– Good morning. I would like to welcome all of you to the meeting during which we will discuss PZU's results after Q3 2012. The meeting will be chaired by Mr. Andrzej Klesyk, the CEO of PZU as well as Mr. Przemysław Dąbrowski, PZU Management Board Member. My name is Piotr Wiśniewski and I am the Head of Investor Relations Team. We expect that the meeting will last no longer than 90 minutes. During the first 15 minutes of the meeting I would like to make a short introduction and present the summary of results. Later you will have an opportunity to ask questions. The meeting is broadcast live on the Internet. Those of you who participate in the meeting online will have the option of asking questions directly through the website or by sending an e-mail to pwisniewski@pzu.pl. And now I would like to give the floor to CEO Klesyk.

– Thank you very much. I am very glad to see all of you, and I am very happy to see that there are so many of you, which pleases me a lot. This means that you are probably interested in our Company and our Group. Ladies and gentlemen, actually I can dedicate only 80 minutes of my time to this meeting hence I will try to be brief. At the start of the meeting, i.e. during the first 15 minutes of it I would like to discuss a few things. First and foremost, we would like to show you one slide. As it is our custom, this presentation is posted on our website. We would like to show you one slide concerning the insurance market. Then we will discuss operating results and we will present to you the financial results only to some degree because this presentation has been already posted and you can read it on your own. The financial statements also have been posted, therefore we do not have to discuss the things which you can read yourself.

And now, when it comes to the Polish insurance market, I would like to show you this one slide because we are proud of the information which is on it. Namely, when you look at our market share, according to our estimates our market share of regular premium life insurance is growing and it increased by 0.7 p.p. Hence, we to some extent belie what our competitors thought that they would be able to win the share in this market. Of course, we wish them good luck, but our main priority is to secure our own business. We can see very similar trends on the right-hand side, i.e. in property and other casualty insurance. Here our market share dropped by 0.4 p.p. – when comparing the first half of this year to the first half of last year. This means that the strategy which we adopted a few years ago and which assumed that decrease of market share would slow down and that we would be very competitive, is working. All of this was achieved while preserving very good financial results, i.e. we did not give up market share and we maintained profitability.

Ladies and gentlemen, I would like to present to you the summary of a few basic items as far as the operating results for the first three quarters are concerned. First of all, increase of gross written premium. The year-to-year growth is 6%. For property insurance, market grew by more than 7%, however – for your information and for the modeling purposes – the growth rate decreases significantly. In the first quarter, the growth was 10% in property insurance, but in the second quarter it ranged from approx. 2.5 to 3%. In the third quarter we can see that the markets shrank in some segments. Therefore, in our opinion we will record a positive result at the end of the year, but quarter-to-quarter results will deteriorate. In other words, we can see a slump here. We can see relatively stable growth and relatively stable sales of corporate property and other casualty insurance. As far as growth is concerned, hospitals helped us a lot. On the other hand, if you remember, we told you very clearly that it was profitability which was the most important thing in corporate insurance business. Those of you who remember our presentations from the days of the IPO, we told you 4 years ago that we had had a loss of PLN 450 million on the technical result, but this year we will record a profit of more than PLN 100 million. This is a significant improvement.

Moving on to the second item, I would like to re-emphasize that profitability is the main area of our interest. We have recorded one of the largest quarterly results in the Group's entire history, despite the fact that there are practically no more one-off positive upshots. The profitability of group and continued life insurance has improved and it is high. Combined ratio in property insurance is quite good. It is even more than quite good: it has reached approx. 90.7%. It is very good.

Positive development can also be clearly seen after we changed our investment strategy. We changed the investment strategy about a year and a half ago when CEO Trepczyński joined our team, and that strategy is beginning to work now. It is evident that the market helped us. As you can remember, one year ago the market experienced a slump of approx. 16% to 19% for three quarters. This year the market went up. By definition – and also due to decrease of interest rates – the valuations of our debt securities changed.

And now: net profit – on the right-hand side – is PLN 2,840 million. This is the Group's consolidated profit. Return on equity is 28.4%. In our opinion, this is brilliant. Considering our capital position and under such market conditions, this is very good.

Now I would like to move on to insurance and I will scroll through all those slides. I only wanted to show you the most important things. On the right-hand side we have profitability. This is the most important matter to us because on the left-hand side the growth is quite predictable – this is the insurance about which we always say that it will increase between 2.5 to 3.5% and no matter what happens we cannot obtain growth higher than 3.5%. On the other hand, profitability has improved very nicely. There are a few reasons for this, which we may explain to you later if you wish.

