

PZU Finance AB (publ)
Org nr 556972-9832

”Office translation”

Annual report for the financial year 2014-05-28 - 2014-12-31

The Board of Directors presents the following annual report

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Unless otherwise stated, all amounts are reported in SEK.

This report has been prepared in both Swedish and English versions. In case of variations in the content between the two versions, the Swedish version shall govern

Administration Report

Information regarding the operations

The PZU Finance AB (Company) was registered 2014-05-28 and this is the company's first financial year. Financial year covers the period of 2014-05-28 – 2014-12-31.

The object of the Company's business is to conduct financial activities primarily through the borrowing of funds by way of issuance of bonds and other financial instruments to institutional and private investors and through the direct lending of such funds to group companies, granting credit facilities and loans, and to conduct any other activities compatible therewith or to provide any related services. The Company does not conduct activities that constitute operations which would require a license or permit from the Swedish Financial Supervisory Authority or any other authority.

On 3 July 2014, the Company issued senior bonds with nominal value of EUR 500,000,000. The issue price of one bond with a nominal value of EUR 100,000 amounted to EUR 99,407. The duration of the bond is five years and it is listed on the Irish Stock Exchange (ISE) on the basis of a prospectus approved by the Central Bank of Ireland. Additionally bonds are quoted on Alternative Trading System on Warsaw Stock Exchange and BondSpot.

The liabilities of PZU Finance AB arising from the bonds (including the obligation for payment of the nominal value of bonds and interest on the bonds) were secured with a guarantee provided by Powszechny Zakład Ubezpieczeń SA (PZU) to all bondholders. The maximum value of the guarantee was not specified and it expires upon the expiry of the claims of the bondholders towards PZU Finance AB. The bond bears 1,375 % interest from the date of publication on 3 July, 2014. Interest is paid annually with the first payment on 3 July, 2015.

On 7 July 2014, PZU Finance AB has granted 5-year loan to PZU. Interest of 1,425% is paid annually with the first payment on 29 June, 2015.

Ownership structure

The company is a wholly-owned subsidiary to Powszechny Zakład Ubezpieczeń SA, reg. no KRS 0000009831 domiciled in Warsaw, Poland.

Significant events during the financial year

Apart from issuance of senior bonds and granting the loan to PZU, there were no significant events in the financial year.

Significant events after the financial year

On 1 January, 2015 the company changed reporting currency from SEK to EUR.

Basic risks and uncertainties

PZU Finance AB overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company.

The Board has the overall responsibility for establishing and monitoring the company's risk management, for additional information see note 2.

Proposed appropriation of profits

The following profits are at the disposal of the Annual General Meeting:

Net profit for the year	<u>48 690</u>
	<u>48 690</u>
amount to be carried forward	<u>48 690</u>
	<u>48 690</u>

Income Statement	Note	2014-05-28 -2014-12-31
Net sales		284 193
Operating expenses		
Other external expenses	3	-717 706
Personnel costs	4	<u>-38 120</u>
Total operating expenses		-755 826
Operating loss		-471 633
Profit/(loss) from financial items		
Financing income	5	180 693 584
Financing cost		<u>-180 158 985</u>
Net financing income		534 599
Profit after financial items		62 966
Income tax	6	<u>-14 276</u>
Net profit for the year		<u>48 690</u>

Statement of comprehensive income has not been established as there have been no transactions to be included in other comprehensive income.

Balance Sheet	Note	2014-12-31
Assets		
Non-current assets	7	
Receivables from parent company	8	<u>4 711 790 135</u>
Total non-current assets		<u>4 711 790 135</u>
Current assets		
Receivables from the parent company		110 000
Prepaid expenses and accrued income	9	37 251 572
Cash and cash equivalents		<u>2 641 383</u>
Total current assets		<u>40 002 955</u>
Total assets		<u>4 751 793 090</u>

Balance Sheet	Note	2014-12-31
Equity and liabilities		
Equity		
<u>Restricted equity</u>		
Share capital		<u>500 000</u>
<u>Non-restricted equity</u>		
Net profit for the year		<u>48 690</u>
Total equity		<u>548 690</u>
	7	
Non-current liabilities		
Bonds issued		<u>4 713 092 740</u>
Total non-current liabilities	8	<u>4 713 092 740</u>
Current liabilities		
Accounts payable - trade		370 279
Current tax liabilities	6	14 276
Other current liabilities		1 149 524
Accrued expenses and deferred income	10	<u>36 617 581</u>
Total current liabilities		<u>38 151 660</u>
Total equity and liabilities		<u>4 751 793 090</u>
Pledged assets		None
Contingent liabilities		None

