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

15 March 2011

The attached Management Report on the Activities of PZU SA is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

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INTRODUCTION

1. Financial performance

In 2010 Powszechny Zakład Ubezpieczeń Spółka Akcyjna (hereinafter “PZU” or the “Company”) collected gross written premium of PLN 7,783,936 thousand (vs. PLN 7,791,169 thousand in 2009). As a result of catastrophic and one-off events, the technical result of PZU dropped considerably and amounted to PLN -252.014 thousand at the end of 2010.

In 2010 the net profit of PZU amounted to PLN 3,516,709 thousand, i.e. by 40.1% more than in 2009; Excluding dividend received from PZU Życie (PLN 3,120,000 thousand), the net profit of PZU equaled PLN 396,709 thousand (i.e. by 63.6% less than in 2009).

At the end of the year the Company investments amounted to PLN 23,832,035 thousand, i.e. by 11% less than in 2009 due to repayment of liabilities in April 2010, which had been incurred as a result of advance dividend for 2009. Equity was higher by 14.3% versus the previous year and amounted to PLN 11,902,186 thousand.

At the end of 2010, ROE equaled 31.5% and grew by 14.5 p.p., as compared to the end of 2009.

2. Macroeconomic trends in 2010

2.1 Key economic trends and economic growth

In 2010 GDP in Poland grew by 3.8%, i.e. more than expected, and exceeded the growth of 1.7% reported in 2009. The economic growth was driven by higher domestic demand (4% growth vs. 1% decrease in 2009). The impact of the balance of trade on GDP growth was insignificantly negative. The key drivers of the domestic demand growth in 2010 were: individual consumption, which grew by 3.2% vs. 2.1% in 2009 and an increase in inventory which added 1.8 p.p. to the GDP growth. In 2010, a significant growth in exports was observed due to an upturn in the German economy and exchange rates which were advantageous for exporters. Imports grew considerably as well, as they were stimulated by higher domestic demand. Private investments of enterprises did not grow in 2010. The drop in gross expenditures on fixed assets was higher than in 2009 (1.1% drop) and amounted to 2%, despite high expenditures incurred by the public sector on investments in infrastructure projects. As for manufacturing of GDP, the highest growth driver was higher gross added value in the industry (9.1% versus a decrease of 0.3% in 2009). The increase in the added value in services was higher than in 2009 (1.5% vs. 0.9%), but comparing to the preceding years, it was still moderate. Despite a high growth in production of the construction and erection industry, which was observed after the winter downturn, the value added growth in the construction industry (3.8%) was lower than in 2009 (9.9%).

2.2 Capital market

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

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

2.3 Monetary policy, interest rates, inflation

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

2.4 Labor market and consumption

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

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

2.5 Foreign exchange rates

Average annual rate of exchange of the Polish zloty increased in 2010 as compared to key global currencies such as euro (by 7.7%) and US dollar (by 3.2%). During the year, the rate of exchange of the Polish zloty was considerably affected by periodic growth of aversion to risk in global financial markets, resulting from the effects of the debt crisis in peripheral economies of the euro zone. In effect, the rate of exchange of the Polish zloty deteriorated in May-July and, to a lesser extent, at the end of the year. The Polish zloty strengthened against euro by 3.6% at the end of 2010 versus the end of 2009, but the higher value of dollar in global markets resulted in the deterioration of the PLN/USD rate of exchange by nearly 4%. The Polish zloty also weakened versus the Swiss Frank – by nearly 14.4% between the end of 2009 and the end of 2010.

2.6 The impact of macroeconomic factors on the insurance sector

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

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

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

2.7 Market share of PZU

The premium of property and other personal insurance companies increased by 5.5% up to PLN 16,925.9 million, while life insurance companies reported a 4.3% growth up to PLN 23,270.2 million.

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

PLN million

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

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

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

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

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

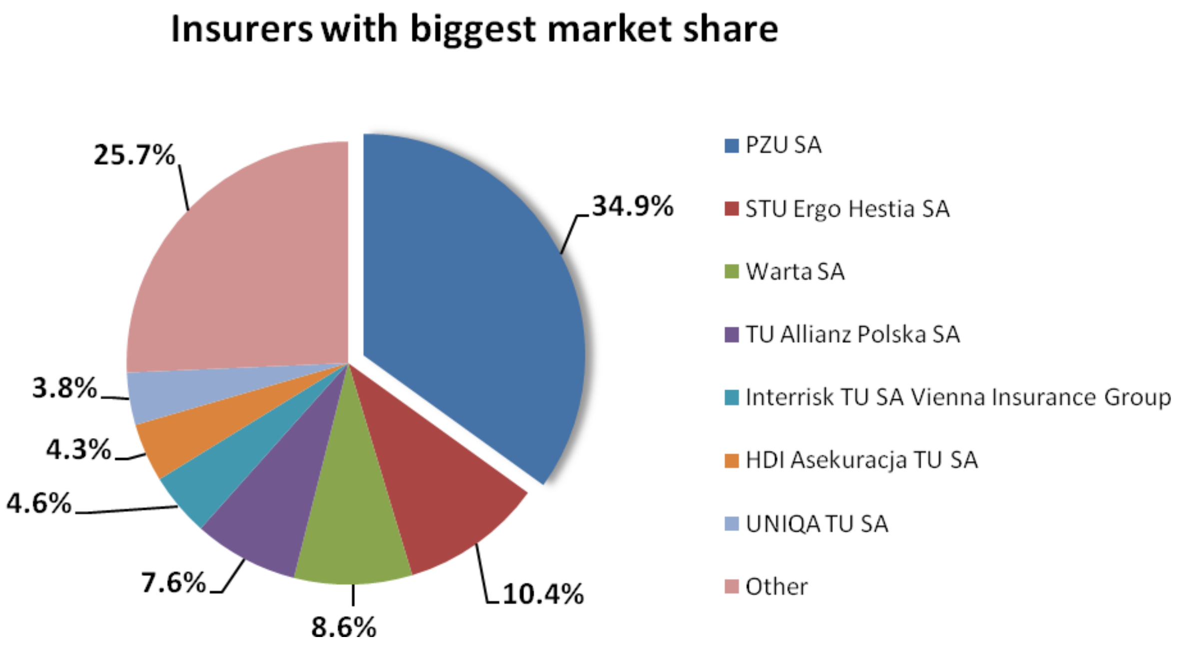
Implementation of the corporate insurance portfolio restructuring program, in particular as regards motor insurance with its high claims ratio, was the main reason for a drop in the market share of PZU. The above program involves restrictive underwriting policy with respect to higher risk activities.

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

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

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

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



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

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

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

FINANCIAL PERFORMANCE OF PZU IN 2010

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

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

- changes in the structure of written premium – restructuring of the corporate portfolio.
- impact of catastrophic and one-off events:
  - heavy snowfalls in winter (IQ);
  - two floods in May and June (IIQ);
  - smaller local floods and heavy rains in July-August;
- consistent implementation of the strategy of PZU with respect to:
  - restructuring of the corporate customer motor insurance portfolio quality in property and personal insurance;
  - implementation of restructuring processes aimed at reducing administrative expenses (conclusion of negotiations concerning the collective labor agreement with the trade unions and commencement of the lay-off process).
  - lower level of investments due to dividend payment in November 2009 and September 2010.

4. The comments to the financial performance of PZU

4.1 Premiums

The premium written of PZU in 2010 remained at the level reported in 2009 and the gross premium written from direct and indirect insurance in 2010 equaled to PLN 7,783,936 thousand (vs. PLN 7,791,169 thousand in 2009). Comparing to 2009, the total premium was lower by PLN 7,233 thousand (decrease of 0.1%). The dynamics of premium of 99.9% results from one-off recognition of PLN 75,688 thousand of group insurance for bancassurance in 2009 (the YoY dynamics, excluding these one-off premiums, amounted to 100.9%).

Written premium grew in comprehensive car insurance for retail customers, TPL motor insurance for retail customers, other motor, property and other insurance. The premiums are related to the following groups: TPL motor insurance and comprehensive car insurance for corporate customers, financial and accident insurance.

