the insureds	–	–
V.	Reinsurers' share in the other insurance-specific reserves	–	–
VI.	Reinsurers' share in the insurance-specific reserves for life insurance if the policyholder bears the investment risk	–	–
G.	**Other reserves**	**624 015**	**961 498**
I.	Reserves for pension benefits and other compulsory employee benefits	224 908	230 027
II.	Deferred income tax reserve	217 794	553 687
III.	Other reserves	181 313	177 784
H.	**Liabilities for reinsurers' deposits**	**106 331**	**32**
I.	**Other liabilities and special-purpose funds**	**509 266**	**519 443**
I.	Liabilities on direct insurance	156 420	233 029
1.	Liabilities to policyholders, including:	115 725	130 312
1.1.	to affiliated entities	–	34
1.2.	to other entities	115 725	130 278
2.	Liabilities to insurance intermediaries, including:	39 880	100 838
2.1.	to affiliated entities	506	3 226
2.2.	to other entities	39 374	97 612
3.	Other liabilities on insurance, including:	815	1 879
3.1.	to affiliated entities	–	–
3.2.	to other entities	815	1 879
II.	Resinsurance liabilities, including:	23 832	63 473
1.	to affiliated entities	82	–
2.	to other entities	23 750	63 473

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
III.	Liabilities for issuing proprietary debt securities and drawn down loans, including:	–	–
1.	Liabilities convertible into the insurance company's shares	–	–
2.	Others	–	–
IV.	Liabilities to credit institutions	–	11
V.	Other liabilities	251 583	138 459
1.	Liabilities to the budget	90 178	17 255
2.	Other liabilities	161 405	121 204
2.1.	to affiliated entities	11 052	6 134
2.2.	to other entities	150 353	115 070
VI.	Special-purpose funds	77 431	84 471
J.	**Accruals and deferred income**	**891 582**	**630 737**
I.	Cost accruals	583 066	459 192
II.	Negative goodwill	–	–
III.	Deferred income	308 516	171 545
	Total liabilities and equity	**26 108 653**	**30 975 413**

	31 Dec. 2001	31 Dec. 2002
Book value	3 539 431	4 964 527
Number of shares	86 352 300	86 352 300
Book value per share (in PLN)	40.99	57.49
Diluted number of shares	86 352 300	86 352 300
Diluted book value per share (in PLN)	40.99	57.49

	Off-balance sheet line items	31 Dec. 2001	31 Dec. 2002
1.	Conditional receivables, including:	1 756 736	1 976 741
1.1.	Guarantees and sureties received	42 487	14 031
1.2.	Others	1 714 249	1 962 710
2.	Conditional liabilities, including:	491 621	355 445
2.1.	Guarantees and sureties given	10 523	20 023
2.2.	Accepted and endorsed bills of exchange	–	–
2.3.	Assets subject to the obligation of resale	402 579	267 590
2.4.	Other liabilities secured on assets or income	27 230	10 369
3.	Reinsurance collateral instituted in favor of the insurance company	–	–
4.	Reinsurance collateral instituted by the insurance company in favor of ceding companies	–	–
5.	Third party asset components not captured in the assets	17 483	20 581
6.	Other off-balance sheet line items	–	–
	Total off-balance sheet line items	**2 265 840**	**2 352 767**

PZU Group's consolidated technical life insurance account

(000s of PLN)

	Item	2001	2002
I.	Premium income (1-2-3)	4 736 525	4 888 475
1.	Gross written premium	4 711 331	4 898 009
2.	Reinsurers' share of the gross written premium	493	5 641
3.	Change to the premium reserve balance and the gross unexpired risk reserve	(25 687)	3 893
4.	Reinsurers' share in the change to the premium reserve balance	–	–
II.	Investment income (1+2+3+4+5)	803 437	982 374
1.	Real estate investment income	22 537	1 725
2.	Investment income in affiliated entities	5 535	6 336
2.1.	on ownership interests and shares	–	6 336
2.2.	on loans and debt securities	5 535	–
2.3.	on other investments	–	–
3.	Other financial investment income	621 434	522 176
3.1.	on ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	9 112	6 918
3.2.	on debt securities and other fixed-income securities	571 792	495 347
3.3.	on term deposits in credit institutions	40 530	19 911
3.4.	on other investments	–	–
4.	Positive result on investment revaluation	24 985	6 010
5.	Positive result on investment realization	128 946	446 127
III.	Unrealized investment gains	976 153	1 142 762
IV.	Other net technical income	2 127	3 550
V.	Claims (1+2)	2 602 369	3 098 224
1.	Net claims paid	2 566 496	3 034 931
1.1.	Gross claims paid	2 566 496	3 035 435
1.2.	Reinsurers' share in claims paid	–	504
2.	Change in the balance of reserves for net unpaid claims	35 873	63 293
2.1.	Gross reserves	35 873	63 293
2.2.	Reinsurers' share	–	–
VI.	Change to the balance of other net insurance-specific reserves	2 173 142	2 162 403
1.	Change to the balance of net life insurance reserves	1 559 157	2 014 843
1.1.	Gross reserves	1 559 146	2 014 837
1.2.	Reinsurers' share	(11)	(6)
2.	Change to the balance of net insurance-specific reserves for life insurance if the policyholder bears the investment risk	339 097	146 668
2.1.	Gross reserves	339 097	146 668
2.2.	Reinsurers' share	–	–
3.	Change in the balance of other net insurance-specific reserves envisaged in the articles of association	274 888	892
3.1.	Gross reserves	274 888	892
3.2.	Reinsurers' share	–	–
VII.	Bonuses and rebates jointly with the change to the balance of net reserves	3 276	3 053
VIII.	Insurance activity expenses (1+2-3)	822 506	816 779
1.	Acquisition expenses	461 792	451 515
1.1.	Including the change to the balance of capitalized acquisition expenses	8 185	14 723
2.	Administrative expenses	360 862	366 956
3.	Reinsurance commissions and profit-sharing	148	1 692
IX.	Investment activity expenses (1+2+3+4)	262 486	178 226
1.	Real estate maintenance expenses	8 545	1 259
2.	Other investment activity expenses	11 294	10 627
3.	Negative result on investment revaluation	76 569	38 436
4.	Negative result on investment realization	166 078	127 904
X.	Unrealized investment losses	83 809	190 241
XI.	Other net technical expenses	25 315	39 330
XII.	Net investment income after including costs transferred to the non-technical profit and loss account	60 604	29 452
XIII.	Technical life insurance result	484 735	499 453
	– Technical life insurance result of subordinated entities	484 735	499 453

PZU Group's consolidated technical property and casualty insurance account

(000s of PLN)

	Item	2001	2002
I.	Premium income (1-2-3+4)	6 028 488	6 406 021
1.	Gross written premium	7 519 508	7 391 558
2.	Reinsurers' share of gross written premium	1 251 067	502 763
3.	Change to the premium reserve balance and the gross unexpired risk reserve	127 597	139 791
4.	Reinsurers' share in the change to the premium reserve balance	(112 356)	(342 983)
II.	Net investment income after including expenses transferred from the non-technical profit and loss account	169 996	89 238
III.	Other net technical income	43 471	45 789
IV.	Claims (1+2)	4 495 610	4 458 012
1.	Net claims paid	3 538 863	3 892 391
1.1.	Gross claims paid	4 449 727	4 471 113
1.2.	Reinsurers' share of claims paid	910 864	578 722
2.	Change in the balance of the reserve for net unpaid claims	956 747	565 621
2.1.	Change in the balance of the reserves for gross unpaid claims	1 103 227	612 281
2.2.	Reinsurers' share in the change in the balance of the reserves for unpaid claims	146 480	46 660
V.	Changes in the balance of the other net insurance-specific reserves	34 384	125 340
1.	Changes in the balance of the other gross insurance-specific reserves	34 384	125 340
2.	Reinsurers' share in the change in the balance of other insurance-specific reserves	–	–
VI.	Net bonuses and rebates jointly with the change in the balance of the reserves	–	–
VII.	Insurance activity expenses (1+2-3)	1 283 039	1 413 300
1.	Acquisition expenses	720 450	686 762
1.1.	Including the change in the balance of capitalized acquisition expenses	(59 228)	(133 478)
2.	Administrative expenses	849 384	906 981
3.	Reinsurance commissions and sharing in the reinsurers' profits	286 795	180 443
VIII.	Other net technical expenses	143 668	209 693
IX.	Changes to the balance of the loss ratio (risk) equalization reserves	39 101	58 600
X.	Property and casualty insurance technical result	246 153	276 103
	– Property and casualty insurance technical result of subordinated entities	–	–

PZU Group's consolidated non-technical profit and loss account

(000s of PLN)

	Item	2001	2002
I.	Technical property and casualty or life insurance result	730 888	775 556
II.	Investment income (1+2+3+4+5)	784 607	659 674
1.	Real estate investment income	9 931	12 833
2.	Investment income from related entities	788	6 390
2.1.	on ownership interests and shares	575	6 388
2.2.	on loans and debt securities	199	–
2.3.	on other investments	14	2
3.	Other financial investment income	573 073	305 951
3.1.	on ownership interests and shares, other variable-income securities, participation units and investment certificates in investment funds	12 186	6 473
3.2.	on debt securities and other fixed-income securities	536 282	290 898
3.3.	on term deposits in credit institutions	24 605	8 580
3.4.	on other investments	–	–
4.	Positive result on investment revaluation	5 258	3 438
5.	Positive result on investment realization	195 557	331 062
III.	Unrealized investment gains	502 910	712 974
IV.	Net investment income after including costs transferred from the technical life insurance account	60 604	29 452
V.	Investment activity expenses (1+2+3+4)	224 942	213 978
1.	Real estate maintenance expenses	8 555	11 044
2.	Other investment activity expenses	20 550	487
3.	Negative result on investment revaluation	39 719	59 531
4.	Negative result on investment realization	156 118	142 916
VI.	Unrealized investment losses	99 005	48 689
VII.	Net investment income after including costs transferred to the technical property and casualty insurance account	169 996	89 238
VIII.	Other operating income	309 197	223 305
IX.	Other operating expenses	410 318	264 495
X.	Operating profit (loss)	1 483 945	1 784 561
XI.	Extraordinary gains	322	–
XII.	Extraordinary losses	564	312
XIII.	Goodwill charge for subordinated entities	155	1 856
XIV.	Negative goodwill charge for subordinated entities	–	–
XV.	Gross profit (loss)	1 483 548	1 782 393
XVI.	Income tax	410 519	550 411
	a) current	276 659	373 629
	b) deferred	133 860	176 782
XVII.	Other compulsory reductions in profit (increases in losses)	–	–
XVIII.	Share of the net profit (loss) of subordinated units valued according to the equity method	4 047	8 817
XIX.	Minority (gains) losses	1	1
XX.	Net profit (loss)	1 077 075	1 240 798

Earnings per share	2001	2002
Net profit (loss) (annualized)	1 077 075	1 240 798
Weighted-average number of common shares	86 352 300	86 352 300
Profit (loss) per common share (PLN)	12.47	14.37
Weighted-average diluted number of common shares	86 352 300	86 352 300
Diluted profit / loss per common share (PLN)	12.47	14.37

PZU Group's consolidated cash flow account (direct method)

(000s of PLN)

