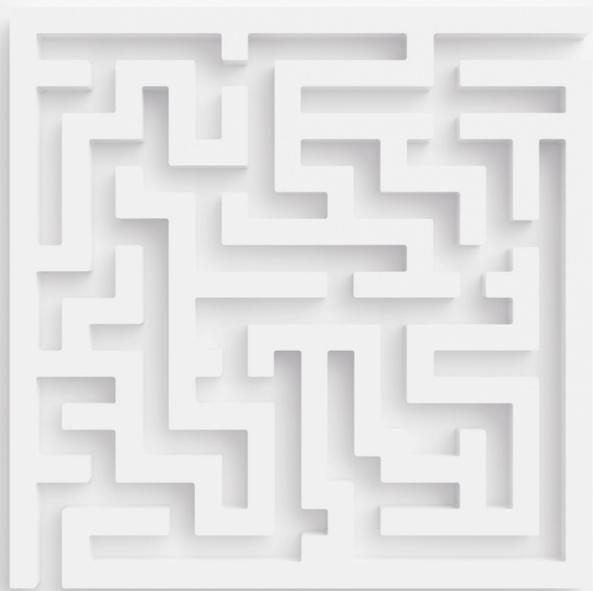


PZU (2010)

- report on the application of corporate governance



Warsaw 16 March 2011





16.1 Corporate governance principles

In its business activities, the Management Board of PZU SA follows the highest corporate governance standards and ethical principles. The company confirms compliance with the highest corporate governance and corporate social responsibility standards by aligning the internal regulations with

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 operations of the Supervisory Board provided by the Supervisory Board and the evaluation of the internal controls and key 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 were not admitted to trading on a regulated market and the Company was not obliged to apply Good practices. After the Company shares were admitted for public trading, works aimed at completing 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 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 Meeting of the Company’s Shareholders 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 Good practices. 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 1.5 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 has 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 Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by Commission Recommendation of 30 April 2009 (2009/385/EC). Moreover, the Company did not present a declaration presenting 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 1.9 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 at the time of appointing members of the Company bodies. The composition of the Management and Supervisory Board is 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.

2 General Shareholders' Meeting and the rights of the shareholders

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

The 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 the Extraordinary Shareholders' Meeting deem it justified.

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

- the Ordinary Shareholders' Meeting if the Management Board failed to do so by the defined deadline;

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- the Extraordinary Shareholders' Meeting, when necessary;
 - the 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 the 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 the Extraordinary Shareholders' Meeting. The shareholders appoint a chairman of such Extraordinary Shareholders' Meeting.

Shareholder or shareholders of the Company representing at least one twentieth of the share capital may demand calling the Extraordinary Shareholders' Meeting and putting appropriate items on the agenda. If the Extraordinary Shareholders' Meeting is not called within two weeks from the date of presenting the order to the Management Board, the registration court may authorize the 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 General 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 General Shareholders' Meeting. The Management Board is obliged to immediately announce all changes in the agenda introduced by the shareholders, however, not later than 18 days before the planned date of the meeting. The 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, a 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 concerning items on the agenda of the Shareholders' Meeting or items which will be added to the agenda. The Company immediately places resolution drafts on its website. During the General Shareholders' Meeting each shareholder may provide resolution drafts concerning items on the agenda.

A 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 General Shareholders' Meeting.

Duly called General Shareholders' Meeting is deemed valid regardless of the number of attending shareholders or number of represented shares. The shareholders cannot adopt resolutions which are not on the agenda, unless the entire share capital is represented on the General Shareholders' Meeting and none of those present raise objection to 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 General Shareholders' Meeting have the right to participate in the Meeting (date of registration of attendance at the Meeting).

The entity keeping the securities account will issue a certificate of the right to participate in the General Shareholders' Meeting for a specified person upon a request of a person authorised 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 at the 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 authorised 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 authorised 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 completing the General Shareholders' Meeting.

Each share gives the right to one vote at 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 the proxy on the General Shareholders' Meeting is a member of the Management Board, Supervisory Board, liquidator, Company's employee or a member of appropriate bodies or the employee of a controlled company or cooperative, the power of attorney may authorize to representation only at one General Shareholders' Meeting. The proxy is obliged to inform the shareholder of the circumstances indicating the existence or possibility of a 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 of the General Shareholders' Meeting are adopted by an absolute majority of votes, except for cases specified in the Code of Commercial Companies or the By-laws. In accordance with the By-laws, resolutions 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 fourths 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 powers of the General Shareholders' Meeting specified in the Code of commercial companies and the By-laws include:

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- examination and approval of a management board report on the company's operations, financial statements for the previous financial year and acknowledgment of the fulfilment 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 or 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 the decision whether to use them and if so, how; and
 - 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 next 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 requesting shareholders 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 next 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 than 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.

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 of 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;

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- 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 provides 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 work 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;

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- 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);

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- 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 fulfil 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 throughout 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 stipulates 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 persons respect confidentiality and signs a confidentiality statement.

Committees within the Supervisory Board

IPO Committee

In accordance with the 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 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 may 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 Cwiąkowski (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);

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- 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.

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.

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 the Issuer 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	Number of shares	As of 31 December 2009	
		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%

As of 31 December 2010			
Shareholder	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.

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

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

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.

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.

9 Rules of changing the By-laws of PZU

The By-laws of PZU may be changed by the General Shareholders Meeting by a three-fourth majority of votes, consent of the Polish Financial Supervision Authority in the events specified in the Act on

insurance activity and an entry in 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.