PZU Group's

2003
annual report

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PZU Group's

2003

annual report

GRUPA PZU

Dear Readers,

The PZU Group generated the highest net profit in its history in excess of PLN 1.5 billion in its jubilee year of the bicentennial of insurance on Polish soil. This places PZU not only among the most profitable financial and insurance institutions in our country but also among the most efficient European insurers.

The financial result generated by the PZU Group with shareholder funds of PLN 6 billion made it possible to achieve a return on equity of approximately 27.5%. We hope that such a high rate of return will be perceived by the shareholders, analysts and investors as a positive signal prior to PZU SA's anticipated floatation.

The PZU Group's insurance activity should be assessed positively. The combined ratio, which illustrates the ratio of costs incurred by a firm in a given year to its revenues oscillated around 90% in non-life business in 2003. This level is practically unattainable for most European insurance institutions.

The financial safety ratios are undergoing steady improvement. This is of fundamental significance for our clients who esteem PZU both for its comprehensive product offering as well as for the guarantee of paying claims. Last year the solvency margin coverage ratio stood at 349% in non-life business, while it was 187% in life business. The PZU Group's equity climbed by more than 21% from the previous year, while our assets expanded by nearly 13%. The PZU Złota Jesień Open-end Pension Fund managed by PTE PZU SA bolstered its position on the open-end pension fund market; the growth rate of its net profit exceeded 1500%.

In 2003, the PZU Group's activity concentrated on projects enhancing the quality of services steadily by expanding and modernizing the product offering, developing new sales channels and continuing the work on streamlining the claims handling process. This work was accompanied by the successful conclusion of two crucial projects serving the organization's development. The first one was the finalization of the tender proceedings to purchase an integrated information technology system. The process of selecting the system's vendor facilitated the overall verification of the Group's functions and products while also enabling it to design information technology solutions that correspond best to our long-term needs. The systems that we will purchase are the most modern of the ones available on the global market; their implementation, slated to commence this year, will mark the path for modernizing the PZU Group in all its areas of operation. The second challenge was adapting the institution to the new insurance law, which introduced European Union standards to the Polish market. Within the realm of this work, many internal procedures were modified, the terms and conditions of insurance for tens of insurance products were altered and new terms and conditions of insurance were developed in conjunction with the statutory change in their classification from voluntary to compulsory insurance.

Poland's accession to the European Union will indubitably be an impulse towards the further development of the insurance market in our nation. New challenges accompany new operating opportunities. The PZU Group is well prepared for them. Our strategic objective is still to retain a dominant position on the domestic financial and insurance market. Our long-term plans also envisage the attainment of a leadership position on the Lithuanian market and involvement on other Eastern European markets.

In conveying the PZU Group's 2003 annual report to you, we trust that next year will further the positive changes on the Polish insurance market. We will make all efforts possible for PZU, an insurance company with 200 years of tradition and with one of the strongest brands in Poland to continue to be a guarantee of its stability and rapid development.

Respectfully,

Cezary Stypułkowski
CEO of PZU SA

Bogusław Kasprzyk
CEO of PZU Życie SA

Jakub Tropiło
CEO of PTE PZU SA

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experience

We have 200 years
of tradition behind us.
We have gained the trust
of millions of Poles
with our work.
Our high amount of assets
and many years of experience
enable us to take good care
of your future.

Data concerning the PZU Group

Shareholding structure

The shareholding structure of PZU SA according to the share book as at 31 December 2003:

State Treasury	55.09%
Eureko BV	20.91%
BIG BG Inwestycje SA	10.00%
Highwood Partners, L.P.	2.35%
Other shareholders	11.65%

Structure of the PZU SA Capital Group

The Capital Group of Powszechny Zakład Ubezpieczeń SA (PZU Group) is the largest insurance group and one of the largest financial institutions in Poland as well as in Central and Eastern Europe. Its traditions date back to 1803 when the first insurance company was established on Polish soil, namely Towarzystwo Ogniowe dla Miast w Prusach Południowych (Fire Insurance Company for the Cities of Southern Prussia). As at 31 December 2003, the PZU Group consisted of 26 entities in the form of joint stock companies or limited liability companies.

The units subject to the PZU Group's consolidated financial statements for the year ended 31 December 2003 (Consolidated Financial Statements) according to the rules embraced in the Consolidation Procedure:

- consolidation by the full method:
  - Powszechny Zakład Ubezpieczeń SA (PZU SA) - parent company,
  - Powszechny Zakład Ubezpieczeń na Życie SA (PZU Życie SA) - subsidiary,
  - Powszechne Towarzystwo Emerytalne PZU SA (PTE PZU SA) - indirect subsidiary,
  - PZU Tower Sp. z o.o. (PZU Tower) - indirect subsidiary,
  - Centrum Informatyki Grupy PZU SA (formerly PZU-CL Agent Transferowy SA) - indirect subsidiary;
- companies presented in the consolidated financial statements by the equity method:
  - Krakowska Fabryka Armatur SA - indirect subsidiary,
  - Fabryka Wyrobów Precyzyjnych VIS SA - affiliate.

The enumerated entities fulfill the criteria prescribed by the Accountancy Act of 29 September 1994. Pursuant to the clauses of the Accountancy Act, the Consolidated Financial Statements include only those companies that discharge a specific function for the entire PZU Group and are financed by the PZU Group units.

Other entities not subject to consolidation:
- PZU NFI Management SA,
- SYTA Development Sp. z o.o. (under liquidation),
- PZU Asset Management SA,
- CERPO Sp. z o.o. (under liquidation),
- Sigma Investments Sp. z o.o.,
- TFI PZU SA,
- Grupa Inwestycyjna Centrum Sp. z o.o. (under liquidation),
- Grupa Multimedialna SA (under liquidation),
- Biuro Likwidacji i Obsługi Szkód Sp. z o.o.,
- Kolej Gondolowa Jaworzyna Krynicka SA,
- Nadwiślańska Agencja Ubezpieczeniowa SA,
- Laktopol Sp. z o.o.,
- Polskie Towarzystwo Reasekuracji SA,
- ICH Center SA,
- IX NFI im. Kwiatkowskiego SA,
- UAB DK Lindra,
- PPW Uniprom SA (under bankruptcy),
- IV NFI Progress SA,
- II NFI SA.

PZU Group's primary units - scope of activity

The PZU Group's activity encompasses comprehensive insurance and finance service. The Group's entities offer services in property and casualty insurance, life insurance, mutual funds and on the open-end pension fund market.

Powszechny Zakład Ubezpieczeń SA

PZU SA is the PZU Group's mother company. The domain of this firm's activity is property and casualty insurance. It has been operating as a joint stock company since December 1991 when it was transformed from being Państwowy Zakład Ubezpieczeń (State-owned Insurance Company).

Powszechny Zakład Ubezpieczeń na Życie SA

PZU Życie SA conducts life insurance activity. Its offer also includes juvenile, annuity, accident and investment insurance concluded in the form of individual or group agreements. In terms of equity, PZU Życie SA is a subsidiary of PZU SA. This company launched operations in 1991 as a result of transforming Państwowy Zakład Ubezpieczeń into two Treasury-owned joint stock companies: a non-life company and a life company.

Powszechne Towarzystwo Emerytalne PZU SA

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

PZU Asset Management SA

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

Towarzystwo Funduszy Inwestycyjnych PZU SA

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

Centrum Informatyki Grupy PZU SA (known as PZU-CL Agent Transferowy SA until 12 May 2003)

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

PZU NFI Management Sp. z o.o.

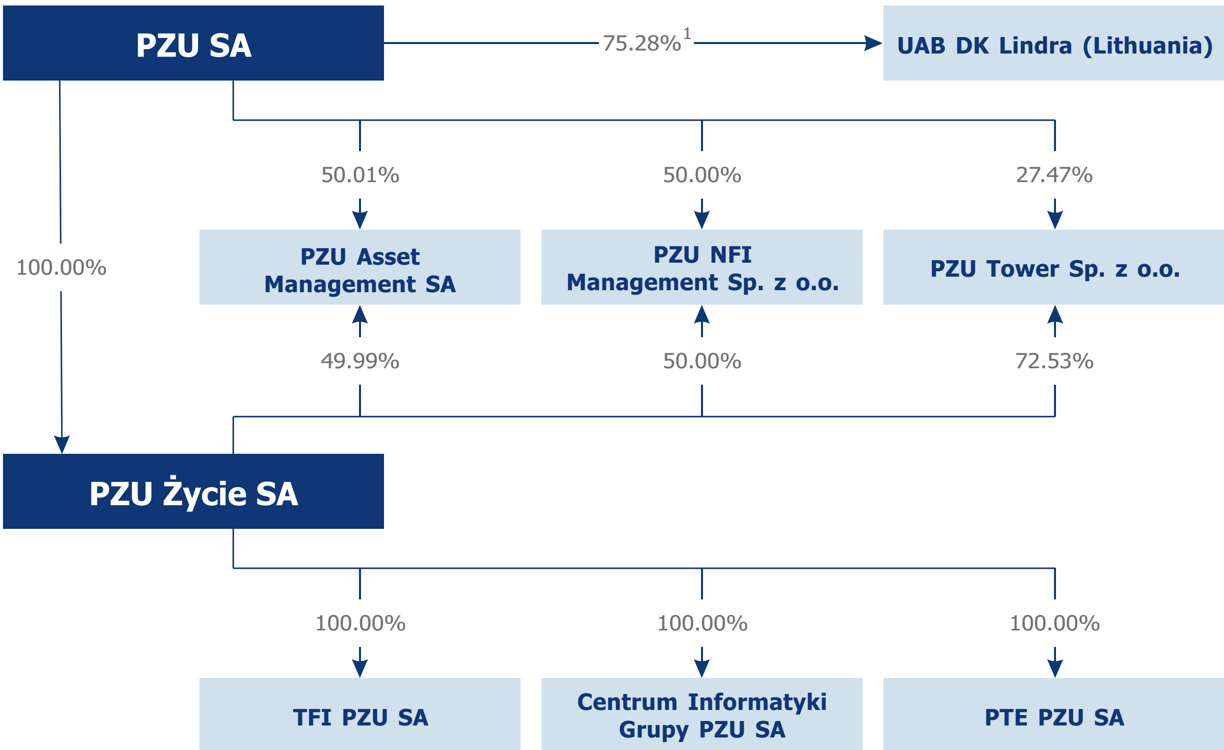
PZU NFI Management Sp. z o.o. renders services in the field of managing the assets of the following National Investment Funds: Drugi NFI SA, NFI Progress SA, NFI im. E. Kwiatkowskiego SA. It buys and subscribes ownership interests or shares and other securities in entities registered and operating in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

PZU Tower Sp. z o.o.

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

The results of the PZU Group companies presented in this report originate from their standalone financial statements for 2003. The results of the entire PZU Group originate from the consolidated financial statements of PZU Group for 2003. This report discusses the results of three Group companies subwwject to the consolidated financial statements conducting activity in financial services.

Equity links in the PZU Group



1) As of March 2004 PZU SA holds a 99.6% stake in UAB DK Lindra.

Governing bodies of the PZU Group companies

PZU SA

Management Board composition

Zdzisław Montkiewicz	CEO (until 28 May 2003)
Cezary Stypułkowski	CEO (from 28 May 2003)
Piotr Kowalczewski	Deputy CEO (from 1 September 2003 - previously a Management Board Member)
Kazimierz Ortyński	Management Board Member
Włodzimierz Soiński	Management Board Member
Witold Walkowiak	Management Board Member (from 1 September 2003)

Supervisory Board composition

Jerzy Sablik*	Supervisory Board Chairman (until 13 July 2003)
Elżbieta Niebisz	Supervisory Board Deputy Chairwoman (until 30 June 2003)
Ernst Jansen	Supervisory Board Deputy Chairman
Agata Rowińska	Supervisory Board Deputy Chairwoman (from 15 July 2003) Supervisory Board Member (from 17 March 2003)
Maciej Bednarkiewicz	Supervisory Board Secretary
Dimitrios Contominas	Supervisory Board Member (from 23 January 2003)
Wojciech Dąbrowski	Supervisory Board Member
Arnold Hoevenaars	Supervisory Board Member (until 23 January 2003)
Jakub Kaliński	Supervisory Board Member
Bogusław Kott	Supervisory Board Member
Anita Ryng	Supervisory Board Member (from 30 June 2003)
Jan Szczęsny*	Supervisory Board Member (until 12 February 2003)

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

PZU Życie SA

Management Board composition

Bogusław Kasprzyk	CEO
Frederik Hoogerbrug	Deputy CEO
Jerzy Kochański	Deputy CEO

Supervisory Board composition

Andrzej Wieczorkiewicz	Supervisory Board Chairman
João Manso Neto	Supervisory Board Deputy Chairman (until 31 October 2003)
Joyce Deriga	Supervisory Board Deputy Chairwoman (from 31 October 2003 - previously a Supervisory Board Member)
Witold M. Góralski	Supervisory Board Secretary
Bolesław Samoliński	Supervisory Board Member
Ane Ate Sisjma	Supervisory Board Member (from 31 October 2003)
Marek Szmelter	Supervisory Board Member
Jerzy Tomaszewski	Supervisory Board Member

PTE PZU SA

Management Board composition

Jakub Tropiło	CEO
Dariusz Adamiuk	Deputy CEO (until 23 May 2003)
Manuel Waldemar Mendel Goncalves Duarte	Deputy CEO (until 1 July 2003)
Stanisław Rataj	Deputy CEO (from 1 July 2003)
Andrzej Sołdek	Deputy CEO (from 19 May 2003)

Supervisory Board composition

Waldemar Topiński	Supervisory Board Chairman (until 16 April 2003)
Stanisław Nieckarz	Supervisory Board Chairman (from 16 April 2003 - Supervisory Board Member from 5 March 2003 to 16 April 2003)
Zygmunt Kostkiewicz	Supervisory Board Deputy Chairman (until 31 January 2003)
Jerzy Kochański	Supervisory Board Deputy Chairman (from 14 March 2003)
Michał Górski	Supervisory Board Secretary (until 31 January 2003)
Paulina Pietkiewicz	Supervisory Board Secretary (from 14 March 2003)
Urszula Brochocka	Supervisory Board Member (until 16 April 2003)
Frederik Hoogerbrug	Supervisory Board Member (from 24 July 2003)
Władysław Jaworski	Supervisory Board Member (from 26 February 2003)
Piotr Kowalczewski	Supervisory Board Member
Jan Szachułowicz	Supervisory Board Member (until 26 February 2003)
Jan Szomburg	Supervisory Board Member (until 31 January 2003)
Janusz Zawiła-Niedźwiecki	Supervisory Board Member (until 31 January 2003)

Impact exerted by the macroeconomic situation on Poland's insurance market

After two years of stagnation during which the annual GDP growth rate did not exceed 1.5%, 2003 finally brought long-awaited economic revival. GDP in constant prices proved to be 3.8% higher than in 2002, clearly surpassing even the most optimistic of forecasts. The rejuvenation of economic activity was primarily the result of clear acceleration in the growth rate of domestic demand (2.4% as opposed to 0.4% in 2002), which was caused by the first growth in gross accumulation (1.8% as opposed to -6.8% in 2002) in three years and the pace of growth in consumption, which was slightly lower than in 2002 (2.5% as opposed to 2.8%). Accumulation rose, however, in comparison with 2002 as a result of higher inventories. In the meantime, the gross outlays for fixed assets fell for the third year in a row, although the extent of this decline was clearly smaller than in previous years. Net exports stated as a percentage of GDP growth were surprisingly high - they climbed to approximately 1.4 percentage points. Thanks to the structural changes in Poland's exports, far-reaching changes towards higher productivity and thanks to depreciation trends in the Polish zloty, Poland's exports grew very dynamically. Simultaneously, the growth rate of imports remained moderate. Faced with relatively moderate growth in domestic demand, Polish entrepreneurs producing for the domestic market skillfully utilized the favorable exchange rate conditions and increasingly more frequently beat international competition on the domestic market.

The economic recovery that started in 2003 is based on healthy macroeconomic fundamentals. Last year's current account deficit constituted the equivalent of just 2% of GDP, while mean annual inflation stood at a mere 0.8%. The process of growing public debt and the related dynamic growth in the public sector's borrowing needs are, however, cause for serious concern. The uncertainty surrounding the government's intentions towards the indispensable reforms in public expenditures precipitated a situation in which the prices of treasury bonds fell markedly at the end of 2003, while the zloty weakened to a level that had not been recorded in several years. Further uncontrolled growth in public debt poses the threat of a persistently high level of long-term interest rates, higher taxation and economic uncertainty. The absence of sufficiently decisive curtailment of public expenditures may therefore lead to a slowdown in economic growth in the long run. Notwithstanding that, the pace of economic growth in 2004 and 2005 will be more dynamic than in 2003.

The conditions for the development of the insurance sector have therefore clearly improved in comparison with 2002. This improvement will not begin to be more noticeable until 2004 when the positive trends in the economy initiated in 2003 should exert a greater impact on the standing of households, while the conviction expressed by consumers and businesses about the sustainability of the recovery will become stronger.

Many factors indicate that this is precisely what happened in the second half of 2003. Industrial output in the final quarter of last year advanced dynamically. The indicators of market conditions in the manufacturing industry attained a level comparable to the period of the most dynamic economic growth to date in 1997. Conditions for investment growth were fulfilled: the outlook for economic growth is solid and firms have accumulated extensive financial resources on their bank accounts having recorded markedly higher profits than last year. Even though the capital expenditures for fixed assets continued to decline across the economy in 2003, the investment expenditures in manufacturing industry enterprises, especially the investments made by exporters who strongly expanded their output, grew considerably. The very high pace of mortgage loan growth merits attention as this portends an improvement in the market conditions in housing construction.

A critical factor that may strengthen the growth in consumption, including the demand for insurance services is the improvement of the situation on the labor market. Although employment in the company sector continued to fall up to the end of 2003, albeit more slowly than one year earlier, the situation nevertheless looks less pessimistic if one also takes into consideration employment outside the company sector (services, administration). Unemployment is no longer on the rise. The registered unemployment rate in December 2003 (20.5%) was the same as one year ago. Despite the ongoing lack of improvement in the standing on the labor market, the real income on labor grew in 2003. Since August 2003, a trend towards salary growth in companies has been present. Companies' profits were on the rise, productivity in industry in 2003 was approximately 12% higher than in 2002. In these conditions companies could allow themselves to show their appreciation for the efforts of their employees and increase the pace of salary growth. Wages also grew markedly throughout the economy (their gross nominal growth amounted to approximately 4.9% in 2003). Disposable household income, which was higher than in 2002 was also supplemented by relatively strongly growing social benefits.

The growth in individual consumption has remained steady since 3Q 2003 at a relatively high level (3.5% - 3.9% p.a.). This also applies to the added value in the market services sector (4.2% - 4.6% yoy). Retail sales clearly grew throughout 2003 (7.9% as opposed to 3.1% in 2002), where over time its growth rate demonstrated a manifestly upward trend. The sales of motor vehicles, motorcycles and parts expanded by 14.7%, which is very important for the insurance market. One year earlier, a 3.5% decline had been recorded. These data may indicate that the financial standing of households is better and that the inclination towards consumption is higher than the officially available data on employment and salaries show. Income generated in the economy's "gray zone" probably filled this gap in part. In 2003, growing consumption was also financed by a decline in household savings.

The growth in inflationary expectations linked to Poland's accession to the European Union partially contributed to the acceleration in the pace of retail sales growth, especially at the end of 2003. At present, it would be hard to predict to what extent EU accession will constitute a factor that will permanently embolden the Poles to expand consumption.

2003 also brought material changes in the determinants for the investment activity of insurance companies, pension funds and mutual funds. Up to June, inclusively, the Monetary Policy Board cut the NBP reference rate six times by a total of 150 basis points. The cuts made by the Monetary Policy Board were accompanied by a decline in the market interest rates, which adversely affected the interest income realized by insurance institutions on assets invested in interest-bearing instruments, though this did make it possible to enhance the profits on fixed-coupon debt papers purchased earlier. In July 2003, the upward trend in the prices of treasury bonds that had been uninterrupted since 2001 came to an end. To that time, this trend had provided investors with extensive and relatively certain gains. A number of factors contributed to this situation. The market ceased to accept rapid growth in the public debt, the budget's borrowing needs and the large scale of debt issuance faced with the uncertain outlook for remedying public finance in Poland. The conviction shared by investors that Poland will enter the Euro zone quickly was debilitated. Political risk became more pronounced. The acceleration in economic growth in Poland also elicited the perspective of higher inflation. The Monetary Policy Board ceased to cut interest rates while at the end of the year the players on the financial markets started to acknowledge that despite the expectations the new Monetary Policy Board will not be inclined to cut rates. The events on the Polish financial market were at the same time a part of the processes underway on the global financial market. At the same time, the yields on foreign bonds were also on the rise.

These processes precipitated a relative decline in the yield on the bond portfolios in which insurance companies invest most of their assets. Concurrently, these processes contributed to a higher yield on new investments. At the same time, in 2003, after three years of poor market conditions on the equity market, the prices of equities listed on the Warsaw Stock Exchange grew strongly. The dynamic changes in the situation on the financial markets in 2003 required asset managers to take special efforts to generate satisfactory results on their investment activity. In connection with Poland's EU access, the interest in investing assets in our country is on the rise. Investors perceive the clear improvement in the "macroeconomic fundamentals" and in the Polish economy, they see the potential for the zloty's appreciation but they cannot, however, ignore the risk of further decline in the prices of treasury bonds if the indispensable reforms in public finance are not implemented. On the other hand, European Union accession and the related changes in regulations will enlarge the scope of investment opportunities available to native entities.

PAWEŁ DURJASZ
Chief Analyst of PZU SA

PZU Group and its market position

The insurance market is the PZU Group's core area of activity. At the end of 3Q 2003, 74 domestic insurance companies and three main branches of foreign insurance companies held a permit issued by the Finance Minister to conduct insurance activity in Poland, including:

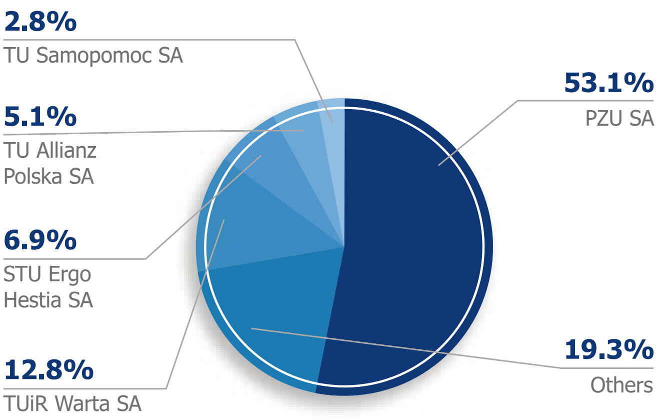
- 36 life insurance companies, including one main branch of a foreign life insurance company,
- 41 property and casualty insurance companies, including one with a permit from the Finance Minister that is not conducting operational activity and two main branches of foreign property and casualty insurance companies.