	Item	2001	2002
A.	**Cash flow on operating activity**		
I.	Proceeds	13 880 003	13 888 157
1.	Proceeds on direct activity and inward reinsurance	12 601 062	12 536 646
1.1.	Proceeds on gross premiums	12 445 961	12 362 757
1.2.	Proceeds on recourse claims and gross indemnification reimbursements	66 974	73 413
1.3.	Other proceeds on direct activity	88 127	100 476
2.	Proceeds on outward reinsurance	963 571	911 952
2.1.	Payments by reinsurers for their share of indemnification	653 795	691 990
2.2.	Proceeds on reinsurance commissions and on profit-sharing	309 776	219 075
2.3.	Other proceeds from outward reinsurance	–	887
3.	Proceeds on other operating activity	315 370	439 559
3.1.	Proceeds on performing the duties of emergency adjuster	32 775	48 182
3.2.	Sale of intangible assets and the tangible components of non-current assets besides investments	378	989
3.3.	Other proceeds	282 217	390 388
II.	Expenditures	11 610 999	12 252 374
1.	Expenditures on direct activity and inward reinsuance	9 702 522	10 180 093
1.1.	Reimbursements of gross premiums	297 845	219 113
1.2.	Gross claims paid	6 875 044	7 373 845
1.3.	Acquisition expenditures	1 101 898	980 378
1.4.	Administrative expenditures	1 282 521	1 548 137
1.5.	Commissions paid and profit-sharing on inward reinsurance	1 591	1 423
1.6.	Other expenditures on direct activity and inward reinsuance	143 623	57 197
	– Payroll	–	–
	– Social security contributions	–	–
	– Others	143 623	57 197
2.	Expenditures on outward reinsurance	1 173 584	1 001 001
2.1.	Premiums paid for reinsurance	1 173 584	994 802
2.2.	Other expenditures on outward reinsurance	–	6 199
3.	Expenditures on other operating activity	734 893	1 071 280
3.1.	Expenditures on performing the duties of emergency adjuster	20 645	10 996
3.2.	Purchase of intangible assets and tangible components of non-current assets besides investments	135 283	89 486
3.3.	Other operating expenditures	578 965	970 798
III.	Net cash flow on operating activity (I-II)	2 269 004	1 635 783
B.	**Cash flow on investing activity**		
I.	Proceeds	117 269 261	151 400 196
1.	Sale of real estate	–	53 779
2.	Sale of ownership interests and shares in affiliated entities	1 319	8 520
3.	Sale of ownership interests and shares in other entities as well as participation units and investment certificates in investment funds	1 281 732	508 048
4.	Realization of debt securities issued by affiliated entities and amortization of the loans granted to these entities	130 591	83 038
5.	Realization of debt securities issued by other entities	51 649 808	75 996 144
6.	Liquidation of term deposits in credit institutions	63 388 704	74 215 685
7.	Realization of other investments	202 490	–
8.	Proceeds from real estate	33 329	31 312
9.	Interest received	545 867	475 077
10.	Dividends received	34 848	27 971
11.	Other investment proceeds	573	622

	Item	2001	2002
II.	Expenditures	119 509 457	152 800 788
1.	Purchase of real estate	5 289	124
2.	Purchase of ownership interests and shares in affiliated entities	75 257	23 591
3.	Purchase of ownership interests and shares in other entities as well as participation units and investment certificates in investment funds	1 385 070	397 443
4.	Purchase of debt securities issued by affiliated entities and granting loans to these entities	32 640	36 139
5.	Purchase of debt securities issued by other entities	54 302 266	77 708 992
6.	Purchase of term deposits in credit institutions	63 366 798	74 454 615
7.	Purchase of other investments	280 666	69 801
8.	Expenditures to maintain real estate	44 457	60 590
9.	Dividends and other shares of profits paid to the minority	–	–
10.	Other expenditures for investments	17 014	49 493
III.	Net cash flow on investing activity (I-II)	(2 240 196)	(1 400 592)
C.	**Cash flow on financing activity**		
I.	Proceeds	–	–
1.	Net proceeds from issuing shares and additional capital contributions	–	–
2.	Credits, loans and issuance of debt securities	–	–
3.	Other financial proceeds	–	–
II.	Expenditures	–	202 847
1.	Dividends	–	202 840
2.	Other expenditures by virtue of profit distribution besides the disbursement of dividends	–	–
3.	Purchase of treasury stock	–	–
4.	Amortization of credits and loans and the redemption of own debt securities	–	–
5.	Interest on credits and loans and issued debt securities	–	–
6.	Other financial expenditures	–	7
III.	Net cash flow on financing activity (I-II)	–	(202 847)
D.	**Total net cash flow (A.III+B.III+C.III)**	**28 808**	**32 344**
E.	**Balance sheet change in cash**	**28 810**	**32 338**
	– change in the cash balance on account of FX gains	2	(6)
F.	**Cash at the beginning of the period**	**179 977**	**208 787**
G.	**Cash at the end of the period (F+D)**	**208 787**	**241 125**
	– cash with limited ability to use	9 691	10 397

Statement of changes in the PZU Group's consolidated equity

(000s of PLN)

	Item	2001	2002
I.	Equity at the beginning of the period (opening balance)	2 188 799	3 256 739
	a) changes in the accepted accounting principles (policy)	182 366	309 602
	b) corrections of basic mistakes	–	–
I.a.	Equity at the beginning of the period (opening balance), after reconciliation with comparable data	2 371 165	3 566 341
1.	Share capital at the beginning of the period	86 352	86 352
1.1.	Changes in share capital	–	–
	a) increases (by virtue of)	–	–
	– subscribing shares or issuing shares	–	–
	b) decreases (by virtue of)	–	–
	– retiring shares	–	–
1.2.	Share capital at the end of the period	86 352	86 352
2.	Contributions due to the share capital at the beginning of the period	–	–
2.1.	Changes in the contributions due to the share capital	–	–
	a) increases	–	–
	b) decreases (by virtue of)	–	–
	– transfers	–	–
2.2.	Contributions due to the share capital at the end of the period	–	–
3.	Treasury stock at the beginning of the period	–	–
3.1.	Changes in treasury stock	–	–
	a) increases	–	–
	b) decreases	–	–
3.2.	Treasury stock at the end of the period	–	–
4.	Reserve capital at the beginning of the period	1 450 075	2 304 119
4.1.	Changes in reserve capital	854 044	816 755
	a) increases (by virtue of)	898 809	861 013
	– increase by virtue of purchase	816	–
	– distribution of profit (statutorily)	–	–
	– distribution of profit (above the statutorily-required minimum amount)	896 989	860 640
	– from the revaluation reserve	1 004	373
	– from additional contributions made by the partners	–	–
	– transfers	–	–
	b) decreases (by virtue of)	44 765	44 258
	– coverage of losses	–	–
	– transfers	44 765	44 258
4.2.	Reserve capital at the end of the period	2 304 119	3 120 874
5.	Revaluation reserve at the beginning of the period	23 709	22 705
	a) changes in the accepted accounting principles (policy)	–	86 483
	b) corrections of basic mistakes	–	–
5.1.	Revaluation reserve at the beginning of the period after reconciliation with comparable data	23 709	109 188
	a) increases (by virtue of)	86 483	360 445
	– revaluation	86 483	360 445
	b) decreases (by virtue of)	1 004	373
	– realization of assets (sale or liquidation)	1 004	373
5.2.	Revaluation reserve at the end of the period	109 188	469 260
6.	Other reserve capital at the beginning of the period	–	–
6.1.	Changes in other reserve capital	–	–
	a) increases	–	–
	b) decreases	–	–
6.2.	Other reserve capital at the end of the period	–	–
7.	FX gains from converting subordinated units	–	–

	Item	2001	2002
8.	Profit (loss) carried forward at the beginning of the period	628 662	843 563
8.1.	Profit carried forward at the beginning of the period	628 662	843 563
	a) changes in the accepted accounting principles (policy)	182 366	223 119
	b) corrections of basic mistakes	–	–
8.2.	Profit carried forward at the beginning of the period, after reconciliation with comparable data	811 029	1 066 682
	a) increases (by virtue of)	49 215	44 258
	– distribution of profits carried forward	–	–
	– transfers	44 765	44 258
	– by virtue of purchase	4 450	–
	b) decreases (by virtue of)	897 547	1 063 697
	– disbursement of dividends	(2)	202 928
	– transfers to reserve capital	896 989	860 639
	– others	560	130
8.3.	Profit carried forward at the end of the period	(37 303)	47 243
8.4.	Losses carried forward at the beginning of the period	–	–
	a) changes in the accepted accounting principles (policy)	–	–
	b) corrections of basic mistakes	–	–
8.5.	Losses carried forward at the beginning of the period, after reconciliation with comparable data	–	–
	a) increases	–	–
	b) decreases	–	–
8.6.	Losses carried forward at the end of the period	–	–
8.7.	Profit (loss) carried forward at the end of the period	(37 303)	47 243
9.	Net result	1 077 075	1 240 798
	a) net profit	1 077 075	1 240 798
	b) net loss	–	–
	c) charges to profits	–	–
II.	Equity at the end of the period (closing balance)	3 539 431	4 964 527
III.	Equity after taking into consideration the proposed distribution of profits (coverage of losses)	3 539 431	4 964 527

2002

PZU SA

II. Opinion of the Independent Auditor

To the Supervisory Board of Powszechny Zakład Ubezpieczeń SA

1. We have conducted an audit of the financial statements for the year ending 31 December 2002 at Powszechny Zakład Ubezpieczeń SA ("Company") with its registered offices in Warsaw at Al. Jana Pawła II 24, encompassing the following:

   • introduction to the financial statements,

   • balance sheet drawn up as at 31 December 2002, showing total assets and liabilities of PLN 14,381,622 thousand (say: fourteen billion three hundred eighty-one million six hundred twenty-two thousand Polish zloty),

   • technical property and casualty insurance account for the period from 1 January 2002 to 31 December 2002 showing a positive technical property and casualty insurance result to be transferred to the non-technical profit and loss account in the amount of PLN 252,414 thousand (say: two hundred fifty-two million four hundred fourteen thousand Polish zloty),

   • non-technical profit and loss account for the period from 1 January 2002 to 31 December 2002 showing a net profit in the amount of PLN 871,142 thousand (say: eight hundred seventy-one million one hundred forty-two thousand Polish zloty),

   • statement of change in equity for the period from 1 January 2002 to 31 December 2002 showing an increase in equity by the amount of PLN 1,042,117 thousand (say: one billion forty-two million one hundred seventeen thousand Polish zloty),

   • cash flow account for the period from 1 January 2002 to 31 December 2002 showing an increase in the balance of net cash by the amount of PLN 10,121 thousand (say: ten million one hundred twenty-one thousand Polish zloty),

   • statement of off-balance sheet line items,

   • solvency margin,

   • determination of the surplus shareholder funds to cover the solvency margin,

   • determination of the insurance-specific reserves,

   • determination of the amount of assets covering the insurance-specific reserves,

   • determination of the surplus assets covering the insurance-specific reserves,

   • notes and explanations.

2. The Company's Management Board is responsible for the accuracy, correctness and clarity of the financial statements, as well as for the correctness of the accounting ledgers. Our task was to audit the financial statements and to express an opinion, on the basis of the audit, on whether the financial statements are, in all material aspects, accurate, correct and clear and whether the accounting ledgers forming the grounds for drawing them up are kept, in all material aspects, correctly.