Statement of changes in equity

	Note	Share capital	Other contributed capital	Retained earnings	Total equity
Equity 2014-05-28		500 000	-	-	500 000
Net profit for the year		-	-	<u>48 690</u>	<u>48 690</u>
Equity 2014-12-31		500 000	0	48 690	548 690

Cash flow statement	2014-05-28 -2014-12-31
Operating activities	
Profit after financial items	62 966
Adjustment for non-cash items	-9 879 055
Income tax paid	-
Cash flow from operating activities before changes in working capital	-9 816 089
Increase/decrease in other current receivables	-321 565
Increase/decrease in other current operating liabilities	<u>1 519 803</u>
Cash flow from operating activities	-8 617 851
Investing activities	
Loans given to parent company	<u>-4 612 805 652</u>
Cash flow from investing activities	-4 612 805 652
Financing activities	
Shares issued	500 000
Bonds issued	<u>4 578 988 176</u>
Cash flow from financing activities	4 579 488 176
Cash and cash equivalents at beginning of the year	-
Cash flow for the year	-41 935 327
Exchange differences	<u>44 576 710</u>
Cash and cash equivalents at the end of the year	<u>2 641 383</u>

Notes to cash flow statement

Adjustment for non-cash items	
Amortization of bond discount	134 104 564
Accrued expenses and deferred income	36 617 581
Amortization of loan from parent company discount	-98 984 483
Accrued interest income, parent company	-37 040 007
Exchange differences	<u>-44 576 710</u>
Net non-cash items	<u>-9 879 055</u>

Notes

Note 1 Accounting and valuation principles

General information

PZU Finance AB corporate identity number 556972-9832, is a limited liability company registered in Sweden with office in Stockholm. The office address is Sergels Torg 12, 111 57 Stockholm, Sweden. Activities include financial activities and operations as a natural link.

PZU Finance AB is a subsidiary of Powszechny Zaklad Ubezpieczen SA, corporate identity number KRS 0000009831 based in Warsaw, Poland. PZU prepares consolidated financial statement that can be found on their homepage; <https://www.pzu.pl/>

Accounting and valuation principles

The annual report of PZU Finance AB has been prepared in accordance with the Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Application of RFR 2 means that the company so far as possible, applies all EU-approved International Financial Reporting Standards (IFRS) and interpretations of the IFRS Interpretations Committee (IFRIC) as part of the Annual Accounts Act and Security Act, and considered the relationship between accounting and taxation.

The annual report has been prepared on the historical cost basis. The following describes the principal accounting policies adopted.

New and amended standards and interpretations not yet in force

New and amended standards and amendments to RFR 2 that have been issued but which becomes effective for financial years beginning after 1 January, 2015 were not yet applied by the Company. Management believes that the new standards, interpretations and amendments to RFR 2 which has not taken effect is not expected to have any material impact on the Company's financial statements when applied for the first time.

Functional and presentation currency

The Company's reporting currency and the functional currency is Swedish kronor (SEK).

Foreign currency

Monetary assets and liabilities denominated in foreign currencies are retranslated to functional currency at the closing date exchange rate. Exchange differences are recognized in the income statement.

Borrowing costs

Borrowing costs are recognized in the income statement in the period in which they arise.

Income taxes

The tax expense represents the sum of current and deferred tax.

Current tax

Current tax is calculated on the taxable profit for the period. Taxable profit differs from the reported results in the income statement when it is adjusted for non-taxable income and non-deductible expenses and income and expense that are taxable or deductible in other periods. The company's current tax is calculated using tax rates that have been enacted by the balance sheet date.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in the income statement, except when the tax relates to items recognized in other comprehensive income or directly in equity. In such cases, the tax is also recognized in other comprehensive income or directly in equity.

Financial instruments

A financial asset or financial liability is recognized in the balance sheet when the company becomes part to the instrument's contractual terms. A receivable is recognized when the company has performed and a contractual obligation exists for the counterparty to pay, even if an invoice has not been sent. Liabilities are recognized when the counterparty has performed and there is contractual obligation to pay, even if an invoice has not been received.

A financial asset is removed from the balance sheet when the contractual rights are realized, lose their validity or the company loses control of them. A financial liability is removed from the balance sheet when the contractual obligation is fulfilled or when extinguished in other way.