16 pension fund companies conducted operations on the open-end pension fund market.

According to preliminary estimates, the market share held by PZU SA and PZU Życie SA at the end of 2003 declined in terms of gross written premium by roughly 3.2 percentage points in comparison with the previous year (PZU SA's share of the property and casualty insurance market fell by approximately 2.7 percentage points while PZU Życie SA's share of the life insurance market decreased by roughly 3.6 percentage points).

The gross written premium collected by PZU SA in 2003 constituted 53.1% of the premiums collected by all the non-life insurance companies, which signifies a drop in market share by 2.7 percentage points in comparison with the same period in 2002. TUiR Warta SA, the second largest insurance company in terms of gross written premium also reduced its market share from 13.2% in 2002 to 12.8% in 2003. The decline in PZU SA's market share was primarily the result of having a higher percentage of older cars in the motor insurance portfolio than in other insurance companies.

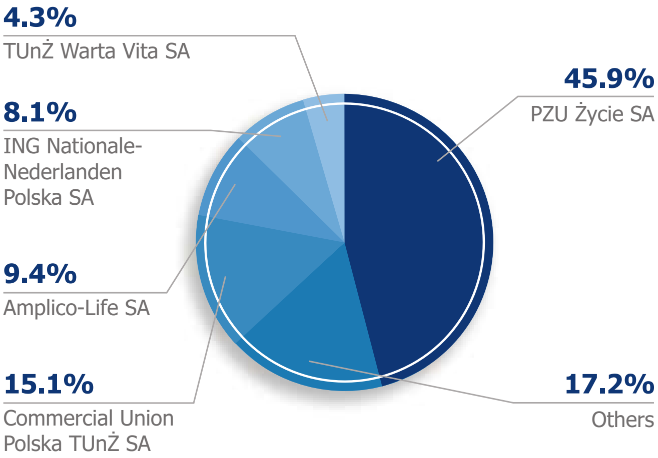
Structure of the insurance market in section 2 - property and casualty insurance



the future

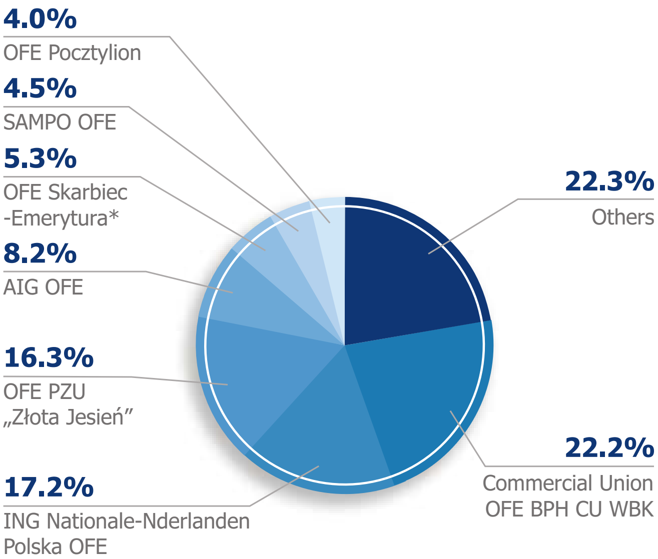
We believe in new
technologies.
We are investing in the future.
A modern information
technology system
will give us and our customers
new opportunities
for cooperation.

Structure of the insurance market in section 1 - life insurance



Pension fund market by number of fund members

(as at 31 December 2003)



* Including the number of fund members from those open-end pension funds that were merged with given open-end pension funds as a result of consolidation.

PZU Życie SA retained its dominant position on the life insurance market not only in terms of gross written premium (45.9%, but 53.6% after deducting the premium generated in bancassurance and inward reinsurance) but also in terms of claims paid (PLN 3.2 billion). This proves that the Company discharges its obligations towards clients in model fashion. PZU Życie SA is constantly growing the value of assets under management. The Company's assets at the end of 2003 amounted to nearly PLN 20 billion. This is an absolute record on the Polish insurance market.

The market share of OFE PZU "Złota Jesień" in the pension fund market at the end of 2003, measured by the number of fund members was 16.3%, which allowed it to take third place. This means that there was no change with respect to last year. The fund's net assets as at 31 December 2003 amounted to PLN 6 272.65 million.

Commercial Union OFE BPH CU WBK holds the leadership position with a market share of 22.2% - it's market share fell by 0.4 percentage points. ING Nationale-Nederlanden Polska OFE is the second largest pension fund in terms of the number of fund members with a market share of 17.2%, representing growth of 0.5 percentage points over 2002.

In 2003, the open-end mutual funds managed by TFI PZU SA generated very positive performance once again. The PZU Krakowiak Equity Fund generated annual growth in the value of the participation unit equal to 25.76%. This was the best annual investment performance in this fund's history.

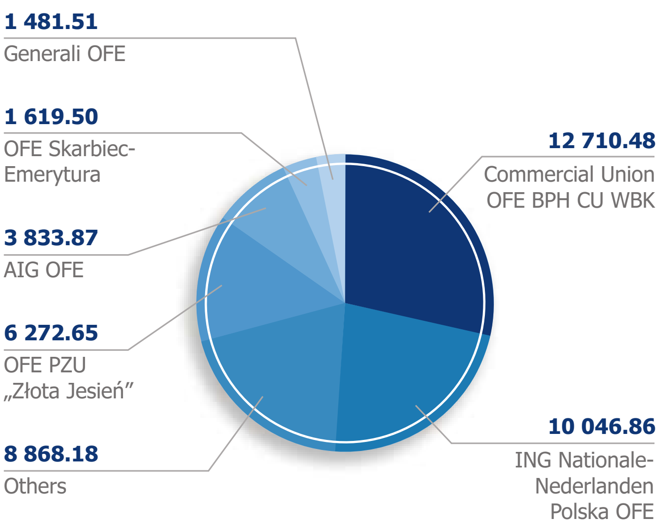
The PZU Mazurek Stable Growth Fund also achieved its investment objective. The 10.4% yield generated in 2003 means that an investment in this fund's participation units ensured stable growth in the participation unit's value in accordance with the declared objective and the investment policy described in the fund's articles of association. It considerably outpaced the result that could have been generated on an investment with the level of risk characteristic for debt instruments.

The changes in the market interest rates exerted a fundamental influence on the management results of the PZU Polonez Debt Paper Fund. The 2.63% yield generated by the PZU Polonez Debt Paper Fund meets with a positive assessment. This result gave the PZU Polonez Debt Paper Fund seventh place among the peer group of 19 comparable debt paper funds.

2003 was a year of major modifications in the product offering of the funds. They entailed expanding the availability of participation units while marketing different types of participation units: types A, D, E and I, which vary primarily by the amount of distribution fees and management fees.

It is possible to create any product structure for an end-user based on the existing mutual funds. The mutual fund company has prepared a flexible offer in the form of savings programs and employee pension programs and it potentially intends to support their creation in the form of employee pension

Pension fund market by assets
(as at 31 December 2003
in millions of PLN)



fund companies. Actions to enlarge the distribution network by including insurance agents are being continued as TFI PZU SA's investment offer is complementary to the PZU Group's insurance products.

Operations of the PZU Group companies in 2003

The objectives of the PZU Group's activity in 2003 were primarily to retain its leading position on the Polish financial and insurance service market, grow the company's value and generate positive financial results.

The priority for PZU SA was to retain current clients and acquire new clients. To this end, work was undertaken to enhance existing distribution channels and introduce new ones. The Company developed new forms of communicating with the customer.

PZU Życie SA's activity in 2003 was focused on generating results ensuring its leadership position on the life insurance market and reorganizing business processes to enhance operational performance.

The actions taken by the PZU Group's Management Boards in 2003 concentrated on the following principal directions:

- working on the PZU Group's strategy for 2003-2008,
- preparing to select a vendor and to implement an integrated information technology system for the PZU Group,
- preparing for the entry into force of the new insurance activity regulations and for developing core business,
- conducting image-related actions associated with the celebration of the bicentennial of insurance on Polish soil.

Material factors affecting the PZU Group's operation in 2003

In 2003, the following factors exerted the largest impact on the operations of the PZU Group companies:

- the recovery observed in the Polish economy in the first half of the year contributed to some slight improvement in the growth rate of selling insurance; consequently, there was a slight increase in the pace of the premium growth rate compared to 2002,
- the competition between insurers continued to become fiercer, which curtailed the pace of growth in the gross written premium,
- the interest rate decline contributed to growth in the level of unrealized investment income, which was linked to the structure of the investment portfolio,
- the delays in the transfer of contributions by the ZUS Social Security Company to the open-end pension funds continued to accumulate, which exerted an indirect influence on PTE PZU SA's financial results,
- the changes in the insurance activity regulations came into force, which meant that pertinent adaptation work had to be conducted: on 15 Oc-

tober 2003 the amended Act on the Organization and Operation of Pension Funds took force, which entailed a split of the funds from the reserve account, whereby the Company's results and net assets as at 31 December 2003 increased,
- the subsequent phases of the PZU Group's strategy were executed; its objective is to implement the Assumptions of the PZU Group's Strategy in its individual areas defined by the parties as strategic on the basis of the agreement between the Management Boards of PZU SA, PZU Życie SA, TFI PZU SA and PTE PZU SA.,
- PZU Życie SA continued the process of converting type P group employee insurance agreements from agreements concluded for an indefinite term into agreements concluded for a specified term. The effect of truncating the term of liability is reducing the liabilities resulting from the insurance coverage afforded on the agreements subject to conversion and reducing the level of required shareholder funds,
- work on special projects was continued concerning, inter alia, claims handling centralization in PZU SA, enhancing sales performance and computerization of the PZU Group,
- reinsurance treaties continued to undergo restructuring in connection with the more stringent requirements imposed by reinsurers with respect to the terms and conditions of the reinsurance coverage provided on the one hand and with the gradual curtailment of cessions in proportional treaties and the planned abandonment of proportional treaties in favor of nonproportional treaties on the other hand.

Strategic projects

During the year work was continued on special projects encompassing all the areas of the Group's activity. In sales, work was launched in the sales strategy project, which aims to fit the sales organization to discrete market segments. Work on bancassurance was continued. This work entails creating insurance products that will be offered to clients via the sales networks of banks while providing customers with comprehensive service in the field of financial services. Preparations were also in progress for an assurefinance activity project.

In claims handling the work to centralize claims handling was continued, primarily in the area of launching the Telepomoc call center assistance service across the nation, creating a network of repair shops, establishing the company called PZU Assistance, creating a physician network and limiting insurance fraud.

In the area of the Company's finance, project work concentrated, inter alia, on implementing Oracle Financials in the Head Office, launching the operations of PZU Asset Management SA, which specializes in asset management and implementing a pilot program linked to the cash management project, which aims at optimizing cash flow.

Computerization

The main direction of action in the field of information technology in 2003 was to conduct the work associated with the process of selecting a new information technology system for the PZU Group.

Within the realm of these actions, a tender was announced and then a partner was selected for negotiations on building the Integrated Information Technology System (ZSI) for the PZU Group.

The negotiations and the subsequent signing of the framework agreement with the partners selected in the multi-phase tender: Prokom Software SA and CSC Polska Sp. z o.o. formed the beginning of the program to modernize the PZU Group's IT system. To date, the firm has approximately 200 different applications in operation to administer insurance. Building a cohesive IT architecture will make it possible to mold PZU's offer flexibly, it will improve the speed and quality of customer service while streamlining sales processes. The new IT system will enable the company to solidify its position as the leader on the insurance market. On account of the extent and complexity of this project and the multiple-phase method of execution, the negotiated agreement is a framework agreement. It specifies the rules and the terms and conditions for CSC and Prokom to render the services associated with building the Integrated IT System on the basis of later specific agreements, including: pre-implementation analysis, development, implementation and integration of the ZSI software components, training, maintenance and ZSI software development and delivery, integration and maintenance of ZSI infrastructure.

This agreement envisages that the first stage of construction encompassing the implementation and integration of the following software: Exceed, GraphTalk, Central Database, Oracle Financials and Oracle HR ZSI will take two to three years.

In the area of developing and modernizing legacy systems, work was conducted to customize the operating area of the inspectorates to the administrative boundaries of counties, the IT systems were customized to meet the requirements of the new insurance law, the construction of the Central System on Recourse Claims and Receivables was launched and the Central Claims Handling System was designed.

During the year, work was also conducted on developing the data warehouse, an IT tool required to distribute information and to analyze data in the Company.

Sales and the product offering

The PZU Group has the most developed sales network on the Polish insurance market. In 2003, PZU SA offered insurance products through a network of 14 district branches and 1 694 agencies and inspectorates. 7 037 tied agents, 2 283 multi-agents and 729 permanent representatives sold the non-life company's insurance. 2 157 insurance brokers cooperated with PZU SA.

The insurance offered by PZU Życie SA is available in 380 outlets across Poland. It may be purchased via 3 889 tied agents and nearly 200 insurance brokers and multi-agencies.

In 2003, work was launched to prepare a new sales strategy whose primary element is above all:

- to define the market segments which the PZU Group companies would like to penetrate,
- to specify the areas of the market on which the Company's position is stable or at risk.

Product, marketing and sales strategies will be customized to these discrete segments to fit the sales organization to the specific segments and to increase the firm's activity in the segments and products recognized as having the best growth outlook in the future.

In the work to develop the distribution channels, bancassurance activities were continued with Bank Millennium. This Bank's product offering includes eight insurance products prepared by PZU Życie SA and PZU SA.

In September 2003 the PZU Group established bancassurance cooperation with PKO BP SA, the largest retail bank in the nation. Three insurance products were inserted in PKO BP SA's product offering: two from PZU SA and one from PZU Życie SA.

Actions associated with launching "alternative channels" accompanied the support given to traditional sales channels by establishing cooperation with web-based Bank Inteligo. Web-based sales of selected insurance products commenced in November: apartment insurance and Assistance Tourist. There are plans to expand this insurance offer in the future.

Work was also commenced in connection with launching the PZU Group's information line whose main task will be to obtain customers' personal data and forward them to the geographically suitable inspectorates for the purpose of providing information to agents about customer interest in purchasing insurance.

2003 was also another year in which the Company's insurance offer underwent development. The primary objective was to conduct actions to develop the comprehensiveness of the service offer. Another priority was to enrich the offer with new products and to modify the current products to customize them to customers' changing needs and to the requirements of the new distribution channels.

Within the framework of these actions taken during the year, new insurance was introduced to the product offering:

- contractors' plant and machinery insurance,
- Bezpieczny Rowerzysta comprehensive insurance for bicyclists,
- credit repayment insurance in the event of job loss,
- mortgage loan insurance until the mortgage is instituted,
- business interruption insurance with the extra expense form,

the general terms and conditions of insurance and premium rates were modified on the following:

- motor own damage insurance,
- accident insurance for members of volunteer fire departments and youth fire fighting teams,
- Wojażer Bis travel insurance,
- TPL insurance for physicians, other medical profession employees and health care units,
- TPL insurance for pharmacists and druggists,

the premium rates were modified for the following:

- compulsory insurance of farm buildings for fire and other acts of God,
- compulsory TPL insurance for farm owners,
- motor TPL insurance.

Within the framework of customizing the product offer to the new insurance law, the general terms and conditions of insurance in 80 insurance products were modified over the course of the year, including:

- casualty and tourist insurance,
- engineering and transportation insurance,
- property insurance for the population,
- motor insurance,
- business property insurance and for loss of profits,
- TPL insurance
- insurance for notaries on financial losses connected to discharging the function of payer of public performances and the premium rates for that insurance,

- voluntary farm building insurance on fire and other acts of God,
- loss of profit insurance on fire and other natural occurrences,
- property insurance on fire and other natural occurrences,
- Wojażer travel insurance,

the prevailing premium rates were modified:
- air risk insurance and comprehensive ocean marine yacht insurance,
- small business insurance for account holders in BIG Bank Gdański SA,

new products were developed in connection with the change in the qualification from voluntary insurance to compulsory insurance and from compulsory insurance to voluntary insurance and new insurance printed forms were developed.

PZU Życie SA's network acquired more than 79 thousand of the 108 thousand new fund members in OFE PZU "Złota Jesień". The company's actual performance of the annual sales target for pension insurance was 134.1%.

Claims handling

In 2003, the next stage of the claims handling reform at PZU SA was implemented. It entailed amassing substantive claims handling in selected field units. The primary assumption of the changes to the claims handling organization is to shift the claims handling process from the "smaller" inspectorates to the "larger" inspectorates. Claims handling teams have been formed in 68 "larger" inspectorates. The teams and the Claims Handling and Risk Assessment Centers located in all the district branches which have enlarged their area of activity to include the adjacent inspectorates have taken over substantive claims handling for motor, property and casualty losses in the country.

Within the framework of the work to enhance the quality of customer service and to streamline the claims handling process, the rules for establishing and managing the Repair Network, i.e. the repair shops, the spare parts vendors and the towing network cooperating with PZU SA in the area of motor claims handling were developed. Work was also undertaken on a draft sales procedure via web-based auctions applicable to cars forming the subject matter of losses. This project aims at cutting the costs of dealing in damaged salvage property by altering the current rules for taking ownership of, and managing, vehicles; in accordance with the fundamental assumptions of the draft procedure, PZU SA would not acquire the ownership of a vehicle but the entity winning the auction would effect the purchase directly from the injured party.

A physician network has been prepared and implemented in PZU SA and PZU Życie SA to enhance the quality of service and to reduce the duration of claims handling on TPL and dismemberment insurance. The actions that have been taken aimed to unify the organization in both companies to cooperate with physicians issuing rulings, the rules for making rulings on dismemberment and to curtail possible growth in indemnification disbursements.

A lot of work associated with adjusting activity to the regulations resulting from the introduction of the bundle of new insurance laws was conducted during the year in the claims handling area, including, inter alia, the replacement of a large percentage of the printed forms used in the claims handling process and the development of new procedures to shorten the duration of claims handling and to standardize the claims handling process. Work was started to appoint loss representatives.

Investment activity

The PZU Group's investment activity in 2003 was conducted in accordance with the insurance regulations and the rules established by the PZU Group's Asset and Liability Management Committee (ALCO) to ensure the highest possible degree of safety and profitability while maintaining the liquidity of assets.

During the year a number of regulations concerning the conduct of investment activity were introduced, including the rules for Investing financial resources in equities and ownership interests, the investment activity and investment activity risk assessment by-laws, which comprehensively describe the Company's investment activity rules and the methods for curtailing liquidity risk at PZU SA, where the liquidity management issue was regulated on the basis of the standards in force in financial institutions.

Over the 12 months of 2003, PZU SA's investments, just as in previous years, primarily encompassed securities issued by the State Treasury, i.e. treasury bills and bonds, which at the end of 2003 constituted 83% of the value of PZU SA's investment portfolio as opposed to 87.5% in 2002. However, in 2003, the relative percentages in the composition of the treasuries portfolio reversed to the benefit of treasury bills, whose share at the end of 2002 stood at 1% of the total balance of investments as opposed to 9% in 2003. The percentage of equities listed on the Warsaw Stock Exchange also moved upwards from 4% to 8%, respectively. The percentages of the other types of investments in the portfolio composition did not change materially.

The yield on the portfolio of treasury securities in PZU SA's possession amounted to 10.8% in 2003, while the yield on the portfolio of listed equities, with the exception of the shares of Bank Handlowy w Warszawie SA, was 26%.

At PZU Życie SA, just like at PZU SA, the main area of investment activity in 2003 was the debt treasury market. The attractiveness of these instruments primarily resulted from the level of safety of these types of investments and from treating this instrument as a natural security for the Company's commitments.

In 2003 PZU Życie SA followed an investment strategy whose objective was to match the assets to the existing structure of liabilities resulting from the concluded insurance agreements, both in terms of cash flow and interest rate risk.

At the end of 2003, the percentage of debt instruments at PZU Życie SA main portfolio amounted to 88.93%. The yield on the treasury security portfolio was 7.76% in 2003. This yield was calculated by compounding the daily yields from 1 January 2003 to 31 December 2003. In 2003, PZU Życie SA followed the guidelines prescribed by the Management Board based on the recommendations given by the PZU Group's Asset and Liability Mana-

growth

PZU is worthy of being chosen as a partner in insurance matters. Our leading market position and many years of experience form a guarantee of safe growth.

gement Committee concerning the amount of exposure in a given type of investment and the risk parameters associated with this portfolio. The execution of these guidelines meant that in the first half of the year securities with a long term to maturity were purchased, especially five and ten-year bonds while in the second half of the year, on account of the growth in investment risk, instruments with shorter terms to maturity were purchased, mostly two-year bonds and treasury bills.

The PZU Życie SA's activity on the equity market was much greater than in recent years, which resulted from the very good market conditions on the Warsaw Stock Exchange. The percentage of listed equities in PZU Życie SA's main portfolio climbed from 5.17% to 6.82%. This growth was not only the result of purchasing equities but also of the appreciation in the portfolio's market value.

In 2003, PZU Życie SA modified its internal regulations concerning the management of investment risk on investments in debt securities and mortgage-backed securities. Throughout the year work was in progress on internal regulations concerning derivatives. The objective of these modifications was to open the opportunities for investment in different financial market segments and to hedge cash positions against interest rate risk and equity price risk.

Reinsurance

PZU SA's reinsurance activity in 2003 concentrated mostly on safeguarding the results of the various insurance groups featuring a high loss ratio or at risk of catastrophic losses. The reinsurance program in outward reinsurance consisted of eight obligatory treaties and approximately 100 facultative reinsurance treaties.

During the year the process of withdrawing from proportional treaties used thus far in favor of non-proportional treaties was continued as the latter are more price-friendly and constitute better protection against the effects of major losses. In connection with the favorable technical results of the farm insurance group, we withdrew from renewing the quota share farm reinsurance treaty; at the same time, work was undertaken to create alternative reinsurance coverage aiming at developing an optimum program hedging the risk of volatility in the results of the pertinent insurance groups.