We have recorded very strong growth in individual insurance in the bancassurance channel. However, when it comes to regular premium individual insurance and APE, growth is approx. PLN 90 million. This is not the world record, however, as you very well know, this is the market segment which is incredibly strongly correlated through some sort of multipliers to the situation on the stock exchange and the market situation. Until the market situation improves, we will not see a

significant growth here that would be satisfactory to us.
Mass client segment. I would like to once again remind you that the definition of mass client is not derived from "mass" but from masses of clients. This segment includes all individual clients and all micro companies and medium-sized companies which have up to 20 cars – because this is motor insurance we are talking about here – up to 20 cars per entity. If you take a look at what is going on here, you will notice growth trends in gross written premium and significant improvement in operating activity – primarily due to decreasing loss ratio. Of course, there were other factors which influenced this but, let's be honest, it was primarily attributed to decreased loss ratio and quantity and frequency of losses. The year-to-year frequency of losses significantly decreased, and this is another year in which we saw decreases in losses. This is good news but it is also bad news. The good news pertains to this year. The bad news is that some people, especially small players who want to get their bonus at the end of the year, begin to do stupid things with prices, but this is the thing over which we do not have any influence.
Corporate client. Ladies and gentlemen, if you take a look at the results from last year and this year you will understand that we are proud of the results recorded in this segment. When I discussed last year's result, I told you that there was a certain aberration, i.e. a strange one-off thing because there were some sort of movements on reserves. However, last year closed with a positive result for corporate business. We told you that 2012 would be the first year in which we would record profit. The first year in which we recorded profit was 2011. Now we have the year 2012 and we can see that this business is very profitable. And now my colleagues from the corporation have found out that not only we achieved profitability but we also recorded good sales results, so I expect that next year, provided that profitability is maintained, my colleagues will be able to slowly begin to rebuild the business. If you can remember, there was some sort of restructuring going on here. And this is the last thing which I would like to show you. No, this is the second last thing.
Administrative expenses. If you take a look at current expenses you will see that these expenses are pretty much the same. We can see that administrative expenses increased by 6% due to some sort of investments and because of certain non-recurring events such as rebranding, which is exactly such type of a one-off investment that has been done. The second matter involves the Company Social Benefit Fund charge of PLN 20 million which was made this year after the Shareholder Meeting.
And so, as far as the end of the year is concerned – and there may be questions with regard to that – we do not expect that we would see such a large growth in expenses. Year-to-year growth in expenses will certainly be much smaller than the data which we are showing and I hope that we will be able to prove it.
And the last thing which I would like to show you is a kind of prediction, therefore I would like to

share with you a dilemma which we have. If you look at the things around you, you should notice the following trends. If our combined ratio is approx. 90%, then, by definition, it is approx. 94-95% for the entire market. And when the market is slowing down, then certain, in particular small players may come up with stupid ideas to slash the prices because they may think that this wonderful two-year period of small number of losses and small loss ratio will last forever. They may think that since there will be no flood or severe winter with a lot of traffic accidents, it is rational for them to cut their prices. And, unfortunately, we can already see the first signs of such thinking. We would like to send a very strong message to the market: the market, Saba the dog and everyone else – please return from that path. We will see whether they heed our call. In our opinion, this is the last resort for those guys who are unable to prove their results at the end of the year to get their bonus. But we will wait and see whether there will be price pressure next year or not.