3. We conducted the audit of the financial statements in accordance with the following provisions in force in Poland:

   • chapter 7 of the Accountancy Act of 29 September 1994 ("Act"),
   • standards for performing the profession of an auditor as issued by the National Council of Auditors,

   in such a way so as to obtain rational certainty that the financial statements and accounting ledgers do not contain material irregularities. In particular, this audit encompassed an examination – largely on a test basis – of the documentation, from which the amounts and the information set forth in the financial statements follow. This audit also included an evaluation of the correctness of the accounting rules accepted and used by the Management Board and the significant estimates made by the Management Board, as well as of the overall presentation of the financial statements. We believe that the audit we have conducted has provided us with sufficient grounds to express an opinion about the financial statements treated as a whole.

4. The financial statements for the previous financial year ending 31 December 2001 were the subject matter of an audit by an auditor operating for another entity entitled to audit financial statements, which issued an opinion on 14 February 2002 while drawing attention to the issues that the Company showed who shares the ownership interests in subsidiaries and affiliates at the purchase price in the financial statements while giving consideration to the impairment charges to these shares and ownership interests and that the PZU Group's net profit and net assets will differ from the Company's net profit for the year ending 31 December 2001 and from its net asset value as at that day.

5. In our opinion, the financial statements, in all material aspects:

- accurately and clearly present all the information of material significance for evaluating the financial result of the economic activity for the period from 1 January 2002 to 31 December 2002 as well as the audited Company's assets and financial standing as at 31 December 2002,
- were drawn up in accordance with the accounting principles prescribed by the aforementioned Act, the Finance Minister's Regulation of 10 December 2001 on the detailed accounting principles for insurance companies (Journal of Laws, Number 149, Item 1671) and the provisions issued on their basis, on the basis of properly kept accounting ledgers,
- comply with the aforementioned Act and the provisions of law issued on its basis as well as the provisions of the articles of association that affect their content.

6. Without qualifying our opinion, we hereby draw attention to the following issues:

- On 1 January 2002, the Act of 9 November 2000 amending the Accountancy Act became effective. Accordingly, the Company made changes to the accounting principles (policy) used, as was described in greater detail in item 5 of the introduction to the financial statements. The presented financial data for the year ending 31 December 2001 contain the effects of these changes.
- According to the provisions of the Act, the Company has carried in the financial statements the shares and ownership interests in subsidiaries and affiliates at purchase price while giving consideration to the impairment charge to these shares and ownership interests. According to the aforementioned Act, the PZU SA Capital Group ("Capital Group"), where the Company is the parent company shall draw up the consolidated financial statements. The Capital Group's financial result and net assets will differ from the Company's financial results for the period of 12 months ending 31 December 2002 and its net assets as at that date.

7. The actuary's opinion on the establishment of the insurance-specific reserves set by using insurance mathematic methods has been attached to the financial statements.

8. We have familiarized ourselves with the Company's activity report for the period from 1 January 2002 to 31 December 2002 ("activity report") and we have acknowledged that the information originating from the financial statements complies with it. The information set forth in the activity report takes into consideration the provisions of art. 49 section 2 of the Act and §47 section 2 of the Finance Minister's regulation of 10 December 2001 on the detailed accounting principles for insurance companies.

In our opinion, the information presented in the published, abridged version of the financial statements on pages 93 to 101 of this annual report has been correctly presented in all material aspects concerning the aforementioned audited financial statements for the year ending 31 December 2002, on whose basis it was written. The financial statements forming the subject matter of our audit contain notes that were not presented in full in the attached, abridged financial statements. To obtain full and accurate information about the Company as at 31 December 2002 and about the results on the activity conducted by it for the period from 1 January 2002 to 31 December 2002, it is necessary to familiarize oneself with the full version of the financial statements containing all the disclosures required by the Accountancy Act and the provisions issued on its basis.

On behalf of
Ernst and Young Audit Sp. z o.o.
ul. Emilii Plater 53, 00-113 Warsaw
Record number 130

Duleep Aluwihare

Auditor
Record number
90015/215

Tomasz Bieske

Auditor
Record number
9291/6975

Warsaw, 5 July 2003

Balance sheet of PZU SA

(000s of PLN)

	Assets	31 Dec. 2001	31 Dec. 2002
A.	**Intangible assets**	**9 972**	**10 799**
1.	Goodwill	–	–
2.	Other intangible assets and advance payments towards intangible assets	9 972	10 799
B.	**Investments**	**10 223 581**	**12 186 437**
I.	Real estate	37 164	26 860
1.	Proprietary land and the right of permanent usufruct to land	2 600	2 564
2.	Buildings and structures and the cooperative right to premises	13 023	14 259
3.	Construction investments and advance payments towards these investments	21 541	10 037
II.	Investments in affiliated entities	548 563	515 391
1.	Ownership interests and shares in affiliated entities	360 578	408 993
2.	Loans granted to affiliated entities and debt securities issued by these entities	187 985	106 398
3.	Other investments	–	–
III.	Other financial investments	9 633 636	11 639 794
1.	Ownership interests, shares, other variable-income securities and participation units and investment certificates in investment funds	389 293	431 662
2.	Debt securities and other fixed-income securities	8 914 697	10 674 105
3.	Ownership interests in joint investment ventures	4 550	50
4.	Mortgage-backed loans	–	–
5.	Other loans	–	–
6.	Term deposits in credit institutions	325 096	533 977
7.	Other investments	–	–
IV.	Deposits with ceding companies	4 218	4 392
C.	**Investments of life insurance assets where the policyholder bears the investment risk**	**–**	**–**
D.	**Receivables**	**1 072 956**	**1 239 359**
I.	Receivables on direct insurance	945 899	931 590
1.	Receivables from policyholders	928 123	895 403
1.1.	from affiliated entities	301	341
1.2.	from other entities	927 822	895 062
2.	Receivables from insurance intermediaries	4 077	23 980
2.1.	from affiliated entities	–	6 833
2.2.	from other entities	4 077	17 147
3.	Other receivables	13 699	12 207
3.1.	from affiliated entities	–	–
3.2.	from other entities	13 699	12 207
II.	Reinsurance receivables	48 353	110 175
1.	from affiliated entities	–	–
2.	from other entities	48 353	110 175
III.	Other receivables	78 704	197 594
1.	Receivables from the budget	254	133 899
2.	Other receivables	78 450	63 695
2.1.	from affiliated entities	2 613	3 111
2.2.	from other entities	75 837	60 584
E.	**Other asset components**	**674 626**	**659 428**
I.	Tangible asset components	527 983	506 051
II.	Cash	137 507	147 628
III.	Other asset components	9 136	5 749
F.	**Prepayments and accruals**	**151 852**	**285 599**
I.	Deferred income tax assets	–	–
II.	Capitalized acquisition costs	120 283	253 762
III.	Posted interest and rents	241	219
IV.	Other prepayments and accruals	31 328	31 618
	Total assets	**12 132 987**	**14 381 622**

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
A.	**Equity**	**2 508 960**	**3 551 077**
I.	Share capital	86 352	86 352
II.	Contributions due to share capital (negative figure)	–	–
III.	Treasury stock (negative figure)	–	–
IV.	Reserve capital	1 619 476	2 093 645
V.	Revaluation reserve	106 074	465 510
VI.	Other reserve capital	–	–
VII.	Profit (loss) carried forward	19 133	34 428
VIII.	Net profit (loss)	677 925	871 142
B.	**Subordinated liabilities**	**–**	**–**
C.	**Insurance-specific reserves**	**10 209 808**	**11 145 764**
I.	Premium reserve and unexpired risk reserve	3 071 461	3 211 196
II.	Life insurance reserve	–	–
III.	Unpaid claim reserve	6 332 679	6 944 960
IV.	Reserve for bonuses and rebates to insureds	–	–
V.	Loss ratio (risk) equalization reserve	514 100	572 700
VI.	Other insurance-specific reserves	291 568	416 908
VII.	Insurance-specific reserves for life insurance if the policyholder bears the investment risk	–	–
D.	**Reinsurers' share in insurance-specific reserves (negative figure)**	**(2 194 531)**	**(1 898 208)**
I.	Reinsurers' share in premium reserve and unexpired risk reserve	(523 146)	(180 163)
II.	Reinsurers' share in life insurance reserve	–	–
III.	Reinsurers' share in unpaid claim reserve	(1 671 385)	(1 718 045)
IV.	Reinsurers' share in reserve for bonuses and rebates to insureds	–	–
V.	Reinsurers' share in other insurance-specific reserves	–	–
VI.	Reinsurers' share in insurance-specific reserves for life insurance if the policyholder bears the investment risk	–	–
E.	**Other reserves**	**315 602**	**629 202**
I.	Reserves for pension benefits and other compulsory employee benefits	192 588	186 272
II.	Deferred income tax reserve	43 871	327 939
III.	Other reserves	79 143	114 991
F.	**Liabilities on reinsurers' deposits**	**106 331**	**32**
G.	**Other liabilities and special funds**	**312 731**	**342 903**
I.	Liabilities on direct insurance	41 946	100 909
1.	Liabilities to policyholders	6 031	4 821
1.1.	to affiliated entities	–	–
1.2.	to other entities	6 031	4 821
2.	Liabilities to insurance intermediaries	35 915	96 088
2.1.	to affiliated entities	506	2 188
2.2.	to other entities	35 409	93 900
3.	Other insurance liabilities	–	–
3.1.	to affiliated entities	–	–
3.2.	to other entities	–	–
II.	Reinsurance liabilities	23 487	63 297
1.	to affiliated entities	82	–
2.	to other entities	23 405	63 297
III.	Liabilities on the issue of own debt securities and drawn loans	–	–
1.	Liabilities convertible into stock in the insurer	–	–
2.	Other	–	–

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
IV.	Liabilities to credit institutions	–	–
V.	Other liabilities	180 060	105 598
1.	Liabilities to the budget	82 823	9 107
2.	Other liabilities	97 237	96 491
2.1.	to affiliated entities	6 277	6 500
2.2.	to other entities	90 960	89 991
VI.	Special funds	67 238	73 099
H.	**Deferred income and accruals**	**874 086**	**610 852**
I.	Cost accruals	568 611	445 837
II.	Negative goodwill	–	–
III.	Deferred income	305 475	165 015
	Total liabilities and equity	**12 132 987**	**14 381 622**

	Off-balance sheet line items	31 Dec. 2001	31 Dec. 2002
1.	Conditional receivables, including:	1 333 900	1 538 544
1.1.	Guarantees and sureties received	42 487	14 031
1.2.	Other	1 291 413	1 524 513
2.	Conditional liabilities, including:	441 382	307 292
2.1.	Guarantees and sureties granted	10 523	20 023
2.2.	Accepted and endorsed bills of exchange	–	–
2.3.	Assets with a resale obligation	402 579	267 590
2.4.	Other liabilities secured on assets or income	28 280	19 679
3.	Reinsurance collateral instituted in favor of the insurer	–	–
4.	Reinsurance collateral instituted by the insurer in favor of the ceding companies	–	–
5.	Third party asset components not captured in the assets	17 483	17 272
	Total off-balance sheet line items	**1 792 765**	**1 863 108**

	31 Dec. 2001	31 Dec. 2002
Equity	2 498 988	3 540 278
Solvency margin	975 074	1 041 986
Surplus (deficit) equity to cover the solvency margin	1 523 914	2 498 292
Insurance-specific reserves	10 209 808	11 145 764
Assets covering the insurance-specific reserves	10 523 957	12 814 911
Surplus (deficit) assets covering the insurance-specific reserves	323 143	1 669 147

Technical property and casualty insurance account of PZU SA

(000s of PLN)