In 2003, work was continued on the accumulation and management of the risk of catastrophic losses, primarily by doing the following:

- generating information about the frequency and extent of the losses occurring as a result of natural catastrophes,
- defining the areas that should be acknowledged as being at risk of catastrophic losses,
- assessing the possibilities of making changes in the direct underwriting policy,
- possibly expanding the insurance offer while making it more flexible,
- construing effective reinsurance programs protecting the Company against catastrophic losses in alignment with the scale and location of the perils and the portfolio's potential.

Within the framework of the work adjusting PZU SA's activity to the new insurance law in the field of reinsurance, actions were undertaken to develop the assumptions for a new reinsurance treaty protecting the motor insurance portfolio, namely, domestic and international motor TPL. Work was also done to develop information technology systems supporting the Company's activity, including, inter alia, a module to administer settlements with reinsurers and a register of reinsurance treaties for the requirements of the new accountancy act and a register of the reinsurance treaties for the purpose of sending notifications to the Polish Securities and Exchange Commission.

In the area of inward reinsurance, just as in previous years, the Company primarily supported domestic insurance companies, mostly with facultative reinsurance. At the same time, PZU SA participated as a reinsurer in several international inward reinsurance treaties. Within the scope of cooperation with UAK DK Lindra, a Lithuanian insurance company, a bundled solution was prepared and implemented to provide reinsurance assistance to the Lithuanian company in its insurance policy. Clauses guaranteeing reinsurance protection for the facultative risks accepted for reinsurance by PZU SA from Lindra were introduced to some reinsurance treaties.

PZU Życie SA does not conduct inward reinsurance or retrocession activity. The Company is a party to two outward reinsurance treaties.

Organization and staff

In 2003, PZU SA's organizational structure encompassed the Head Office, 14 District Branches, 350 Inspectorates (including 100 leading inspectorates) and 27 Sub-inspectorates.

In PZU Życie SA, in addition to the Head Office, the structure has 26 Branches and the Insurance Service Center in Warsaw.

Over the year, work associated with territorial reform at PZU SA was continued. Its purpose is to adjust the operating area of the inspectorates to the administrative boundaries of the counties, and in the future, to integrate the PZU SA and PZU Życie SA operating units. Within the framework of rationalizing the field structure organization, work was also conducted to merge inspectorates in a single city and to transform small inspectorates into sub-inspectorates.

Activity in 2003 was conducted with an average headcount of 11 216 full-time equivalents (in 2002, the average headcount was 11 214 full-time equivalents).

For the purpose of ongoing skills improvement, a number of training sessions was organized during the year, including, inter alia, training on the changes to the insurance laws for the Company's top management and for claims handlers, training for claims handlers on the techniques for repairing motor vehicles and training for information line employees. A series of training sessions for internal trainers was also launched on sales and claims handling techniques.

In 2003, many years of negotiations came to a conclusion and the new collective bargaining agreement with the trade unions was signed to specify the terms and conditions of employment and to simplify and unify the salary system. The labor bylaws and bylaws on managing the assets of the Company's social benefits fund were also introduced. Work was recommenced on the principles for organizing and financing an employee pension program at PZU SA.

In 2003, the headcount at PZU Życie SA fell by 58.1 full-time equivalents from 4 161.6 full-time equivalents (as at 31 December 2002) to 4 103.5 full-time equivalents (as at 31 December 2003). In 2003, the Staff Selection and Employment Procedure was prepared and implemented in PZU Życie SA, which regulates the recruitment process and names the persons responsible for the individual stages thereof. The purpose of introducing the procedure is to increase the effectiveness of the recruiting processes conducted at PZU Życie SA and consequently to cut costs.

PZU SA's investment in Lithuania

In 2003, the PZU Group continued the process of strengthening its position in the Central and Eastern European region. Work was initiated for PZU SA to subscribe all the shares in the UAB DK Lindra insurance company in which PZU SA has held 75.3% of the share capital since 2002. The project of buying an insurance company (life and non-life) from Norddeutsche Landesbank was also commenced. This project was successfully completed in 2004. PZU SA's objective is to secure access to a new group of clients associated with the bank and to offer bancassurance products to all its customers. The two companies will be merged.

UAB DK Lindra's share in the non-life insurance market measured by gross written premium at the end of 2003 amounted to 8.9%, i.e. 1.6 percentage points higher than in 2002. In 2003, the gross written premium at UAB DK Lindra was LTL 65.6 million, which represented more than 48% growth over the previous year while the Lithuanian market as a whole fell by 0.1%. According to this ratio, UAB DK Lindra is in third place on the market. The Company closed 2003 with a net loss of slightly less than LTL 1.5 million.

UAB DK Lindra offered 43 insurance products, among which motor own damage and motor TPL held the largest percentage of the portfolio. The Company employs more than 314 people and cooperates with more than one thousand insurance agents. The field network consists of nine branches in all of Lithuania's largest cities, 44 agencies and 10 outlets on the frontier.

One of UAB DK Lindra's largest investments is the investment in the shares of its subsidiary UAB Lindra Gyvybës Draudimas (Lindra Life). On 31 December 2003, the share capital of UAB Lindra Gyvybës Draudimas was LTL 5 million. UAB DK Lindra holds 98.81% of the subsidiary's shares. The daughter company established in 1996 offers life insurance. In 2003, it became the first company in Lithuania to secure a license to sell group life insurance policies and it began to sell this product. At the end of 2003, it began to offer pension fund management services. In 2003, UAB Lindra Gyvybës Draudimas generated a gross written premium of LTL 1.3 million, which was 19.3% higher than in 2002. In 2003, UAB DK Lindra also bought back the majority of the daughter company's shares from the minority investors. In 2003, the Company generated a loss of LTL 0.5 million.

Prevention

Pursuant to article 49 of the Insurance Activity Act (Journal of Laws, Number 11/96 uniform text), the prevention fund is formed by taking a charge against net written premium. Every year the PZU SA and PZU Życie SA Management Boards make their decision about the amount of this charge for the benefit of the prevention fund.

In the area of prevention, PZU SA conducted a number of actions in 2003 aiming at diminishing the loss ratio and bolstering the Company's image.

One of the most important prevention projects was: "Plaża + Zdrowie + Uśmiech. Nad wodą bezpiecznie" (Beach + Health + Smile. Safe on the water), in other words "Bezpieczne lato z PZU" (A safe summer with PZU). The objective of this campaign organized by PZU SA and PZU Życie SA was to enhance the safety of children and youth in seaside areas by doing the following:

- increasing the awareness of the dangers that exist when recreating on water,
- propagating knowledge on how to avoid potential threats,
- enhancing safety in swimming areas by introducing and instilling a water safety standard in the seaside townships as well as by creating a map of dangerous sites.

This campaign addressed persons recreating in seaside communities and local self-governments whose task is to safeguard beaches and swimming areas.

PZU SA also supported Fundacja Aktywnej Rehabilitacji (FAR - Active Rehabilitation Foundation). The Company awarded a grant to the Foundation on the basis of a long-term agreement under the program entitled "Activity for All". This program, among other things, encompasses the organization of rehabilitation camps, continuous active rehabilitation classes with elements of functional therapy, social and professional adjustment giving consideration to the re-training needs of persons injured in accidents, dissemination of various forms of physical activity among handicapped people, organization of training sessions and courses for families, guardians, medical personnel and social workers acting for the benefit of this group of people and the organization of domestic and international athletic events.

Subsidies to the Fire Service constitute a major part of PZU SA's prevention budget. In 2003 the PZU SA awarded PLN 5 million to the Volunteer Fire Service. It also awarded the same amount to the State Fire Service to purchase 145 light rescue vehicles and fire engines for the purpose of providing rescue services on the roadways.

In 2003, PZU Życie SA designated approximately PLN 7.5 million for prevention activity. The recipients included hospitals and health promotion foundations such as the Medical Academy's Silesian Electrocardiology Clinic, the Warsaw Medical Academy's Health Science Faculty and the Friends of the Litewska Street's Children's Hospital Foundation. Organizations focusing on improving public safety such as the Marine Rescue Service Training Center also received financial support. Furthermore, PZU SA and PZU Życie SA supported the activity of the PZU Charitable Foundation, which assists people who are ill and suffering or come from poor families, but especially children.

Sponsoring and advertising activity

The primary objective of the advertising activities in 2003 was to introduce the brand's new image. The celebration of the bicentennial of insurance on Polish soil organized by the PZU Group companies was a prime opportunity to do that.

“We are changing for you" was the title of the image advertising campaign whose assumption was to address this message to the broadest possible group of recipients. This campaign was divided into two stages. The first stage conducted under the slogan "What is your history?" entailed promulgating information that PZU is a firm, which understands its customers. It wants to get to know them as best as possible in order to customize its offer to their needs. The second stage was conducted under the slogan "Because you are important". The campaign's objective was to communicate to the customers that PZU knows their needs, knows that these needs are changing and that their requirements are constantly growing.

In the period from December 2003 to January 2004, an advertising campaign was conducted to promote PZU SA's core insurance product, namely, motor insurance. The campaign made reference to the slogan "Because you are important". Its purpose was to turn clients' attention to the benefits associated with concluding motor insurance.

In sponsoring in 2003, PZU SA continued its strategy of supporting national culture and athletics. In executing this strategy, PZU SA once again extended its patronage to the most important historical buildings: the Royal Castle in Warsaw, the Wawel Royal Castle, the Wilanów Palace and the Artus Manor in Gdańsk.

The second annual Four Culture Dialog Festival in Łódź was an important cultural event in which PZU SA was involved. 40 prestigious events portraying the accomplishments of musicians, actors and graphic artists from Poland, Israel, Germany and Russia lent shape to this festival.

Moreover, PZU SA supported the production of Anna Maria Jopek's album entitled "Farat", which summarizes five years of her artistic work. It also sponsored exhibitions: Jan Wołek's exhibition entitled "My Beloved Normalcy" and Bruno Schulz's "Republic of Dreams".

Similarly, just as in previous years, PZU SA was involved in sponsoring athletics. By the power of long-term agreements, the following teams were sponsored: women's basketball - PZU Polfa Pabianice, men's volleyball: PZU AZS Olsztyn and the Professional Cycling Group Lotto-PZU SA whose leading female athlete won the award "Athlete of the Year in 2003". The athletes from Group Lotto-PZU SA garnered six gold and two silver medals at the Polish Championships. In turn, the volleyball players from PZU AZS Olsztyn took fifth place in the 2002/2003 playoffs in the Polish Volleyball League, while they took second place in the 2003/2004 season.

Bicentennial celebration

2003 was the year of the bicentennial celebration of insurance on Polish soil. This jubilee was an opportunity to promote PZU's new image. A number of projects were organized during the bicentennial, including an image advertising campaign, jubilee galas for key clients featuring the artistic program developed by Krzesimir Dębski.

The jubilee was an opportunity to publish an historical album depicting the development of insurance from 1803 to the present. PZU published this album entitled "200 years of insurance" in cooperation with the Ośrodek Karta Foundation. It presents the history of insurance against the background of Poland's history. In addition to the unique pictures and graphics, this album includes the memoirs of people associated with insurance.

A number of social and charitable actions were taken in conjunction with the bicentennial celebration of insurance. Among them, rehabilitation equipment was given to Poland's largest specialist Comprehensive Rehabilitation and Children's Orthopedic Hospital in Busko-Zdrój.

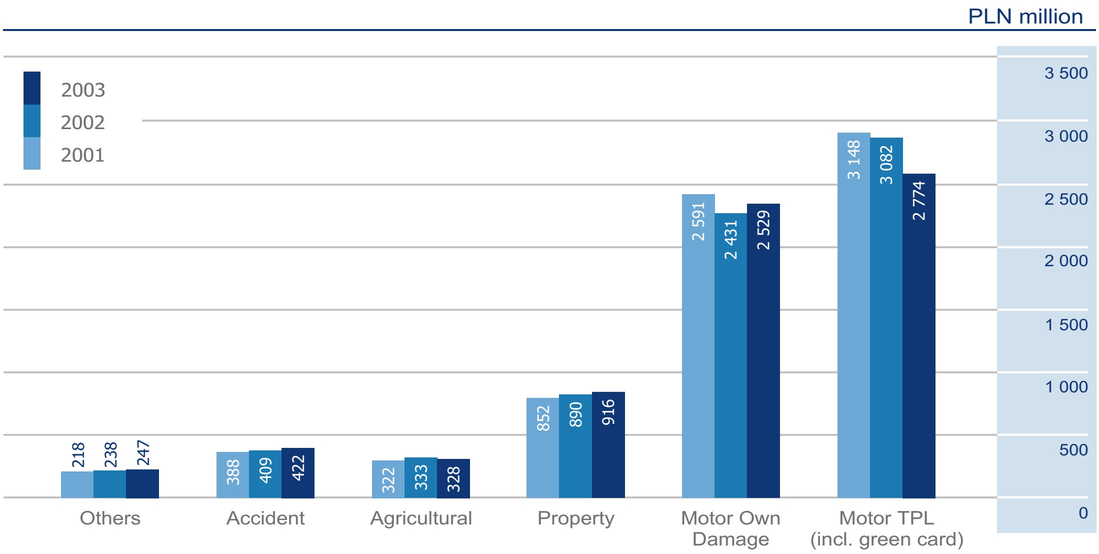
PZU Group's financial results in 2003

Gross written premium

The gross written premium on life and property and casualty insurance after giving consideration to the consolidation adjustments amounted to PLN 12 346.5 million, which is 0.5% higher than last year's results on the same, of which the gross written premium on property and casualty insurance was PLN 7 219.1 million (a 2.3% decline), while the gross written premium on life insurance was PLN 5 127.4 million (a 4.7% increase).

PZU SA's gross written premium on direct insurance was PLN 7 214.7 million, which was 2.3% lower than the gross written premium in 2002. The lower gross written premium was primarily a consequence of the considerably lower premium collection on compulsory motor TPL insurance representing (jointly with Green Card) 38.4% of the premium portfolio and the lower gross written premium on compulsory agricultural insurance. The reduction in motor insurance premiums was linked inter alia to the noticeable constriction of this part of the market. The total number of TPL policies fell over the 12 months of 2003 in comparison to the same period in the previous year by more than 6% - on one hand, this was an effect of the natural diminishment of the market for cars older than 10 years (which account for more than 60% of all vehicles); on the other hand, this was an effect of

Gross written premium on direct insurance in PZU SA



curtailing the imports of used cars (the ban on importing cars older than 10 years without a catalytic converter), whereby imports fell by 90%.

Premiums were collected at a level higher than in 2002 on voluntary insurance, including, inter alia: third party liability with 14.1% growth, financial insurance with 9.8% growth, motor own damage with 4.1% growth, accident and sickness insurance with 3.1% growth and property insurance with 2.9% growth.

Just as in previous years, motor TPL and motor own damage insurance held the main position in the premium acquisition structure. Jointly, they accounted for more than 73% of the portfolio while property insurance enlarged its percentage from 12.1% to 12.7% of total gross written premium. The share of agricultural insurance remained steady with 4.5% of the total gross written premium. In turn, the share of accident and sickness insurance grew by 0.3 percentage points to 5.8%.

The number of concluded insurance agreements rose by 0.6% to 48 210.2 thousand. The largest growth in the number of agreements took place in property insurance with a growth rate of 135.7%, voluntary TPL with a growth rate of 130.9%, compulsory TPL with a growth rate of 129.3% and financial insurance with a growth rate of 114.8%. The reduction in the number of concluded agreements occurred above all in motor TPL insurance with 5.1% fewer agreements than in 2002 and in agricultural insurance, where there were 10.8% fewer voluntary agreements and 2.7% fewer compulsory agreements than last year.

The average premium was PLN 149.7, which was 2.8% lower than in 2002. The cut in the motor TPL premium rates that took place mid year contributed to the decline in the average premium on this insurance. The average premium on property insurance also fell to the level of 75.9% of the average premium in 2002.

The total gross written premium collected on direct and indirect insurance was PLN 7 221.4 million, 2.3% less than in 2002.

The total gross written premium in PZU Życie SA in 2003 was PLN 5 127.7 million. It grew by 4.7% in comparison with last year (PLN 4 898.3 million).

The following continue to form the main group of products offered by PZU Życie SA:

- traditional group and continued insurance - type P group employee insurance along with riders (surgery, hospitalization, critical illnesses), individually-continued type P group employee insurance, continued D and accident insurance, which accounted for 80.3% of the total gross written premium (PLN 4 116 million), the number of persons covered by this insurance was 12 235 thousand,

- modern group insurance (Pogodna Jesień group pension insurance, Życie group life insurance, Firma group endowment insurance, Pogodna Przyszłość group investment life insurance) for which the written premium in 2003 was PLN 426 million and where the number of insureds was 878 thousand,

- individual insurance (individual endowment insurance with a growing sum insured and premium, term insurance, individual Pogodna Jesień, Mocna Przyszłość, Credo) for which the gross written premium climbed from PLN 516 million in 2002 to PLN 583 million in 2003, where the number of insureds was 476 thousand,

- old portfolio insurance for which the gross written premium fell from PLN 2.8 million in 2002 to

PLN 2.3 million in 2003. The number of agreements in the portfolio fell from 389 thousand in 2002 to 333 thousand in 2003.

PZU Życie SA acquired 325.7 thousand new clients who paid premiums worth PLN 204.5 million.

Claims paid

The gross claims paid on direct insurance and inward reinsurance in the PZU Group was PLN 7 508.3 million, which was 0.02% higher than the claims paid in the previous year, of which: claims paid in property and casualty insurance were PLN 4 329.3 million (a 3.2% decline) while claims paid in life insurance were PLN 3 178.9 million (a 4.7% increase).

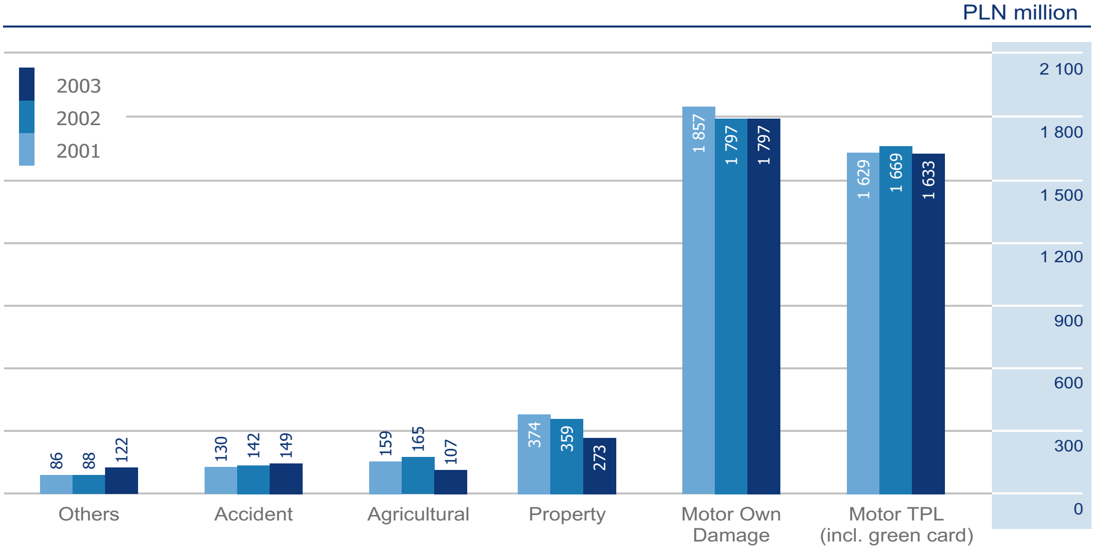
At PZU SA, the claims paid on direct insurance in 2003 amounted to PLN 4 079.8 million, which constituted 96.7% of the disbursements in 2002. The lower amount of claims paid contributed to a reduction by 0.6 percentage points to 56.6% in terms of claims stated as a percentage of the gross written premium.

3% of the claims paid, i.e. PLN 121.4 million were recourse claims and post-accident salvages (2.6% in 2002, i.e. PLN 108.9 million).

The largest influence contributing to the lower amount of claims payments was primarily exerted by the disbursements for losses on compulsory agricultural insurance, which were 45.6% lower than in 2002 and property insurance, which were 24.2% lower than in 2002 (in previous years these groups of insurance had experienced higher claims paid on account of mass hurricane losses).

Motor insurance accounting for more than 84% of the total disbursements dominated the claims paid

Claims paid in PZU SA



structure, while disbursements on property insurance accounted for 6.7%, accident and sickness insurance accounted for 3.7%, agriculture for 2.6% and others accounted for 3%.

The number of claims and disability benefits paid in 2003 was 1 367.4 thousand, which was 7.3% lower than in 2002. The decline in the number of claims was affected by the fact that the number of claims on compulsory agricultural insurance fell by 75.1% and that the number of claims on property insurance was 20.2% lower. In turn, growth in the number of claims paid was recorded on voluntary agricultural insurance - 21.1% and on financial insurance - 5.2%.

The average claim value oscillated around PLN 2 983.60, i.e. 4.2% higher than last year. There was a very pronounced increase in the average claim value in compulsory agricultural insurance of 118% and in voluntary TPL of 87.4%.

The claims paid on indirect insurance amounted to PLN 3.3 million. The total claims paid on direct and indirect insurance was PLN 4 083 million and was 3.4% lower than in 2002.

The gross loss ratio oscillated around 64.9% while the net loss ratio was 68.4% (70.1% and 69.6%, respectively in 2002).

The claims paid by PZU Życie SA were as follows:

- the claims paid in traditional group and continued insurance stood at PLN 2 408.6 million,

- the claims paid in 2002 in modern group insurance (Pogodna Jesień group pension insurance, Życie group life insurance, Firma group endowment insurance, Pogodna Przyszłość group investment life insurance) amounted to PLN 402 million, while in 2003 they amounted to PLN 338 million,

- the claims paid in 2002 in individual insurance (individual endowment insurance with a growing sum insured and premium, term insurance, individual Pogodna Jesień, Mocna Przyszłość, Credo) amounted to PLN 161 million, while in 2003 they amounted to PLN 184 million,

- the claims paid in 2002 in old portfolio insurance amounted to PLN 109 million, while in 2003 they amounted to PLN 124 million.

In 2003, PZU Życie SA paid gross claims of PLN 3 127.8 million (prior to cost allocation). Thus, in comparison with the PLN 2 969.8 million in claims paid in 2002, there was 5.3% growth. After cost allocation, the amount paid by PZU Życie SA for gross claims in 2003 was PLN 3 182.1 million, compared with PLN 3 035.4 million in gross claims in 2002, which represents 4.8% growth.