As far as financial market is concerned, in our opinion it is not possible to repeat this year's investment results for two reasons. First of all, despite everything we saw very big growth on the stock exchange, and secondly, the bonds that remained in our portfolio were marked-to-market and, because of this, we have recorded some sort of profit, but in the future, by definition, yields will be smaller which I hope will to some extent put pressure on other insurers not to increase the prices. I do not know whether they understand this, but there may occur a situation where they will be short on margin on the insurance side and they will not be able to fill the gap with returns on investments. Of course, due to market slowdown, the quantity of assets which are at the present time introduced into the market – should they be cars, buildings or other risks as we call them – has decreased year-to-year and we can see a certain slump here. Therefore we do not anticipate any large growths. I am sure that there will be no two-digit growths. We expect that next year we will see small one-digit growth of the market. And now, what does that mean to PZU, in other words, I would like you to understand what that means to you. We believe that since we recorded very good financial results, we, as the Management Board, have proven that we are capable of conducting successful restructuring, and we also have proven that we created a cost-effective company. And now we would like to earmark some of those funds for certain investments. Those investments include a new operating model and replacement of the product system, and we are doing this right now. They also include investments in the new service model, i.e. investments to a certain degree in our branches. We believe that this is the best time to do such investments. Firstly, we are very strong financially. Secondly, we believe that we are reliable. And thirdly, in the near future everyone else will be very rapidly cutting the costs which we have already done and right now we want to prepare ourselves for better days ahead. And now, what does it mean to our expenses. Our current expenses, i.e. expenses without the investments discussed above will not be increasing. In other words, we intend to maintain strong cost discipline when it comes to current activity. On the other hand, outlays and expenses related to projects will increase. I would like to provide you with an example: we are conducting a significant project named Everest which involves replacement of the product system. Our old product system dates back to the 19th century as far as technological service is concerned. In order to make a transition to the 21st century, we have to maintain that old system for about three years and simultaneously invest in the new one. These are not the type of expenditures or investments that will topple us. There will be no two-digit increase of costs. This increase of costs will not even reach, say, upper single digits. On the other hand you may expect, provided of course that the Supervisory Board approves our plans, that there will be a small year-to-year increase of costs on account of those investments. But I would like to reiterate that this is not an increase of recurring expenses, i.e. it’s not like we want to give everyone a 30% raise. Something like this will not happen. We have also decided to tell you a little bit about the fourth quarter. Another thing which you may expect and take into account in your forecasts for the end of the year is that due to a difficult market situation we have made a decision to prepare for hardships in the next year and also the year after that. Namely we decided that because of the current economic conditions, there may be things on our balance sheet which are over- or underestimated. Let’s assume that we may have obligations which are in some way related to the market situation. For example – and I would like to use it only for the purpose of an example – let’s assume certain annuity reserves on the side of property insurance that will be discounted by us with another figure and, because of the returns which we may anticipate, perhaps they should be revaluated in some way. We do not know this as of yet but – on account of our conservative approach to business – we would like to examine our balance sheet before the end of this year provided that we are able to do so, to ensure that the balance sheet reflects the market situation in the future, namely next year. The second thing is that it may happen that due to certain projects we will want to create a restructuring reserve of some sort. However, I would like to reiterate that this is not related to group layoffs and I would like this to be very clearly emphasized because no such actions are planned at this point. We are obligated to establish the reserves on account of investments in technologies or due to certain charges which we have to make. Also, as it happens every year, in the fourth quarter we expect deterioration of loss ratios, i.e. in the fourth quarter the people, for some unknown reasons, cause more traffic accidents because of winter conditions on the roads or they want to report that their barn or stable burned down earlier on, etc. Therefore we will most likely see increase in loss ratios. We do not expect any catastrophe such as flood or snowfall to occur but no one knows what may happen. We still have six weeks till the end of the year. In other words, ladies and gentlemen, to summarize our discussion, in our opinion this was a great year. We achieved very good results of which we are very proud and which show that our strategy which we announced one year ago and which was the continuation of the strategy adopted in 2008 works. We are very happy and proud of this fact.

– And now I would like to encourage you to ask questions. We will begin with questions asked online.

– Question asked in Polish. Michael Huttner from J.P. Morgan: I know that this may be a bit too early but since your solvency is 384%, I estimate that there is approx. PLN 5 billion of excess capital. What do you think of any deals or strategic expansion?

– First of all I would like to explain that we have more than PLN 5 billion of capital. In fact, we are close to PLN 6 billion of excess capital vs. our 250% solvency ratio which we assumed in our dividend policy. To answer the question: we said many times that it takes two to tango. We are looking at everything that moves in Eastern and Central Europe when it comes to insurance and, for the time being, there isn't much of a movement. There are two privatization processes in the Balkans which have been discussed for approx. six months, but none of the governments of those Balkan states has selected a privatization advisor, so we should catch the bear before we sell his skin. I also would like to emphasize that in this part of Europe we are not interested in anything besides insurance institutions, and this has not changed. There were press reports about our investment in the banking sector. I would like to reiterate that our potential investment in the banking sector would be only in Poland and its purpose would not be to become a strategic owner of a bank conducting operating activity. We would consider such an operation only as a portfolio investment with appropriate parameters which we would like not to be discussed at this point. There was also public discussion about whether we were interested in acquiring LUX MED. We were interested in LUX MED, however, after familiarizing ourselves with the parameters concerning its value we concluded that that business was overpriced. We have decided not to participate in that process. If anyone acquires that business and then comes to us and asks us for financing, we are ready to provide such financing to him but on debt conditions, not equity conditions, and I believe that this exhausts the question.

– Question asked by Maciej Wasilewicz from Morgan Stanley. First question concerning the pension fund's Q3 results. The results are very strong i.e. PLN 74.5 million in business pension. I would like to find out the reasons for that and whether such a quarterly result may be expected also in the future.