	Item	2001	2002
I.	Premiums (1-2-3+4)	6 031 355	6 408 714
1.	Gross written premium in the financial year	7 522 560	7 394 195
2.	Reinsurers' share in the gross written premium	1 251 067	502 763
3.	Changes in the balance of the gross premium and unexpired risk premiums	127 782	139 735
4.	Reinsurers' share in the change in the balance of premium reserves	(112 356)	(342 983)
II.	Net investment income after considering costs, transferred from the non-technical profit and loss account	169 996	89 238
III.	Other net technical income	43 471	45 789
IV.	Claims paid (1+2)	4 496 066	4 458 655
1.	Net claims paid	3 539 319	3 893 034
1.1.	Gross claims paid	4 450 183	4 471 756
1.2.	Reinsurers' share in gross claims paid	910 864	578 722
2.	Change in the balance of the net unpaid claim reserve:	956 747	565 621
2.1.	Change in the balance of the gross unpaid claim reserve	1 103 227	612 281
2.2.	Reinsurers' share in the change in the balance of the gross unpaid claim reserve	146 480	46 660
V.	Changes in the balance of other net insurance-specific reserves	34 384	125 340
1.	Change in the balance of other gross insurance-specific reserves	34 384	125 340
2.	Reinsurers' share in the change in the balance of other gross insurance-specific reserves	–	–
VI.	Net bonuses and rebates, jointly with the change in the balance of the reserve for bonuses and rebates	–	–
VII.	Insurance activity expenses (1+2-3)	1 288 756	1 439 039
1.	Acquisition costs	720 450	686 762
1.1.	including the change in the balance of capitalized acquisition costs	(59 228)	(133 478)
2.	Administrative expenses	855 101	932 720
3.	Reinsurance commissions and profit-sharing	286 795	180 443
VIII.	Other net technical income	143 668	209 693
IX.	Changes in the balance of loss ratio (risk) equalization reserves	39 101	58 600
IX.	Technical result on property and casualty insurance	242 847	252 414

Non-technical profit and loss account of PZU SA

(000s of PLN)

	Item	2001	2002
I.	Technical result on property and casualty insurance	242 847	252 414
II.	Investment income (1+2+3+4+5)	791 394	662 100
1.	Investment income on real estate	6 178	5 710
2.	Investment income on affiliated entities	25 093	25 516
2.1.	Ownership interests and shares	575	6 388
2.2.	Loans and debt securities	24 518	19 128
2.3.	Other investments	–	–
3.	Investment income on other financial investments	562 180	299 733
3.1.	Ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	12 186	6 473
3.2.	Debt securities and other fixed-income securities	529 759	286 813
3.3.	Term deposits in credit institutions	20 235	6 447
3.4.	Other investments	–	–
4.	Positive result on investment revaluation	5 258	3 438
5.	Positive result on investment realization	192 685	327 703
III.	Unrealized investment gains	502 910	713 551
IV.	Net investment income after considering costs, transferred from the technical life insurance account	–	–
V.	Investment activity expenses (1+2+3+4)	222 441	200 648
1.	Real estate maintenance expenses	2 864	1 910
2.	Other investment activity expenses	20 550	487
3.	Negative result on investment revaluation	42 909	55 335
4.	Negative result on investment realization	156 118	142 916
VI.	Unrealized investment losses	99 005	35 930
VII.	Net investment income after considering costs, transferred to the technical property and casualty insurance account	169 996	89 238
VIII.	Other operating income	116 424	59 770
IX.	Other operating expenses	191 390	113 693
X.	Operating profit (loss)	970 743	1 248 326
XI.	Extraordinary gains	260	21
XII.	Extraordinary losses	198	25
XIII.	Gross profit (loss)	970 805	1 248 322
XIV.	Income tax	292 880	377 180
XV.	Other compulsory reductions in profit (increase in losses)	–	–
XVI.	Net profit (loss)	677 925	871 142

Cash flow account of PZU SA

(000s of PLN)

	Item	2001	2002
A.	**Cash flow on operating activity**		
I.	Proceeds	9 002 889	8 752 563
1.	Proceeds on direct activity and inward reinsurance	7 839 314	7 599 581
1.1.	Proceeds on gross premiums	7 738 759	7 455 892
1.2.	Proceeds on recourse claims and gross returns of claims paid	66 974	73 413
1.3.	Other proceeds on direct activity	33 581	70 276
2.	Proceeds on outward reinsurance	963 571	909 756
2.1.	Payments received from reinsurers for their share of claims paid	653 795	691 486
2.2.	Proceeds on reinsurance commissions and profit-sharing	309 776	217 383
2.3.	Other proceeds from outward reinsurance	–	887
3.	Proceeds on other operating activity	200 004	243 226
3.1.	Proceeds for acting as an emergency adjuster	32 775	48 182
3.2.	Sale of other intangible assets and tangible components of non-current assets besides investments	344	763
3.3.	Other proceeds	166 885	194 281
II.	Expenditures	7 929 075	8 150 906
1.	Expenditures on direct activity and inward reinsurance	6 308 870	6 430 010
1.1.	Returns of gross premiums	297 845	219 113
1.2.	Gross claims paid	4 308 549	4 338 410
1.3.	Acquisition expenditures	650 566	528 863
1.4.	Administrative expenditures	982 346	1 248 619
1.5.	Commissions paid and profit-sharing on inward reinsurance	1 591	1 423
1.6.	Other expenditures on direct activity and inward reinsurance	67 973	93 582
2.	Expenditures on outward reinsurance	1 173 584	995 360
2.1.	Premiums paid for reinsurance	1 173 584	989 161
2.2.	Other expenditures on outward reinsurance	–	6 199
3.	Expenditures on other operating activity	446 621	725 536
3.1.	Expenditures for acting as an emergency adjuster	20 645	10 996
3.2.	Purchase of other intangible assets and tangible components of non-current assets besides investments	133 636	82 263
3.3.	Other expenditures	292 340	632 277
III.	Net cash flow on operating activity (I-II)	1 073 814	601 657
B.	**Cash flow on investing activity**		
I.	Proceeds	63 442 538	60 774 369
1.	Sale of real estate	–	53 779
2.	Sale of ownership interests and shares in affiliated entities	1 300	4 075
3.	Sale of ownership interests and shares in other entities and participation units and investment certificates in investment funds	403 609	87 204
4.	Realization of debt securities issued by affiliated entities and the repayment of loans granted to these entities	1 392	80 037
5.	Realization of debt securities issued by other entities	35 903 073	39 754 922
6.	Liquidation of term deposits in credit institutions	27 067 689	20 744 773
7.	Realization of other investments	–	–
8.	Proceeds from real estate	7 477	5 004
9.	Interest received	33 117	27 857
10.	Dividends received	24 881	16 705
11.	Other investment proceeds	–	13
II.	Expenditures	64 496 609	61 163 052
1.	Purchase of real estate	–	–
2.	Purchase of ownership interests and shares in affiliated entities	6 770	85 281
3.	Purchase of ownership interests and shares in other entities, participation units and investment certificates in investment funds	293 895	96 782
4.	Purchase of debt securities issued by affiliated entities and repayment of loans granted to these entities	7 000	–
5.	Purchase of debt securities issued by other entities	37 122 095	40 026 163
6.	Purchase of term deposits in credit institutions	27 057 924	20 946 650
7.	Purchase of other investments	–	–
8.	Expenditures to maintain real estate	3 771	7 755
9.	Other investment expenditures	5 154	421
III.	Net cash flow on investing activity (I-II)	(1 054 071)	(388 683)

	Item	2001	2002
C.	Cash flow on financing activity		
I.	Proceeds	–	–
1.	Net proceeds on issues of shares and capital contributions	–	–
2.	Credits, loans and issues of debt securities	–	–
3.	Other financial proceeds	–	–
II.	Expenditures	–	202 847
1.	Dividends	–	202 840
2.	Other expenditures for distribution of profits besides disbursement of dividends	–	–
3.	Purchase of treasury stock	–	–
4.	Repayment of credits, loans and redemption of own debt securities	–	–
5.	Interest on credits, loans and outstanding debt securities	–	–
6.	Other financial expenditures	–	7
III.	Net cash flow on financing activity (I-II)	–	(202 847)
D.	Total net cash flow (A.III+B.III+C.III)	19 743	10 127
E.	Balance sheet change in cash balance, including:	19 745	10 121
	– change in the balance of cash on FX gains	2	(6)
F.	Cash at the beginning of the period	117 762	137 507
G.	Cash at the end of the period, including (E+F):	137 507	147 628
	– with limited ability to use	9 691	10 369

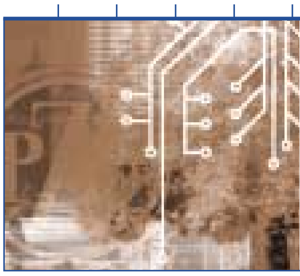
Statement of change in equity of PZU SA

(000s of PLN)

	Item	2001	2002
I.	Equity at the beginning of the period (opening balance)	1 725 419	2 402 335
	a) changes to accepted accounting principles (policy)	19 133	120 910
	b) corrections of basic mistakes	–	–
I.a.	Equity at the beginning of the period (opening balance), adjusted	1 744 552	2 523 245
1.	Share capital at the beginning of the period	86 352	86 352
1.1.	Change in the share capital	–	–
	a) increases	–	–
	b) decreases	–	–
1.2.	Balance of share capital at the end of the period	86 352	86 352
2.	Contributions due to share capital at the beginning of the period	–	–
2.1.	Change in the contributions due to share capital		–
	a) increase	–	–
	b) decrease	–	–
2.2.	Contributions due to share capital at the end of the period	–	–
3.	Treasury stock at the beginning of the period	–	–
3.1.	Changes in treasury stock	–	–
	a) increase	–	–
	b) decrease	–	–
3.2.	Treasury stock at the end of the period	–	–
4.	Reserve capital at the beginning of the period	1 045 865	1 619 476
4.1.	Changes in the balance of reserve capital	573 611	474 169
	a) increase (by virtue of)	573 611	474 169
	– issue of shares above par value	–	–
	– distribution of profit (statutorily)	–	–
	– distribution of profit (above minimum amount statutorily required)	573 457	473 989
	– from revaluation reserve – by discharges of fixed assets	154	180
	b) decrease (by virtue of)	–	–
	– coverage of losses	–	–
4.2.	Reserve capital at the end of the period	1 619 476	2 093 645
5.	Revaluation reserve at the beginning of the period	19 745	19 591
	a) changes to accepted accounting principles (policy)	–	86 483
	b) corrections of basic mistakes	–	–
5a.	Revaluation reserve at the beginning of the period after reconciliation with comparable data	19 745	106 074
5.1.	Change in the revaluation reserve	86 329	359 436
	a) increase (by virtue of)	86 483	359 616
	– valuation of long-term financial investments	86 483	359 616
	b) decreases (by virtue of)	154	180
	– sale and liquidation of fixed assets	154	180
5.2.	Revaluation reserve at the end of the period	106 074	465 510
6.	Other reserve capital at the beginning of the period	–	–
6.1.	Changes in other reserve capital	–	–
6.2.	Other reserve capital at the end of the period	–	–