Motor insurance products (direct insurance) accounted for 62.7% of the premium collected, i.e. 0.2 percentage point more than in 2009. The sale of TPL motor insurance dropped by PLN 30,320 thousand. The premium in the retail customer segment grew by 0.1%, but in the case of corporate clients – it dropped by 6.6%. In comprehensive car insurance premium written grew by PLN 49,117 thousand (13.5%) for retail customers and dropped by 17% for corporate customers, due to restructuring of the corporate client portfolio and disadvantageous situation in the lease market.

Changes in premium written translated into lower net earned premium. The growth of unearned premium in 2010 was higher than in the preceding year, as its closing balance at the end of 2008 was high (high sales in 2008) and was decreasing in 2009 due to lower written premium. At the end of 2010 it grew again due to higher sales.

Written premium from direct and indirect insurance by insurance types is presented in the table below.

PLN '000

Gross written premium in direct property and personal insurance (by accounting class)	2010	2009	Structure 2010	Structure 2009
a) accident and sickness insurance (class 1 and 2)	471 312	474 926	*6.1%*	*6.1%*
b) TPL motor insurance (class 10)	2 590 590	2 620 910	*33.5%*	*33.9%*
c) other motor insurance (class 3)	2 257 536	2 208 419	*29.2%*	*28.6%*
d) sea, aircraft and transport insurance (classes 4, 5, 6, 7)	45 318	41 712	*0.6%*	*0.5%*
e) insurance against fire and other damage to property (classes 8, 9)	1 596 196	1 563 069	*20.6%*	*20.2%*
f) TPL insurance (classes 11, 12, 13)	483 814	456 691	*6.2%*	*5.9%*
g) credit insurance and suretyship (classes 14, 15)	60 935	61 073	*0.8%*	*0.8%*
h) assistance (class 18)	175 504	148 221	*2.3%*	*1.9%*
i) legal protection (class 17)	777	800	*0.0%*	*0.0%*
j) other (class 16)	62 130	149 222	*0.8%*	*1.9%*
Total gross premiums - direct insurance (by accounting class)	**7 744 112**	**7 725 043**	***100.0%***	***100.0%***
Total gross premiums - indirect insurance (by accounting class)	**39 824**	**66 126**		
Total gross written premiums	**7 783 936**	**7 791 169**		

4.2 Result on investing activities

In 2010, like in previous years, the investment activities of PZU SA focused on matching the structure of its assets with the structure of equity and liabilities, ensuring the right level of security, profitability, liquidity of investments and performance stability.

In 2010 investments of PZU SA included mainly securities issued by the State Treasury, i.e. treasury bills and bonds. As at the end of the year, the total percentage share of those instruments was 57.3% of the value of the portfolio of investments as compared to 59.2% at the end of 2009. The change is a result of a smaller portfolio of investments resulting from the dividend payment to the shareholders of PZU SA under the Settlement Agreement with Eureko BV.

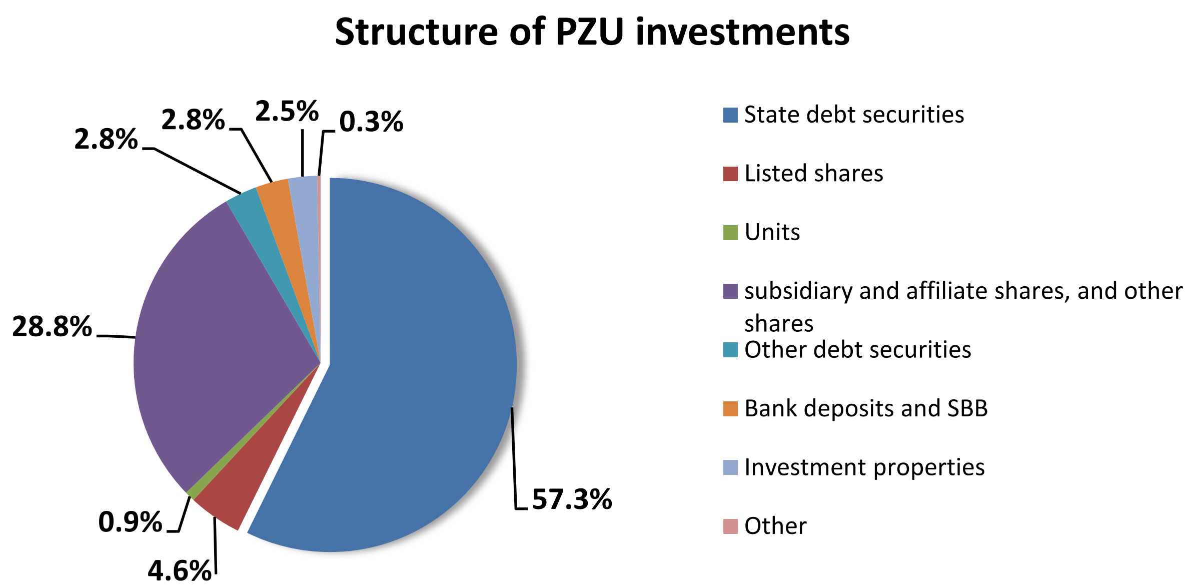
The Company was also active in the listed stock market. The percentage share of listed stock in the investment portfolio of PZU SA increased compared to 2009 and amounted to 4.6% (3.9% in the previous year). The upturn in the stock market in 2010 contributed to the growth in the portfolio.

Shares in subsidiaries and associates as well as other shares, including shares in PZU Życie, which amounted to PLN 6,243,805 thousand as of 31 December 2010 (93.2% of the portfolio of unlisted shares held by PZU) accounted for a significant part of the investment portfolio of PZU. As at the end of 2010, investments in subsidiaries, associate and other unlisted stock remained unchanged and accounted for 28.8% of the investment portfolio (compared to 28.8% as at the end of 2009).

In 2010 the exposure in non-treasury debt securities and other debt securities with a fixed rate of return decreased compared to 2009 and accounted for 2.8% of the investment portfolio (3.0% as of the end of 2009).

As of the end of 2010, the value of term deposits (bank deposits) and buy sell back transactions)accounted for 2.8% of the total value of the investment portfolio (2.0% in 2009).

Share of individual classes of assets in the portfolio of investments of PZU SA as of 31 December 2010:



Investment income grew in 2010 comparing to 2009 by PLN 1,403,967 thousand (by 49.5%: from PLN 2,837,383 thousand in 2009 to PLN 4,241,350 thousand in 2010). Investment income of the Company, excluding dividend from PZU Życie, dropped by PLN 296,887 thousand (by 20.9%: from PLN 1,418,237 thousand in 2009 to PLN 1,121,350 thousand in 2010). The key reason for lower investment income was lower income from treasury securities, the value of which in the investment portfolio dropped in 2010 comparing to 2009 due to the dividend paid under the settlement with Eureko BV in the amount exceeding 30% of PZU investments. Moreover, the dividend of PLN 942,104 thousand paid in September 2010 indirectly affected the investment income.

Detailed information about the results of investment activities in 2010 has been presented in the Table below.

Table. Profit/loss on investing activities of PZU in 2010

PLN '000

	2010	2009	% change
Closing balance of investments	23 832 035	26 765 773	-11,0%
Total investment revenue (excluding dividend)	1 362 902	1 720 944	-20,8%
Investment expenses together	241 552	302 707	-20,2%
Investment income (excluding dividend)	1 121 350	1 418 237	-20,9%
Dividend received	3 120 000	1 419 146	
Investment income (including dividend)	4 241 350	2 837 383	49,5%

4.3 Claims

In 2010 the amount of claims paid in direct and indirect insurance was PLN 5,543,113 thousand. It was by PLN 62,943 thousand (101.1%) higher than in 2009.

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

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

The reinsurer's share in snowfall claims in IQ 2010 amounted to PLN 30,449 thousand and in flood claims in the first half of the year: PLN 422,232 thousand.

A positive trend is a 7.9% decrease in claims paid gross in the key insurance segment of PZU, i.e. motor insurance (class 3 and 10), which equaled PLN 304,409 thousand.

Claims by type of insurance have been presented in the table below.