Would you like to answer that?

– I believe that this is somewhat perfidiously said that the result of PLN 74.5 million is high. In the short term, such a result may seem high, however we should remember that our fund recorded profits as high as PLN 100 million. I believe that it is quite simple to calculate the recurring profits from PZU's pension fund activity because the amount of assets is transparent and we all more or less know the fees. After all those legal changes, it is also very easy to estimate the costs. I would rather estimate that the profits may be slightly higher than what we are presenting at this moment, and this results simply from the size of that fund. Therefore, more appropriately than to address the question as to why the profits are so high is to state that they may be even higher under the conditions of normalized and unchanged regulations, but not a whole lot higher.

– Question asked by the same Morgan Stanley representative: in 1H 2012 our non-life market share decreased, and so did the market share of all the top players. Who is gaining market share at this moment?

– The situation is as follows: it really did happen that all four top players lost their market share which is somewhat unexpected and unusual, because it was usually PZU that recorded significant losses and players no. 2, 3 and 4 gained. Now we have a situation in which thanks to our market positioning and sales management method, those players no. 2, 3 and 4 find it a lot more difficult to take our market share. They no longer have the competitive advantage they once enjoyed. According to our analyses, there is no single player among those small ones which would be significantly growing. Each one of them records more or less two-digit growth. On the other hand, these are not the growths recorded by e.g. a single specific player or one direct segment. There is no such situation. Everyone is fairly equally spread out and gains market share.

– Next question, concerning the accounting matters. The new segmentation which you are using is more difficult to model than the previous segmentation, because a change has been made to the Polish standards and the international standards which is not easy to understand. I would like to ask you whether it would be possible for you to retain the previous segmentation until 2013 when you will make a transition to the international reporting structure?

– First and foremost I would like to emphasize that we will do everything in our power to ensure better understanding of our business by the investors and the analysts. Of course, as part of our activities and relations with the competitors, seriously speaking, I would like to once more emphasize that we have changed the segmentation note so that it better reflects the style of the Group's management than in the past, however, this year the profit and loss account is still available in the old layout, and, if this is necessary, it will be made available also in 2013. It seems that this new layout actually reflects the structure of the PZU Group's management, especially the spin-off of the PZU Inwestycje concept in such a way that it is presented as a third significantly growing business element which really should not be examined only as an addition to the insurance business. As I have said before, the note in the old layout is distributed this year and it may be distributed also next year. On the other hand, it seems that there is no rational explanation for such a change in the financial statements from our point of view. It should be also noted that such a layout is partly required by the auditor to ensure compliance with IFRS 8 according to which the data should be presented in the manner consistent with the Group's management.

– Next question asked by Mark MacRae from Wood & Co.: In the individual business we have seen the next quarter of losses in profitability despite significant growth in single premium business. Please explain the strategy for pushing, i.e. selling those products, given their lack of profitability. Also, in which direction do you expect the changes to go in individual insurance profitability?

– It is a very interesting question, especially due to the fact that it is very hotly debated in the press as far as the structure of certain products and their sales methods are concerned. We really do wonder which direction this business will go. It seems that misselling – and it should be called like this – which was done by certain competitors of ours must end and, given the lack of profitability of this product, we really should sit down and think about the direction in which this product ought to be pushed from strategic standpoint. However, we would like to emphasize one more thing, namely we still have some time for this because this product does not sell very well during bad times. On the other hand, if the question concerns individual business sold through the bancassurance channel, we believe that this business will develop. There are various types of bancassurance product structures or structured products with a small protection element. Of course those are very large volumes in which the margin is relatively small, but on this basis we build relations with the bank and, thanks to that, we can sell additional products with very good margins. So when it comes to strategy in this part of the segment, we will be more than happy to cooperate with those banks that will provide us with access to their distribution networks and we believe that such types of products, various types of structures or even products designed to avoid the Belka tax are all something that can be called a pass to their business. I hope that this answers your question.

– I also would like to add that, as we have already informed you, at the present moment PZU Life is confronted with a situation in the individual business, namely in the 1990s they were selling a certain group of products and these products have been maturing in the past 2-3 years. These are the products which are no longer sold on the market because they were very strongly term-oriented policies and included mostly protection products with a small investment element. Today such products no longer exist and we informed you many times that profitability obtained from those individual policies would be decreasing because the present-day individual insurance product, as CEO Klesyk has already mentioned, is mostly the investment product, and we all know that the investment product is the product in which the main margin is obtained from asset management, provided, of course, that such a product is a fair product, and in such a case the margins do not amount to 20%. Therefore decrease in profitability results from the fact that we are simply renewing the portfolio and we do not sell the products which are no longer sold on the Polish market. They were sold in the 1990s, and we renew the portfolio by selling through bancassurance channels slightly different products which unfortunately have different profitability, and we try to estimate the potential profitability-related difficulties of those products which are very strongly investment-oriented products, taking into account the regulatory changes as well as longer periods of time with lower interest rates. But this decrease results from certain historical situations, namely the fact that we are facing the maturing of products which we are unable to rollover at this time because there are no such products on the market, i.e. they are not sold because the clients do not want to buy them.