The Company's financial instruments consist mainly of loan receivables from parent company and bonds. These are presented initially to acquisition value plus (deductions) transaction costs.

Loans and bonds are recognized at amortized cost using the effective interest method and interest income and expenses are recognized using the effective interest method. The effective interest rate is the rate that discounts estimated future payments during a financial instrument's expected duration of the financial asset or liability's net value. The calculation includes all paid or received fees by contractors, such as transaction costs and all premiums and discounts.

At each reporting date the Company assesses whether there is a need for the loan to be impaired by searching for objective evidence. Objective evidence consists of observable circumstances that have occurred and have a negative impact on the ability to recover the acquisition cost. If objective evidence exists, expected future cash flows will be discounted using the original effective interest rate. If the present value is lower than the carrying amount, the impairment is presented in profit/loss for the year.

Property, plant and equipment

Fixed assets are recognized at acquisition cost. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition.

Current assets

Current assets are reported at the lower of acquisition cost and net realizable value. Acquisition cost is defined as expenditures for the asset plus costs directly attributable to the acquisition. Net realizable value is defined as the sales value less estimated selling expenses.

Cash and cash equivalents

Cash and cash equivalents include cash and bank deposits and other short-term highly liquid investments that are readily convertible to cash and are subject to an insignificant risk of changes in value.

Shareholder contributions

Shareholders' contributions are recognized in equity.

Contingent liabilities

A contingent liability is a possible obligation arising from past events and whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company that may occur or does not occur, or a present obligation arising from past events, but not recognized as a liability or provision if it is not probable that an outflow of resources will be required to settle the obligation or the obligation cannot be measured with sufficient reliability.

Contingent assets

A contingent asset is a possible asset arising from past events whose existence will only be confirmed by one or more uncertain future events not wholly within the control of the company occurring or not occurring. A contingent asset is not recognized as an asset in the balance sheet.

Cash flow Statement

The cash flow statement shows the company's changes in the company's cash and cash equivalents during the financial year. The cash flow statement has been prepared using the indirect method.

Note 2 Financial risk management and financial instruments

The Company is exposed to various types of financial risks, including market, liquidity and credit risks through its business activities. Market risks primarily consist of interest rate risk. It is the board of directors ultimately responsible managing and monitoring of the Company's exposure of financial risks. The frameworks relating to exposure, management and monitoring of financial risks are determined by the board.

Market risk

Currency risk

Market risk can be the risk that a change in market prices will affect a company's income or the value of its holdings of financial instruments.

PZU Finance AB is not exposed to significant currency risk as the loan to the parent company and the issued bonds are of similar amount in the same currency (euro).

Interest rate risk

Interest rate risk refers to the risk that the fair value or future cash flows will fluctuate as a result of changes in market interest rates.

The company's interest rate risk profile of the interest-bearing financial instruments was:

	2014-12-31 SEK
<u>Fixed interest rate (excluding interest accrued)</u>	
Receivables from parent company	4 711 790 135
Bond loans	4 713 092 740

The Company has minimized the interest rate risk by matching the loan obligations with the obligations of the bond.

Liquidity and financing risk

Liquidity risk can be the risk that a Company will encounter difficulty in meeting obligations arising from its financial liabilities which shall be settled by way of cash payment.

PZU Finance AB's obligation to the bondholders includes annual interest payments and the final repayment at maturity.

The bond is guaranteed by the parent company Powszechny Zaklad Ubezpieczen SA which minimizes the possible liquidity risk for the company.

The financing risk is the risk that the Company cannot raise sufficient funds at a reasonable cost. Maturity distribution of contractual payment obligations related to the Company's financial liabilities are presented in the table below.

The figures in the table are not discounted values and they include, where appropriate, interest payments, which means that these amounts are not possible to reconcile the amounts reported in the balance sheets. Interest payments are determined based on the conditions prevailing at the balance sheet date.

The Company's loan agreements contain no terms that could cause actual payment date will be substantially earlier than indicated in the table.

	Within 3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities to bondholders	-	74 032 000	4 974 768 740	-	5 048 800 740
Account payable – trade	370 279	-	-	-	370 279
Other current liabilities	1 149 524	-	-	-	1 149 524
Total	1 519 803	74 032 000	4 974 768 740	-	5 050 320 543

Credit risk

Credit risk can be the risk of financial loss to a company if a counterparty fails to fulfill its contractual obligations.

PZU Finance AB exposure to credit risk relates only to loans granting to the parent company.