Table. Claims

PLN '000

Total gross claims paid - direct property and personal insurance (by accounting class)	**2010**	**2009**
a) accident and sickness insurance (class 1 and 2)	124 789	134 117
b) TPL motor insurance (class 10)	1 957 711	2 119 870
c) other motor insurance (class 3)	1 571 749	1 713 999
d) sea, aircraft and transport insurance (classes 4, 5, 6, 7)	25 811	40 928
e) insurance against fire and other damage to property (classes 8, 9)	1 385 747	808 493
f) TPL insurance (classes 11, 12, 13)	193 616	245 699
g) credit insurance and suretyship (classes 14, 15)	12 191	1 667
h) assistance (class 18)	99 558	51 751
i) legal protection (class 17)	719	1 151
j) other (class 16)	10 306	12 792
Total gross claims paid - direct insurance (by accounting class)	**5 382 197**	**5 130 467**

4.4 Acquisition costs and administrative expenses

In 2010 gross acquisition costs grew by PLN 35,463 thousand (2.8%) versus 2009. The increase resulted mainly from changes in sales related to restructuring of the insurance portfolio (a rise in the share of higher commission products and distribution channels) as well as changes implemented at the end of 2009 with respect to sales network management (changes in the commission system and introduction of overrides).

A decrease in administrative expenses by PLN 93,906 thousand (-9.6%) resulted mainly from restructuring activities carried out in PZU, including among others the employment restructuring program. Moreover, PZU has carried out cost optimization. The structure of costs of insurance activities by types is presented in the table below.

PLN '000

Item	Amount 2010	Amount 2009	*% change*	Structure 2010	Structure 2009	*Change*
Acquisition costs	1 341 150.0	1 240 934.0	*8.1%*	60.2%	55.9%	*4.3 p.p.*
Administrative expenses	885 459.0	979 365.0	*-9.6%*	39.8%	44.1%	*-4.3 p.p.*
TOTAL	**2 226 609.0**	**2 220 299.0**	***0.3%***	**100.0%**	**100.0%**	

' including reinsurance commissions received*

4.5 Other items

As a result of settling the fees paid to the National Health Fund due to TPL motor insurance (the quasi-tax imposed by the Minister of Health, Zbigniew Religa), the balance of other technical revenue and expenses improved at the end of 2010 (PLN +62,039 thousand).

4.6 Financial performance and performance ratios of PZU

The net profit generated by PZU SA in 2010 was PLN 3,516,709 thousand compared to PLN 2,510,379 thousand in 2009. Excluding the dividend received from PZU Życie SA in the amount of PLN 3,120,000 thousand, the net result generated by PZU in 2010 amounted to PLN 396,709 thousand and it was 63.6% lower than in 2009 (the 2009 result was PLN 1,091,233 thousand).

The technical result on insurance activity in 2010 was PLN -252.014 thousand, i.e. PLN 418,322 thousand less than in 2009. Lower total technical result of the Company was mainly the effect of higher costs of claims and benefits caused by increased payments under catastrophic events.

PLN '000

Selected data from the separate profit and loss account	**2010**	**2009**	***% change***
Gross written premiums	7 783 936	7 791 169	*-0,1%*
Net earned premiums	7 490 079	7 938 984	*-5,7%*
Net profit/loss on investing activities	4 241 350	2 837 383	*49,5%*
Net insurance claims	5 543 113	5 480 170	*1,1%*
Acquisition costs	1 341 150	1 240 934	*8,1%*
Administrative expenses	885 459	979 365	*-9,6%*
Operating profit (loss)	3 670 748	2 734 068	*34,3%*
Gross profit (loss)	3 670 748	2 734 068	*34,3%*
Net profit	3 516 709	2 510 379	*40,1%*
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300	
Basic and diluted earnings (loss) per ordinary share	40.73	29.07	*40.1%*

' including reinsurance commissions received*

PLN '000

Data from separate cash flow statement	**2010**	**2009**	***% change***
Net cash generated by operating activities	-142 067	-52 640	*x*
Net cash used in/generated by investment activities	5 908 943	7 954 992	*-25.7%*
Net cash used in financing activities	-5 727 985	-8 039 975	*x*
Total net cash flows	38 891	-127 623	*x*

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

As of the end of 2010, the ratio of technical provisions and assets was 130.57% (112.10% as of the end of 2009). The solvency margin ratio and the guarantee fund ratio of the Company increased compared to 2009 and amounted to 95.5 p.p. and 298.40 p.p., respectively.

In line with the letter from the Polish Financial Supervision Authority No. DN2/107/4/2004 MP dated 25 March 2004, PZU SA may recognize the share of the reinsurer - AXA France IARD – in technical provisions as assets covering technical provisions in the amount exceeding 5% of these provisions.

Table. Profitability and solvency ratios

Item	**2010**	**2009**	***Change***
Profitability of technical activity *(technical result / premium earned net of reinsurance) x 100%*	-3,36%	2,09%	*-5,46 p.p.*
Return on Equity *(net financial result/average equity) x 100%*	31,52%	16,98%	*14,54 p.p.*
Return on Assets *(net financial result/average assets) x 100%*	12,75%	8,14%	*4,61 p.p.*
Assets to provisions ratio *(assets for provision coverage/technical provisions) x 100%*	130,57%	112,10%	*18,47 p.p.*
Solvency margin (in PLN million)	1 338,80	1 338,80	*0,00 p.p.*
Solvency margin coverage ratio	716,6%	617,1%	*99,50 p.p.*
Guarantee fund (in PLN million)	446,3	446,3	*0,00 p.p.*
Equity to guarantee fund ratio	2149,7%	1851,3%	*298,40 p.p.*

Table. Efficiency ratios

Item	2010	2009	*Change*
Acquisition costs ratio *(acquisition costs net of reinsurance / premium earned net of reinsurance)*	17.91%	15.63%	*2.26 p.p.*
Administrative expenses ratio *(administrative expenses / premium earned net of reinsurance)*	11.82%	12.34%	*-0.52 p.p.*
Ratio of costs of insurance activity *(costs of insurance activity/ premium earned net of reinsurance)*	29.73%	27.97%	*1.76 p.p.*
Claims ratio *(claims net of reinsurance / premium earned net of reinsurance)*	74.01%	69.03%	*4.98 p.p.*
Combined ratio (claims + costs of insurance activity / premium earned net of reinsurance) x 100%	103.73%	97.00%	*6.74 p.p.*

' including reinsurance commissions received*

4.7 Assets and liabilities structure

As of the end of 2010, the balance sheet total was PLN 26,213,094 thousand, which denoted a 9.4% decrease during the reporting period.

The key item in the assets are investments, which constitute 90.9% of the balance sheet total. At the end of 2010, they amounted to PLN 23,832,035 thousand, which implies a 11.0% decrease versus 2009. The decrease is related to payment of high dividend in the reporting period.

Equity, which in 2010 constituted 45.4% of the balance sheet total grew during the reporting period by 14.3% up to PLN 11,902,186 thousand.

The balance sheet total and the structure of liabilities were affected by repayment of liabilities (on 22 April 2010) of PLN 4,806,821 thousand due to a sell-buy-back transaction entered into with the objective to finance PZU's advance dividend payment for 2009. As a result of the transaction, the relation of other liabilities and special funds to the balance sheet total dropped from 18.9% in 2009 to 2.6% in 2010.

PLN '000

Balance sheet data	2 010	2 009	*% change*
Assets	26 213 094	28 936 978	*-9.4%*
Total equity	11 902 186	10 411 542	*14.3%*
Weighted average basic and diluted number of ordinary shares	86 352 300	86 352 300	
Book value per ordinary share (in PLN)	137.83	120.57	*14.3%*

4.8 Changes in investments in controlled entities

PZU Pomoc SA

On 3 November 2010, the Extraordinary Shareholders' Meeting of PZU Pomoc adopted a resolution on increasing the share capital of the Company by PLN 1,020,080 up to PLN 4,885,800 by means of issuing 102,080 ordinary registered shares, C series, with the nominal value of PLN 10,00 each. The issue price was PLN 74.60 per share.