Technical reserves

The balance of the gross technical reserves (along with the technical life insurance reserves where the policyholder bears the investment risk) oscillated around the level of PLN 28 023.6 million and corresponded to 227% of the gross written premium. This signifies 8.6% growth since 31 December 2002.

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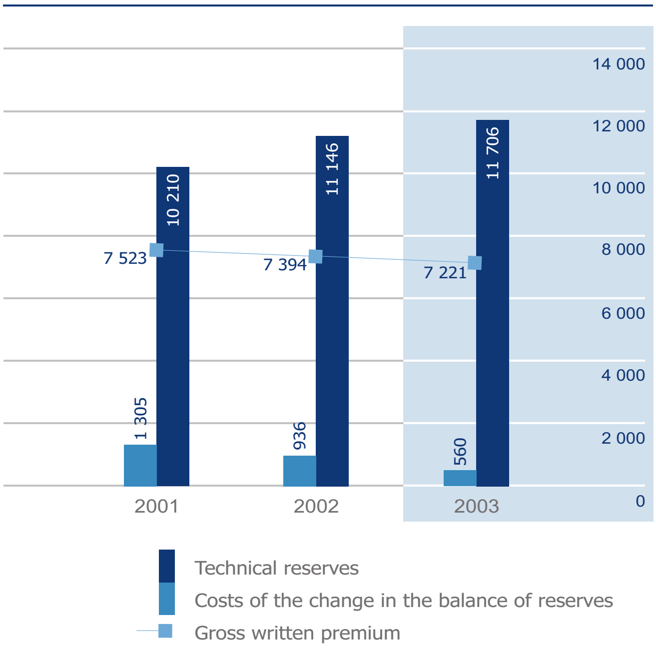
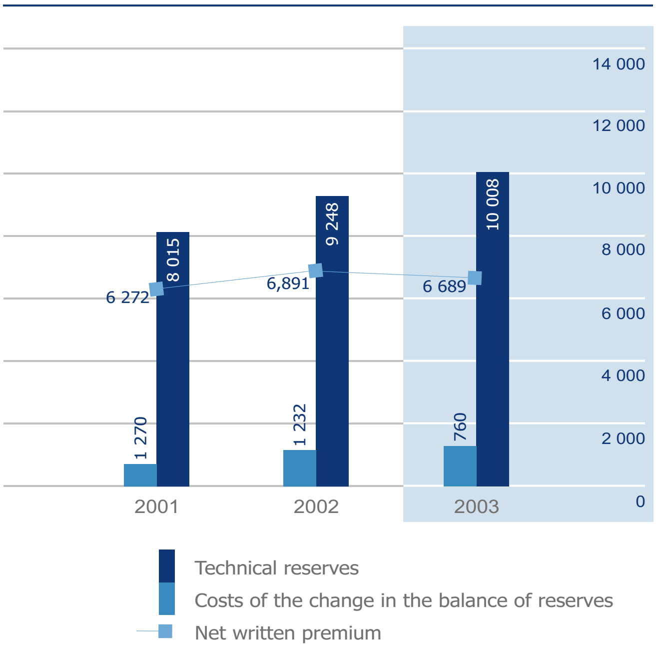
results

In our company, results are something more than figures.
Results are inextricably connected to customer relationships built on partnership.
We know this from experience.

Gross technical reserves in PZU SA



Net technical reserves in PZU SA



At PZU SA the balance of gross technical reserves as at 31 December 2003 amounted to PLN 11 705.6 million. It was 5% higher than at the end of 2002. The costs of the change in the balance of the gross reserves stood at PLN 559.8 million. They were 40.2% lower than the costs incurred in 2002.

In PZU SA the balance of net technical reserves was 8.2% higher than the balance at the end of 2002 and amounted to PLN 10 007.9 million. The costs of the change in the balance of the net reserves fell by 38.3% compared with the costs incurred in the previous year and they amounted to PLN 760.3 million.

In PZU SA the technical reserves stated as a percentage of premium were as follows: the gross reserves constituted 162.1% of the gross written premium while the net reserves constituted 149.6% of the net written premium.

In PZU SA the costs of the change in balance of the technical reserves were as follows: the gross costs constituted 7.8% of the gross written premium while the net costs constituted 11.4% of the net written premium.

At PZU Życie SA the balance of the gross technical reserves as at 31 December 2003 amounted to PLN 16 318.3 million while as at 31 December 2002 it amounted to PLN 14 652.2 million. This means that the gross technical reserves grew in 2003 by PLN 1 666 million. It has been assumed that the balance of the technical reserves at the end of 2004 will be PLN 17 465.1 million.

Insurance service costs

Within the framework of life and property and casualty insurance service costs, the insurance activity costs amounted to PLN 2 466.9 million; their share of the gross written premium was 20.0%. Acquisition costs accounted for 10.4% while administrative costs accounted for 10.3% of the gross written premium. Last year, the acquisition costs accounted for 9.3% while administrative costs accounted for 10.4% of the gross written premium. The total share of insurance activity costs was 18.2% of the gross written premium.

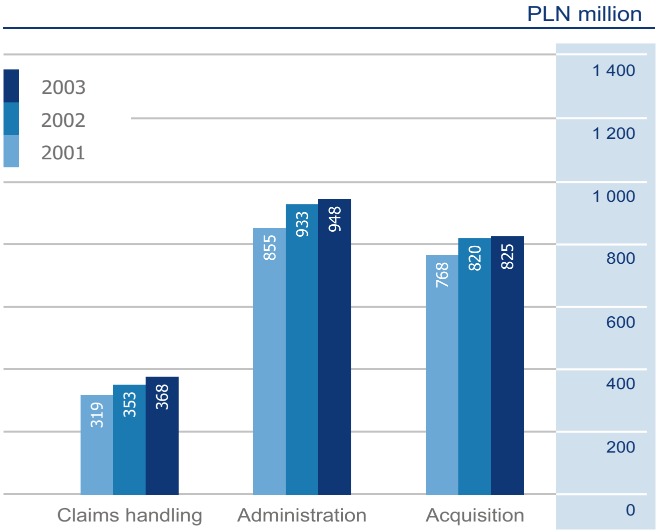
The insurance service costs at PZU SA, which consist of acquisition, claims handling and administrative costs, incurred in 2003 amounted to PLN 2 141 million and were 1.7% higher than the costs incurred in 2002.

Insurance service costs stated as a percentage of gross written premium grew by 1.2 percentage points and stood at 29.7%. Claims handling costs demonstrated the highest increase of 4.4%, while administrative costs rose by 1.6% and acquisition costs rose by 0.6%.

The structure of insurance service costs by area of activity did not undergo much change. Administrative costs accounting for roughly 44.2% had the largest share, acquisition costs amounted to 38.6% while claims handling costs accounted for 17.2% of total costs.

In terms of the type of costs, depreciation generated the highest growth with a growth rate of 121.3%. The costs of insurance intermediacy commissions also experienced growth with respect to the 2002 costs; their growth rate was 106.6%. The costs of external services grew by 106.7% and payroll costs grew by 103.7%.

Insurance handling costs by activity in PZU SA



The costs of special projects incurred in 2003 amounted to PLN 23.9 million, which represented 41.5% of the costs incurred in 2002.

The following held the main positions in the cost structure by type: payroll costs representing 43.4% (42.5% in 2002), intermediacy commission costs representing 25% (23.9% in 2002) and the costs of external services representing 17.8% (16.9% in 2002).

PZU Życie SA's operating costs amounted to PLN 915.4 million (without allocation), of which:

- acquisition costs were PLN 319.3 million (including the change in the balance of capitalized acquisition costs in the amount of PLN 42.4 million),
- administrative costs in the amount of PLN 596 million.

Costs stated as a percentage of the gross written premium (without allocation) stood at 17.9%, of which:
- acquisition costs were 6.2%,
- administrative costs were 11.6%.

In comparison with 2002, operating costs (without allocation) fell by 3.6%.

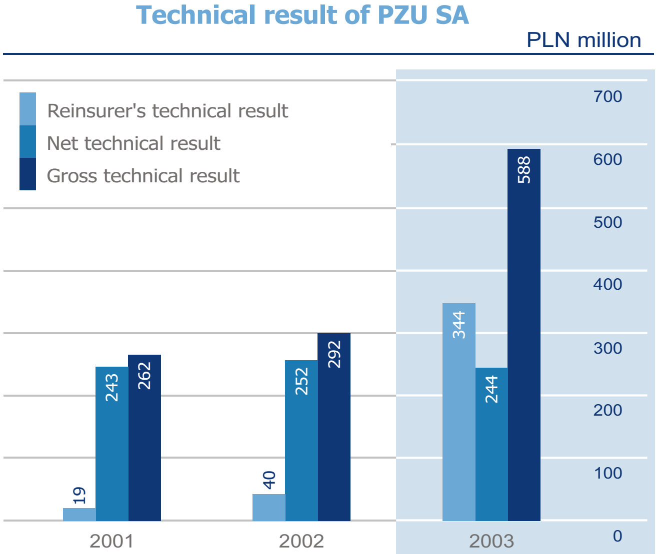
Insurance activity costs (after allocation) without reinsurance commissions amounted to PLN 853.9 million, of which:
- acquisition costs - PLN 476.5 million (including the change in the balance of capitalized acquisition costs in the amount of PLN 42.4 million),
- administrative costs - PLN 377.4 million.

Costs stated as a percentage of the gross written premium (after allocation) without reinsurance commissions stood at 16.7%, of which:
- acquisition costs - 9.3% (along with the change in the balance of capitalized acquisition costs),
- administrative costs - 7.4%.

Technical result on life insurance and on property and casualty insurance

On account of the specific nature of the PZU Group member companies, the consolidated technical account has been drawn up separately for life insurance and property and casualty insurance. The consolidated technical property and casualty insurance account closed in 2003 with a positive result in the amount of PLN 283.7 million, while the consolidated technical life insurance account closed with a positive result in the amount of PLN 671.3 million. The positive technical account in the amount of PLN 955.0 million was transferred to the consolidated non-technical profit and loss account for 2003.

Technical result of PZU SA



Technical result

PZU SA's insurance activity in 2003 ended with a technical result in the amount of PLN 243.5 million, which was PLN 8.9 million less than the technical result generated in 2002. The positive technical results on the following insurances exerted the largest influence on the total technical result: motor TPL (jointly with Green Card) - PLN 191.9 million, property insurance - PLN 127.6 million, accident and sickness insurance - PLN 92.2 million and the negative technical account on motor own damage - PLN 199.3 million.

The technical life insurance account closed 2003 with a positive amount of PLN 658 million, while in 2002 it closed with a positive amount of PLN 400.2 million in comparable conditions.

Balance of investments and investment income

The PZU Group's balance of investments at the end of 2003 (including the investments of life insurance funds where the policyholder bears the investment risk) was PLN 31 607.2 million and it was 15.2% higher than at the end of 2002.

The investment revenues in 2003 compared to last year fell by 8.0% and amounted to PLN 3 216.6 million.

With income in the amount of PLN 2 664.2 million, the return on investment activity was 8.4%.

The balance of PZU SA's investments at the end of 2003 was PLN 13 850.8 million. It grew in comparison to the same period of the previous year by 13.7%.

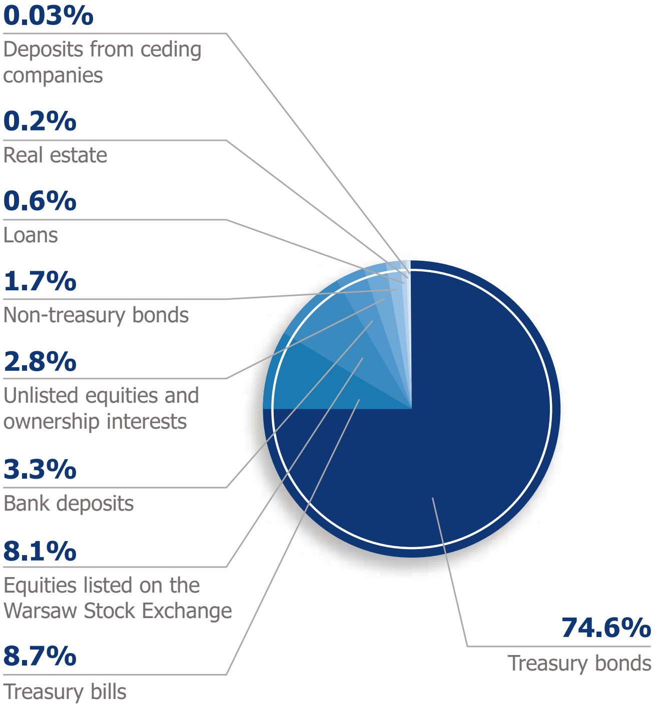
Investment activity was primarily focused on securities issued by the State Treasury, i.e. treasury bills and bonds, which at the end of 2003 accounted for 83.3% of the total portfolio.

In comparison with the previous year, the percentage of equities listed on the Warsaw Stock Exchange and treasury bills increased in the investment portfolio while the percentage of treasury bonds in that investment portfolio declined.

The investment income (jointly with unrealized investment gains and income on the capitalized value of annuities) increased by PLN 134.5 million and reached the amount of PLN 1 273.6 million. The positive result on realizing investments in the amount of PLN 732.8 million and the unrealized gains on investments in the amount of PLN 569.2 million primarily contributed to the higher income.

In investment costs, the unrealized losses on investments amounted to PLN 164.9 million (including the

PZU SA's investment composition (as at 31 December 2003)



Balance of investments in PZU SA

	Amounts stated in millions of PLN		Growth rate
	2002	2003	%
Balance of investments	**12 168.4**	**13 850.8**	**113.7**
Including real estate	26.9	26.0	96.7
Total investment revenues	**1 375.7**	**1 595.9**	**116.0**
Including unrealized investment income	713.6	569.2	79.8
Investment costs	**236.6**	**322.4**	**136.3**
Including unrealized investment losses	35.9	164.9	459.0
Investment income	**1 139.1**	**1 273.6**	**111.8**
Investment yield	**10.2%**	**9.8%**	

loss on the Bank Handlowy bonds in the amount of PLN 79.9 million), the negative result on realizing investments was PLN 144.6 million.

The balance of PZU Życie SA's investments as at 31 December 2003 (including investment with the risk borne by the policyholder) reached PLN 18 651.6 million, as at 31 December 2002 the balance of investments was PLN 16 140.6 million (in comparable conditions), and thus in 2003 the incremental growth in investments amounted to PLN 2 511 million (15.6% growth).

In the life insurance section, the revenues on financial investments and real estate amounted to PLN 1 446 million, which represents a 14.1% decline compared to last year.

Investment expenditures, purchases of fixed assets and intangible assets

In the PZU Group the amount spent on investment expenditures, purchases of fixed assets and intangible assets was PLN 126.8 million.

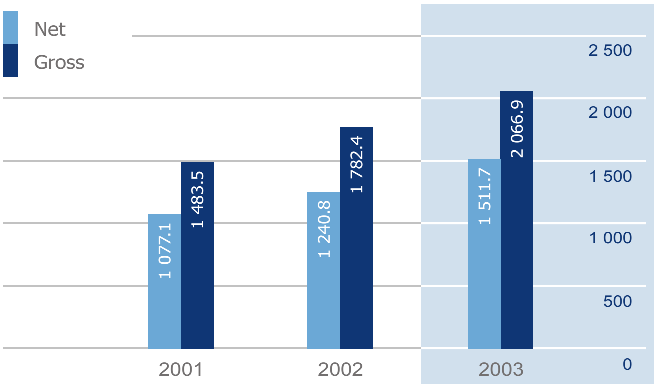
These expenditures encompassed the following:
- real estate PLN 18.0 million,
- purchases of fixed assets - PLN 65.2 million, including computer hardware - PLN 42.7 million,
- purchases of intangible assets - PLN 43.6 million.

PZU Group's financial result

The following items comprised the consolidated non-technical account:

	Amounts stated in millions of PLN		Growth rate
	2002	2003	%
Technical result	775.6	955.0	23.1
Investment income	3 497.8	3 216.6	(8.0)
Balance of other operating income and expenses	(41.2)	(98.4)	(139.0)
Balance of extraordinary gains and losses	(0.3)	(0.04)	(86.5)
Gross financial result	1 782.4	2 066.9	16.0
Tax charge	550.4	552.9	0.5
Balance of profits and losses on shares in subordinated units carried by the equity method	8.8	(2.3)	(126.1)
Net financial result	1 240.8	1 511.7	21.8

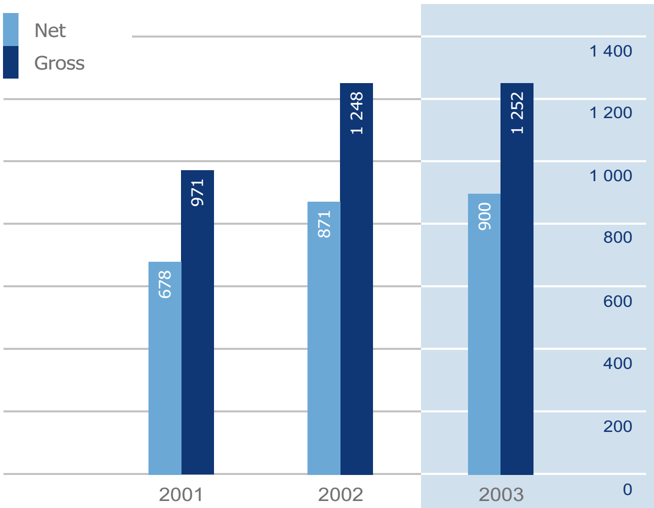
PZU Group's financial result
(2001-2003)



The following items contributed to PZU SA's net financial result in the amount of PLN 900.1 million (PLN 871.1 million in 2002):

	Amounts stated in millions of PLN		Growth rate
	2002	2003	%
Technical result	252.4	243.5	96.5
Including investment income transferred from the non-technical profit and loss account	89.2	191.5	214.6
Investment income (excluding the investment income transferred to the technical account)	1 049.8	1 082.1	103.1
Balance of other operating income and expenses	(53.9)	(74.0)	x
Tax	377.2	351.5	93.2

PZU SA's financial result
(2001-2003)



In PZU Życie SA, the non-technical profit and loss account closed in 2003 with positive amounts:

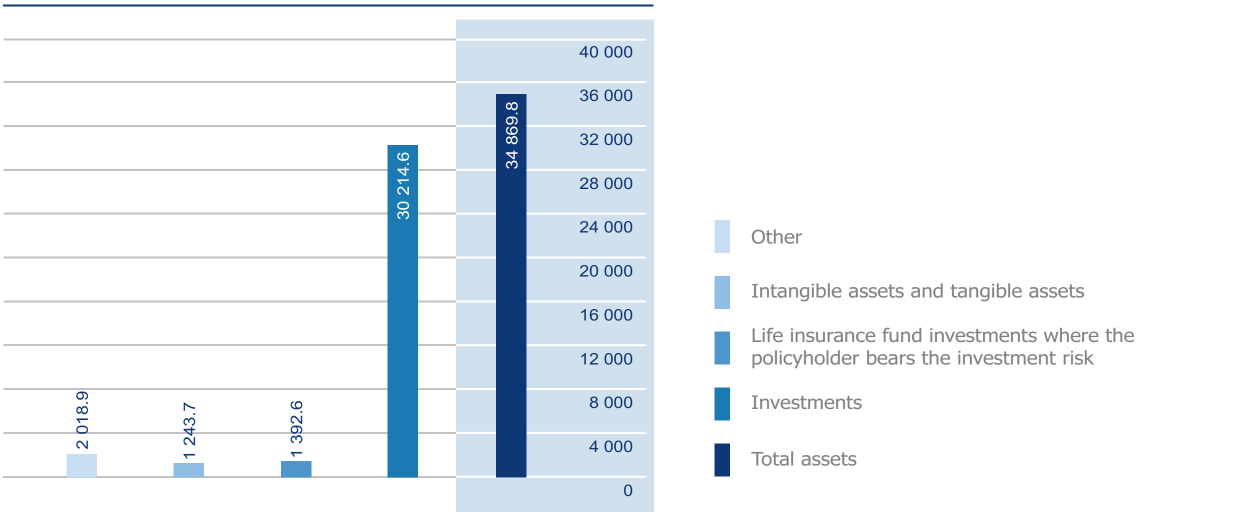
- gross profit - PLN 754.3 million (PLN 481.3 million in 2002; the assumption for the plan in 2004 is PLN 671.9 million),
- net profit - PLN 580.3 million (PLN 302.4 million in 2002; the assumption for the plan in 2004 is PLN 537.5 million).

Assets and liabilities

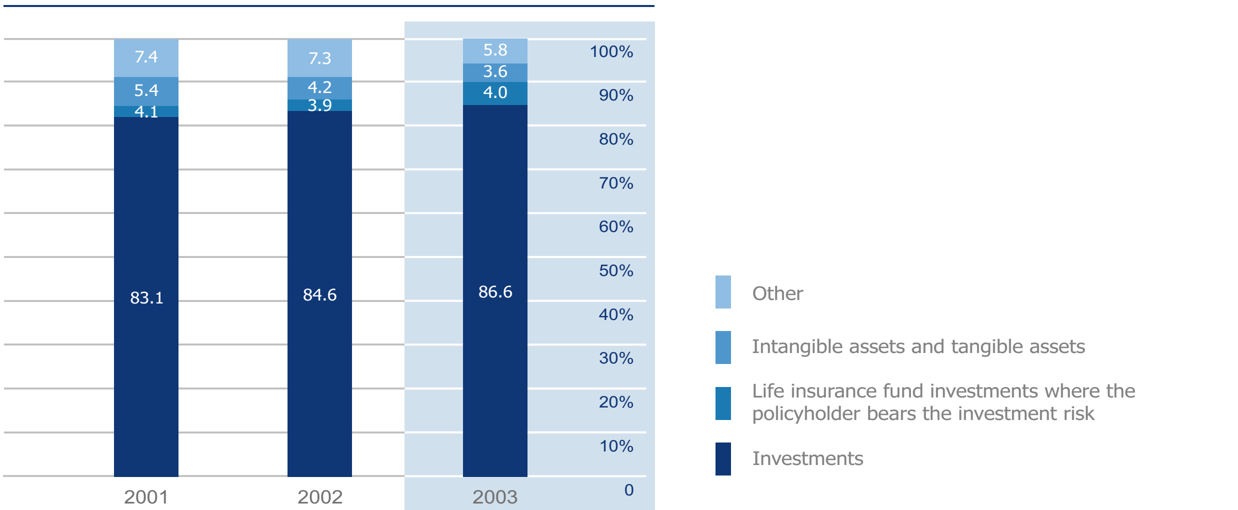
The PZU Group's consolidated balance sheet drawn up as at 31 December 2003 closed with a balance sheet value of PLN 34 869.8 million, which is 12.6% higher than the balance sheet value on 31 December 2002. Investments, which accounted for 90.6% of the assets, continued to be the main line item in the asset structure.