The total value of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at year end were as follows:

	2014-12-31 SEK
Receivables from parent company	4 711 790 135
Cash and cash balances	<u>2 641 383</u>
	4 714 431 518

The Company's cash is placed at Nordea Bank, Sweden

Operational risk

Operational risk can be the risk of direct or indirect loss arising from a variety of occasions associated with a company's processes, personnel, infrastructure and from external factors other than credit, market and liquidity risks such as those derived from regulations and generally accepted customs. Operational risk arises from all of a Company's activities.

The Company was formed with the purpose to engage in the activities described in the previous paragraph on the company's operations.

The operational risk of the company is reduced by the board's continuous monitoring of the company's financial statements and a general business knowledge.

Note 3 Audit fees of the year

	2014-05-28 <u>-2014-12-31</u>
<u>KPMG AB</u>	
Audit fees	<u>50 000</u>
Total	<u>50 000</u>

Note 4 Personnel expenses

	2014-05-28 <u>-2014-12-31</u>
Wages, salaries, social security and pension costs	
Wages and salaries	27 382
Compulsory social security contributions	9 114
Other personnel costs	<u>1 624</u>
Total	<u>38 120</u>

Note 5 Other interest income and similar profit/loss items

	2014-05-28 <u>-2014-12-31</u>
Interest income	36 063 805
Ex-change rate changes	<u>144 629 779</u>
Total	<u>180 693 584</u>

Note 6 Tax on profit for the year

	2014-05-28 <u>-2014-12-31</u>
Tax on profit for the year	<u>14 276</u>
Total	<u>14 276</u>

	<u>%</u>	<u>2014</u>
Result before tax		62 966
Tax rate	22%	13 853
Non-deductible costs		423
Non-taxable income		
Tax on profit for the year	22.7%	14 276

Note 7 Financial assets and liabilities specified by category

Assets 2014

Book value

Loan to parent company	4 711 790 315
Receivables from parent company	110 000
Prepaid expenses and accrued income	37 251 572
Cash and cash equivalents	2 641 383
Total	4 751 793 270

Assets

Fair value

Loan to parent company	4 829 592 700
Receivables from parent company	110 000
Prepaid expenses and accrued income	37 251 572
Cash and cash equivalents	2 641 383
Total	4 869 595 655

Liabilities 2014

Book value

Bonds issued	4 713 092 740
Account payable - trade	370 279
Current tax liabilities	14 276
Accrued expenses and deferred income	36 617 581

Other current liabilities	1 149 524
Total	4 751 244 400

Liabilities

Fair value

Bonds issued	4 830 895 305
Account payable - trade	370 279
Current tax liabilities	14 276
Accrued expenses and deferred income	36 617 581
Other current liabilities	1 149 524
Total	4 869 046 965

The book value of financial instruments for which fair value is not listed above constitutes a reasonable approximation of fair value, when duration is short.

The information about fair value of loans and bonds belong to level 2 in the fair value hierarchy and are valued at the fair value that is listed for the bond issue in Ireland Stock Exchange. The loan is valued to the same value as the bond as the parent company guarantees the bond.

Note 8 Transactions with related parties

2014

Disclosure regarding the parent company

The company is a wholly-owned subsidiary to Powszechny Zaklad Ubezpieczen SA, domiciled in Warsaw, Poland.

Receivables with parent company

Powszechny Zaklad Ubezpieczen S.A	4 711 790 135
Accrued interest income	37 040 006
Total	<u>4 748 830 141</u>

The receivable bear an interest of 1,425% with effect from 7 July 2014.

Income and costs regarding parent company

Revenue, parent company	284 193
Interest income, parent company	37 040 006
Total	<u>37 324 199</u>

Additionally, PZU has guaranteed the bond issue for EUR 500,000,000 dated 3 July 2014 along with interests.

Note 9 Prepaid expenses and accrued income

	<u>2014-12-31</u>
Accrued interest income	37 040 007
Other items	<u>211 565</u>
Total	<u>37 251 572</u>

Note 10 Accrued expenses and deferred income

	<u>2014-12-31</u>
Accrued interest expenses	36 567 581
Accrued audit fees	<u>50 000</u>
Total	<u>36 617 581</u>

Stockholm 2015-06-

Agnieszka Karbowskiak

Mariusz Porebski

Joanna Klijn

Our audit report has been issued 2015-06

KPMG AB

Mårten Asplund
Authorized public accountant