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

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

Capital restructuring of insurance companies in Ukraine

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

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

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

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

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

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

- 25,000,000 shares of PZU Ukraine at the price equal to the nominal value, i.e. UAH 10 per share, for the total amount of UAH 250,000 thousand;
- 120,000 shares of PZU Ukraine Life at the price equal to the nominal value, i.e. UAH 100 per share, for the total amount of UAH 12,000 thousand.

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

Following new favorable tax solutions introduced in Ukraine on 1 January 2011, Management Board of PZU decided to change the restructuring schedule of Ukrainian companies and carry out the share redemption process in Q1 2011, as well as to reduce the redemption amount by the equivalent of the share capital increase planned for 2011.

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

- 29,207,233 shares at a price lower than the nominal price (UAH 10), i.e. UAH 7.19 per share;
- 167,989 shares at a price lower than the nominal price (UAH 100), i.e. UAH 21.43 per share.

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

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

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

The remaining 27,998 shares of PZU Ukraine Life designed for redemption were purchased from PZU Ukraine (pursuant to an agreement concluded on 18 January 2011). In this way, PZU did not lose the controlling interest in PZU Ukraine Life.

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

4.9 Significant off-balance sheet items

As of 31 December 2010, PZU had PLN 71,660 thousand of litigations with insured to be settled in court proceedings (at 31 December 2009: 37,443 thousand).

As of 31 December 2010, PZU had PLN 2,275 thousand of contingent receivables due from Syta Development as collateral of a loan granted by PZU (31 December 2009: PLN 2,275 thousand).

Under the guarantee line agreement of 26 September 2008 between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and performance bonds) to PZU with relation to procurement proceedings for insurance services.

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

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

- economic slowdown or stagnation may lead to a higher claims ratio of the financial insurance portfolio;
- changing profitability of treasury securities depending on the situation in the Polish and EU economy - lower yield may result in worse investment profitability and the need to change the technical rates applied by the Company;
- situation in the capital market in 2011, in particular on the Warsaw Stock Exchange – a portion of the Company's investment income is conditional on market trends;
- imprecise definition of tax exemptions related to insurance and medical services in the amended VAT Act;
- possible changes (amended laws) to the principles for measuring provisions for capitalized annuity, which may require increasing their value in line with the prudence principle;
- risk of higher number and value of claims and victims related to the act on group claims, which came into force;
- increase in the average cost of personal claims due to a growing share of private healthcare and the principle of compensation for a relative's death (Article 446 § 4 of the Civil Code), which may require an increase in the value of TPL motor insurance provisions.
- growing trends in the claims ratio, in particular in the frequency of claims;
- price pressure of competitors;
- stronger position of insurance brokers, which may result in increased acquisition costs;
- low flexibility of numerous product applications in the PZU Group companies, impeding fast adaptation to market needs.

6. Management Board's position concerning previous performance projections

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

PZU ACTIVITIES IN 2010

7. Activities, key developments and achievements of PZU

7.1 Rating

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

As of the date of preparing the report, PZU had a long-term credit rating and financial strength rating (assigned by Standard & Poor's Ratings Services on 16 July 2009) at the A level with a stable rating outlook. On 5 July 2010 Standard & Poor's Ratings Services maintained the above rating.

The table below presents PZU ratings assigned by Standard&Poor's, together with those of the previous year.

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

7.2 Restructuring of PZU

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

On 10 February 2010, the Management Board of PZU adopted a resolution concerning lay-offs planned in 2010.

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

The staff restructuring was related to centralization of functions which had been dispersed throughout several centers located in large Polish cities and higher specialization of hired staff. It mostly affected operations, finance, loss adjustment and the PZU Group network.

In 2010 the change was expected to affect up to 5,288 employees of PZU and involve net reduction, i.e. reducing PZU headcount by 1,724 persons.

Termination conditions offered to the dismissed employees or employees who did not accept the offered terms of employment exceeded the scope provided for by the applicable laws (the Act of 13 March 2003 on special principles applicable to termination of employment contracts for reasons other than through the fault of employees – Journal of Laws No. 90 of 2003, item 844).

The amount of additional redundancy pay depended on the salary of each employee and their time of employment at the PZU Group.

In 2010 the changes affected 4,953 employees, out of which 2,071 were given termination documents.

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

The total restructuring costs incurred by PZU in 2010 amounted to PLN 129,703 thousand.

As of 31 December 2010 the provision for restructuring costs amounted to PLN 66,145 thousand (vs. PLN 122,667 thousand as of 31 December 2009), which implied a change in the provision of PLN 70,076 thousand in 2010. The change in the balance resulted from the increase in the provision of PLN 59,627 thousand and the provision assigned of PLN 129,703 thousand.

7.3 Key developments and implementation of the strategy

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

The following steps related to profitable growth were carried out:

- a unified model for managing the agency network of PZU and PZU Życie has been developed and implemented; the new model was launched in PZU in the second half of 2010.
- a new multi-agency cooperation model has been developed, based on the new commission and motivation system; in 2010 a pilot was launched in the Pomerania region.
- the implementation of modern shared service centers for the whole PZU Group has been started; as a part of this project a countrywide typology and physical presence model for sales and service centers was developed in 2010 and the Company prepared a number of new model offices.
- restructuring of the sales function responsible for property insurance for the corporate sector was carried out, based on improving competences of the sales force and optimizing their placement.

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

- loss adjustment has been centralized – dispersed property insurance loss adjustment structures were centralized in 9 regions;
- a rehabilitation pilot was carried out as a method of limiting permanent disability.
- the internet has been used as a channel for communicating personal claims, requesting for claim payment and checking the status of claims.
- as a part of developing the PZU Pomoc concept, a network of service providers has been created in the area of assistance at home; the “door-to-door” service and E-call system have been launched.

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

- the structures of managing the existing offices in the PZU Group have been unified and the process of front-office staff unification has been started in order to provide comprehensive services to customers in the life and property segment in all offices.
- a cross-sell tool has been implemented to offer PZU products to group insurance clients of PZU Życie.

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

- staff restructuring – as presented in item 7.2
- optimization and centralization of operations and insurance accounting in PZU – creating Back-office Centers and Insurance Accounting Centers and standardizing processes of servicing sales and insurance accounting.
- unification of internal accounting processes in PZU and PZU Życie and initiation of the implementation of unified electronic workflow.
- implementation of a common IT system for HR and payroll function in PZU and PZU Życie.

7.4 Key marketing activities in 2010

Advertising, media and the Internet

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

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

The key purposes of these campaigns were:

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

7.5 Corporate social responsibility activities in 2010

Ethics in business

PZU applies ethical and corporate social responsibility principles presented in item 13.1

Social responsibility

As a part of its educational activities, PZU launched an insurance website "JakieUbezpieczenie.pl". It is an informative and educational website, which presents the advantages of insurance in a clear and user-friendly manner.

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

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

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

- sponsoring the Royal Castle in Warsaw;
- PZU zone during the Long Night of Museums at the Royal Castle in Warsaw;
- close cooperation with the National Museum in Kraków, Nowe Sukiennice Branch;
- sponsoring Teatr Wielki (The National Opera House) in Warsaw;
- sponsoring Teatr Nowy in Warsaw;
- sponsoring Martyna Wojciechowska's mountaineering "Carstensz Expedition"
- sponsoring "Rzeszów Carpathia Festiwal 2010",
- patronage over the Decius Villa in Kraków;
- sponsoring the Góraszka Air Picnic;
- sponsoring the European Fairy Tale Centre in Pacanów;
- sponsoring the Academy of Capital Market Leaders;
- sponsoring the "Droga na Harvard" competition.

PZU Foundation

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

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

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

The Foundation carried out the following educational activities:

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

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

The social welfare initiatives included:

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

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

7.6 Key HR activities

From 26 March to 20 November 2010, the company carried out staff restructuring and optimization as part of the lay-offs, as presented in item 7.2.