– Second question from Wood & Co.: Last year's dividend payment was based on the profit earned by the parent company, i.e. PZU SA, however this year it looks that the Group's financial result will be significantly higher than PZU SA's financial result. Will the management take the Group's result into account when recommending the dividend payment or will the dividend be lower?

– This is a very interesting question which I have been discussing with CEO Dąbrowski for a few weeks now, and we considered various aspects of our dividend policy and the Polish law. I would like to start with the dividend policy, according to which there are several restrictions, but there are two which are quite important here, namely that we will base the dividend payment on the consolidated group results and it will be between 50% and 100%. The second restriction is that we will not pay more than 100% of PZU SA's profit stipulated in the individual financial statements, and this is precisely such type of question. And now, knock on wood, it really looks, actually it is almost certain that the consolidated result will be significantly higher than the individual result. And now we have a second aspect, namely the legal aspect. From the legal standpoint, the company which pays the dividend is PZU SA. There is no such thing as the PZU Group. Something like this does not exist because we are not a holding. In other words, PZU SA is a legal entity which pays the dividend. And that entity cannot pay out more than 100% of the profit unless the shareholders decide to make the payment from a source of capital other than profits. I hope that it is clear for now. The third element is the Polish Financial Supervision Authority (KNF), because you have forgotten to add the regulator. One year ago the regulator wisely said that one must not pay out more than 75% of not even the consolidated profit but the individual profit. Hence we have a third restriction. And now, since we have this legal restriction when it comes to that 100%, and – of course – this is up to the shareholders, we would have to make certain changes or movements between individual classes of capital because otherwise we would not be able to pay out the capital, right? The second thing which we completely do not know is what the regulator in its wisdom will say. I talked to the regulator and I asked them to set the recommendations concerning the insurance sector on the similar level as the banking regulations because the banks have to meet several criteria in order to pay out the dividend. At least that was the case one year ago. As far as insurance is concerned, the regulator in its wisdom said: 75% maximum, end of story. Therefore PZU was treated in the same way as a company whose name I will not mention, but it was the company with solvency ratio of 102%. Hence, the situation in which we are in, and I talked to the regulator about that, is that I do not know how the regulator will relate to that. And the third thing is that I would like all of you to know – but this is not your problem, it is ours – that at a certain point in time it may turn out that this capital which we are talking about is in a different place than we want it to be. For example, this year we were unable to pay ourselves a dividend from PZU Life to PZU SA higher than 75% because the regulator forbade us. In other words, our capital is not in the correct places. So – to answer your question to a certain degree – we do not know yet what we will do but we are thinking about it and we are trying to come up with the way to make the payment. From our perspective, we would like to pay out as large of a dividend as possible under our dividend policy.

– There also is a theoretical situation that, from what I understand, it is possible to make an advance payment towards the dividend payment, but we would have to audit the half-year period, and right now we are only doing the review, not the full audit. So there are the things which we are very hardly thinking about but, ladies and gentlemen, the most important factor in all of this is the regulator, because even if the regulator tells us that we cannot pay more than 75% then we will have to comply with that and in such a situation we would have to pay out no matter what high of an amount for ourselves from PZU Life in order to cover that difference. There will not only be the difference between the consolidated Group result and the individual result – the individual result will be reduced by 25% if the regulator keeps that 75% requirement, but these are the things over which the management does not have any influence. Once again, our declaration was that we would fit within the dividend policy and pay a decent dividend to the shareholders. I have already said that.

– One more question from J.P. Morgan: In response to the question concerning regulation you have said that profit outlook is quite good. What regulatory change could there be that would have an impact? I would like to emphasize that the matter concerned the dividend part, i.e. impact on the dividend, however when it comes to regulatory change, I hope that in certain aspects the regulator will help us and the market to maintain profitability. I have already told you about that strange pressure and odd actions on the part of our competitors who are significantly driving down insurance prices. According to the Polish law, it is forbidden to sell insurance products below their market price. Such actions amount to a crime. This destroys the balance of the insurance system and I hope that the regulator will take a very close look at practices such as "TPL insurance for PLN 1". This is not only dangerous but also illegal, so I hope that the regulations will have a positive impact on our profit.