	Item	2001	2002
7.	Profit (loss) carried forward at the beginning of the period	573 457	676 916
7.1.	Profit (loss) carried forward at the beginning of the period	573 457	676 916
	a) changes to accepted accounting principles (policy)	19 133	34 428
	b) corrections of basic mistakes	–	–
7.2.	Profit (loss) carried forward at the beginning of the period, adjusted	592 590	711 344
	a) increase	–	–
	b) decreases (by virtue of)	573 457	676 916
	– disbursement of dividends	–	202 928
	– transfer to reserve capital	573 457	473 988
7.3.	Profit carried forward at the end of the period	19 133	34 428
7.4.	Loss carried forward at the beginning of the period	–	–
	a) changes to accepted accounting principles (policy)	–	–
	b) corrections of basic mistakes	–	–
7.5.	Loss carried forward at the beginning of the period, adjusted	–	–
7.6.	Loss carried forward at the end of the period	–	–
7.7.	Profit (loss) carried forward at the end of the period	19 133	34 428
8.	Net result	677 925	871 142
	a) net profit	677 925	871 142
	b) net loss	–	–
II.	Equity at the end of the period (closing balance)	2 508 960	3 551 077
III.	Equity after considering the proposed distribution of profit (coverage of losses)	2 508 960	3 551 077

2002



PZU Życie SA

III. Opinion of the Independent Auditor

To the Supervisory Board of Powszechny Zakład Ubezpieczeń na Życie SA

1. We conducted an audit of the financial statements for the year ending 31 December 2002 of Powszechny Zakład Ubezpieczeń na Życie SA ("Company") with its registered offices in Warsaw at Al. Jana Pawła II 24, encompassing:

   - introduction to the financial statements,
   - balance sheet drawn up as at 31 December 2002, showing total assets and liabilities of PLN 17,159,783 thousand (say: seventeen billion one hundred fifty-nine million seven hundred eighty-three thousand Polish zloty),
   - technical life insurance account for the period from 1 January 2002 to 31 December 2002, showing the technical profit to be transferred to the non-technical profit and loss account in the amount of PLN 400,207 thousand (say: four hundred million two hundred seven thousand Polish zloty),
   - non-technical profit and loss account for the period from 1 January 2002 to 31 December 2002 showing a net profit in the amount of PLN 302,385 thousand (say: three hundred two million three hundred eighty-five thousand Polish zloty),
   - statement of change in equity for the period from 1 January 2002 to 31 December 2002 showing an increase in the balance of equity by the amount of PLN 303,087 thousand (say: three hundred three million eighty-seven thousand Polish zloty),
   - cash flow account for the period from 1 January 2002 to 31 December 2002 showing an increase in the balance of net cash by the amount of PLN 22,586 thousand (say: twenty-two million five hundred eighty-six thousand Polish zloty),
   - statement of off-balance sheet line items,
   - solvency margin,
   - determination of the surplus shareholder funds covering the solvency margin,
   - determination of the amount of insurance-specific reserves,
   - determination of the amount of assets covering the insurance-specific reserves,
   - determination of the surplus assets covering the insurance-specific reserves,
   - notes and explanations.

2. The Company's Management Board is responsible for the accuracy, correctness and clarity of the financial statements, as well as for the correctness of the accounting ledgers. Our task was to audit the financial statements and to express an opinion, on the basis of the audit, on whether the financial statements are, in all material aspects, accurate, correct and clear and whether the accounting ledgers forming the grounds for drawing them up are kept, in all material aspects, correctly.

3. We conducted the audit of the financial statements in accordance with the following provisions in force in Poland:

   - chapter 7 of the Accountancy Act of 29 September 1994 ("Act"),
   - standards for performing the profession of an auditor as issued by the National Council of Auditors,

   in such a way so as to obtain rational certainty that the financial statements and accounting ledgers do not contain material irregularities. In particular, this audit encompassed an examination – largely on a test basis – of the documentation, from which the amounts and the information set forth in the financial statements follow. This audit also included an evaluation of the correctness of the accounting rules accepted and used by the Management Board and the significant estimates made by the Management Board, as well as of the overall presentation of the financial statements. We believe that the audit we have conducted has provided us with sufficient grounds to express an opinion about the financial statements treated as a whole.

4. The financial statements for the previous financial year ending 31 December 2001 were the subject matter of an audit by a different auditor, who issued an unqualified opinion on 4 March 2002 on these financial statements.

5. In our opinion, the financial statements, in all material aspects:
   - accurately and clearly present all the information of material significance for evaluating the financial result of the economic activity for the period from 1 January 2002 to 31 December 2002 as well as the audited Company's assets and financial standing as at 31 December 2002,
   - were drawn up in accordance with the accounting principles prescribed by the aforementioned Act and the provisions duly issued on their basis, on the basis of properly kept accounting ledgers,
   - comply with the aforementioned Act and the provisions of law issued on its basis as well as the provisions of the articles of association that affect their content.

6. Without qualifying our opinion, we hereby draw attention to the fact that on 1 January 2002 the Act of 9 November 2000 amending the Accountancy Act became effective. Accordingly, the Company made changes to its accounting principles (policy) as described in greater detail in item B.XVII. of the introduction to the financial statements. The presented financial data for the year ending 31 December 2001 include the effects of these changes.

7. We have familiarized ourselves with the Company's activity report for the period from 1 January 2002 to 31 December 2002 ("activity report") and we have acknowledged that the information originating from the financial statements complies with it. The information set forth in the activity report takes into consideration the provisions of art. 49 section 2 of the Act and §47 section 2 of the Finance Minister's regulation of 10 December 2001 on the detailed accounting principles for insurance companies.

   In our opinion, the information presented in the published, abridged version of the financial statements on pages 105 to 113 of this annual report has been correctly presented in all material aspects concerning the aforementioned audited financial statements for the year ending 31 December 2002, on whose basis it was written. The financial statements forming the subject matter of our audit contain notes that were not presented in full in the attached, abridged financial statements. To obtain full and accurate information about the Company as at 31 December 2002 and about the results on the activity conducted by it for the period from 1 January 2002 to 31 December 2002, it is necessary to familiarize oneself with the full version of the financial statements containing all the disclosures required by the Accountancy Act and the provisions issued on its basis.

On behalf of
Ernst and Young Audit Sp. z o.o.
ul. Emilii Plater 53, 00-113 Warsaw
Record number 130

Iwona Kozera
Auditor
Record number
9528/7104

Tomasz Bieske
Auditor
Record number
9291/6975

Warsaw, 5 July 2003

Balance sheet of PZU Życie SA

(000s of PLN)

	Assets	31 Dec. 2001	31 Dec. 2002
A.	**Intangible assets**	**76 857**	**49 025**
1.	Goodwill	–	–
2.	Other intangible assets and advance payments towards intangible assets	76 857	49 025
B.	**Investments**	**12 461 530**	**14 922 592**
I.	Real estate	90 304	89 988
1.	Proprietary land and the right of permanent usufruct to land	78 050	78 031
2.	Buildings and structures and the cooperative right to premises	12 254	11 957
3.	Construction investments and advance payments towards these investments	–	–
II.	Investments in affiliated entities	853 812	731 299
1.	Ownership interests and shares in affiliated entities	473 972	518 885
2.	Loans granted to affiliated entities and debt securities issued by these entities	379 840	212 414
3.	Other investments	–	–
III.	Other financial investments	11 517 415	14 101 305
1.	Ownership interests, shares, other variable-income securities and participation units and investment certificates in investment funds	1 000 632	940 675
2.	Debt securities and other fixed-income securities	10 300 607	12 980 253
3.	Ownership interests in joint investment ventures	–	–
4.	Mortgage-backed loans	47 695	8 750
5.	Other loans	–	–
6.	Term deposits in credit institutions	168 480	170 624
7.	Other investments	–	1 002
IV.	Deposits with ceding companies	–	–
C.	**Investments of life insurance assets where the policyholder bears the investment risk**	**1 075 263**	**1 217 994**
D.	**Receivables**	**361 922**	**346 031**
I.	Receivables on direct insurance	84 375	87 455
1.	Receivables from policyholders	84 375	86 355
1.1.	from affiliated entities	745	46
1.2.	from other entities	83 630	86 309
2.	Receivables from insurance intermediaries	–	1 093
2.1.	from affiliated entities	–	1 093
2.2.	from other entities	–	–
3.	Other receivables	–	7
3.1.	from affiliated entities	–	–
3.2.	from other entities	–	7
II.	Reinsurance receivables	–	–
1.	from affiliated entities	–	–
2.	from other entities	–	–
III.	Other receivables	277 547	258 576
1.	Receivables from the budget	79 397	15 918
2.	Other receivables	198 150	242 658
2.1.	from affiliated entities	172 322	167 734
2.2.	from other entities	25 829	74 924
E.	**Other asset components**	**343 073**	**366 252**
I.	Tangible asset components	270 337	271 197
II.	Cash	70 412	92 998
III.	Other asset components	2 325	2 057
F.	**Prepayments and accruals**	**272 777**	**257 889**
I.	Deferred income tax assets	–	–
II.	Capitalized acquisition costs	207 688	192 965
III.	Posted interest and rents	80	558
IV.	Other prepayments and accruals	65 009	64 367
	Total assets	**14 591 423**	**17 159 783**

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
A.	**Equity**	**1 685 875**	**1 997 755**
I.	Share capital	295 000	295 000
II.	Contributions due to share capital (negative figure)	–	–
III.	Treasury stock (negative figure)	–	–
IV.	Reserve capital	833 167	1 209 697
V.	Revaluation reserve	3 114	3 750
VI.	Other reserve capital	–	–
VII.	Profit (loss) carried forward	163 234	186 923
VIII.	Net profit (loss)	391 360	302 385
B.	**Subordinated liabilities**	**–**	**–**
C.	**Insurance-specific reserves**	**12 422 901**	**14 652 213**
I.	Premium reserve and unexpired risk reserve	54 461	58 353
II.	Life insurance reserve	10 424 968	12 439 805
III.	Unpaid claim reserve	327 931	391 223
IV.	Reserve for bonuses and rebates to insureds	4 587	4 316
V.	Loss ratio (risk) equalization reserve	–	–
VI.	Other insurance-specific reserves	535 594	536 486
VII.	Insurance-specific reserves for life insurance if the policyholder bears the investment risk	1 075 361	1 222 030
D.	**Reinsurers' share in insurance-specific reserves (negative figure)**	**(156)**	**(150)**
I.	Reinsurers' share in premium reserve and unexpired risk reserve	–	–
II.	Reinsurers' share in life insurance reserve	(156)	(150)
III.	Reinsurers' share in unpaid claim reserve	–	–
IV.	Reinsurers' share in reserve for bonuses and rebates to insureds	–	–
V.	Reinsurers' share in other insurance-specific reserves	–	–
VI.	Reinsurers' share in insurance-specific reserves for life insurance if the policyholder bears the investment risk	–	–
E.	**Other reserves**	**303 505**	**329 069**
I.	Reserves for pension benefits and other compulsory employee benefits	31 582	42 299
II.	Deferred income tax reserve	173 451	223 976
III.	Other reserves	98 472	62 793
F.	**Liabilities on reinsurers' deposits**	**–**	**–**
G.	**Other liabilities and special funds**	**172 364**	**170 390**
I.	Liabilities on direct insurance	114 474	132 120
1.	Liabilities to policyholders	109 694	125 491
1.1	to affiliated entities	430	514
1.2.	to other entities	109 264	124 977
2.	Liabilities to insurance intermediaries	3 964	4 750
2.1.	to affiliated entities	125	1 038
2.2.	to other entities	3 839	3 712
3.	Other insurance liabilities	815	1 879
3.1.	to affiliated entities	–	–
3.2.	to other entities	815	1 879
II.	Reinsurance liabilities	345	176
1.	to affiliated entities	–	–
2.	to other entities	345	176
III.	Liabilities on the issue of own debt securities and drawn loans	–	–
1.	Liabilities convertible into stock in the insurer	–	–
2.	Other	–	–