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

- “Academy of PZU and PZU Życie” – a program co-financed by European Social Fund, established by Krajowa Izba Gospodarcza and Combidata Poland Sp. z o.o. The project covers training 1 281 people in ICT tools, IT technologies, project management and planning effective organization. Based on a consent of Polish Agency for Enterprise Development (PARP) and Combidata Poland Sp. z o.o. and in line with its business needs, PZU changed the project scope from project management to Customer Service Standards.

- Investing in human capital, PZU prepared requests to PARP to co-finance training projects aimed at creating a modern sales network and developing staff competences in customer service.
- The MBA program created in 2009 by Gdańska Fundacja Kształcenia Menedżerów for the needs of the PZU Group by was supported. Program participants include 22 managers from PZU and PZU Życie.

7.7 Operating activities of PZU in 2010

7.7.1. Sale

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

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

Products – mass customer

- in 2010, the company made changes in the motor insurance offer for individual customers and SMEs (Small and Medium-Sized Enterprises) – e.g. lump-sum TPL/comprehensive car insurance package for new cars was extended by vehicles aged up to three years. Due to the foregoing and further extension of the cooperation with car importers, PZU achieved very good sales results in the dealer channel;
- the company introduced a possibility to choose comprehensive car insurance options depending on the type of spare parts used during repair (to determine the claim amount – maintenance service and optimal option) and a new all risks comprehensive car insurance was implemented. It covers all types of losses irrespective of the cause;
- PZU offers also a new door-to-door service. It is an additional package of services for car owners, including collection of the damaged car, supply of the car to the PZU's Repair Network and covering substitute car expenses;
- new principles, evaluation and service tools were introduced with respect to car fleet insurance for SMEs in order to streamline the service process in this segment;
- changes were made to the principles of insuring leased cars;
- in the area of property insurance for individual customers, sales of the "PZU Dom" and "PZU Dom Plus" comprehensive packages were continued. In case of SMEs the Company sold the "PZU Doradca" package. Despite a temporary decrease in sales of property insurance in the flooded areas, high sales were generated in both customer groups. In order to develop this insurance line the discounted residential insurance offer "Ubezpiecz mury" was launched;
- as for compulsory subsidized crop insurance, a promotional offer was prepared for large no-claims farms. However, on account of lower purchase prices of agricultural produce in

comparison to the previous year, the premium written on that product was lower than last year;

- in accordance with the amendments to the legislation, new products of compulsory professional TPL insurance for medical doctors and persons drawing up energy efficiency certificates were implemented. The change of professional TPL insurance for entities authorized to audit financial statements was accompanied by execution of an agreement with the National Chamber of Statutory Auditors, concerning the principles of concluding insurance contracts for the said professional group. Also the master agreement with the National Chamber of Legal Advisers concerning TPL insurance of legal advisers was renewed.;
- as for accident insurance, the premium written was at the level reported last year, mainly thanks to the unthreatened position of PZU in accident insurance for students and teachers and accident insurance for drivers.

Products – corporate customer

- in accordance with its strategy, PZU carried out activities aimed at improving the profitability of motor insurance for corporate customers (comprehensive car insurance and TPL motor insurance) by means a changing premium rates. Also new terms and conditions of comprehensive car insurance for fleet customers were introduced. As a consequence of systematic underwriting activities in that product group, the technical results have already improved.;
- as a part of activities aimed at improving portfolio profitability and quality in the property insurance area, the role of underwriting was increased by limiting sales to industries with the highest claims ratio, streamlining the risk classification and assessment process and more common use of additional clauses changing the insurance scope;
- furthermore, new tools to assess the risk were implemented in the third party liability insurances and changes regarding insurance terms and conditions and evaluation principles were prepared.

Products – financial insurance

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

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

Products –bancassurance

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

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

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

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

Sales network

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

- division by distribution channel;
- customer segmentation.

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

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

7.7.2. Loss Adjustment

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

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

The following activities related to loss adjustment in motor insurance were carried out in 2010:

- activities related to optimization and stabilization of costs of post-accident car repairs.
- external firms are no longer engaged in the foreign loss adjustment; the process has been included in the PZU structures under the first stage of centralization of loss adjustment with any foreign elements.

The following activities related to loss adjustment in property insurance were carried out in 2010:

- master agreements on loss adjustment in property insurance were concluded with external entities.
- a program for calculating the loss percentage related to crops has been launched in the loss adjustment process (the KŁOS application).

The following activities related to loss adjustment in personal insurance were carried out in 2010:

- a new model of cooperation with certifying physicians has been developed. The key model assumption is to engage external entities to organize and carry out medical certificate examinations in order to ensure faster and better access to certifying services provided by medical doctors of all faculties.
- the Company started cooperation with the Misie Ratują Dzieci association, which organizes psychological rehabilitation sessions for children. The sessions may be attended by persons injured in road accidents and those indirectly affected by accidents – people who lost their relatives or witnessed a traumatic event.

7.7.3. IT area

The year 2010 was the first year after the implementation of consolidated IT structures responsible for IT system development and projects in the PZU Group.

Software providing and modification

The following projects supporting the PZU Group strategy and current business operations were performed:

- automation and centralization of HR and payroll processes in PZU and PZU Życie (the HRMS Project;)
- automation of registering PZU agents' activities (the AZP Project);
- projects supporting work of insurance agents (the Titus+ project).

In 2010 the Company implemented the process of “IT system architecture management”. The process allows for determining and designing IT system development strategy in the PZU Group, considering business needs of the entity and the existing solutions.

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

Application maintenance and user support

In 2010 the IT infrastructure was redesigned. Two professional data processing centers were created under the project of the Data Processing Center Reallocation. Dispersed elements of the IT systems and infrastructure were centralized in these units. At the same time, the service outsourcing model was used to reduce maintenance costs of processing centers.

Support structures were reorganized in order to create a common Service Desk. Changes were introduced in the field support, by way of reducing headcount by 30% and simultaneous efficiency growth.

Finance and organization

In 2010 the Company negotiated and concluded a number of master agreements with suppliers, using the synergy effect of the PZU Group. Agreements were standardized and in many cases a multi-sourcing model was applied to provide the possibility of selecting the best offer and to ensure competitiveness of suppliers. The Company concluded master agreements for IT consulting services and a master agreement on the purchase of the Oracle technological software.

8. Key developments planned

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

- maintaining the market share and focusing on profitability of core operations. The PZU Group shapes its product portfolio, distribution channels and principles of risk measurement and acceptance in a manner allowing for profitable growth in all key markets. The PZU Group differentiates its approach to particular segments of the Polish insurance market, depending on market share and profitability of particular products;
- as a part of individual motor insurance, the objective of PZU is to stop the process of losing market share and maintain profitability by active pricing policy. The key element of the strategy is “PZU Pomoc” assistance service. It allows PZU to offer outstanding services and therefore to maintain product advantage and loyalty of key customer groups. “PZU Pomoc” is also a platform, which allows for acquiring new clients despite growing competition;
- the purpose of PZU under individual property insurance is to introduce a new version of residential premises insurance, which will improve the competitiveness of the PZU offer by way of allowing for more precise adjustment of the insurance cover to individual needs;
- PZU will start a number of initiatives aimed at improving profitability and maintaining the market share of products for SMEs, which are a fast growing customer group.
- as a part of motor insurance segment, the Company will follow the strategy of improving profitability of motor and other insurance, focus on risk selection, limiting sales to industries with a high claims ratio and acquiring new customers with good claims record.

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

A significant portion of initiatives takes place in loss adjustment.

The key initiatives include:

- The project of optimizing loss adjustment in motor insurance.
  - the change in the model of cooperation with garages by way of improving effectiveness of the Repair Network, optimization of the management module in the Repair Network and the dealers channel;
  - completion of centralization of adjustment of losses with foreign elements;
  - implementation of tools for automatic review of cost estimates and invoices;
  - implementation of tools for simplified loss adjustment;
  - determining rules of determining recourse responsibility in losses for own policies and system support for the process;
  - mass correspondence service managed by loss adjustment system - Mass Printing;
  - developing the payroll system for the Loss Adjustment Department and key performance indicators.
- The project of optimizing loss adjustment in motor insurance:
  - launching the platform, which allows for requesting third-party inspection automatically, through the Internet;
  - optimization of expenses prepared by Mobile Property Experts;
  - implementation of application for simplified loss adjustment related to the construction industry;
  - integration of expert systems to prepare cost estimates for repair and construction works in the SLS Central IT System managing the liquidation process;
  - implementation of the Internet platform to manage the loss effects, which allows for optimizing the property loss value.
- E-szkoda project:
  - creation of the Communication platform for seasonal loss adjusters;
  - creation of the Internet Module of Settlements with Assistance Service Providers;
  - creation of integration services in view of cooperation with brokers' applications;
  - creation of the Internet notification form for foreigners;
  - creation of the functionality informing of the loss adjustment status by SMS;
- The Kłos project:
  - limiting the time for loss adjustment in crop insurance, by way of optimizing calculations and eliminating unnecessary documentation.