– You know what, if you don't mind I would like to read the questions in English because I have a problem with that.

– I hope that everyone will understand me.

– Exactly.

Goldman Sachs: On the corporate non-life, non-motor business we see a combined ratio of 102% in Q3 12, but there is also large reserve addition in construction – slide 13: 117.1 million. So was there a large reserve release somewhere else in this book? For instance, in Q2 2012, also there was a reserve additional in construction, but combined ratio was 172.8%.

– We did not release any reserves in the third quarter. After the second quarter combined ratio was very strongly affected by that reserve, it's as simple as that. The reserve was not increased, and the explanation for this is that another quarter of sales of this insurance is yielding the profits which improve combined ratio, but no reserves have been released. As far as guarantee is concerned, the amount of the reserve is as it is and we cannot see any possible events that would require its increase. Also, nothing has happened that would justify its decrease. We did not release any other reserves. It is simple: this business is profitable except for those guarantees, therefore each quarter improves combined ratio for that business.

– OK, next question. You mentioned pricing pressure on motor, but the combined ratio is still benefiting from low frequency. But do you think that the market will worsen in 2013-14 from the market actions of a few smaller players?

I have already answered that question to a certain degree, however I would like to say one more thing. It looks that frequency of losses in motor business is very strongly related to fuel sales, i.e. the number of kilometers which the people drive. It has turned out that year-to-year fuel sales decreased by more than 10% and while the reasons are actually unknown, the number of traffic incidents and accidents also decreased by approx. 10%. Only the mix is a little bit changed there. Hence, if I were you, I would observe to certain degree the trends in fuel prices because you may come up with interesting conclusions there. I believe that this appears to be the best predictor of the frequency of accidents. The second thing which I like to pay attention to includes winter driving conditions. This means that if we have strong winter, not frost-wise but snow-wise, then we usually see a significant growth of loss ratio in motor insurance. The people continue to drive on summer tires or they completely do not know how to drive on that white stuff which covers the roads, and then we see a greater number of accidents. I would like to remind you that this year we had a very severe winter when it comes to temperatures and we experienced strong frosts, but we did not see the repetition of the situation from 2010 when we got snowed over for about three months. So, to answer that question directly, if the weather is the same as it is now and the prices of fuel do not drop, then I expect that the number of accidents will remain on the similar level. And I have already discussed the subject of pricing pressure.

Third question, I think CEO Klesyk will answer it**.** On the very high investment income in quarter 3 of 2012 of 1,045 million, how much would you say was released gains or any significant one of positive terms?

– As an answer to that question I would like to assert that the results recorded in the third investment quarter are significantly better than in the previous quarters. There was one one-off event for approx. PLN 100 million which involved a transaction where the profits were transferred from AFS, and it went through capitals and through our result. This is an element of the process of converting into a fund and there really was such a one-off event and there were no other one-off events besides that one. Of course, such a very good result was very strongly influenced by valuations of bonds, i.e. approx. 20% of the PLN 1 billion mentioned above, and this is the unrealized profit from valuation. To summarize, out of that one billion fifty million, approx. PLN 100 million is attributed to a one-off realized event consisting in a specific transaction. A little less than PLN 200 million is attributable to valuations, and the rest involves mostly profit realized without one-off events.

– Next question asked by Wood & Co: Given what has been said about possible additional charges in quarter IV 2012 is management still targeting flat cost growth for the full year? To clarify this target, is this based on total administrative cost or just recurring costs?

As regards our predictions by the end of the year, we can tell you a little bit about it here. Yes, there may be a small increase of costs but only a slight one, i.e. much smaller than the 6.3% which we have just had. It looks that we will be able to maintain our cost discipline. And here our base is the total administrative cost, but the recurring costs should even decrease somewhat.

Next and last question asked by Goldman Sachs: Quarter 3, 2012 did see an increase in technical margin due to riders (slide 10). Is it sustainable?

This is a very good question. What our entire strategy is based on is that the group business and individual continuation must be as though renewed every year when it comes to product offer because we can see that the subsequent riders are much more profitable than core business. That’s why we continuously introduce new riders and phase out those which have become old and outdated or we include them in the basic offer. Answering the question directly, we very strongly believe that it is sustainable because this is the core of our strategy and because otherwise we would commoditize ourselves and every company whose French or German name starts with letter A would try to take our business, however we do not allow that and I would like to very strongly emphasize that. This is attributable precisely to such an approach to business.