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
IV.	Liabilities to credit institutions	–	11
V.	Other liabilities	47 992	27 317
1.	Liabilities to the budget	4 314	5 244
2.	Other liabilities	43 677	22 073
2.1.	to affiliated entities	7 554	2 029
2.2.	to other entities	36 123	20 044
VI.	Special funds	9 553	10 766
H.	**Deferred income and accruals**	**6 934**	**10 508**
I.	Cost accruals	4 209	3 978
II.	Negative goodwill	–	–
III.	Deferred income	2 725	6 530
	Total liabilities and equity	**14 591 423**	**17 159 783**

	Off-balance sheet line items	31 Dec. 2001	31 Dec. 2002
1.	Conditional receivables, including:	113	288
1.1.	Guarantees and sureties received	–	–
1.2.	Other	113	288
2.	Conditional liabilities, including:	–	–
2.1.	Guarantees and sureties granted	–	–
2.2.	Accepted and endorsed bills of exchange	–	–
2.3.	Assets with a resale obligation	–	–
2.4.	Other liabilities secured on assets or income	–	–
3.	Reinsurance collateral instituted in favor of the insurer	–	–
4.	Reinsurance collateral instituted by the insurer in favor of the ceding companies	–	–
5.	Third party asset components not captured in the assets	–	–
	Off-balance sheet line items, total	**113**	**288**

	31 Dec. 2001	31 Dec. 2002
Equity	1 609	1 949
Solvency margin	1 225	1 325
Surplus (deficit) equity to cover the solvency margin	384	624
Insurance-specific reserves	12 423	14 652
Assets covering the insurance-specific reserves	12 701	15 876
Surplus (deficit) assets covering the insurance-specific reserves	278	1 224

Technical life insurance account of PZU Życie SA

(000s of PLN)

	Item	2001	2002
I.	Premiums (1-2-3)	4 736 852	4 888 799
1.	Gross written premium	4 711 658	4 898 333
2.	Reinsurers' share in gross written premium	493	5 641
3.	Changes in the balance of the gross premium and unexpired risk premiums	(25 687)	3 893
4.	Reinsurers' share in the change in the balance of premium reserves	–	–
II.	Investment income (1+2+3+4+5)	845 807	1 023 145
1.	Real estate investment income	22 537	1 725
2.	Investment income in affiliated entities	47 376	47 107
2.1.	Ownership interests and shares	2 614	6 336
2.2.	Loans and debt securities	44 762	40 771
2.3.	Other investments	–	–
3.	Investment income on other financial investments	621 434	522 176
3.1.	Ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	9 112	6 918
3.2.	Debt securities and other fixed-income securities	571 792	495 346
3.3.	Term deposits in credit institutions	40 530	19 911
3.4.	Other investments	–	–
4.	Positive result on investment revaluation	24 985	6 010
5.	Positive result on investment realization	129 474	446 126
III.	Unrealized investment gains	999 095	1 148 548
IV.	Other net technical income	2 127	3 550
V.	Claims paid (1+2)	2 602 369	3 098 224
1.	Net claims paid	2 566 496	3 034 931
1.1.	Gross claims paid	2 566 496	3 035 435
1.2.	Reinsurers' share in claims paid	–	504
2.	Change in the balance of net unpaid claims reserves	35 873	63 293
2.1.	Gross reserves	35 873	63 293
2.2.	Reinsurers' share	–	–
VI.	Change in the balance of other net insurance-specific reserves (1+2+3)	2 173 142	2 162 403
1.	Change in the balance of the net life insurance reserves	1 559 157	2 014 843
1.1.	Gross reserves	1 559 146	2 014 837
1.2.	Reinsurers' share	(11)	(6)
2.	Change in the balance of the net insurance-specific reserves for life insurance if the policyholder bears the investment risk	339 097	146 668
2.1.	Gross reserves	339 097	146 668
2.2.	Reinsurers' share	–	–
3.	Change in the balance of other net insurance-specific reserves envisaged in the articles of association	274 888	892
3.1.	Gross reserves	274 888	892
3.2.	Reinsurers' share	–	–
VII.	Bonuses and rebates jointly with the change in net reserves	3 276	3 053
VIII.	Insurance activity expenses (1+2-3)	835 139	843 563
1.	Acquisition costs	461 792	451 515
1.1	including the change in the balance of capitalized acquisition costs	8 185	14 723
2.	Administrative expenses	373 495	393 740
3.	Reinsurance commissions and profit-sharing	148	1 692
IX.	Investment activity expenses (1+2+3+4)	318 487	297 569
1.	Real estate maintenance expenses	8 545	1 259
2.	Other investment activity expenses	11 294	10 627
3.	Negative result on investment revaluation	132 569	157 779
4.	Negative result on investment realization	166 079	127 904
X.	Unrealized investment losses	83 809	190 241
XI.	Other net technical expenses	25 315	39 330
XII.	Net investment income after considering costs transferred to the non-technical profit and loss account	60 604	29 452
XIII.	Technical life insurance result	481 739	400 207

Non-technical profit and loss account of PZU Życie SA

(000s of PLN)

	Item	2001	2002
I.	Technical result on property and casualty insurance or the technical result on life insurance	481 739	400 207
II.	Investment income (1+2+3+4+5)	–	–
1.	Investment income on real estate	–	–
2.	Investment income on affiliated entities	–	–
2.1.	Ownership interests and shares	–	–
2.2.	Loans and debt securities	–	–
2.3.	Other investments	–	–
3.	Investment income on other financial investments	–	–
3.1.	Ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	–	–
3.2.	Debt securities and other fixed-income securities	–	–
3.3.	Term deposits in credit institutions	–	–
3.4.	Other investments	–	–
4.	Positive result on investment revaluation	–	–
5.	Positive result on investment realization	–	–
III.	Unrealized investment gains	–	–
IV.	Net investment income after considering costs, transferred from the technical life insurance account	60 604	29 452
V.	Investment activity expenses (1+2+3+4)	–	–
1.	Real estate maintenance expenses	–	–
2.	Other investment activity expenses	–	–
3.	Negative result on investment revaluation	–	–
4.	Negative result on investment realization	–	–
VI.	Unrealized investment losses	–	–
VII.	Net investment income after considering costs, transferred to the technical property and casualty insurance account	–	–
VIII.	Other operating income	64 746	72 998
IX.	Other operating expenses	42 724	21 499
X.	Operating profit (loss)	564 366	481 157
XI.	Extraordinary gains	508	438
XII.	Extraordinary losses	366	262
XIII.	Gross profit (loss)	564 507	481 333
XIV.	Income tax	173 147	178 948
XV.	Other compulsory reductions in profit (increase in losses)	–	–
XVI.	Net profit (loss)	391 360	302 385

Cash flow account of PZU Życie SA

(000s of PLN)

	Item	2001	2002
A.	Cash flow on operating activity		
I.	Proceeds	4 814 475	5 052 852
1.	Proceeds on direct activity and inward reinsurance	4 764 292	4 940 000
1.1.	Proceeds on gross premiums	4 709 746	4 909 800
1.2.	Proceeds on recourse claims and gross returns of claims paid	–	–
1.3.	Other proceeds on direct activity	54 546	30 200
2.	Proceeds on outward reinsurance	–	2 196
2.1.	Payments received from reinsurers for their share of claims paid	–	504
2.2.	Proceeds on reinsurance commissions and profit-sharing	–	1 692
2.3.	Other proceeds from outward reinsurance	–	–
3.	Proceeds on other operating activity	50 183	110 656
3.1.	Proceeds for acting as an emergency adjuster	–	–
3.2.	Sale of other intangible assets and tangible components of non-current assets besides investments	–	–
3.3.	Other proceeds	50 183	110 656
II.	Expenditures	3 625 779	4 085 438
1.	Expenditures on direct activity and inward reinsurance	3 396 561	3 846 835
1.1.	Returns of gross premiums	–	–
1.2.	Gross claims paid	2 566 496	3 035 435
1.3.	Acquisition expenditures	451 332	451 515
1.4.	Administrative expenditures	301 277	299 518
1.5.	Commissions paid and profit-sharing on inward reinsurance	–	–
1.6.	Other expenditures on direct activity and inward reinsurance	77 457	60 367
2.	Expenditures on outward reinsurance	–	5 641
2.1.	Premiums paid for reinsurance	–	5 641
2.2.	Other expenditures on outward reinsurance	–	–
3.	Expenditures on other operating activity	229 218	232 962
3.1.	Expenditures for acting as an emergency adjuster	–	–
3.2.	Purchase of other intangible assets and tangible components of non-current assets besides investments	–	–
3.3.	Other expenditures	229 218	232 962
III.	Net cash flow on operating activity (I-II)	1 188 696	967 414
B.	Cash flow on investing activity		
I.	Proceeds	48 382 300	86 274 055
1.	Sale of real estate	–	–
2.	Sale of ownership interests and shares in affiliated entities	19	4 445
3.	Sale of ownership interests and shares in other entities and participation units and investment certificates in investment funds	878 123	420 875
4.	Realization of debt securities issued by affiliated entities and the repayment of loans granted to these entities	134 687	235 094
5.	Realization of debt securities issued by other entities	15 497 203	36 156 293
6.	Liquidation of term deposits in credit institutions	31 285 168	48 928 490
7.	Realization of other investments	–	–
8.	Proceeds from real estate	22 537	1 725
9.	Interest received	554 021	515 258
10.	Dividends received	9 967	11 266
11.	Other investment proceeds	573	609
II.	Expenditures	49 557 494	87 218 883
1.	Purchase of real estate	–	–
2.	Purchase of ownership interests and shares in affiliated entities	119 085	167 310
3.	Purchase of ownership interests and shares in other entities, participation units and investment certificates in investment funds	1 091 177	316 051
4.	Purchase of debt securities issued by affiliated entities and repayment of loans granted to these entities	25 640	36 139
5.	Purchase of debt securities issued by other entities	16 942 887	37 630 644
6.	Purchase of term deposits in credit institutions	31 289 766	48 948 608
7.	Purchase of other investments	68 534	69 801
8.	Expenditures to maintain real estate	8 545	1 259
9.	Other investment expenditures	11 860	49 072
III.	Net cash flow on investing activity (I-II)	(1 175 194)	(944 828)

	Item	2001	2002
C.	**Cash flow on financing activity**		
I.	Proceeds	–	–
1.	Net proceeds on issues of shares and capital contributions	–	–
2.	Credits, loans and issues of debt securities	–	–
3.	Other financial proceeds	–	–
II.	Expenditures	–	–
1.	Dividends	–	–
2.	Other expenditures for distribution of profits besides disbursement of dividends	–	–
3.	Purchase of treasury stock	–	–
4.	Repayment of credits, loans and redemption of own debt securities	–	–
5.	Interest on credits, loans and outstanding debt securities	–	–
6.	Other financial expenditures	–	–
III.	Net cash flow on financing activity (I-II)	–	–
D.	**Total net cash flow (A.III+/-B.III+/-C.III)**	**13 502**	**22 586**
E.	**Balance sheet change in cash balance, including:**	**13 502**	**22 586**
	– change in the balance of cash on FX gains	–	–
F.	**Cash at the beginning of the period**	**56 910**	**70 412**
G.	**Cash at the end of the period (F+/-D), including:**	**70 412**	**92 998**
	– with limited ability to use	–	–

Statement of change in equity at PZU Życie SA

(000s of PLN)