9. The summary of Initial Public Offering of PZU shares

9.1 The Settlement Agreement performance and the IPO

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

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

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

- the price of shares for individual investors, authorized persons and institutional investors at PLN 312.50 per share;
- the final number of shares sold during the offering at 25,819,337 shares (29.9% of the total number of issued shares); the final number of sold shares and their share in the total number of issued shares was: Kappa SA - 12,866,492 (14.9%), Eureko - 8,635,230 (10.0%) and the State Treasury - 4,317,615 (5.0%);
- the number of shares sold to individual investors at 7,058,582, authorized persons at 73,938 and institutional investors at 18,686,817.

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

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

On 7 May 2010 the Management Board of WSE adopted Resolution 425/1020 whereby it decided to introduce 60,418,337 A series shares of PZU and 25,905,980 B series shares of PZU to trading on the primary market of WSE on 12 May 2010. The resolution was conditional and its requirements were met on 10 May 2010.

The demand of institutional investors was nine times higher than the number of shares offered. 59% of institutional investors were domestic investors and 41% were foreign investors.

Under the Offer, the Company shares were granted to 255,541 investors, including 251.288 individual investors, 1,629 authorized persons and 2,624 institutional investors.

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

9.2 IPO costs

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

- the costs of preparing and carrying out the IPO: PLN 6,070,609;
- cost of preparing the prospectus, including consulting services: PLN 14,167,954;
- promotion costs related to the offer: PLN 5,372,486.

The said costs were charged to the financial result in 2010. The costs in question do not include costs related to the IPO incurred by selling shareholders.

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

10. Risk management

10.1 Risk management policy

10.1.1 Key risk management assumptions

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

Risk management is based on three lines of defense:

- line 1: risk management at the business (organizational) unit level in accordance with valid procedures, guidelines and limits. At this level, risk management is additionally supported by internal control principles;
- line 2: risk management through specialized units and committees (established for the purpose of specific risk management) within the existing risk management framework, based on the applicable principles, methodologies and procedures.;

- line 3: the internal audit, whose tasks include independent control and audit of key risk management system elements and control activities embedded in the Group's operations. Additionally, this line includes monitoring the implementation of auditor's recommendations.

10.1.2 Key risk management principles

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

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

10.1.3 Risk appetite

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

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

In the case of market risk, risk appetite is determined based on the Value-at-Risk (VaR). VaR is a widely used risk measure of the risk of loss on a specific portfolio of financial assets in the given time horizon.

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

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

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

10.1. 4 Risk profile

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

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

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

10.2 Establishment of the Risk Division

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

The scope of responsibilities of the Risk Office includes:

- development of the risk management system;
- identification of investment, insurance and operational risks, their measurement as well as development and implementation of an effective risk reporting system;
- development and implementation of an internal model for investment, insurance and operational risks;
- development of an effective system of reporting profitability of operations, taking into account the cost of capital;
- ensuring the PZU Group’s compliance with the requirements of the Solvency II Directive as well as other external acts regarding the insurance and operational risk management system.

10.3 Risk types

10.3.1 Insurance risk

PZU manages the insurance risk using the following tools:

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

The provisioning policy is based on:

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

Technical provisions are estimated under the supervision of key actuaries.

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

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

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

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

10.3.2 Market risk

Market risk in PZU results from two key sources:

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

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

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

The interest rate risk applies mainly to derivatives and debt securities acquired as instruments held for trading or available for sale.

In 2010, PZU reduced the risk by:

- reducing the value of the portfolio of investments to cover technical provisions denominated in foreign currencies by minimum and maximum limits depending on the value of technical provisions denominated in foreign currencies;
- reducing the value of the portfolio of investments acquired as held for trading by limits for open positions.

10.3.3 Credit risk

PZU's exposure to credit risk results directly from investing activities, activities in the financial insurance and guarantees segment, reassurance contracts and bancassurance activities. PZU selects three types of credit risk exposure:

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

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

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

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

Standard&Poor's rating	AAA	AA	A	BBB	BB	No rating
(%) ratio for 2010	0.87	0.74	1.97	5.60	17.45	30.82
(%) Ratio for 2009	0.70	0.70	1.70	4.40	14.60	30.40

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

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

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

10.3.4 Operational risk

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

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

In order to streamline the process of identifying and determining the scale and importance of operational risk, in April 2009 the event base for operational risk was implemented. Operational risk events are recorded in the base if the related loss exceeds PLN 1,000.

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

10.3.5 Liquidity risk

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

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

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

In the liquidity risk management process, PZU controls liquidity in the short, medium and long term.

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

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

10.3.6 Strategic risk

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

10.3.7 Reputation risk

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

10.4. Risk concentration

As of 31 December 2010, the Company held securities issued by the Polish Ministry of Finance with contingent transactions relating to those securities of PLN 14,151.6 million (31 December 2009: PLN 15,991.1 million), which was 59.4% of the value of investments (31 December 2009: 59.7%). As of 31 December 2010 the Company’s exposure related to controlled entities was PLN 6,702.1 million (31 December 2009: PLN 7,710.6 million), which was 28.3% of investments (31 December 2009: 28.8%).

10.5 Stress tests

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

NOTES

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

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

12. Other information

12.1 Remuneration of members of management and supervisory bodies of PZU

Item	2010	2009
Salaries and other short-term employee benefits paid by PZU		
Management Board:	**2 462**	**1 183**
Andrzej Klesyk	1 090	295
Witold Jaworski	789	295
Rafał Stankiewicz	371	295
Magdalena Nawłoka	24	298
Przemysław Dąbrowski	-	n/a

Dariusz Filar	188	n/a
Top management (Directors of the PZU Group) *:**	**3 411**	**n/a**
Przemysław Dąbrowski	951	n/a
Rafał Grodzicki	850	n/a
Dariusz Krzewina	760	n/a
Mariusz J. Sarnowski	602	n/a
Krzysztof Dominik Branny	248	n/a
Supervisory Board:	**677**	**343**
Maciej Bednarkiewicz	-	32
Alferd Bieć	4	40
Tomasz Gruszecki	22	40
Ernst Jansen	-	32
Joanna Karman	-	30
Marcin Majeranowski	21	40
Michał Nastula	-	32
Marzena Piszczek	128	10
Tomasz Przesławski	4	40
Gerard Van Olphen	3	40
Marco Vet	5	7
Grażyna Piotrowska-Oliwa	99	-
Piotr Kamiński	85	-
Waldemar Maj	86	-
Jurgen Stegmann	17	-
Zbigniew Ćwiąkalski	94	-
Krzysztof Dresler	68	-
Dariusz Filar	41	-
Salaries and other short-term employee benefits paid by other entities in the PZU Group		
Management Board:	**964****	**950***
Andrzej Klesyk	302	239
Witold Jaworski	387	359
Rafał Stankiewicz	275**	352*
Przemysław Dąbrowski	-	n/a
Top management (Directors of the PZU Group) *:**	**2 027**	**n/a**
Przemysław Dąbrowski	404	n/a
Rafał Grodzicki	550	n/a
Dariusz Krzewina	755	n/a
Mariusz J. Sarnowski	263	n/a
Krzysztof Dominik Branny	55	n/a
Total Supervisory Board	-	-
Total estimated amount of non-cash benefits granted by the Company and its subsidiaries		