– After this long series of questions from our international colleagues, I also would like to take a few questions from the room.

– Kamil Michalak from GPW Media: I would like to once again obtain more precise information about those expenses. You have said that the costs related to investment expenditures will increase, however, except for those expenses, we can expect that the costs will not increase and they will even slightly decrease, is that correct? Will those costs, with the exception of the investment expenditures, be maintained or will they decrease? If we see a decrease, what will be the precise figure and on what items will you specifically save money?

– Ladies and gentlemen, when it comes to recurring costs, i.e. those that are repeated, our ambition was to keep them on the same level in the long period of time or even slightly lower them, however we are no longer dealing with the changes which took place in the recent four years. I would like to remind you that in the recent four years administrative expenses decreased by as much as 16-17%. Therefore the costs will no longer be so high. On the other hand, the year-to-year increases attributable to certain degree to broadly understood investments will be in low single digits. In other words, do not expect that the Management Board has gone crazy and went on a shopping spree and bought, say, 28 additional buildings. Something like this will not happen. We are not in the position to tell you this right now, but perhaps there will also be other one-off events related to our continuation of restructuring activities, but they will be on the side of the balance sheet, e.g. real properties. We have started the process of selling our real properties and we have begun with the smallest ones, and it looks that we are able to get a positive result on the significant portion of them. But if I say that we have sold a garage for PLN 15 thousand which was valued in the books at, say, PLN 3 thousand, then I'm sure the audience will burst in laughter if we start to show you such figures, however, when we begin to move on to higher numbers, because we are moving from the bottom up, there may occur some interesting one-off events, but at the present time we cannot predict or comment on anything.

– In the first part of the presentation you also mentioned the possibility of creating a certain restructuring reserve and you asserted that it would not be a reserve related to any group layoffs. When can we expect a decision on establishment or non-establishment of that reserve and what will be its value?

– I cannot now speculate as to its amount because, and I would like to once more emphasize it, we will be looking at the balance sheet structure as well as liabilities on one and the other side. And we will be asking the auditor to possibly help us when making estimates or additional estimates. When it comes to the restructuring reserve, this name is incorrect, because in our company the restructuring reserve is associated with the restructuring reserve related to layoffs, however it is possible that we will establish a reserve for e.g. revaluation of assets. For example, we may assume that this building is of great interest to us, it has cost us a lot of money and it is posted on our ledgers for a very large amount, but this amount has nothing to do with its present market value. Then perhaps if we discuss this with an auditor it may turn out that we will be revaluating certain assets which are on our ledgers, but also, if necessary, we will e.g. establish a reserve for future revaluations because we have approx. 1,700 pieces of real estate.

– OK, but I would like to comment on one more thing. First of all, when it comes to expenses, as CEO Klesyk has said, next year these recurring costs are to some extent the beneficiary of this year's group layoffs which ended this year. Therefore it is as simple as that: next year we will have less people than we have right now. Group layoffs in our company always take effect in the autumn and at the beginning of the next year, so I want you to be aware of what we are also talking about here. Secondly, ladies and gentlemen, even if the Company decided to establish structural reserves, then such information would be provided primarily to the employees and the trade unions, so if we are announcing it, you will be also informed about it. But for the time being we are not making any announcements of that sort, but, as I have said before, these base costs will certainly slightly decrease next year. There are a number of ideas for slightly decreasing them and, as CEO Klesyk has shown on one of the slides, we will be investing but we will always observe cost discipline and if anything grows in the subsequent years, it will be easy to take it down because these will not be the costs, i.e. those related to the investments, which will be dragging on through the years. In other words, we are not talking about a situation in which PZU suddenly increases its headcount, because it is not easy to get out of such expenses later on. This is rather the matter of investments. On the other hand, base costs will be lower simply because next year we will have less people than we have now.

– Can we still talk about the dividend? Because I get a feeling that we are headed for a small dividend. There are technical problems related to individual profit in addition to the issues related to, as I understand, potentially large reserves for current and future revaluations which CEO Klesyk is not very willing to quantify for us. Individual profit after the three quarters is a little more than 2,200, then if we take 75% of it, I believe that market expectations are higher when it comes to dividend. Since we have already discussed technical problems, I would like to ask a question about the Management Board's intentions when it comes to individual vs. consolidated result. If there were no technical problems, if we were able to overcome them, what would be the Management Board's intention with regard to dividend payment, also taking into account the outlook for the next year?