	Item	2001	2002
I.	Equity at the beginning of the period (opening balance)	1 131 281	1 507 618
	a) changes in the accepted accounting principles (policy)	163 234	187 050
	b) corrections of basic mistakes	–	–
I.a.	Equity at the beginning of the period (opening balance), after reconciliation with comparable data	1 294 515	1 694 668
1.	Share capital at the beginning of the period	295 000	295 000
1.1.	Changes to share capital	–	–
	a) increases	–	–
	b) decreases	–	–
1.2.	Share capital at the end of the period	295 000	295 000
2.	Contributions due to share capital at the beginning of the period	–	–
2.1.	Changes to contributions due to share capital	–	–
	a) increases	–	–
	b) decreases	–	–
2.2.	Contributions due to share capital at the end of the period	–	–
3.	Treasury stock at the beginning of the period	–	–
3.1.	Changes to treasury stock	–	–
	a) increases	–	–
	b) decreases	–	–
3.2.	Treasury stock at the end of the period	–	–
4.	Reserve capital at the beginning of the period	508 786	833 167
4.1.	Changes to reserve capital	324 381	376 530
	a) increases (by virtue of)	324 381	376 530
	– issue of shares above par value	–	–
	– distribution of profits (statutorily)	–	–
	– distribution of profits (above the minimum value statutorily required)	323 531	376 337
	– from the revaluation reserve	850	193
	b) decreases (by virtue of)	–	–
	– coverage of losses	–	–
4.2.	Reserve capital at the end of the period	833 167	1 209 697
5.	Revaluation reserve at the beginning of the period	3 964	3 114
5.1.	Changes to the revaluation reserve	(850)	636
	a) increases (by virtue of)	–	829
	– revaluation of investments	–	829
	b) decreases (by virtue of)	850	193
	– realization of assets (sale or liquidation)	850	193
5.2.	Revaluation reserve at the end of the period	3 114	3750
6.	Other reserve capital at the beginning of the period	–	–
6.1.	Changes to other reserve capital	–	–
	a) increases	–	–
	b) decreases	–	–
6.2.	Other reserve capital at the end of the period	–	–

	Item	2001	2002
7.	Profit (loss) carried forward at the beginning of the period	323 531	376 337
7.1.	Profit carried forward at the beginning of the period	323 531	376 337
	a) changes in the accepted accounting principles (policy)	163 234	187 050
	b) corrections of basic mistakes	–	–
7.2.	Profit (loss) carried forward at the beginning of the period, after reconciliation with comparable data	486 765	563 387
	a) increases (by virtue of)	–	–
	– distribution of profit carried forward	–	–
	b) decreases (by virtue of)	323 531	376 465
	– transfer to reserve capital	323 531	376 337
	– others	–	128
7.3.	Profit carried forward at the end of the period	163 234	186 923
7.4.	Loss carried forward at the beginning of the period	–	–
	a) changes in the accepted accounting principles (policy)	–	–
	b) corrections of basic mistakes	–	–
7.5.	Loss carried forward at the beginning of the period, after reconciliation with comparable data	–	–
	a) increases (by virtue of)	–	–
	– transfer of loss carried forward to be covered	–	–
	b) decreases (by virtue of)	–	–
7.6.	Loss carried forward at the end of the period	–	–
7.7.	Profit (loss) carried forward at the end of the period	163 234	186 923
8.	Net result	391 360	302 385
	a) net profit	391 360	302 385
	b) net loss	–	–
	c) charges to profit	–	–
II.	Equity at the end of the period (closing balance)	1 685 875	1 997 755
III.	Equity after considering the proposed distribution of profit (coverage of losses)	1 685 875	1 997 755

2002

PTE PZU SA

IV. Opinion of the Independent Auditor

To the Supervisory Board of Powszechne Towarzystwo Emerytalne PZU SA

1. We have conducted an audit of the financial statements for the year ending 31 December 2002 of Powszechne Towarzystwo Emerytalne PZU SA ("Company") with its registered offices in Warsaw at Al. Jana Pawła II 24, encompassing:

   - introduction to the financial statements,
   - balance sheet drawn up as at 31 December 2002, showing total assets and liabilities of PLN 102,796 thousand (say: one hundred two million seven hundred ninety-six thousand Polish zloty),
   - profit and loss account for the period from 1 January 2002 to 31 December 2002 showing a net profit in the amount of PLN 4,425 thousand (say: four million four hundred twenty-five thousand Polish zloty),
   - statement of changes in equity for the period from 1 January 2002 to 31 December 2002 showing an increase in the balance of equity by the amount of PLN 4,425 thousand (say: four million four hundred twenty-five thousand Polish zloty),
   - cash flow account for the period from 1 January 2002 to 31 December 2002 showing an increase in the balance of net cash by the amount of PLN 28,898 thousand (say: twenty-eight million eight hundred ninety-eight thousand Polish zloty),
   - notes and explanations.

2. The Company's Management Board is responsible for the accuracy, correctness and clarity of the financial statements, as well as for the correctness of the accounting ledgers. Our task was to audit the financial statements and to express an opinion, on the basis of the audit, on whether the financial statements are, in all material aspects, accurate, correct and clear and whether the accounting ledgers forming the grounds for drawing them up are kept, in all material aspects, correctly.

3. We conducted the audit of the financial statements in accordance with the following provisions in force in Poland:

   - chapter 7 of the Accountancy Act of 29 September 1994 ("Act"),
   - standards for performing the profession of an auditor as issued by the National Council of Auditors,

   in such a way so as to obtain rational certainty that the financial statements and accounting ledgers do not contain material irregularities. In particular, this audit encompassed an examination – largely on a test basis – of the documentation, from which the amounts and the information set forth in the financial statements follow. This audit also included an evaluation of the correctness of the accounting rules accepted and used by the Management Board and the significant estimates made by the Management Board, as well as of the overall presentation of the financial statements. We believe that the audit we have conducted has provided us with sufficient grounds to express an opinion about the financial statements treated as a whole.

4. The financial statements for the previous financial year ending 31 December 2001 were the subject matter of an audit by a different auditor, who issued an opinion on 25 January 2002 while drawing attention to the issue, to which we also draw attention in this opinion in item 7 below.

5. In our opinion, the financial statements, in all material aspects:

   - accurately and clearly present all the information of material significance for evaluating the financial result of the economic activity for the period from 1 January 2002 to 31 December 2002 as well as the audited Company's assets and financial standing as at 31 December 2002,

- were drawn up in accordance with the accounting principles prescribed by the aforementioned Act and the provisions issued on their basis, and were applied continuously, on the basis of properly kept accounting ledgers,
- comply with the aforementioned Act and the provisions of law issued on its basis as well as the provisions of the articles of association / partnership that affect their content.

6. We have familiarized ourselves with the Company's activity report for the period from 1 January 2002 to 31 December 2002 ("activity report") and we have acknowledged that the information originating from the financial statements complies with it. The information set forth in the activity report takes into consideration the provisions of art. 49 section 2 of the Act.

7. Without qualifying our opinion on the correctness and the accuracy of the financial statements, we draw attention to the issue described in item 18 of the notes to the financial statements. Pursuant to the clauses in the articles of association of the PZU Złota Jesień Open-end Pension Fund ("Fund"), the Company charges a distribution fee to the contributions made by the Fund members stated as a fixed percentage of the contributions made to the Fund. In accordance with the appropriate provisions regulating pension fund accounting, the Fund captures the payments actually received from these contributions in the Fund's capital. The data of the Fund's transfer agent and the generally available information concerning the entire pension fund market point to the fact that contributions for a certain number of Fund members have not been transferred by the ZUS Social Security Company or they are transferred irregularly. The Company's financial statements for the year ending 31 December 2002 only take into consideration the income from the distribution fee that is due on contributions received by the Fund up to 31 December 2002.

   In our opinion, the information presented in the published, abridged version of the financial statements on pages 117 to 124 of this annual report has been correctly presented in all material aspects concerning the aforementioned audited financial statements for the year ending 31 December 2002, on whose basis it was written. The financial statements forming the subject matter of our audit contain notes that were not presented in full in the attached, abridged financial statements. To obtain full and accurate information about the Company as at 31 December 2002 and about the results on the activity conducted by it for the period from 1 January 2002 to 31 December 2002, it is necessary to familiarize oneself with the full version of the financial statements containing all the disclosures required by the Accountancy Act and the provisions issued on its basis.

On behalf of
Ernst and Young Audit Sp. z o.o.
ul. Emilii Plater 53, 00-113 Warsaw
Record number 130

Iwona Kozera

Auditor
Record number
9528/7104

Tomasz Bieske

Auditor
Record number
9291/6975

Warsaw, 5 July 2003

Balance sheet of PTE PZU SA

(000s of PLN)

	Assets	31 Dec. 2001	31 Dec. 2002
A.	**Non-current assets**	**45 777**	**45 270**
I.	Intangible assets	982	785
1.	Costs of completed development work	–	–
2.	Goodwill	–	–
3.	Other intangible assets	982	785
4.	Advance payments towards intangible assets	–	–
II.	Property, plant and equipment	2 031	1 474
1.	Fixed assets	2 031	1 474
	a) land (including the right of permanent usufruct to land)	–	–
	b) buildings, premises and civil and water engineering facilities	–	–
	c) technical equipment and machinery	449	168
	d) means of transportation	739	659
	e) other fixed assets	843	647
2.	Fixed assets under construction	–	–
3.	Advance payments for fixed assets under construction	–	–
III.	Long-term receivables	352	354
1.	From affiliated entities	291	292
2.	From other entities	62	62
IV.	Long-term investments	–	–
1.	Real estate	–	–
2.	Intangible assets	–	–
3.	Long-term financial assets	–	–
	a) in affiliated entities	–	–
	– ownership interests and shares	–	–
	– other securities	–	–
	– granted loans	–	–
	– other long-term financial assets	–	–
	b) in other entities	–	–
	– ownership interests and shares	–	–
	– other securities	–	–
	– granted loans	–	–
	– other long-term financial assets	–	–
4.	Other long-term investments	–	–
V.	Long-term prepayments and accruals	42 412	42 657
1.	Deferred income tax assets	42 412	42 657
2.	Other prepayments and accruals	–	–
B.	**Current assets**	**52 116**	**57 526**
I.	Inventory	–	–
1.	Materials	–	–
2.	Semi-finished products and products in progress	–	–
3.	Finished products	–	–
4.	Merchandise	–	–
5.	Advance payments towards trade payables	–	–
II.	Short-term receivables	1 941	7 191
1.	Receivables from affiliated entities	–	–
	a) for trade receivables due:	–	–
	– up to 12 months	–	–
	– above 12 months	–	–
	b) others	–	–
2.	Receivables from other entities	1 941	7 191
	a) for trade receivables due:	1 928	6 969
	– up to 12 months	1 928	6 969
	– above 12 months	–	–
	b) on taxes, subsidies, customs duties, social security, health insurance and other performances	–	–
	c) others	13	222
	d) collected by litigation	–	–

	Assets	31 Dec. 2001	31 Dec. 2002
III.	Short-term investments	49 920	50 159
1.	Short-term financial assets	49 920	50 159
	a) in affiliated entities	–	–
	– ownership interests or shares	–	–
	– other securities	–	–
	– granted loans	–	–
	– other short-term financial assets	–	–
	b) in other entities	42 962	14 303
	– ownership interests or shares	–	–
	– other securities	42 962	14 303
	– granted loans	–	–
	– other short-term financial assets	–	–
	c) cash and other cash assets	6 957	35 855
	– cash on hand and on accounts	6 957	25 855
	– other cash	–	–
	– other cash assets	–	10 000
2.	Other short-term investments	–	–
IV.	Short-term prepayments and accruals	255	176
	Total assets	97 893	102 796