Management Board:	**370**	**491**
Andrzej Klesyk	119	107
Witold Jaworski	147	136
Rafał Stankiewicz	79	143
Magdalena Nawłoka	25	105
Przemysław Dąbrowski	-	n/a
Top management (Directors of the PZU Group) *:**	**525**	**n/a**
Przemysław Dąbrowski	149	n/a
Rafał Grodzicki	177	n/a
Dariusz Krzewina	153	n/a
Mariusz J. Sarnowski	40	n/a
Krzysztof Dominik Branny	6	n/a
Supervisory Board:	**42**	**14**
Tomasz Gruszecki	42	14

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

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

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

12.2 Issues, redemption and repayment of debt and equity securities

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

12.3 Agreement concerning stabilization of the market price of PZU shares

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

The authorization to acquire own shares by PZU under stabilization transactions has been concluded in the resolution of the Extraordinary Shareholders' Meeting of the Company of 16 March 2010 adopted based on Article 362.1.5 of the Code of Commercial Companies of 15 September 2000 (Journal of Laws No. 94 of 2000, item 1037 as amended, "Code of Commercial Companies") and

Article 8 of the By-laws of PZU. In the resolution, the Extraordinary Meeting of PZU authorized the Management Board of the Company to acquire not more than 2,590,569 PZU shares from investor or investors carrying out stabilization activities, with the view to their redemption; the price of shares may not exceed the price of shares in the initial public offering of PZU shares to institutional investors. Pursuant to the resolution, PZU shares would be acquired to be redeemed, however, such acquisition could take place only to the extent the remuneration of a shareholder (the price of PZU shares) would be paid from the amount which in line with Article 348.§.1 of the Code of commercial companies could be allocated for distribution between shareholders.

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

12.4 Price of PZU's shares

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

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

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

The price of PZU shares compared to WIG20 in 2010.

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

	unit	2010
Number of shares	item	86 352 300
Closing price on the last trading day in the year	PLN	355,5
Closing balance of market value of the Company	PLN	30 698 242 650
Highest closing price in the year	PLN	411
Lowest closing price in the year	PLN	330
Average trading volume per session	item	317 391
Dividend paid in the current year from previous year profit distribution	PLN/share	158,56

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

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

Since the high-price period, the prices of PZU shares dropped by over 13% at the end of 2010. At the last session the price was PLN 355.5. Investors, who acquired shares at the issue price (PLN 312.5) in WSE and sold them on 31 December 2010 obtained 17.25% rate of return including the dividend paid in 2010 (PLN 10.91).

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

Capital market indicators

Capital market indicators as of 31 December 2010	**Indicator value**
P / BV *Market price/book value*	2.58
BVPS *Book value per share*	137.83
P / E *Price/Earnings per share*	8.73
EPS (PLN) *Net profit (loss)/number of shares*	40.73
DY (5) *Dividend yield (%)= dividend per one share/share price*	3.07%
DPS (PLN) *Dividend per share*	10.91
TSR *Total shareholder return = (market price of shares at the end of the year – market price of shares in the offering + dividend paid in 2010) / market price of shares in the offering*	17.25%

12.5 Dividend

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

- PLN 1,692,505 thousand to dividends, subject to making an advance payment towards dividend expected at the end of the 2009 financial year, described below;
- PLN 10,000 thousand to appropriations to the Company's Social Benefits Fund;
- PLN 807,875 thousand to reclassification to the supplementary capital.

Additionally, in the aforementioned resolution the Management Board recommended the amount of PLN 11,999,516 thousand from the reserve capital as payment of dividend, to finance advance payments against expected dividend at the disposal of the Management Board, subject to making an advance payment towards dividend expected at the end of the 2009 financial year, described below.

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

- PLN 750,401 thousand from the net profit for the first half of 2009 recognized in the audited financial statements of PZU prepared as of 30 June 2009;

- PLN 11,999,516 thousand from the reserve capital to finance advance payments towards expected dividend at the disposal of the Management Board,

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

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

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

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

12.6 Executed and terminated credit facility agreements

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

- BHW SA – PLN 992,980,574.00; transaction concluded on 22 October 2009 (4.05%)
- BGK – PLN 3,813,840,684.00; transaction concluded on 22 October 2009 (3.95%)

12.7 Originated loans including those extended to the issuer's related parties

On 17 February 2010, PZU originated a loan of PLN 16,900 thousand with initial interest rate 8.16% p.a. to Polskie Linie Lotnicze LOT SA ("LOT"). The repayment deadline was set at 31 May 2010. The loan tranches of PLN 10,600 thousand and PLN 6,300 thousand, respectively, were made available on 18 February 2010 and 11 March 2010.

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

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

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

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

Under the guarantee line agreement of 26 September 2008 between PZU and Bank Millennium SA, the bank extended bank guarantees (bid bonds and performance bonds) to PZU in procurement proceedings for insurance services.

The guarantee line amounts to PLN 10 million and is annually extended for another year.

As of 31 December 2010, under the facility with the tenor from 29 September 2010 to 27 September 2011, 30 guarantees for the total amount of PLN 8,389 thousand were granted.

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

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

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

Own funds of the Company are sufficient to guarantee that all liabilities to the customers will be repaid.

12.10 Proceedings before court, body competent to hear arbitration proceedings or a public authority body

PZU is a party to a number of court and arbitration disputes and administrative proceedings. The typical court disputes are those related to insurance contracts, employment contracts and contractual obligations. The typical administrative proceedings are those held before the President of the Office of Competition and Consumer Protection (UOKiK), before the Polish Financial Supervision Authority and those related to own real property. The proceedings and disputes are typical and repetitive and, usually, individually they are not significant for PZU.

In 2010 and by the date of submission of the report on the activities, PZU did not take part in any proceedings before court, body competent to hear arbitration proceedings or public authority body concerning liabilities or receivables of PZU of the value or the total value of at least 10% of the equity of PZU.

As of 31 December 2010 the total value of all 19,145 cases heard by courts, bodies competent to hear arbitration proceedings or public authority bodies involving PZU was PLN 968 million. The amount includes PLN 804 million of liabilities and PLN 164 million of receivables of PZU, which constituted 6.75% and 1.38% of PZU equity calculated in line with PAS, respectively.

12.11 Related party transactions

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

12.12 Seasonal or cyclical nature of business

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

12.13 Significant events after the end of the reporting period

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

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

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

12.15 Business Combination

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

12.16 Information on agreements significant for the activities of PZU, including those concluded between the shareholders

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

12.17 Agreements on audit and review of financial statements

On 12 May 2010 the Supervisory Board of PZU appointed Deloitte Audyt Sp. z o. o. z with the registered office in Warsaw, Al. Jana Pawła II 19, entered on the list of entities authorized to audit financial statements under no. 73 by the National Chamber of Statutory Auditors as the entity authorized to audit PZU's financial statements, prepared in line with the Accounting Act and the consolidated financial statements of the PZU Group for 2010, prepared in line with the International Financial Reporting Standards.

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

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

Information on the remuneration of the entity authorized to audit the financial statements has been presented in the financial statement of PZU for 2010 – item 31.1.

REPRESENTATIONS OF THE MANAGEMENT BOARD OF PZU

13. Representation concerning corporate governance

13.1 Corporate governance principles

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

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

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

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

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

Application of "Good practices of companies listed on WSE"

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

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

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

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

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

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

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

As of 1 July 2010 the Company started to apply principle II.1 and II.2 set forth in "Good practices of companies listed on WSE" with respect to running a corporate website. Furthermore, as the Supervisory Board of PZU SA assessed its work and presented the results of the assessment to the General Shareholders' Meeting of the Company on 10 June 2010, principle III.1 of the Good Practices has been fully complied with.

Additionally, guidelines for Supervisory Boards of the PZU Group companies regarding the internal control audit, the risk management system as well as the supervisory board's self-assessment have been laid down.

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

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

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

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

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

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

13.2 General Shareholders' Meeting and the rights of the shareholders

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

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

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

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

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

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

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

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

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

Duly called Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares. Resolutions cannot be adopted with respect to all matters not covered by the agenda of the Shareholders' Meeting, save for the event when the whole share capital is represented in the General Shareholders' Meeting an none of the persons raises objection concerning the resolution. The Company's By-laws do not include a contrary statement.