The gross technical reserves, which accounted for 80.4% of the balance sheet value, continued to be the largest line item in liabilities and equity (net reserves accounted for 75.5%).

PZU Group's asset categories
(as at 31 December 2003)



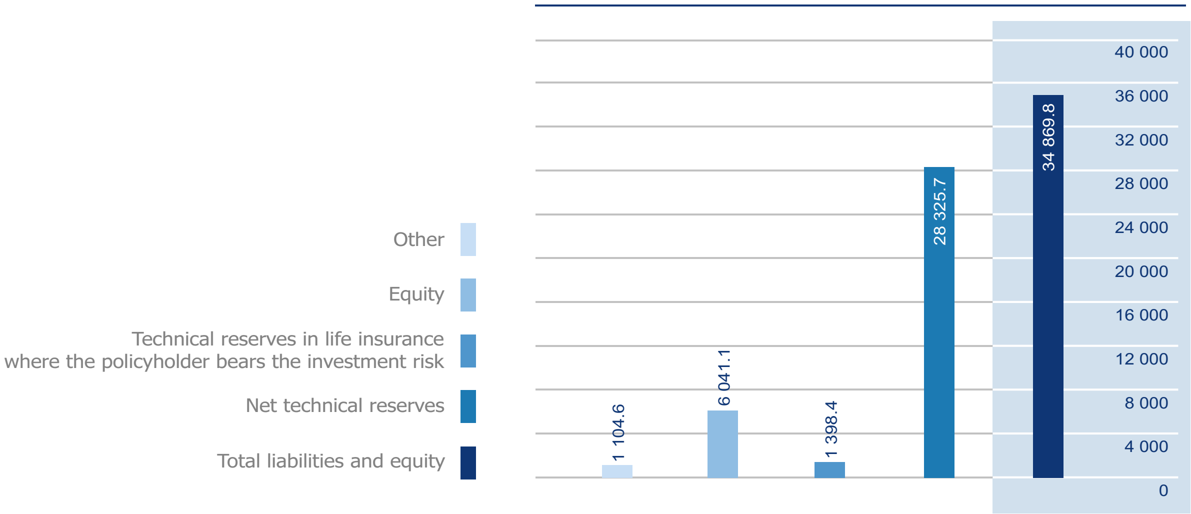
PZU Group's asset structure
(2001-2003)



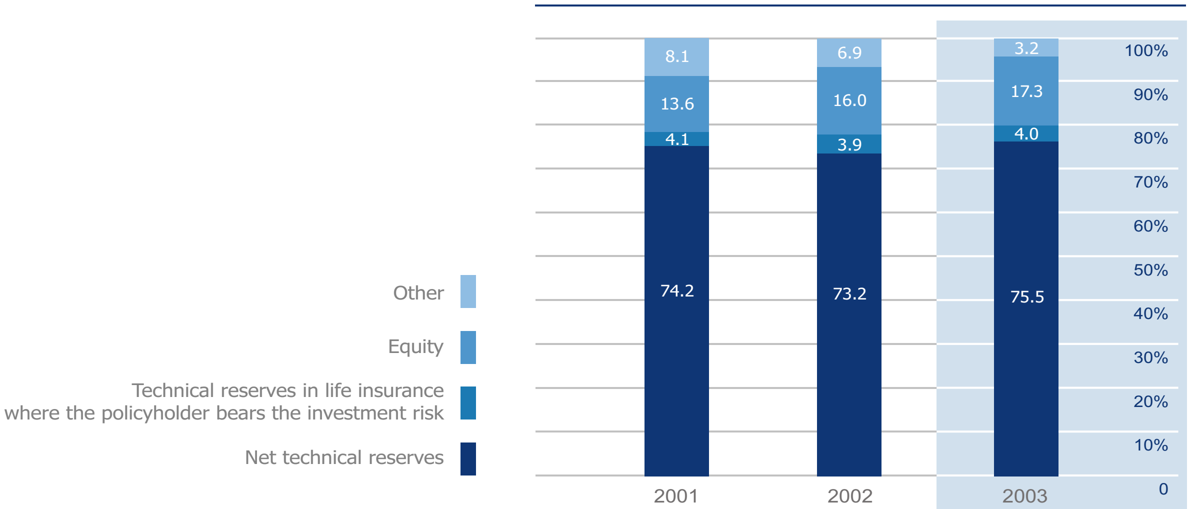
Compared to the end of 2002, PZU SA's balance sheet value grew by 10.4% and reached the amount of PLN 15 872.4 million. As at 31 December 2003, PZU Życie SA's balance sheet value was PLN 19 526.5 million, in other words, 13.8% higher than on 31 December 2002 when the balance sheet value amounted to PLN 17 159.8 million in comparable conditions. PZU SA's equity grew by 13.1% to PLN 4 016.6 million.

Investments account for 87.3% of PZU SA's asset structure, while receivables account for 6.6% and other asset components account for 6.1%.

PZU Group's liability categories
(as at 31 December 2003)



PZU Group's liability structure
(2001-2003)



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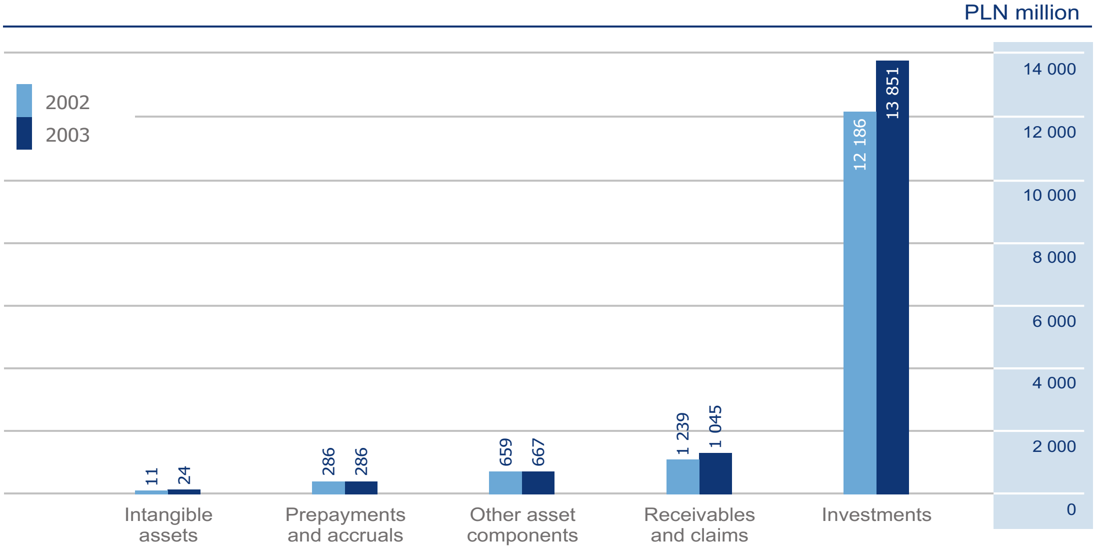
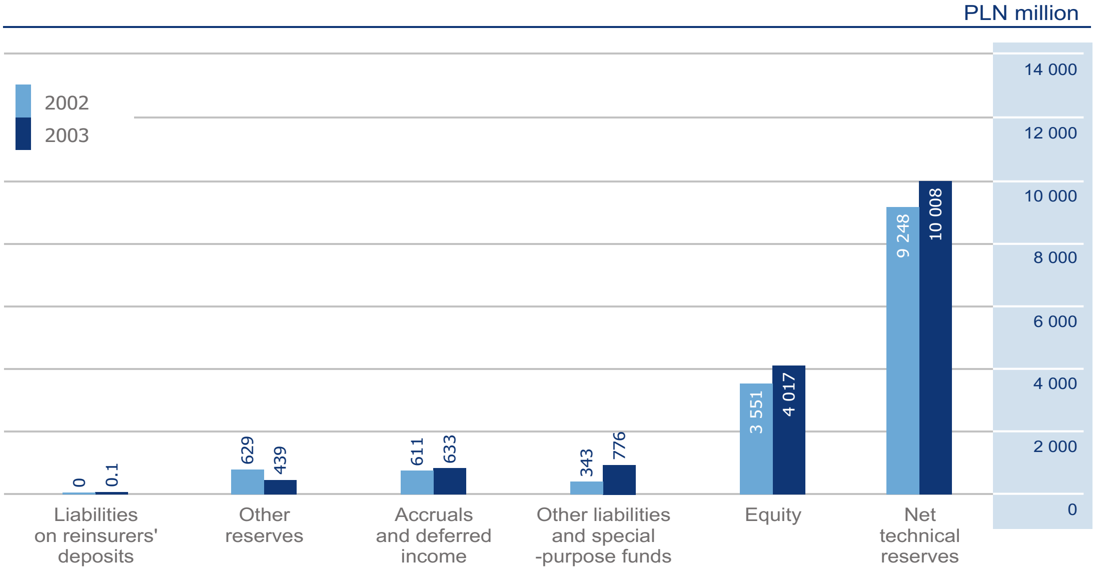
safety

Nearly 800 branches
in every corner
of the country,
the best experts
and excellent results form
a guarantee of safety
for every one
of PZU's customers.

PZU SA's assets (as at 31 December)



PZU SA's liabilities and equity (as at 31 December)



In PZU SA net technical reserves constituted the main line item of liabilities and equity at 63.1%, while equity accounted for 25.3% and other liability components accounted for the remaining 11.6%.

In 2003, PZU Życie SA experienced growth in the amount of equity from PLN 1 997.8 million in 2002 (in comparable conditions) to PLN 2 577.4 million by generating a profit in 2003 in the amount of PLN 580.3 million.

Profitability and safety ratios

Profitability and safety ratios	31 December 2002	31 December 2003
PZU Group's return on assets (ROA) (net financial result / average asset value) x 100%	4.3%	4.6%
PZU Group's return on equity (ROE) (net financial result / average equity) x 100%	29.2%	27.5%
Solvency margin in property and casualty insurance (in millions of PLN)	1 042.0	1 144.2
Solvency margin in life insurance (in millions of PLN)	1 324.9	1 355.3
Shareholders' equity in property and casualty insurance (in millions of PLN)	3 540.3	3 993.2
Shareholders' equity in life insurance (in millions of PLN)	1 948.7	2 530.7
Solvency margin coverage ratio with shareholders' equity in property and casualty insurance	339.8%	349.0%
Solvency margin coverage ratio with shareholders' equity in life insurance	147.1%	186.7%
Guarantee capital in property and casualty insurance (in millions of PLN)	347.3	381.4
Guarantee capital in life insurance (in millions of PLN)	441.6	451.8
Redundancy in own funds covering the guarantee capital in property and casualty insurance (in millions of PLN)	3 192.9	3 611.7
Redundancy in own funds covering the guarantee capital in life insurance (in millions of PLN)	1 507.1	2 079.0

Financial statements and the independent auditors' opinions

Introduction to the consolidated financial statements

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

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

- Powszechny Zakład Ubezpieczeń SA ("PZU", "parent company") as the parent company,
- Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie") as a subsidiary subject to consolidation by the full method,
- Powszechne Towarzystwo Emerytalne PZU SA ("PTE PZU") as an indirect subsidiary subject to consolidation by the full method,
- PZU Tower Sp. z o.o. ("PZU Tower") as an indirect subsidiary subject to consolidation by the full method,
- Centrum Informatyki Grupy PZU SA ("Centrum Informatyki Grupy PZU") - the former PZU-CL Agent Transferowy SA as an indirect subsidiary subject to consolidation by the full method as of 1 December 2001,
- Krakowska Fabryka Armatur SA ("KFA") as an indirect subsidiary shown in the consolidated financial statements by the equity method in light of the clauses in §51 of the Regulation issued by the Finance Minister on 10 December 2001 on the detailed accounting rules for insurance companies (Journal of Laws, Number 149/2001, Item 1671 hereinafter referred to as the "Finance Minister's Accounting Regulation for Insurance Companies"), starting as of 1 January 2002,
- Fabryka Wyrobów Precyzyjnych VIS SA ("VIS") as an affiliate shown in the consolidated financial statements by the equity method in light of the clauses in §51 of the Finance Minister's Accounting Regulation for Insurance Companies, starting as of 1 January 2002,
- other subsidiaries and affiliates shown in the table on page 66.

According to art. 4 section 2 of the Accountancy Act of 29 September 1994 (Journal of Laws, Number 76/2002, Item 694 as amended, hereinafter "Accountancy Act"), events, including economic operations, are captured in accounting ledgers and are shown in the financial statements in compliance with their economic content. In the consolidated financial statements of PZU Group for 2003, this applies in particular to the method of consolidating the companies that were established for the purpose of discharging a specific function in favor of the parent company and the entire PZU Capital Group ("special purpose entity") and that are financed by PZU Capital Group units. One may then speak of spinning off a part of the parent company's activity to other legal entities, in which case a material percentage of the sales revenues generated by the so-established entities originates from the parent company and other member companies in the PZU Capital Group. Accordingly, PZU Tower, PTE PZU, Centrum Informatyki Grupy PZU were consolidated using the full method, since, according to the parent company, only such a presentation will ensure an accurate and clear representation of the PZU Capital Group's financial and asset standing.

According to legal regulations, which came into force on 1 January 2004, the consolidation of the above companies of the PZU Capital Group by using the full method results from art. 56 of the Regulation issued by the Finance Minister on 10 December 2001 on the detailed accounting rules for insurance companies (Journal of Laws, Number 218/2003, Item 2144).

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

PPW Uniprom SA was not consolidated as at 31 December 2003 on account of the permanent loss of control as a result of its declaration of bankruptcy by the decision handed down by the Regional Court for the Capital City of Warsaw on 8 October 2002. As at 31 December 2003 the investment value in the equities of Uniprom SA is fully included in the impairment charge; consequently, the value of the shares of Uniprom SA carried in the consolidated financial statements of PZU Group for 2003 is equal to zero.

1.1. Powszechny Zakład Ubezpieczeń SA

PZU is a joint stock company with its registered offices in Warsaw at Al. Jana Pawła II 24. It was established by transforming Państwowy Zakład Ubezpieczeń into a treasury-owned joint stock company by the power of art. 97 of the Insurance Activity Act of 28 July 1990, uniform text in the Journal of Laws, Number 11/1996, Item 62 as amended (hereinafter "Insurance Activity Act").

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

PZU assumed the entirety of activity in the area of property and casualty insurance, while the life insurance portfolio was transferred to PZU Życie, a subsidiary established in 1991 in which PZU, as at 31 December 2003 held a 100% stake.

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

Until 10 November 1999, PZU was a wholly-owned subsidiary of the State Treasury.

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

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

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

PZU's term is unlimited.

According to the share book, the ownership structure of the parent company as at 31 December 2003 was as follows:

Shareholder's name	% of votes at the Shareholders' Meeting
State Treasury	55.09%
Eureko B.V.	20.91%
BIG BG Inwestycje SA	10.00%
Highwood Partners, L.P.	2.35%
Other shareholders	11.65%
Total	**100.00%**

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

PZU's line of business as provided for in its articles of association is to organize and conduct the following:
- direct and indirect (reinsurance) insurance activity in Poland and abroad,
- prevention activity to prevent the occurrence of claims and to limit their extent,
- emergency adjustment activity, i.e. determine the extent of claims, secure recourse claims, pursue claims and perform other claims handling activities based on agreements or engagements with other insurance companies,
- other services associated with insurance and reinsurance activity,
- sales activity in favor of open-end pension funds on the basis of the provisions concerning the organization and operation of pension funds.

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

1.2. Powszechny Zakład Ubezpieczeń na Życie SA

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

PZU Życie's term is unlimited.

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

According to the European Business Activity Classification system, life insurance (EKD 66.01) is PZU Życie's core business.

PZU Życie's line of business is to organize and conduct insurance and insurance-related activity in the groups of insurance specified in Section I entitled "Life insurance" of the attachment to the Insurance Activity Act of 28 July 1990 (Journal of Laws of 1995 Number 11 Item 62 as amended - the "Insurance Activity Act"):

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

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

On 18 September 1998 PZU Życie obtained a permit to conduct sales activity in favor of open-end pension funds.

As at the balance sheet date, the share capital of PZU Życie is PLN 295 million and is divided into 11 800 000 non-preferred, registered shares with a par value of PLN 25.00 each. As at 31 December 2003, the share capital was fully paid.

As at 31 December 2003, PZU Życie conducted its operating activity through the Head Office, a network of 27 inspectorates and subordinated representative offices and agencies.

1.3. Powszechne Towarzystwo Emerytalne PZU SA

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

On 9 September 2001 PTE PZU was entered into the National Court Register in the Regional Court for the Capital City of Warsaw at the 19th Business Division of the National Court Register in the register of entrepreneurs under file number KRS 0000040724. The company was awarded statistical number REGON 013273720. On 31 December 2003 the registered offices of PTE PZU were located in Warsaw at Al. Jana Pawła II 24.

PTE PZU's term is unlimited.

PTE PZU's line of business is as follows:

- establishing an open-end pension fund;
- managing the established, open-end pension fund and representing it with respect to third parties in the manner prescribed by the articles of association and managing more than one open-end pension fund in the event and according to the terms and conditions set forth in the Act of 28 August 1997 on the Organization and Operation of Pension Funds (Journal of Laws, Number 139/1997 item 934 as amended) and the Act of 27 August 2003 amending the Act on the Organization and Operation of Pension Funds and certain other Acts (Journal of Laws, Number 170 Item 1651).

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

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

1.4. PZU Tower Sp. z o.o.

PZU Tower, seated in Warsaw, ul. Ogrodowa 58, was established by notary deed (Repertorium A number 4499/98) on 25 August 1998 for an unlimited term.

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

On 2 July 2001 PZU Tower was entered into the National Court Register in the Regional Court for the Capital City of Warsaw at the 19th Business Division of the National Court Register in the register of entrepreneurs under file number KRS 0000021844. The company was awarded statistical number REGON 013152116.

According to its articles of partnership, PZU Tower's line of business includes the following:

- managing and selling real estate for its own account,
- buying and selling real estate for its own account,
- leasing real estate for its own account,
- managing residential real estate,
- managing non-residential real estate,
- intermediacy in buying, selling, leasing and appraising real estate,
- advertising activity,
- cleaning facilities,
- activity associated with the organization of fairs.

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

1.5. Centrum Informatyki Grupy PZU SA (PZU Group's IT Center SA) (formerly PZU CL Agent Transferowy SA)

Centrum Informatyki Grupy PZU was established by notary deed on 29 June 1998 as PZU-CL Agent Transferowy Spółka Akcyjna. According to Resolution number 8/2003 adopted by the Extraordinary Shareholders' Meeting of 23 April 2003, PZU-CL Agent Transferowy changed its name to Centrum Informatyki Grupy PZU SA on 12 May 2003. On 26 September 2001 Centrum Informatyki Grupy PZU was entered into the National Court Register kept by the Regional Court for the Capital City of Warsaw in the 20th Division of the National Court Register under file number KRS 0000043026.

Centrum Informatyki Grupy PZU was awarded statistical REGON number 013104910. As at 31 December 2003 the registered offices of Centrum Informatyki Grupy PZU were located in Warsaw at ul. Matuszewska 14.

Centrum Informatyki Grupy PZU's term is unlimited.

According to its articles of association, Centrum Informatyki Grupy PZU's line of business is as follows:

- auxiliary activity associated with insurance and pension and disability funds (PKD 67.20) and performing other functions associated with servicing investment funds and settling life and pension insurance (PKD 67.13),
- advisory services concerning computer hardware (PKD 72.10), activity concerning software (PKD 72.20), data processing (PKD 72.30) and activity related to databases (PKD 72.40),

- conducting all commercial and service activity for its own account, also in corroboration and cooperation with other entities in the following areas:
  a) wholesale and retail commerce on commodities with the exception of commodities whose trading is licensed on the basis of the provisions on economic activity,
  b) import and export of commodities whose trading is licensed on the basis of the provisions on economic activity (PKD 51.52).

1.6. Krakowska Fabryka Armatur SA

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

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

On 6 December 2001, KFA was registered in the National Court Register under file number 0000068409 in the Regional Court for the city of Kraków-Śródmieście, 11th Business Division.

As at 31 December 2003 the registered offices of KFA were located in Kraków at ul. Zakopiańska 72.

In 1999 PZU Życie purchased 21 600 000 shares of KFA stock from the State Treasury for PLN 34 266 thousand, representing 80.00% of KFA's share capital. In 2000-2001, PZU Życie purchased further tranches of KFA shares, increasing its share in equity. As at 31 December 2003, PZU Życie held 51 600 000 KFA shares with the purchase price value of PLN 65 233 thousand, which represent 90.53% of the share capital.

KFA's statutory line of business in 2003 was as follows:

- manufacturing bathroom and kitchen fixtures, taps and valves,
- casting light metals and other non-ferrous metals,
- forging, pressing, molding and rolling metals,
- metal processing and coating metals,
- manufacturing plastic and other rubber goods,
- manufacturing machine tools and mechanical tools,
- manufacturing heaters and central heating boilers,
- wholesale, retail and consignment commerce.

1.7. Fabryka Wyrobów Precyzyjnych VIS SA

VIS was transformed from a state-owned enterprise into a joint stock company on the basis of the notary deed drawn up on 22 March 1996 under file number Repertorium A-4945/96. VIS was established for an unlimited term.

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

[%]

trust

Fruitful cooperation is based on trust. Trust is the foundation of every good union. Millions of Poles have placed their trust in PZU.

As at 31 December 2003 the registered offices of VIS were located in Warsaw at ul. Kasprzaka 29/31.

In 1999, as a result of the agreement concluded with the State Treasury, PZU Życie purchased 646 915 thousand shares of VIS stock for PLN 23 253 thousand, representing 37.995% of VIS's share capital. In 2003, PZU Życie purchased further tranches of VIS shares, increasing its share in equity up to 45.14%.

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

Investment obligations and restrictions resulting from the agreement signed with the State Treasury are not presented in the consolidated financial statements of PZU Group for 2003.

VIS's statutory line of business in 2003 was as follows:

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

Due to the fact that part of the activity and a significant part of assets were transferred from VIS to its subsidiaries, the following companies from the VIS Group were consolidated on a pro-forma basis for the purposes of PZU Group's consolidation for the 12 months ending on 31 December 2003:

- VIS SA
- VIS Sp. z o.o.
- Sarmata Sp. z o.o.