	Liabilities and equity	31 Dec. 2001	31 Dec. 2002
A.	**Equity**	**86 529**	**90 954**
I.	Share capital	32 000	32 000
II.	Contributions due to share capital (negative figure)	–	–
III.	Treasury stock (negative figure)	–	–
IV.	Reserve capital	288 000	288 000
V.	Revaluation reserve	–	–
VI.	Other reserve capital	–	–
VII.	Profit (loss) carried forward	(229 447)	(233 471)
VIII.	Net profit (loss)	(4 024)	4 425
IX.	Charges to net profit during the financial year (negative figure)	–	–
B.	**Liabilities and reserves for liabilities**	**11 364**	**11 842**
I.	Reserves for liabilities	434	619
1.	Deferred income tax reserve	434	272
2.	Reserve for pension and similar benefits	–	347
	– long-term	–	254
	– short-term	–	92
3.	Other reserves	–	–
	– long-term	–	–
	– short-term	–	–
II.	Long-term liabilities	–	–
1.	To affiliated entities	–	–
2.	To other entities	–	–
	a) credits and loans	–	–
	b) for issuing debt securities	–	–
	c) other financial liabilities	–	–
	d) others	–	–
III.	Short-term liabilities	7 253	2 762
1.	To affiliated entities	4 941	177
	a) trade liabilities with a maturity:	4 941	177
	– up to 12 months	4 941	177
	– above 12 months	–	–
	b) other	–	–
2.	To other entities	2 197	2 473
	a) credits and loans	–	–
	b) for issuing debt securities	–	–
	c) other financial liabilities	–	–
	d) trade liabilities with a maturity:	1 352	488
	– up to 12 months	1 352	488
	– above 12 months	–	–
	e) advance payments received for deliveries	–	–
	f) liabilities on bills of exchange	–	–
	g) for taxes, customs duties, insurance and other performances	758	348
	h) for payroll	14	–
	i) other	72	1 637
3.	Special funds	115	112
IV.	Deferred income and accruals	3 676	8 461
1.	Negative goodwill	–	–
2.	Other deferred income and accruals	3 676	8 461
	– long-term	–	–
	– short-term	3 676	8 461
	Total liabilities and equity	**97 893**	**102 796**

Profit and loss account of PTE PZU SA

(000s of PLN)

	Item	2001	2002
A.	**Net sales revenues and equivalents, including:**	**112 155**	**114 893**
	– from affiliated entities	–	–
I.	Net revenues on the sales of products	112 155	114 893
II.	Change in the balance of products (increase – positive figure, decrease – negative figure)	–	–
III.	Cost of manufacturing products for the entity's proprietary needs	–	–
IV.	Net revenues on the sale of merchandise and materials	–	–
B.	**Operating expenses (I+II+III+IV+V+VI+VII+VIII)**	**168 822**	**116 042**
I.	Depreciation	1 254	1 030
II.	Consumption of materials and energy	1 224	1 034
III.	External services	120 626	67 200
IV.	Taxes and fees, including:	63	97
	– excise tax	–	–
V.	Payroll	11 292	10 134
VI.	Payroll-related expenses	1 799	1 661
VII.	Other types of costs	32 563	34 886
VIII.	Cost of merchandise and materials sold	–	–
C.	**Profit (loss) on sales (A-B)**	**(56 667)**	**(1 149)**
D.	**Other operating income**	**1 094**	**1 014**
I.	Profit on the sale of non-financial non-current assets	–	4
II.	Subsidies	–	–
III.	Other operating income	1 094	1 010
E.	**Other operating expenses**	**687**	**1 005**
I.	Loss on the sale of non-financial non-current assets	–	–
II.	Revaluation of non-financial assets	–	–
III.	Other operating expenses	687	1 005
F.	**Operating profit (loss) (C+D-E)**	**(56 260)**	**(1 140)**
G.	**Financial income (I+II+III+IV+V)**	**10 268**	**5 173**
I.	Dividends and profit-sharing, including:	–	–
	– from affiliated entities	–	–
II.	Interest, including:	3 744	1 085
	– from affiliated entities	–	–
III.	Profit on the sale of investments	4 965	4 020
IV.	Revaluation of investments	1 533	65
V.	Others	25	3
H.	**Financial expenses**	**9**	**15**
I.	Interest, including:	–	–
	– to affiliated entities	–	–
II.	Loss on the sale of investments	–	–
III.	Revaluation of investments	–	–
IV.	Others	9	15
I.	**Profit (loss) on economic activity (F+G-H)**	**(46 001)**	**4 018**
J.	**Result on extraordinary events (I-II)**	**–**	**–**
I.	Extraordinary gains	–	–
II.	Extraordinary losses	–	–
K.	**Gross profit (loss) (I±J)**	**(46 001)**	**4 018**
L.	**Income tax**	**(41 978)**	**(407)**
M.	**Other compulsory reductions in profit (increases in losses)**	**–**	**–**
N.	**Net profit (loss) (K-L-M)**	**(4 024)**	**4 425**

Cash flow statement of PTE PZU SA

(000s of PLN)

	Item	2001	2002
A.	Cash flow on operating activity		
I.	Net profit (loss)	(4 024)	4 425
II.	Total adjustments	(59 313)	(8 871)
1.	Depreciation	1 254	1 030
2.	FX gains (losses)	–	–
3.	Interest and profit-sharing (dividends)	(10 240)	(5 168)
4.	Profit (loss) on investing activity	3	(11)
5.	Change in the balance of reserves	434	185
6.	Change in the balance of inventory	–	–
7.	Change in the balance of receivables	4 224	(5 034)
8.	Change in the balance of current liabilities, except for credits and loans	(11 061)	(4 491)
9.	Change in the balance of prepayments, deferred income and accruals	(43 928)	4 619
10.	Other adjustments	–	–
III.	Net cash flow on operating activity (I±II)	(63 337)	(4 446)
B.	Cash flow on investing activity		
I.	Proceeds	253 308	85 941
1.	Sale of intangible assets and tangible non-current assets	34	147
2.	Sale of investments in real estate and intangible assets	–	–
3.	From financial assets, including:	253 274	85 794
	a) in affiliated entities	–	–
	b) in other entities	253 274	85 794
	– sale of financial assets,	249 532	84 929
	– dividends and profit-sharing	–	–
	– repayment of granted long-term loans	–	–
	– interest	3 742	865
	– other proceeds from financial assets	–	–
4.	Other investment proceeds	–	–
II.	Expenditures	238 300	52 597
1.	Purchase of intangible assets and tangible non-current assets	1 016	412
2.	Investments in real estate and intangible assets	–	–
3.	In financial assets, including:	237 284	52 185
	a) in affiliated entities	–	–
	b) in other entities	237 284	52 185
	– purchase of financial assets	237 284	52 185
	– granted long-term loans	–	–
4.	Other investment expenditures	–	–
III.	Net cash flow on investing activity (I-II)	15 008	33 344

	Item	2001	2002
C.	**Cash flow on financing activity**		
I.	Proceeds	50 000	–
1.	Net proceeds on issuing ownership interests (issuing shares) and other capital instruments and additional capital contributions	50 000	–
2.	Credits and loans	–	–
3.	Issue of debt securities	–	–
4.	Other financial proceeds	–	–
II.	Expenditures	–	–
1.	Purchase of treasury stock	–	–
2.	Dividends and other disbursements to owners	–	–
3.	Other expenditures for distribution of profits besides disbursements to owners	–	–
4.	Repayment of credits and loans	–	–
5.	Redemption of debt securities	–	–
6.	On other financial liabilities	–	–
7.	Liability payments for financial lease agreements	–	–
8.	Interest	–	–
9.	Other financial expenditures	–	–
III.	Net cash flow on financing activity (I-II)	50 000	–
D.	**Total net cash flow (A.III±B.III±C.III)**	**1 671**	**28 898**
E.	**Balance sheet change in the balance of cash, including**	**1 671**	**28 898**
	– change in the balance of cash on FX gains	–	–
F.	**Cash at the beginning of the period**	**5 286**	**6 957**
G.	**Cash at the end of the period (F±D), including**	**6 957**	**35 855**
	– with limited ability to use	–	–

Statement of change in equity at PTE PZU SA

(000s of PLN)

	Item	2001	2002
I.	Equity at the beginning of the period (opening balance)	40 553	86 529
	– corrections of basic mistakes	–	–
I.a.	Equity at the beginning of the period (opening balance), adjusted	40 553	86 529
1.	Share capital at the beginning of the period	27 000	32 000
1.1.	Changes to share capital	5 000	–
	a) increase (by virtue of)	5 000	–
	– issue of ownership interests (issue of shares)	5 000	–
	b) decrease (by virtue of)	–	–
	– retirement of ownership interests (shares)	–	–
1.2.	Share capital at the end of the period	32 000	32 000
2.	Contributions due to share capital at the beginning of the period	–	–
2.1.	Change in contributions due to share capital	–	–
	a) increase	–	–
	b) decrease	–	–
2.2.	Contributions due to share capital at the end of the period	–	–
3.	Treasury stock at the beginning of the period	–	–
	a) increase	–	–
	b) decrease	–	–
3.1.	Treasury stock at the end of the period	–	–
4.	Reserve capital at the beginning of the period	243 000	288 000
4.1.	Changes to reserve capital	45 000	–
	a) increase (by virtue of)	45 000	–
	– issue of shares above par value	45 000	–
	– distribution of profits (statutorily)	–	–
	– distribution of profits (above the minimum amount statutorily required)	–	–
	b) decrease (by virtue of)	–	–
	– coverage of losses	–	–
4.2.	Balance of reserve capital at the end of the period	288 000	288 000
5.	Revaluation reserve at the beginning of the period	–	–
5.1.	Changes in the revaluation reserve	–	–
	a) increase (by virtue of)	–	–
	– revaluation of investments	–	–
	b) decrease (by virtue of)	–	–
	– sale of fixed assets	–	–
5.2.	Revaluation reserve at the end of the period	–	–
6.	Other reserve capital at the beginning of the period	–	–
6.1.	Change in other reserve capital	–	–
	a) increase	–	–
	b) decrease	–	–
6.2.	Other reserve capital at the end of the period	–	–

	Item	2001	2002
7.	Profit (loss) carried forward at the beginning of the period	(143 928)	(229 447)
7.1.	Profit carried forward at the beginning of the period	–	–
	– corrections of basic mistakes	–	–
7.2.	Profit carried forward at the beginning of the period, adjusted	–	–
	a) increase (by virtue of)	–	–
	– distribution of profits carried forward	–	–
	b) decrease	–	–
7.3.	Profit carried forward at the end of the period	–	–
7.4.	Loss carried forward at the beginning of the period,	(143 928)	(229 447)
	– Corrections of basic mistakes	–	–
7.5.	Loss carried forward at the beginning of the period, adjusted	(143 928)	(229 447)
	a) increase (by virtue of)	(85 519)	(4 024)
	– transfer loss carried forward to be covered	(85 519)	(4 024)
	b) decrease	–	–
7.6.	Loss carried forward at the end of the period	(229 447)	(233 471)
7.7.	Profit (loss) carried forward at the end of the period	(229 447)	(233 471)
8.	Net result	(4 024)	4 425
	a) net profit	–	4 425
	b) net loss	(4 024)	–
	c) charges to profit	–	–
II.	Equity at the end of the period (closing balance)	86 529	90 954
III.	Equity after considering the proposed distribution of profits (coverage of losses)	86 529	90 954

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