The General Shareholders' meeting takes place in Warsaw.

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

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

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

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

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

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

The most important competencies of the General Shareholders' Meeting specified in the Code of Commercial Companies and the By-laws include:

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

- taking the decision concerning claims for redressing damage inflicted upon formation of the Company or exercising management or supervision;
- creating reserve capitals and taking decision whether to use them and if so, how;
- establishing the rules of remunerating members of the Supervisory Board.

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

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

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

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

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

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

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

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

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

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

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

13.3 Managing and supervisory bodies of the Company and their committees

Management Board of PZU SA

In accordance with the By-laws of the Company, the Management Board is composed of three to seven members appointed for a shared term which includes three consecutive full financial years. Members of the Management Board, including the Chairman of the Management Board, are appointed and dismissed by the Supervisory Board, however, members of the Management Board are appointed and dismissed by the Supervisory Board at the request of the Chairman of the Management Board. The Chairman of the Management Board of the new term appointed before the end of the current term may apply to the Supervisory Board for appointing other members of the Management Board for the new term before the end of the current term.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- defining the scope of responsibility of each member of the Management Board;
- calling meetings of the Management Board;
- setting the agenda of the meeting of the Management Board;

- applying to the Supervisory Board for appointing and dismissing members of the Management Board;
- designating a person to administer the work of the Management Board during the absence of the Chairman.

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

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

Supervisory Board

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

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

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

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

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

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

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

On 9 June 2010 the Company received a resignation of Jurgen Stegmann from the position of a member of the Supervisory Board of PZU SA and a resignation of Marcin Majeranowski from the position of a member and Vice-Chairman of the Supervisory Board. On 10 June 2010, the General Shareholders' Meeting of PZU dismissed Tomasz Gruszecki, the Chairman, from the Supervisory Board and appointed Zbigniew Ćwiąkalski, Krzysztof Dresler and Dariusz Filar as members of the Supervisory Board of PZU SA.

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

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

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

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

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

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

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

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

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

- review of the Management report on the activities of the Company and financial statements for the previous financial year in terms of their compliance with the accounting records, documents and facts;
- review of the motions of the Management Board concerning profit distribution or loss coverage;
- presenting the General Shareholders' Meeting with a written report on the results of the review described above and submitting a brief annual assessment of the situation of the Company including internal controls and key risk management and an annual report on the work of the Supervisory Board;
- concluding, terminating and amending the agreements with members of the Management Board and setting the terms and conditions of remuneration and the amount of remuneration;
- appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board, as well as making decision to stop the suspension;
- agreeing to transfer the entire or portion of the insurance portfolio;
- accepting motions of the Management Board concerning acquisition, assumption or disposal of shares in companies, as well as the Company's participation in other entities – the Supervisory Board may specify the amount, terms and conditions and the way in which the Management Board may carry out the activities without the acceptance of the Supervisory Board;

- delegating members of the Supervisory Board to temporarily perform the functions of members of the Management Board who have been dismissed, resigned or cannot perform their functions for other reasons;
- accepting instructions concerning votes being cast by the Company's representatives during general shareholders' meeting of PZU Życie concerning: an increase and decrease in the share capital, bonds issue, disposal and lease of a PZU Życie enterprise or establishment of a usufruct right, division of PZU Życie, combination of PZU Życie with a different company, liquidation or termination of PZU Życie;
- selection of the entity authorized to audit the financial statements which will audit the annual financial statements of the Company;
- wording of the consolidated amended By-laws;
- approval of the long-term plans for the development of the Company and annual financial plans drafted by the Management Board;
- approval of the regulations of the Management Board;
- examination and evaluation of issues submitted by the Management Board for discussion during the General Shareholders' Meeting.

Moreover, the Supervisory Board grants consent to:

- acquisition or disposal of a real property, perpetual usufruct or share in the real property or in perpetual usufruct exceeding the equivalent of EUR 3 million.
- conclusion of a material agreement as understood by the Report Ordinance by the Company and its related party, excluding standard agreements concluded by the Company on an arm's length basis as part of its operating activities (consent will be required on the date of the first listing of WSE);
- conclusion of the agreement with the underwriter referred to in Article 433.3 of the Code of Commercial Companies;
- advance payment against expected dividend;
- creation and closing of branches.

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

Resolutions of the Supervisory Board are adopted by an absolute majority of votes. In the event of a voting tie, the Chairman of the Supervisory Board has the casting vote. The resolutions of the Supervisory Board may be adopted using means of direct distant communication and circular vote. Additionally, the By-laws stipulate that a vote may be cast in writing through another member of the Supervisory Board. In accordance with the By-laws, the resolutions of the Supervisory Board are adopted in an open ballot, except for resolutions concerning delegation of members of the Supervisory

Board to temporarily fill in for members of the Management Board and for appointing, suspending and dismissing the Chairman of the Management Board, members of the Management Board or the entire Management Board as well and taking decision to stop such suspension which are adopted in a secret ballot. Moreover, a secret ballot may be chosen on request of a member of the Supervisory Board.

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

The regulations of the Supervisory Board have been adopted by the Supervisory Board on 4 March 2010.

The regulations of the Supervisory Board specify the composition of the Supervisory Board and the way in which its members are appointed, the tasks and the scope of activities of the Supervisory Board and the manner of calling the Supervisory Board and conducting debates.

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

Committees within the Supervisory Board

IPO Committee

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

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

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

Audit Committee

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

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

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

Promotion and Compensation Committee

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

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

The Supervisory Board decided that the promotion and compensation committee will be composed of four persons. As of 16 June 2010 members of the Promotion and Compensation Committee appointed by the Supervisory Board included: Zbigniew Ćwiąkalski (Chairman of the Committee), Dariusz Filar (Member of the Committee), Piotr Maciej Kamiński (Member of the Committee) and Marzena Piszczek (Member of the Committee). As of 31 December 2010 the composition of the Promotion and

Compensation Committee had not changed. The Committee is dissolved once five members of the Supervisory Board are elected in a vote in groups and its rights are then taken by the entire Supervisory Board.

Strategy Committee

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

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

Group Directors

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

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

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

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

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

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

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

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

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

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

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

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

The key controls during preparation of the financial statements include:

- controls and permanent monitoring of the quality of input data, supported by the financial systems with defined rules of data correctness, in accordance with the PZU internal regulations concerning the control of correctness of the accounting data;
- data mapping from the source systems to financial statements supporting appropriate presentation of data;
- analytical review of financial statements by specialists to compare them with the business knowledge and business transactions.
- formal review of the financial statements to confirm compliance with the valid legal regulations and market practice in terms of required disclosures.
- The separate and consolidated financial statements of PZU are:
- reviewed by a certified auditor - in the case of six-month statements;
- audited by a certified auditor – in the case of annual statements.

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

Consolidated Financial Reporting

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

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

13.5 PZU shareholders holding directly or indirectly significant blocks of shares

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

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

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

Shareholding structure in 2009-2010

Shareholder	As at 31 December 2009		
	Number of shares	**Interest in the share capital**	**Share in votes at the General Shareholders' Meeting**
State Treasury	43 338 098	50,19%	50,19%
Eureko B.V.	19 856 968	23,00%	23,00%
Kappa SA	12 866 492	14,90%	14,90%
Other shareholders	10 290 742	11,92%	11,92%
Total	86 352 300	100,00%	100,0%

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

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

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

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

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

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

13.7 Voting restrictions

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

13.8 Restrictions on transfers of the title to securities

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

13.9 Principles of changing the By-laws of PZU

The By-laws of PZU may be amended by the General Shareholders' Meeting in the form of a resolution passed by a majority of three fourth of votes. In cases specified in the Act on insurance activity such change must be approved by KNF and then recorded by the National Court Register. Based on the By-laws of PZU, the Supervisory Board can approve the unified amended text of the Company By-laws.

14. Correctness and reliability of presented financial statements

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

15. Selection of the entity authorized to audit financial statements

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

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

The above Management Report on the Activities of PZU SA is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.