The consolidated financial statements of of PZU Group for 2003 include data resulting from the pro-forma consolidation of VIS Group companies, unless indicated otherwise.

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

The PZU Capital Group's consolidated financial statements for 2003 ("consolidated financial statements") were drawn up by the parent company on the basis of the data from the consolidation documentation. The consolidation documentation is kept according to the Accountancy Act and the Finance Minister's Accounting Regulation for Insurance Companies.

The financial data from the individual financial statements of PZU Tower, PTE PZU, Centrum Informatyki Grupy PZU were allocated for consolidation purposes to the appropriate line items in the financial statement of the insurance company.

The format of the PZU Capital Group's consolidated financial statements for 2003 included in this document and the scope of disclosed information comply with the following provisions:
- Accountancy Act;
- Finance Minister's Accounting Regulation for Insurance Companies.

The financial year of the units whose financial statements were consolidated overlaps with the parent company's financial year. The financial year in the consolidated financial statements began on 1 January 2003 and ended on 31 December 2003.

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

3. Going concern assumption

The consolidated financial statements of PZU Group for 2003 have been drawn up under the assumption that the entities comprising the PZU Capital Group are going concerns for at least 12 months after the balance sheet date, in other words, after 31 December 2003. The PZU Management Board has not ascertained, as at the date of signing the consolidated financial statements, any facts or circumstances that would indicate a threat to PZU's ability to continue its activity over the 12 months after the balance sheet date as a result of an intentional or an induced discontinuation or a material curtailment of its hitherto activity.

3.1. Mergers of commercial companies

PZU and other companies did not merge in the period covered by the consolidated financial statements of PZU Group for 2003.

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

The following information has been presented below:
- list of the entities comprising the PZU Capital Group as at 31 December 2003 along with their financial highlights for 2003,
- table depicting the percentage of the share capital and the percentage of votes held directly or indirectly by PZU in the individual PZU Capital Group member companies as at 31 December 2003 and as at 31 December 2002 along with the lines of business of these companies.

No.	Item	Unit's equity, including:				
		Share capital (in PLN thousand)	Unpaid share capital (negative figure)	Reserve capital	Other equity, including:	Retained earnings (un-covered losses) carried forward
	Subsidiaries consolidated by the full method as at 31 December 2003:	**738 500**	**-**	**2 166 173**	**89 437**	**(587 812)**
1.	PZU Życie SA /4	295 000	-	1 699 055	583 393	-
2.	PTE PZU SA	32 000	-	288 000	(162 419)	(229 046)
3.	Centrum Informatyki Grupy PZU SA	500	-	20 118	7 997	-
4.	PZU Tower Sp. z o.o.	411 000	-	159 000	(339 534)	(358 766)
	Subsidiaries carried using the equity method as at 31 December 2003:	**57 000**	**-**	**300**	**(9 878)**	**(13 840)**
5.	Krakowska Fabryka Armatur SA (KFA) /1	57 000	-	300	(9 878)	(13 840)
	Unconsolidated subsidiaries as at 31 December 2003:	**19 521**	**-**	**14 793**	**5 197**	**(4 894)**
6.	PZU NFI Management SA /1	400	-	-	7 906	-
7.	SYTA Development Sp. z o.o. (in liquidation) /1 /3	(3 304)	-	-	-	-
8.	TFI PZU SA /1	10 000	-	3 562	(1 284)	(1 710)
9.	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS) /1	192	-	122	254	-
10.	Sigma Investments Sp. z o.o. /1	50	-	34	(7)	(5)
11.	PZU Asset Management SA /1	4 500	-	2 500	(4 558)	(3 179)
12.	Grupa Inwestycyjna Centrum Sp. z o.o. (in liquidation) (GIC) /1 /3	355	-	-	-	-
13.	CERPO Sp. z o.o. (in liquidation) /1 /3	(4 680)	-	-	-	-
14.	Grupa Multimedialna SA (in liquidation) /1 /3	(290)	-	-	-	-
15.	UAB DK Lindra /1 /4	12 298	-	8 575	2,886	-
	Affiliates carried using the equity method as at 31 December 2003:	**42 000**	**-**	**397**	**(22 167)**	**(13 760)**
16.	Fabryka Wyrobów Precyzyjnych VIS SA /1	42 000	-	397	(22 167)	(13 760)
	Unconsolidated affiliates as at 31 December 2003:	**98 009**	**-**	**706 749**	**(137 380)**	**(179 264)**
17.	Polskie Towarzystwo Reasekuracyjne SA (PTR) /1 /4	105 180	-	2 950	6 717	-
18.	Laktopol Sp. z o.o. /1 /6	10 000	-	388	7 877	(2 728)
19.	PPW Uniprom SA (bankrupt) /1 /3 /5	(67 341)	-	-	-	-
20.	IX NFi im. Kwiatkowskiego SA /1 /2	2 254	-	285 329	(5 664)	(34 777)
21.	Kolej Gondolowa Jaworzyna Krynicka SA /1	40 194	-	-	(17 055)	(17 355)
22.	ICH Center SA /1	510	-	362	1 129	-
23.	Nadwiślańska Agencja Ubezpieczeniowa SA /1	1 200	-	920	393	1
24.	IV NFI Progress SA /1 /2	3 006	-	239 185	(77 440)	(75 224)
25.	II NFI SA /1 /2	3 006	-	177 615	(53 337)	(49 181)
	TOTAL	**955 030**	**-**	**2 888 412**	**(74 791)**	**(799 570)**

1/ Data not audited by a chartered accountant.
2/ In the case of NFI, the line item "sales revenues" includes investment income, reserves, revaluation charges and realized and unrealized investment gains (losses).
3/ Due to liquidation or bankruptcy, the entire equity amount is presented in the "Share capital" item, which is consistent with Art. 36 section 3 of the Accountancy Act.
4/ The "Sales revenues" item is defined as the sum of gross written premium and other net technical income.

[%]

Net profit (loss)	Unit's liabilities, including:	- long-term	Unit's receivables, including:	- long-term	Unit's total assets	Sales revenues
674 175	**762 890**	**394 109**	**323 824**	**205 923**	**20 408 114**	**5 417 002**
580 319	326 130	2 368	293 816	205 562	19 526 506	5 136 175
66 627	2 427	-	9 213	293	183 293	132 143
7 997	10 861	1	11 976	-	44 154	71 618
19 232	423 472	391 740	8 819	68	654 161	77 066
3 962	**13 599**	**-**	**18 612**	**-**	**65 564**	**97 587**
3 962	13 599	-	18 612	-	65 564	97 587
4 326	**42 352**	**-**	**22 913**	**-**	**140 841**	**100 071**
7 906	424	-	2 756	-	9 585	19 039
-	17 408	-	3 403	-	29 212	(57)
(1 048)	170	-	564	-	12 704	5 590
97	225	-	211	-	792	2 325
(2)	-	-	-	-	78	-
(1 379)	314	-	60	-	2 756	311
-	-	-	35	-	355	1
-	4 690	-	-	-	10	-
-	6	-	8	-	31	1
(1 248)	19 115	n/a	15 876	n/a	85 318	72 861
(8 607)	**21 386**	**19 505**	**13 845**	**8 179**	**52 834**	**18 027**
(8 607)	21 386	19 505	13 845	8 179	52 834	18 027
70 195	**227 955**	**12 503**	**103 972**	**-**	**1 084 812**	**379 320**
6 550	23 994	n/a	62 102	n/a	324 011	210 716
136	24 006	843	24 948	n/a	42 586	83 597
-	154 143	n/a	4 416	n/a	88 001	1 374
34 225	5 502	n/a	2 198	n/a	288 602	42 991
294	12 281	11 660	567	-	35 590	7 784
698	307	-	720	-	2 531	3 894
392	167	-	161	-	2 681	1 998
20 946	3 612	n/a	4 583	n/a	169 210	13 388
6 954	3 943	n/a	4 277	n/a	131 600	13 578
744 051	**1 068 182**	**426 117**	**483 166**	**214 102**	**21 752 165**	**6 012 007**

5/ As there is no up-to-date information about the "Share capital" item, the level as at 31 August 2003 was presented. Only short-term receivables are shown in the items "Unit's receivables" and "Unit's liabilities".

6/ As there is no up-to-date information, the "Other equity" item includes the sum of all equity items as at 31 December 2002 (except for share capital and reserve capital and it was assumed that changes in equity in the discussed period of 12 months of 2003 resulted solely from the net result achieved in that period. The "Unit's receivables" item shows short-term receivables only.

No.	Company name	Seat	% of share capital held directly or indirectly by PZU		% of votes held directly or indirectly by PZU	
			31 Dec. 2002	31 Dec. 2003	31 Dec. 2002	31 Dec. 2003
	Subsidiaries consolidated by the full method as at 31 December 2003:					
1.	PZU Życie SA	Warsaw	100.00%	100.00%	100.00%	100.00%
2.	PTE PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%
3.	Centrum Informatyki Grupy PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%
4.	PZU Tower Sp. z o.o.	Warsaw	100.00%	100.00%	100.00%	100.00%
	Subsidiaries carried by the equity method as at 31 December 2003:					
5.	Krakowska Fabryka Armatur SA	Kraków	90.53%	90.53%	90.53%	90.53%
	Unconsolidated subsidiaries as at 31 December 2003:					
6.	PZU NFI Management SA	Warsaw	100.00%	100.00%	100.00%	100.00%
7.	SYTA Development Sp. z o.o. (in liquidation)	Warsaw	100.00%	100.00%	100.00%	100.00%
8.	TFI PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%
9.	Polska Grupa Usług Finansowych SA	Warsaw	100.00%	0.00%	100.00%	0.00%
10.	Biuro Likwidacji i Obsługi Szkód Sp. z o.o.	Warsaw	79.17%	79.17%	79.17%	79.17%
11.	Sigma Investments Sp. z o.o.	Warsaw	100.00%	100.00%	100.00%	100.00%
12.	PZU Asset Management SA	Warsaw	100.00%	100.00%	100.00%	100.00%
13.	Grupa Inwestycyjna Centrum Sp. z o.o. (in liquidation)	Warsaw	100.00%	100.00%	100.00%	100.00%
14.	CERPO Sp. z o.o. (in liquidation)	Gliwice	100.00%	100.00%	100.00%	100.00%
15.	Grupa Multimedialna SA (in liquidation)	Warsaw	99.35%	99.28%	96.82%	96.75%
16.	UAB DK Lindra	Vilnius (Lithuania)	75.28%	75.28%	74.33%	74.33%
	Affiliates carried by the equity method as at 31 December 2003:					
17.	Fabryka Wyrobów Precyzyjnych VIS SA	Warsaw	38.00%	45.14%	38.00%	45.14%
	Unconsolidated affiliates as at 31 December 2003:					
18.	Polskie Towarzystwo Reasekuracji SA	Warsaw	23.76%	23.76%	23.76%	23.76%
19.	Laktopol Sp. z o.o.	Warsaw	29.89%	29.89%	29.89%	29.89%
20.	PPW Uniprom SA (bankrupt)	Warsaw	21.28%	21.28%	21.28%	21.28%
21.	IX NFI im. Kwiatkowskiego SA	Warsaw	31.95%	31.95%	31.95%	31.95%
22.	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	35.97%	38.64%	35.97%	37.22%
23.	ICH Center SA	Warsaw	26.00%	26.00%	26.00%	26.00%
24.	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	30.00%	30.00%	30.00%	30.00%
25.	IV NFI Progress SA	Warsaw	20.27%	20.27%	20.27%	20.27%
26.	II NFI SA	Warsaw	20.13%	20.13%	20.13%	20.13%

Line of business
Life insurance
Establishing and managing OFE PZU
Auxiliary activity associated with insurance and pension funds
Buying, operating, renting and selling real estate
Manufacturing bathroom and kitchen fixtures
Purchasing and subscribing shares and ownership interests as well as financial and advisory activity in the area of exercising ownership rights to shares and ownership interests
Buying and selling real estate, intermediacy in buying and selling real estate, administering real estate
Establishing, representing and managing investment funds
Insurance intermediacy and insurance service
Administer claims handling under contract from insurance companies
Investment activity. Buying and selling the shares of public companies, bonds and other publicly-traded securities
Managed account services
Financial and advisory activity in the area of exercising ownership rights to shares and ownership interests
Provision of services in the area of collecting and processing information concerning vehicle records
Investment activity in the technology-media-telecommunication sector
Property insurance
Manufacturing tools, apparatus, spare parts
Organizing and conducting indirect insurance activity (reinsurance)
Milk and milk-derivative raw material processing
Publishing activity and service activity associated with printing; manufacturing paper and cardboard packaging
Financial activity, managing NFI assets
Conducting ski and tourist lifts
Claims handling under Greed Card
Service insurance
Financial activity, managing NFI assets
Financial activity, managing NFI assets

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

With respect to the financial year ending 31 December 2002, there were no changes in the composition of the entities included in the consolidated financial statements of PZU Group for 2003.

5. Fundamental accountancy principles (policy)

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

5.1. Consolidation rules

In the financial year ended 31 December 2003 the consolidated financial statements included 4 subsidiaries of the parent company using the full method and 2 entities carried by using the equity method.

The consolidated financial statements of PZU Group for 2003 include the balances of the parent company and the subsidiaries after eliminating mutual transactions and after recognizing minority interest in these subsidiaries.

For the purpose of drawing up the consolidated financial statements of PZU Group for 2003, the following consolidation exclusions were made with respect to the data of the units consolidated by the full method:

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

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

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

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

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

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

The foregoing valuation principles did not change as at 31 December 2003.

A principle was adopted in this financial year that the eliminated income, expenses, or profits which are unrealized from PZU Group's point of view are referred to the "profit (loss) carried forward" item irrespective of whether eliminated amounts concerned units that generated losses, or units generating profits posted to reserve capital.

5.2. Intangible assets

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

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

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

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

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

5.3.Investments

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

5.3.1. Real estate investments

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

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

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

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

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

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

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

5.3.2. Shares and ownership interests in unconsolidated affiliates not carried under the equity method

Shares and ownership interests in unconsolidated affiliates listed on a regulated market are carried at fair value.

Shares and ownership interests in unconsolidated affiliates that are not listed on a regulated market are carried at purchase price minus the impairment charges.

5.3.3. Shares and ownership interests in entities

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

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

Shares and ownership interests in other units listed on a regulated market classified either to the short-term or long-term portfolio are valued at fair value.

Shares and ownership interests in other units that are not listed on a regulated market are carried at purchase value minus impairment charges.

5.3.4. Debt securities

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

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

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

Debt securities not listed on a regulated market are carried at adjusted purchase value, while giving consideration to impairment.

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

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

5.3.5. Loans

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

5.3.6. Term deposits in credit institutions

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

5.3.7. Participation units in open-end investment funds

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

5.3.8. Investment certificates

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

5.3.9. Derivatives

With regard to derivatives that meet the criteria of hedging instruments, PZU applies hedging accounting principles, according to the Regulation on financial instruments.

Forward Rate Agreement transactions (FRAs) are valued by using the cost-to-close method, i.e. according to the closing cost of a given position on the market on the balance sheet date. An interest result on the concluded FRA transaction is compared to the interest result in the purchase transaction with the same parameters, i.e. maturity and the reference rate date, which could be concluded on the value date in order to close the position. The result of the comparison is discounted on the valuation data according to the current level of money market rates.

5.3.10. Investments of life insurance funds for which the policyholder bears the investment risk

Life insurance investments for which the policyholder bears the investment risk are carried at fair value determined on the balance sheet date.

5.3.11. Deposits with ceding companies

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

5.4. Receivables and liabilities

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

5.4.1. Insurance-related receivables

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

5.4.2. Reinsurance-related receivables

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

5.4.3. Other non-insurance receivables

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

5.5. Tangible asset components

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

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

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

[*]

innovation

Creativity and flexibility
are of the essence
in these times of
widespread competition.
PZU offers modern
solutions to meet
customers' needs.

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

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

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

Tangible non-current asset components also include fixed assets under construction. Fixed assets under construction are carried at the total cost directly associated with their purchase or performance minus impairment charges. Investment materials are posted as part of fixed assets under construction. Fixed assets under construction are not depreciated until their construction ends and they are commissioned for use.

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

5.6. Cash

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

5.7. Prepayments, deferred income and accruals

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

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

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

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

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

5.8. Equity

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

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

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

5.9. Consolidation goodwill

Consolidation goodwill applies as at 31 December 2003 to PZU Życie and Centrum Informatyki Grupy PZU. The parent company has determined the consolidation goodwill according to the net book value of Centrum Informatyki Grupy PZU assets as at 30 November 2001 and for PZU Życie as at 12 November 2002, pro rata to the share of capital held by the PZU Group in Centrum Informatyki Grupy PZU and PZU Życie, respectively.

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

5.10. Minority interest

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

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

5.11. Technical reserves

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

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

5.11.1. Unearned premium reserve

Property and casualty insurance

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

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

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

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

Life insurance

The unearned premium reserve is established as the part of gross written premium for future reporting periods pro rata to the period for which the premium is written.

5.11.2. Life insurance reserve

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

- employee group insurance and individual continued insurance - this reserve is created based on the prospective actuarial method entailing the determination of a reserve for each insurance agreement separately, on the basis of specific statistical data concerning the persons with insurance coverage,
- unit-linked insurance - cumulatively as a per-

centage of the fund value in order to cover the life risk according to the general terms and conditions for this type of insurance,
- other insurance - by the prospective actuarial method for each insurance agreement separately.

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

5.11.3. Claims reserve

Property and casualty insurance

5.11.3.1. Claims reserve

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

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

The reserve is set and updated in PZU's operating units immediately after the receipt of information that influences its value, by individual evaluation or adjustment of claims and benefits. During the financial period, it is permissible to establish a reserve for claims as the difference between the opening balance of this reserve and the claims paid from this reserve in the reporting period under examination.

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

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

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

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

5.11.3.2. Capitalized annuities under third party liability insurance

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

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

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

The annuity IBNR reserve is established separately for term annuities and lifetime annuities as the product of the following:

- anticipated number of claims,
- average amount of the anticipated claim, and
- average co-efficient from the relevant tariff weighted by the sums of annual disbursements for individual age groups (for lifetime annuities) or periods (for term annuities) according to the balance at the end of the reporting period.

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

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

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

Life insurance

5.11.3.3. Claims reserve, including the capitalized annuity reserve

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

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

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

The claims reserve also encompasses the claims handling expense reserve.

5.11.4. Other technical reserves in property and casualty insurance

5.11.4.1. Unexpired risk reserve

The unexpired risk reserve is created as an addition to the premium reserve to cover future indemnification, benefits and costs under insurance agreements that do not expire on the last day of the reporting period.

The unexpired risk reserve is set in the PZU Head Office for all groups (types) of insurance for which the loss ratio in the financial period is greater than 100%.

The unexpired risk reserve is set by the flat rate method as the difference between the product of the unearned premium reserve and the loss ratio in the financial period (quotient of the liabilities resulting from the accidents incurred in a given financial period and the earned premium), and the unearned premium reserve for the same term of insurance.

The reinsurers' share in the unexpired risk reserve is set according to the regulations set forth in the pertinent reinsurance treaties.

5.11.4.2. Loss ratio (risk) equalization reserve

The loss ratio (risk) equalization reserve is established in property and casualty insurance at the amount that is supposed to ensure equalization of fluctuation in the loss ratio in the future.

According to the Finance Minister's Accounting Regulation for Insurance Companies, the reserve is established on the last day of the financial year.

5.11.4.3. Reserve for dividends and profit-sharing

At present, PZU has no product for which it would have to establish a reserve for dividends and profit-sharing.

5.11.4.4. Reserve for catastrophic losses and exceptional risks

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

5.11.5. Other life insurance reserves

5.11.5.1. Technical reserves for life insurance if the policyholder bears the investment risk

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

5.11.5.2. Other technical reserves specified in PZU Życie's articles of association

Other technical reserves specified in PZU Życie's articles of association include:

- reserve to restate the benefits from individual life insurance and annuities assumed from PZU (referred to as the old portfolio),
- reserve for the litigation in progress and the benefits in connection with court decisions (pursuant to art. 358[1] §3 of the Civil Code) in the matter of a change in the amount or in the method of making a pecuniary performance, [the reserves mentioned above for litigation correspond to the anticipated value of the additional benefits resulting from litigation based on the information held by PZU Życie concerning the trends in the settlements made and the completed court trials],
- low interest rate reserve associated with the investment income from the insurance fund for insurance with a guaranteed rate of return.

The low interest rate reserve associated with the predicted reduction in the yields on insurance fund investments for individual life insurance, individual life insurance with a growing sum insured and premium, type Firma group insurance and annuities is created by the actuarial method for each insurance agreement individually as the amount corresponding to the difference between the following:

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

5.11.5.3. Reserve for bonuses and rebates for the insureds

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

5.12. Other reserves

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

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

5.13. Deposit liabilities towards reinsurers

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

5.14. Investment activity income and expenses

5.14.1. Interest income on deposits in credit institutions

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

5.14.2. Income and expenses on debt securities in property and casualty insurance

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

In the event of debt securities (besides investments covering the reserves for capitalized annuity benefits and bonuses and rebates on property and casualty insurance) classified as being in the long-term available for sale investment portfolio, the difference between the adjusted purchase value or valuation at the end of the previous financial year and the purchase value is posted as "Unrealized investment gains / losses".

The negative difference between the fair value and the adjusted purchase value is referred to the financial result, and the positive difference between the fair value and the adjusted purchase value is referred to "Revaluation reserve".

The adjusted purchase value is the purchase value adjusted by the accumulated discounted difference between the initial value of a security and its value at maturity, calculated by using the effective interest rate.

The revaluation result on securities classified as being in the short-term and long-term held-to-maturity investment portfolio, i.e. the difference between the adjusted purchase value and the purchase value, is captured in the line item entitled "Unrealized investment gains / losses".

The income realized on the sale / redemption of debt securities is carried in the line item entitled "Realized investment gain / loss".

The income on revaluation of investments covering the reserves for capitalized annuities and bonuses and rebates is carried in the technical insurance account for property and casualty insurance.

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

5.14.3. Real estate income

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

Income on real estate treated as investments is carried in the line item entitled "Investment income on real estate" in the non-technical profit and loss account (in property and casualty insurance) or in the technical profit and loss account (in life insurance).