– Ladies and gentlemen, we have said many times that during times like that, i.e. at the present time, when making a decision about recommending the amount of the dividend to the Shareholder Meeting, in the absence of positive or negative factors, a positive factor being e.g. a large acquisition and negative factor being a significant catastrophe when we have half of the country under water, we would be recommending (a dividend) closer to the upper limit of the consolidated result. However, as you already know, we have assumed in our strategy that we want to be a market guardian. Being a market guardian also to certain degree involves being a good corporate citizen, as it can be said with respect to the regulator. If the regulator tells us that it will be 75% of unconsolidated profit, because the regulator does not regulate the consolidated profit, only the individual profit, then it would be suicidal for me to recommend, for example, twice higher dividend and – in addition to that – paid out from reserve capital. If we do that, the regulator will kill us.

– No, this is of course clear. On the other hand, it seems to me that there is a certain awkwardness...

– There is.

– ... resulting from the fact that PZU Life paid 75% for the previous year to the parent company, and majority of the profit is generated in a life company which is a subsidiary company, so the case and the question really is as follows: will you undertake to actively persuade the regulator...

– Of course.

– …this is precisely the case.

– A few days ago I spoke with the Chairman and I begged him and asked him to issue some sort of a recommendation as quickly as possible, but not as rudimentary of a recommendation as this year stating: 75% or else. I believe that it should have been done more like it is in the banking system, where they can pay out more if they meet specified requirements.

– Especially due to the fact that the competitor whose name starts with letter A pays dividends as advance payments in the fourth quarter.

– Exactly, that is precisely right.

– Are there any other questions?

– If there are no more questions, then I would like to move on. I believe that there is still PLN 60 million of unused restructuring reserve after the third quarter, if I'm not mistaken, so it seems to me that there are the indications that it could be dissolved. In the context of what you are talking about, it is possible that it will not be dissolved but a higher reserve may be required. Can it be somehow related to the projects which we have discussed?

– Once again. The reserve which has been assumed pertained to the movements made this year and it is being slowly dissolved. Honestly speaking, I can say that I believe and I can be certain that it was based on very conservative assumptions, therefore in fact I need a smaller net amount than that. At the present moment I would like to say – but I'm not talking about 60 million, it is about a dozen or so million I'm thinking about here – that this will have a positive impact on the PZU Group's result this year if it is somehow dissolved by the end of the year. As regards any information on the potential future restructuring reserves, ladies and gentlemen, we announced a large restructuring program back in 20..., I believe it was in December 2010, and that program has ended this year. This was the first program of this kind and we performed it, we recorded savings and we reduced employment by the figures which we had said we would do. It has ended. As CEO Klesyk has stated, simple HR reserves basically ended, FTEs were reduced from 16 thousand to 11 thousand, i.e. 30% of the headcount, and the revenues and profits were growing, so it's a lot of things that we accomplished. Basically there are no more simple reserves. We don't say that nothing like this will ever happen, but the basic principle is, and this is not just an issue but a basic principle resulting from the law and the Management Board's understanding of keeping proper relationships with the employees, that if we were to do something like that, then we would first inform the employees and then the investors or perhaps both at the same time, however this is not the place to talk about it. We do not rule out the possibility that this will be the case because we will record a profit for dozen or so million on dissolving the reserve which you have mentioned because it will not be used up entirely.

– I would like to reiterate that at this point there are no plans to do any large group layoffs next year or any significant group dismissals. I would like to ask you to remember that. And I have also asked journalists for the same thing because a single sentence may cause a significant backlash against the company.

– I believe that this is important because you have asked us about those costs. I have said it a little bit imprecisely here that base recurring expenses will be lower next year not only because we have laid off 500 or 570 people this year – and I would like to apologize because I could be wrong as regards the precise number by a dozen or so people. We have also terminated ZUS contracts and that termination of ZUS contracts, about which we talked in the first quarter and certainly in the second quarter, resulted in e.g. payment of additional PLN 20 million towards ZFŚS. Termination of ZUS contracts in the longer term – probably next year and certainly in 2014 – will have a positive impact on the PZU Group's result, in other words, this entire operation had a positive impact on the result account of the PZU Group and therefore at this time we are not planning any further restructuring. Not only because, as I have said before, there are no simple HR reserves. But the second important information is that if termination of ZUS contracts had a positive impact on the result account of the PZU Group, then to certain extent it means that the average HR cost or average cost of remuneration in 2012 decreased. We are trying various methods of reducing expenses. We reduced our headcount but now we have our eyes on something else which, as I have said before, also has a positive impact on the results and I'm sure that we will see it in 2013 and we will certainly fully see it in 2014.

– I believe we have fully answered all of the questions, therefore I would like to thank you for interesting questions and for the discussion. Good bye.