5.14.4. Income and expenses on shares and ownership interests in property and casualty insurance

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

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

The negative valuation difference between purchase value and the fair value is referred as a rule to the profit and loss account, and the reduction in investment value previously revalued to an amount by which the revaluation reserve was increased shall first cause the revaluation reserve to be reduced, and then the effects of reducing the investment value shall be recorded in unrealized investment losses.

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

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

The income on investments covering life insurance reserves is captured in the technical life insurance account and is then broken down into its technical and non-technical part. The method of settlement is depicted in item 5.14.5 of the consolidated financial statements of PZU Group for 2003 .

5.14.5. Presentation of investment income in life insurance

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

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

The investment income posted to income in the non-technical profit and loss account is calculated as the product of total investment income and the unrealized income minus the investment activity expenses respectively excluding the investment income, unrealized investment income and investment activity expenses on life insurance investments on investment risk agreements, investments made with shareholder funds and the ratio of the total average investment value (excluding investments made with shareholder funds and investments at the policyholder's risk) and the mean value of cash minus the technical reserves to the sum of the mean investment value (excluding investments made with shareholder funds and investments at the policyholder's risk) and the mean value of cash.

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

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

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

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

5.15.1. Property and casualty insurance

The records of written premium income are kept by the due and payable date, which in the area of direct insurance means the date of the first day of the insurance term specified in the insurance agreement (policy), but no earlier than the premium payment date, if the insurance agreement makes PZU's liability dependent upon the payment of the premium. The foregoing requirement for recording premium income is deemed to be met if the premium income is registered in the month in which the date of the premium coming due and payable occurs. According to KNUiFE's interpretation of 9 December 2002, a premium paid in the period up to the last day of the reporting period (inclusively), for policies with an insurance term from the first day of the next month is carried as deferred income as of the date ending the reporting period.

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

5.15.2. Life insurance

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

5.16. Net investment income after considering costs, transferred from the non-technical profit and loss account

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

$$D_k = \sum_{i=1}^{k} RSWR_{i\text{-}1} \cdot r_i$$

where

D_k - income on investments covering the capitalized annuity reserve, at the end of month k,

$RSWR_{i\text{-}1}$ - net capitalized annuity reserve, at the end of the month preceding month i,

r_i - yield of State Treasury Bonds held by PZU to maturity, in month i, in consideration of reasonable investment activity expenses.

Up to 31 December 2002 inclusively, PZU used a different methodology to calculate income on investments transferred from the non-technical profit and loss account to the technical property and casualty insurance account, because the capitalized annuity reserve was not separated.

5.17. Expenses of claims paid

5.17.1. Property and casualty insurance

The indemnification and benefits on direct insurance are recorded on the date of disbursement notwithstanding the date when the claim occurred and was registered. The value of indemnification and benefits carried in the technical property and casualty insurance includes all disbursements and charges made in the reporting period on account of indemnification and benefits for loses and accidents, which occurred in the reporting period and in previous periods, including all claims handling and recourse recovery expenses, minus returns, recourses and all salvages.

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

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

partnership

A partner should be reliable notwithstanding the circumstances.
A good insurer is always close by.
Just like PZU.

5.17.2. Life insurance

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

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

5.18. Insurance activity expenses

5.18.1. Property and casualty insurance

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

In order to ensure commensurability of PZU's acquisition income (gross written premium) and costs, acquisition costs include due but not payable commission concerning the current reporting period, reconciliation of non-payable commissions accrued in the previous reporting period, and deferred incurred and accrued acquisition costs concerning the subsequent reporting periods.

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

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

5.18.2. Life insurance

Acquisition costs are direct and indirect costs associated with the conclusion of insurance agreements, including the expenses of activities, which:
- lead towards concluding new insurance agreements and including them in the portfolio, which results in acquiring new premiums, or
- lead towards changing the coverage or renewing insurance agreements and including such changes in the portfolio, which results in acquiring new premiums.

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

5.19. Expenses associated with administering the real estate owned by the PZU Group companies and used for their proprietary needs

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

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

5.20. Marketing and advertising expenses

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

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

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

5.21.1. Management fee on managing OFE PZU "Złota Jesień"

PTE PZU receives remuneration for managing OFE PZU "Złota Jesień" of no more than 0.05% of the net asset value under management per month according to Attachment number 3 to the Articles of Association of OFE PZU. In 2003 and in previous years PTE PZU charged a management fee of 0.05%.

5.21.2. Distribution fee

PTE PZU charges a distribution fee to the contributions transferred by the ZUS Social Security Company ("ZUS") to OFE PZU "Złota Jesień" in the amount specified by the Fund's Articles of Association. The distribution fee is:

- 9% of every contribution made by an OFE PZU member during the first two years after the date of obtaining membership,
- 7% of the contribution amount in the period from the beginning of the third year to the end of the fifteenth year after the date of obtaining membership in OFE PZU,
- 3% of every contribution made by an OFE PZU member in the period starting from the beginning of the sixteenth year after the date of obtaining membership in OFE PZU.

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

5.21.3. Transfer payment fees at PTE PZU

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

5.21.4. Contributions to KNUiFE and the Insureds' Ombudsman

PTE PZU transfers a fee to KNUiFE at the level of 0.12% of total contributions paid in 2003 to the Fund managed by PTE PZU, and to the Insureds' Ombudsman - at 0.0066% of total contributions paid in 2003 to the Fund.

5.21.5. Contributions to the Indemnity Fund

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

5.21.6. Contributions to the reserve account

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

PTE PZU SA has embraced the principle of recording the contributions to the reserve account as costs at the time of posting the payment due to the reserve account. On 1 October 2003, the amended Act on the Organization and Operation of Pension Funds came into force (Journal of Laws, Number 170/2003, Item 1651).

5.21.7. Fees paid to the National Securities Depository (KDPW)

PTE PZU SA is obligated to pay a fee to KDPW to reimburse the costs of performing the duties associated with handling transfer payments.

Up to 14 October 2003, the fee was 1% of the minimum salary. According to the amended Pension Fund Act, PTE PZU SA pays a fee of 1% of the minimum salary defined in other regulations for each settled transfer payment.

5.21.8. Fees paid to the Social Security Company (ZUS)

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

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

5.22. FX transactions

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

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

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

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

5.23. Taxation

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

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

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

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

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

In 2003, PZU and PZU Życie selected the simplified procedure for paying CIT advances, provided for in art. 25 section 7 item 1, on the basis of art. 25 section 6 of the Corporate Income Tax Act of 15 February 1992 (Journal of Laws of 2000, Number 54, Item 654 as amended). According to principles binding since 1 January 2003, the flat rate monthly CIT advances are 1/12 of the due tax declared in the annual tax statement filed in the previous fiscal year. PZU and PZU Życie are obligated to make the flat rate payments by the deadlines, but they are not obligated to file monthly declarations.

In order to ensure that income amounts are commensurate to expenses and make sure that the data are comparable, despite the fact that PZU and PZU Życie make tax settlements in flat rate payments, the consolidated financial statements include amounts due to the Tax Office on account of Corporate Income Tax calculated by using rules binding in the previous years.

5.24. Employee leave expenses

The employees of the PZU Group companies are vested with the right to leave according to the terms and conditions prescribed by the provisions of the labor code (Journal of Laws, Number 21/1998, Item 94). The companies recognize the cost of employee leave on an accrual basis by using the liability method. The liability for employee leave is determined based on the difference between the factual status of the employees' utilization of leave and the status that would exist if the leave was used pro rata to the elapse of time in the period for which the employees are vested with this leave.

5.25. Retirement and disability severance pay and jubilee awards

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

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

5.26. Embedded derivatives

Separate embedded derivatives are carried as at 31 December 2003 as other receivables/liabilities, which results from the nature of agreements. They are valued at fair value and changes thereto are captured in the consolidated non-technical profit and loss account in the line items entitled "other operating income" or "other operating expense".

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

6.1. Changes concerning the registration of emergency adjustment and recovery receivable settlements

In 2003, PZU reclassified the former emergency adjustment receivables to recovery receivables, which - after claims are paid (chiefly motor own damage insurance) - it submits to other insurance companies, where the guilty party has concluded a third party liability insurance agreement.

Had the above rule been used to post receivables in the 2003 opening balance, then the receivables shown in the asset item entitled "Insurance-related receivables - other receivables" would have been PLN 15 938 thousand higher, and receivables shown in the asset item entitled "Other receivables" would have been lower by that same amount.

6.2. Changes concerning the registration of settlements

Due to the fact that a new financial and accounting system and a new chart of accounts were introduced on 1 January 2003 in the PZU Head Office, settlements are presented differently in the consolidated financial statements. At present, the settlements, including those on account of reinsurance and insurance are presented in a split layout for all agreements in force, separately for receivables and liabilities for a given type of settlement.

The financial system operating at the end of 2002 made it impossible to present settlements in a split layout, separately for respective receivables and liabilities. The restatement of 2002 data in a form comparable to 2003 data is not reasonable on account of the workload involved.

The foregoing changes impact solely the presentation of some asset and liability items, and do not influence the PZU Group's financial result.

6.3. Change in the method for calculating income on investments transferred from the non-technical profit and loss account to the technical property and casualty insurance account

As there was no separate investment portfolio to cover capitalized annuities up to 31 December 2002 inclusively, PZU used a simplified methodology to calculate income on investments transferred from the non-technical profit and loss account. Had one applied the principles for calculating investment income net of expenses, transferred from the non-technical profit and loss account applied in 2003 to 2002, then the transferred income amount would have been PLN 212 640 thousand.

6.4. Introduction of the perpetual usufruct right to land to the balance sheet

In 2003, PZU introduced to its accounting ledgers the perpetual usufruct right to land acquired gratuitously according to administrative decisions.

The above rights were entered in the ledgers at the amount resulting from administrative decisions received up to 31 December 2001, which set the annual fee for the perpetual usufruct right to land, minus depreciation calculated for 2002 and 2003.

The foregoing perpetual usufruct right to land was posted in balance sheet items, in the item entitled "Tangible asset components" and in balance sheet liabilities, in the item entitled "Deferred income".

The perpetual usufruct right to land is depreciated.

Had the foregoing perpetual usufruct right to land been entered in the ledgers on 1 January 2002 according to the Accountancy Act, then the initial value of these rights and deferred income corresponding to them would PLN 14 561 thousand. In the period from 1 January 2002 to 31 December 2003, a perpetual usufruct right to land worth PLN 281 thousand was received and a right worth PLN 282 thousand was sold. Depreciation and accumulated depreciation calculated for the perpetual usufruct rights posted in accounting ledgers as at 31 December 2003 amount to PLN 351 thousand. The balance sheet value of the perpetual usufruct right and deferred income as at 31 December 2003 was PLN 14 209 thousand.

6.5. Reserve for pension benefits and other compulsory employee benefits

In 2003, PZU increased its reserve for pension benefits and jubilee awards by PLN 76 493 thousand. The increase is caused by obtaining more precise data about persons dismissed from PZU.

6.6. Contributions made by PTE PZU SA to the reserve account in the PZU Złota Jesień Open-end Pension Fund

In 2003, PTE PZU's costs by virtue of the contributions made to the reserve account in the PZU Złota Jesień Open-end Pension Fund amounted to PLN 19 374 thousand.

6.7. Change in the manner of referring the consolidation eliminations introduced in previous years

A principle was adopted in this financial year that the eliminated income, expenses, or profits which are unrealized from PZU Group's point of view are referred to the "profit (loss) carried forward" item irrespective of whether the eliminated amounts concerned entities that generated losses, or entities generating profits posted to reserve capital.

In previous years, the eliminated income, expenses or profits which are unrealized, from PZU Group's point of view, were referred to the reserve capital item if the eliminated amounts were recorded in entities which reposted their profits to reserve capital according to decisions made by the Shareholders' (Partners') Meeting. The eliminated income, expenses or profits which are unrealized from PZU Group's point of view were referred to the item entitled "profit (loss) carried forward" if the eliminated amounts were recorded in units that did not increase their reserve capital due to losses they incurred.

As a result of the change in the manner of referring consolidation eliminations, the reserve capital as at 31 December 2002 was increased by PLN 192 778 thousand compared to the amount posted in the report for 2002, and the item "profit (loss) carried forward" decreased by PLN 192 778 thousand.

The change in the principles of presenting consolidation eliminations did not influence the total equity level or financial results in any of the presented financial years.

6.8. Change in the manner of eliminating rental fees and IT services

In 2003, the expenses incurred by PZU and PZU Życie on account of services provided by PTU Tower and Centrum Informatyki Grupy PZU are subject to elimination from the item entitled "Administrative expenditures" of the consolidated cash flow statement. In order to ensure that data for the 12 months are comparable, they were presented differently from the consolidated statement for 2002.

As a result of the change, the items "Other expenditures on direct activity and inward reinsurance" in 2002 increased by PLN 96 752 thousand, whereas "Administrative expenditures" decreased by PLN 96 752 thousand as compared to the data presented in the previous year.

Cash flow on operating activity did not change with respect to the data presented in the consolidated financial statements for the 12 months ending on 31 December 2002.

6.9. Change in the consolidation eliminations concerning administrative expenses in life insurance

In the financial year ending on 31 December 2003, a more detailed method was adopted for eliminating administrative expenses in life insurance for consolidation purposes. The method incorporated the fact that PZU Życie allocated its expenses according to Activity-Based Costing rules.

In order to ensure comparability with the data for the current financial year, the data for the 12 months ending on 31 December 2002 were presented according to the methodology used in 2003.

The change did not influence PZU Group's net consolidated financial result for the 12 months ending on 31 December 2002.

7. Financial statements of consolidated companies ("financial statements") - legal regulations taking force on 1 January 2004

The financial statements for the year ending 31 December 2003 were drawn up according to the Accountancy Act of 29 September 1994 binding on 31 December 2003 and the Finance Minister's Accounting Regulation for Insurance Companies of 10 December 2001 (Journal of Laws, Number 149, Item 1671) binding on 31 December 2003. Regulations of the Act of 12 December 2003 amending the Act entitled the Commercial Company Code and certain other acts (Journal of Laws, Number 229, Item 2276), the Insurance Activity Act of 22 May 2003 (Journal of Laws, Number 124, Item 1151) and Accounting Regulation for Insurance Companies of 8 December 2003 (Journal of Laws, Number 218, Item 2144) shall come into force on 1 January 2004 and apply for the first time to financial statements drawn up for the financial year starting on 1 January 2004. The adjustments that are required to satisfy requirements of the amended Insurance Activity Act will be presented in the financial statements for the year ending 31 December 2004 as an adjustment in the opening balance of profit carried forward on 1 January 2004, as they result from changes of accounting principles required by the law and are applied retrospectively. The foregoing adjustments will concern among others:

- valuation of investments, including valuation of ownership interests in subsidiaries,
- changes in the classification of real estate used for proprietary needs,
- changes in determining recourse income and reinsurer's share in due recourse amounts,
- changes in establishing technical reserves,
- exchange rate differences.

7.1. Principles applicable to insurance companies of the PZU Group (PZU SA and PZU Życie SA)

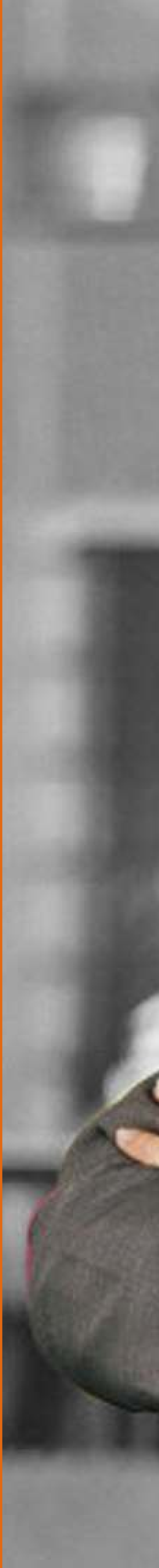
According to the Finance Minister's Regulation of 28 November 2003 on calculating the solvency margin and the minimum amount of the guarantee capital for insurance sections and groups (Journal of Laws 2003 Number 211, Item 2060 ("amended regulation"), the capital requirements on insurance companies increase considerably. Until 31 December 2006, PZU Group companies may calculate the solvency margin and determine the minimum guarantee capital amount according to the Regulation of 17 October 1995 on calculating the solvency margin and its level and the minimum amount of the guarantee capital for each insurance type and for reinsurance activity (Journal of Laws of 1995, Number 127, Item 606). The date when PZU Group companies will start to calculate their solvency margin according to the amended regulation has not yet been set.

The important change in determining the balance of assets to cover technical reserves resulting from art. 154 and 155 of the Insurance Activity Act of 22 May 2003 (Journal of Laws of 2003, Number 124, Item 1151) is that the reinsurers' share of technical reserves may be considered as being assets to cover technical reserves up to 25% of the limit. At present we are not certain whether the reinsurers' share in technical reserves may be classified as assets to cover technical reserves due to the requirement stated in art. 155 section 1 item 8 of the Insurance Activity Act.

[!]

success

Exceptional results
are attainable only with
great commitment.
That is PZU's motto.



The adjustments that are required to satisfy the requirements of the amended Insurance Activity Act will be presented in the financial statements for the year ending 31 December 2004 as an adjustment of the opening balance on 1 January 2004, as they result from changes of accounting principles required by the law and are applied retrospectively. As at the date of this statement, the PZU Group companies have not yet finished calculating the above adjustments.

7.2. Principles applicable to all PZU Group companies

In connection with the amendment of the Accountancy Act of 29 September 1994 introduced by the Act of 12 December 2003 amending the Act entitled the Commercial Company Code and certain other acts (Journal of Laws, Number 229, Item 2276), a change will be introduced in rules for carrying assets and liabilities in a foreign currency.

According to paragraph 56 of the Finance Minister's Accounting Regulation for Insurance companies, the data of subsidiaries which conduct insurance activity and subsidiaries which do not conduct insurance activity but are established to perform specific functions, especially to perform, under engagement from an insurance company, the activity defined in art. 3 section 4 items 1-6 and section 5 of the Insurance Activity Act towards the parent company, another capital group or for an entire capital group are consolidated by using the full method.

The above regulation applies to the following PZU Group companies: PZU Tower, Centrum Informatyki Grupy PZU, PTE PZU. The regulation's entry into force will not affect the method for consolidating the above entities, because as at 31 December 2003, they were also consolidated by the full method.

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

The PZU Group's consolidated financial statements for 2003 include the adjustment of the corporate income tax for 2000 according to the decision made by the Tax Office in Warsaw. As a result of annulling the decision made by the Tax Audit Office (Urząd Kontroli Skarbowej), Centrum Informatyki Grupy PZU received a refund of overpaid tax of PLN 1 329.2 thousand, a refund of overpaid interest of PLN 593.5 thousand as well as interest of PLN 237.5 thousand on the overpaid amounts.

Additionally, an adjustment was made to the corporate income tax settlement for 2001, which increased the tax liability of Centrum Informatyki Grupy PZU by PLN 182 thousand. Late payment interest on the above amount was PLN 58 thousand. The adjustment of the settlement concerns cost items, which were not classified as tax deductible expenses by the tax authorities in the audited period, and which were also incurred by Centrum Informatyki Grupy PZU in 2001 (rentals, expenses for IT services provided gratuitously to business partners).

The amounts listed above were entered in the books and stated in these consolidated financial statements.

On 24 October 2003, PZU adjusted the corporate income tax declaration for 2002.

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

Up to the date of drawing up the consolidated financial statements, no material events have occurred that were not captured in the financial year's accounting ledgers.

10. Result on discontinued activity

During 2003 the PZU Capital Group entities included in the consolidated financial statements did not dis-continue any type of activity.

PZU Group's
consolidated financial statements

ERNST & YOUNG

Ernst & Young Audit sp. z o.o.
ul. Emilii Plater 53
00-113 Warszawa

Tel. +48 22 557 70 00
Fax +48 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

We issued previously the audit opinion without qualifications dated March 16, 2004 on the consolidated financial statements for the year ended December 31, 2003 as presented below:

"INDEPENDENT AUDITORS' OPINION

For the Supervisory Board of Powszechny Zakład Ubezpieczeń S.A.

1. We have audited the consolidated financial statements for the year ended December 31, 2003 of Powszechny Zakład Ubezpieczeń S.A. Capital Group ("the Group"), the holding company of which is Powszechny Zakład Ubezpieczeń S.A ("the Company", "the holding company") located at Jana Pawła II 24 Avenue in Warsaw containing:

   - the introduction to the consolidated financial statements,
   - the consolidated balance sheet as at December 31, 2003 with total assets amounting to 34,869,797 thousand zlotys (in words: thirty four billion eight hundred sixty nine million seven hundred ninety seven thousand zlotys),
   - the listing of the off-balance sheet items,
   - the consolidated revenue account for life insurance for the period from January 1, 2003 to December 31, 2003 with the underwriting profit to be carried forward to the profit and loss account amounting to 671,301 thousand zlotys (in words: six hundred seventy one million three hundred one thousand zloty),
   - the consolidated revenue account for property and casualty insurance for the period from January 1, 2003 to December 31, 2003 with the underwriting profit to be carried forward to the profit and loss account amounting to 283,682 thousand zlotys (in words: two hundred eighty three million six hundred eighty two thousand zlotys),
   - the consolidated profit and loss account for the period from January 1, 2003 to December 31, 2003 with a net profit amounting to 1,511,746 thousand zlotys (in words: one billion five hundred eleven million seven hundred forty six thousand zlotys),
   - the consolidated cash flow statement for the period from January 1, 2003 to December 31, 2003 with a net cash inflow amounting to 1,092 thousand zlotys (in words: one million ninety two thousand zlotys) ,
   - the statement of changes in shareholders' consolidated equity for the period from January 1, 2003 to December 31, 2003 with a net increase in shareholders' equity amounting to 1,076,576 thousand zlotys (in words: one billion seventy six million five hundred seventy six thousand zlotys),
   - the additional notes and explanations.

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Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

2. The truth and fairness[1] of the consolidated financial statements and the proper maintenance of the accounting records are the responsibility of the holding company's Management Board. Our responsibility was to audit the consolidated financial statements and to express an opinion whether, based on our audit, these consolidated financial statements present, in all material respects, truly and fairly[2] the financial position and financial results of the Group.

3. We conducted our audit of the consolidated financial statements in accordance with the following regulations being in force in Poland:

   - chapter 7 of the Accounting Act, dated September 29, 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance as to whether the consolidated financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the consolidated financial statements. The audit also included assessing the accounting principles adopted and used by the Group and significant estimates made by the Management of the holding company, as well as evaluating the overall presentation of the financial statements. We believe our audit has provided a reasonable basis to express our opinion on the consolidated financial statements treated as a whole.

4. In our opinion, the consolidated financial statements, in all material respects:

   - present truly and fairly all information material for the assessment of the financial result of the Group's operations for the period from January 1, 2003 to December 31, 2003, as well as its financial position[3] of the audited Group as at December 31, 2003;
   - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and the regulations issued based on that Act;
   - are in accordance with the Accounting Act referred to above and the regulations issued based on that Act that affect their content.

5. We have read the Directors' Report on the Group's activity for the period from January 1, 2003 to December 31, 2003 ("Directors' Report") and concluded that the information derived from the consolidated financial statements reconciles with the consolidated financial statements. The information included in the Directors' Report corresponds with Art. 49 clause 2 of the Accounting Act as well as § 47 clause 2 of the Minister of Finance Decree dated December 10, 2001 on specific principles of insurers' accounting."

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[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"
[3] Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"

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Translation of auditors' opinion originally issued in Polish
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In our opinion the information presented in the published, condensed financial statements on pages 107 to 121 of this annual report is in all material respects fairly stated in relation to the consolidated financial statements from which it has been derived. The consolidated financial statements that were audited by us include notes that were not fully presented in the attached condensed consolidated financial statements. In order for the reader to obtain a true and fair view of the state of affairs of the Group as at December 31, 2003 and the results of its operations for the period from January 1, 2003 to December 31, 2003, the reader must review the full financial statements in their entirety including all supporting schedules and statutory disclosures as required by the Accounting Act and the regulations based thereof.

Certified Auditor
Ident. 90015/215

on behalf of
Ernst & Young Audit Sp. z o.o.
ul. Emilii Plater 53, 00-113 Warsaw
Ident. 130

Duleep Aluwihare

Tomasz Bieske
Certified Auditor No 9291/6975

Warsaw, June 21, 2004

3

PZU Group's consolidated balance sheet

Assets

Item	31 Dec. 2002	31 Dec. 2003
		(000s of PLN)
A. Intangible assets, including:	63 709	74 722
1. Goodwill	-	-
2. Other intangible assets and advance payments towards intangible assets	63 709	74 722
B. Goodwill on consolidation	7 346	5 475
C. Investments	26 208 336	30 214 580
I. Real estate	266 940	246 298
1. Own land and the right of usufruct to land	87 740	73 836
2. Buildings, structures and cooperative ownership right to premises	169 163	161 308
3. Construction in progress and advance payments towards such investments	10 037	11 154
II. Investments in affiliated entities, including:	192 109	218 977
1. Ownership interests or shares in affiliated entities	187 767	211 730
2. Loans granted to affiliated entities and debt securities issued by these entities	4 342	7 247
3. Other investments	-	-
III. Other financial investments	25 744 895	29 744 749
1. Ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	1 314 902	2 360 491
2. Debt securities and other fixed-income securities	23 668 671	26 665 898
3. Ownership interests in joint investment ventures	50	50
4. Mortgage-backed loans	8 750	6 787
5. Other loans	-	-
6. Term deposits in credit institutions	751 520	710 358
7. Other investments	1 002	1 165
IV. Deposits with ceding companies	4 392	4 556
D. Investments of life insurance assets for which the policyholder bears the investment risk	1 217 994	1 392 603

Item	(000s of PLN)	
	31 Dec. 2002	31 Dec. 2003
E. Receivables	1 431 474	1 184 157
I. Receivables on direct insurance	1 018 707	950 171
1. Receivables from policyholders, including:	981 420	916 633
1.1. from affiliated entities	26	-
1.2. from other entities	981 394	916 633
2. Receivables from insurance intermediaries, including:	25 073	11 424
2.1. from affiliated entities	7 926	8 744
2.2. from other entities	17 147	2 680
3. Other receivables, including:	12 214	22 114
3.1. from affiliated entities	-	132
3.2. from other entities	12 214	21 982
II. Reinsurance-related receivables, including:	110 175	84 141
1. from affiliated entities	-	2 983
2. from other entities	110 175	81 158
III. Other receivables, including:	302 592	149 845
1. Receivables from the state budget	149 879	1 592
2. Other receivables, including:	152 713	148 253
2.1. from affiliated entities	840	18 528
2.2. from other entities	151 873	129 725
F. Other assets	1 486 094	1 482 877
I. Tangible assets	1 239 003	1 169 010
II. Cash	241 125	242 309
III. Other assets	5 966	71 558
G. Prepayments and accruals	560 460	515 383
I. Deferred income tax assets	88 337	74 172
II. Capitalized acquisition expenses	446 727	410 685
III. Posted interest and rents	777	387
IV. Other accruals	24 619	30 139
Total assets	**30 975 413**	**34 869 797**

Liabilities and equity

Item	31 Dec. 2002	31 Dec. 2003
	(000s of PLN)	
A. Equity	4 964 527	6 041 103
I. Share capital	86 352	86 352
II. Unpaid share capital (negative figure)	-	-
III. Treasury stock (negative figure)	-	-
IV. Reserve capital	3 313 652	4 546 849
V. Revaluation reserve	469 260	163 510
VI. Other reserve capital	-	-
VII. FX differencies on valuation of subordinates	-	-
1. FX gains	-	-
2. FX losses (negative figure)	-	-
VIII. Profit (loss) carried forward	(145 535)	(267 354)
IX. Net profit (loss)	1 240 798	1 511 746
X. Charges to net profit during the financial year (negative figure)	-	-
B. Negative goodwill of subordinated entities	-	-
C. Minority interest	-	-
D. Subordinated debt	-	-
E. Technical reserves	25 797 534	28 023 579
I. Unearned premium reserve and unexpired risk reserve	3 269 106	3 278 611
II. Life insurance reserve	12 439 805	13 661 287
III. Claims reserve	7 336 183	7 749 761
IV. Reserve for bonuses and rebates for the insureds	4 316	3 899
V. Loss ratio (risk) equalization reserve	572 700	581 615
VI. Other technical reserves	953 394	1 349 999
VII. Technical reserves for life insurance if the policyholder bears the investment risk	1 222 030	1 398 407
F. Reinsurers' share of the technical reserves	1 898 358	1 697 908
I. Reinsurers' share in the unearned premium reserve and unexpired risk reserve	180 163	157 883
II. Reinsurers' share in the life insurance reserve	150	152
III. Reinsurers' share in the claims reserves	1 718 045	1 539 873
IV. Reinsurers' share in the reserve for bonuses and rebates for the insureds	-	-
V. Reinsurers' share in other technical reserves	-	-
VI. Reinsurers' share in the technical reserves for life insurance if the policyholder bears the investment risk	-	-
G. Other reserves	961 498	732 674
I. Reserves for pension benefits and other compulsory employee benefits	230 027	303 682
II. Deferred income tax reserve	553 687	223 416
III. Other reserves	177 784	205 576

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
H. Deposits due to reinsurers	32	54
I. Other liabilities and special-purpose funds	519 443	1 104 389
I. Liabilities on direct insurance	233 029	214 565
1. Liabilities to policyholders, including:	130 312	119 477
1.1. to affiliated entities	34	-
1.2. to other entities	130 278	119 477
2. Liabilities to insurance intermediaries, including:	100 838	93 583
2.1. to affiliated entities	3 226	2 588
2.2. to other entities	97 612	90 995
3. Other insurance-related liabilities, including:	1 879	1 505
3.1. to affiliated entities	-	-
3.2. to other entities	1 879	1 505
II. Reinsurance-related liabilities, including:	63 473	105 625
1. to affiliated entities	-	3 840
2. to other entities	63 473	101 785
III. Liabilities on the issue of own debt securities and drawn loans	-	-
IV. Liabilities to credit institutions	11	-
V. Other liabilities	138 459	694 985
1. Liabilities to the state budget	17 255	378 189
2. Other liabilities, including:	121 204	316 796
2.1. to affiliated entities	6 134	19 673
2.2. to other entities	115 070	297 123
VI. Special-purpose funds	84 471	89 214
J. Deferred income and accruals	630 737	665 906
I. Cost accruals	459 192	450 180
II. Negative goodwill	-	-
III. Deferred income	171 545	215 726
Total liabilities and equity	**30 975 413**	**34 869 797**

	31 Dec. 2002	31 Dec. 2003
Book value	4 964 527	6 041 103
Number of shares	86 352 300	86 352 300
Book value per share (in PLN)	57.49	69.96
Diluted number of shares	86 352 300	86 352 300
Diluted book value per share (in PLN)	57.49	69.96

Off-balance sheet items

Item	31 Dec. 2002	31 Dec. 2003 (000s of PLN)
1. Contingent receivables, including:	1 976 741	1 875 714
1.1. Guarantees and sureties received	14 031	18 645
1.2. Others	1 962 710	1 857 069
2. Contingent liabilities, including:	996 927	2 069 146
2.1. Guarantees and sureties granted	20 023	9 820
2.2. Accepted and endorsed bills of exchange	-	-
2.3. Buy sell back assets	909 090	1 914 887
2.4. Other liabilities secured on assets or income	10 775	81 630
2.5. Others	57 039	62 809
3. Reinsurance collateral instituted in favor of the insurance company	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-
5. Third party asset components not captured in the assets	20 581	1 486
6. Other off-balance sheet items	-	-
Total off-balance sheet items	**2 994 249**	**3 946 346**
Shareholders' equity in property and casualty insurance	3 540 278	3 993 150
Solvency margin in property and casualty insurance	1 041 986	1 144 218
Surplus (deficiency) shareholders' equity to cover the solvency margin in property and casualty insurance	2 498 292	2 848 932
Technical reserves in property and casualty insurance	11 145 764	11 705 615
Assets covering the technical reserves in property and casualty insurance	12 814 911	14 184 613
Surplus (deficiency) assets covering the technical reserves in property and casualty insurance	1 669 147	2 478 998
Shareholders' equity in life insurance	1 948 729	2 530 744
Solvency margin in life insurance	1 324 911	1 355 273
Surplus (deficiency) shareholders' equity to cover the solvency margin in life insurance	623 818	1 175 471
Technical reserves in life insurance	14 652 213	16 318 253
Assets covering the technical reserves in life insurance	15 875 986	18 212 383
Surplus (deficiency) assets covering the technical reserves in life insurance	1 223 773	1 894 130

PZU Group's
consolidated technical life insurance account

Item		(000s of PLN)
	2002	2003
I. Premium income (1-2-3+4)	4 888 475	5 114 353
1. Gross written premium	4 898 009	5 127 404
2. Reinsurers' share in the gross written premium	5 641	7 829
3. Movement in the unearned premium reserved and the gross unexpired risk reserve	3 893	5 222
4. Reinsurers' share in the change to the unearned premium reserve	-	-
II. Investment income	982 374	749 121
1. Investment income on real estate	1 725	1 340
2. Investment income from affiliated entities	6 336	3 196
2.1. on ownership interests and shares	6 336	3 196
2.2. on loans and debt securities	-	-
2.3. on other investments	-	-
3. Other financial investment income	522 176	564 104
3.1. on ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	6 918	9 404
3.2. on debt securities and other fixed income securities	495 347	540 096
3.3. on term deposits in credit institutions	19 911	14 566
3.4. on other investments	-	38
4. Gain on investment revaluation	6 010	25 390
5. Gain on investment realization	446 127	155 091
III. Unrealized investment gains	1 142 762	876 122
IV. Other net technical income	3 550	8 450
V. Claims paid (1+/-2)	3 094 362	3 239 740
1. Net claims paid	3 031 069	3 176 960
1.1. Gross claims paid	3 031 573	3 178 970
1.2. Reinsurers' share in claims paid	504	2 010
2. Movement in the net claims reserve	63 293	62 780
2.1. Gross reserves	63 293	62 780
2.2. Reinsurers' share	-	-

Item		(000s of PLN)
	2002	2003
VI. Movement in other net technical reserves	2 162 403	1 598 453
1. Movement in the balance of net life insurance reserves, including:	2 014 843	1 221 480
1.1. Gross reserves	2 014 837	1 221 482
1.2. Reinsurers' share	(6)	2
2. Movement in the balance of net technical reserves for life insurance if the policyholder bears the investment risk	146 668	176 377
2.1. Gross reserves	146 668	176 377
2.2. Reinsurers' share	-	-
3. Movement in the balance of other net technical reserves envisaged in the articles of association	892	200 596
3.1. Gross reserves	892	200 596
3.2. Reinsurers' share	-	-
VII. Bonuses and rebates jointly with the movement in the balance of net reserves	3 053	2 807
VIII. Insurance activity expenses	821 098	825 368
1. Acquisition costs	442 937	466 938
- including the movement in the balance of capitalized acquisition costs	14 723	42 356
2. Administrative expenses	379 853	363 004
3. Reinsurance commissions and profit sparing	1 692	4 574
IX. Investment activity expenses	177 769	50 666
1. Real estate maintenance expenses	1 259	1 017
2. Other investment activity expenses	10 170	12 002
3. Loss on investment revaluation	38 436	26 640
4. Loss on investment realization	127 904	11 007
X. Unrealized investment losses	190 241	171 906
XI. Other net technical income	39 330	45 536
XII. Net investment income after including costs transferred to the non-technical profit and loss account	29 452	142 269
XIII. Technical life insurance result, including:	499 453	671 301
- Technical life insurance result of subordinated entities	499 453	671 301

PZU Group's consolidated technical property and casualty insurance account

Item		(000s of PLN)	
		2002	2003
I.	Premium income (1-2-3+4)	6 406 021	6 660 346
	1. Gross written premium	7 391 558	7 219 144
	2. Reinsurers' share in the gross written premium	502 763	532 240
	3. Movement in the unearned premium reserve balance and the gross unexpired risk reserve	139 791	4 279
	4. Reinsurers' share in the movement in the premium reserve balance	(342 983)	(22 279)
II.	Net investment income after considering costs, transferred from the non-technical profit and loss account	89 238	191 473
III.	Other net technical income	45 789	63 945
IV.	Claims (1+2)	4 458 012	4 556 556
	1. Net claims paid	3 892 391	4 027 585
	1.1. Gross claims paid	4 471 113	4 329 298
	1.2. Reinsurers' share in claims paid	578 722	301 713
	2. Movement in the balance of the net claims reserve	565 621	528 971
	2.1. Movement in the balance of the gross claims reserve	612 281	350 799
	2.2. Reinsurers' share of the movement in the balance of the claims reserves	46 660	(178 172)
V.	Movement in the balance of other net technical reserves	125 340	196 009
	1. Movement in the balance of other gross technical reserves	125 340	196 009
	2. Reinsurers' share of the movement in the balance of other gross technical reserves	-	-
VI.	Net bonuses and rebates jointly with the movement in the balance of the reserves	-	393
VII.	Insurance activity expenses	1 413 300	1 641 497
	1. Acquisition expenses	686 762	816 627
	- including the movement in the balance of capitalized acquisition costs	(133 478)	(6 314)
	2. Administrative expenses	906 981	911 727
	3. Reinsurance commissions and sharing in the reinsurers' profits	180 443	86 857
VIII.	Other net technical income	209 693	228 713
IX.	Movement in the balance of loss ratio (risk) equalization reserves	58 600	8 914
X.	Technical result on property and casualty insurance, including:	276 103	283 682
	- Technical property and casualty insurance result of subordinated entities	-	-

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

Item		(000s of PLN)
	2002	2003
I. Technical property and casualty or life insurance result	775 556	954 983
II. Investment income	659 674	1 022 387
1. Investment income on real estate	12 833	11 902
2. Investment income from affiliated entities	6 390	3 302
2.1. on ownership interests and shares	6 388	3 300
2.2. on loans and debt securities	-	-
2.3. on other investments	2	2
3. Other financial investment income	305 951	268 340
3.1. on ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	6 473	17 316
3.2. on debt securities and other fixed income securities	290 898	237 907
3.3. on term deposits in credit institutions	8 580	13 117
3.4. on other investments	-	-
4. Gain on investment revaluation	3 438	6 020
5. Gain on investment realization	331 062	732 823
III. Unrealized investment gains	712 974	569 006
IV. Net investment income after including costs transferred from the technical life insurance account	29 452	142 269
V. Investment activity expenses	213 978	164 985
1. Real estate maintenance expenses	11 044	8 482
2. Other investment activity expenses	487	8 095
3. Loss on investment revaluation	59 531	3 832
4. Loss on investment realization	142 916	144 576
VI. Unrealized investment losses	48 689	164 922
VII. Net investment income after including costs transferred to the technical property and casualty insurance account	89 238	191 473
VIII. Other operating income	223 305	273 714
IX. Other operating expenses	264 495	372 151
X. Operating profit (loss)	1 784 561	2 068 828
XI. Extraordinary gains	-	111
XII. Extraordinary losses	312	153
XIII. Amortization of goodwill	1 856	1 871
XIV. Amortization negative goodwill	-	-
XV. Gross profit (loss)	1 782 393	2 066 915

Item		(000s of PLN)
	2002	2003
XVI. Income tax	550 411	552 918
a) Current	373 629	737 115
b) Deferred	176 782	(184 197)
XVII. Other compulsory reductions in profit (increase in losses)	-	-
XVIII. Share of the net profit (loss) of subordinated units valued according to the equity method	8 817	(2 251)
XIX. Minority (gains) losses	1	-
XX. Net profit (loss)	1 240 798	1 511 746
Net profit (loss) (annualized)	1 240 798	1 511 746
Weighted-average number of common shares	86 352 300	86 352 300
Profit (loss) per common share (PLN)	14.37	17.51
Weighted-average diluted number of common shares	86 352 300	86 352 300
Diluted profit / loss per common share (PLN)	14.37	17.51

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

Item	2002	2003
(000s of PLN)		
A. Cash flow on operating activity		
I. Proceeds	13 888 157	14 061 941
1. Proceeds on direct activity and inward reinsurance	12 536 646	12 750 339
1.1. Proceeds on gross premiums	12 362 757	12 590 309
1.2. Proceeds on recovery claims and gross returns of claims paid	73 413	111 214
1.3. Other proceeds on direct activity	100 476	48 816
2. Proceeds on outward reinsurance	911 952	525 588
2.1. Payments received from reinsurers for their share of claims paid	691 990	408 212
2.2. Proceeds on reinsurance commissions and profit-sharing	219 075	114 459
2.3. Other proceeds from outward reinsurance	887	2 917
3. Proceeds on other operating activity	439 559	786 014
3.1. Proceeds for acting as an emergency adjuster	48 182	9 435
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	989	762
3.3. Other proceeds	390 388	775 817
II. Expenditures	12 252 374	12 254 765
1. Expenditures on direct activity and inward reinsurance	10 180 093	10 252 297
1.1. Returns of gross premiums	219 113	224 397
1.2. Gross claims paid	7 373 845	7 446 383
1.3. Acquisition expenditures	980 378	1 023 227
1.4. Administrative expenditures	1 451 385	1 432 947
1.5. Commissions paid and profit-sharing on inward reinsurance	1 423	1 671
1.6. Other expenditures on direct activity and inward reinsurance	153 949	123 672
2. Expenditures on outward reinsurance	1 001 001	572 016
2.1. Premiums paid for reinsurance	994 802	518 839
2.2. Other expenditures on outward reinsurance	6 199	53 177
3. Expenditures on other operating activity	1 071 280	1 430 452
3.1. Expenditures for acting as an emergency adjuster	10 996	4 605
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	89 486	78 489
3.3. Other expenditures	970 798	1 347 358
III. Net cash flow on operating activity (I-II)	1 635 783	1 807 176

Item		(000s of PLN)
	2002	2003
B. Cash flow on investing activity		
I. Proceeds	151 400 196	189 928 448
1. Sale of real estate	53 779	680
2. Sale of ownership interests and shares in affiliated entities	8 520	10
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in investment funds	508 048	331 794
4. Realization of debt securities issued by affiliated entities and amortization of the loans granted to these entities	83 038	14 921
5. Realization of debt securities issued by other entities	75 996 144	70 694 244
6. Liquidation of term deposits in credit institutions	74 215 685	117 777 709
7. Realization of other investments	-	37
8. Proceeds from real estate	31 312	16 193
9. Interest received	475 077	1 063 994
10. Dividends received	27 971	28 234
11. Other investment proceeds	622	632
II. Expenditures	152 800 788	191 600 921
1. Purchase of real estate	124	406
2. Purchase of ownership interests and shares in affiliated entities	23 591	18 600
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in investment funds	397 443	695 693
4. Purchase of debt securities issued by affiliated entities and repayment of loans granted to these entities	36 139	-
5. Purchase of debt securities issued by other entities	77 708 992	73 475 570
6. Purchase of term deposits in credit institutions	74 454 615	117 277 833
7. Purchase of other investments	69 801	72 253
8. Expenditures to maintain real estate	60 590	43 763
9. Dividends and other shares of profits paid to the minority	-	-
10. Other expenditures for investments	49 493	16 803
III. Net cash flow on investing activity (I-II)	(1 400 592)	(1 672 473)
C. Cash flow on financing activity		
I. Proceeds	-	-
1. Net proceeds from issuing shares and additional capital contributions	-	-
2. Credits, loans and issues of debt securities	-	-
3. Other financial proceeds	-	-

Item	2002	2003
		(000s of PLN)
II. Expenditures	202 847	133 611
1. Dividends	202 840	133 611
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-
3. Purchase of treasury stock	-	-
4. Amortization of credits and loans and the redemption of own debt securities	-	-
5. Interest on credits and loans and issued debt securities	-	-
6. Other financial expenditures	7	-
III. Net cash flow on financing activity (I-II)	(202 847)	(133 611)
D. Total net cash flow (A.III+B.III+C.III)	32 344	1 092
E. Balance sheet change in cash balance, including:	32 338	1 184
- Change in the cash balance on account of FX gains	(6)	92
F. Cash at the beginning of the period	208 787	241 125
G. Cash at the end of the period (F+/-D), including:	241 125	242 309
- Cash with limited ability to use	10 397	77 380

Statement of changes in the PZU Group's consolidated equity

Item		(000s of PLN)
	2002	2003
I. Equity at the beginning of the period (opening balance)	3 256 739	4 964 527
a) Changes to accepted accounting principles (policy)	309 602	-
b) Adjustments due to fundamental errors		
I.a. Equity at the beginning of the period (opening balance), after reconciliation with comparable data	3 566 341	4 964 527
1. Share capital at the beginning of the period	86 352	86 352
1.1. Changes to share capital	-	-
a) Increases	-	-
b) Decreases	-	-
1.2. Share capital at the end of the period	86 352	86 352
2. Unpaid share capital at the beginning of the period	-	-
2.1. Changes to unpaid share capital	-	-
a) Increases	-	-
b) Decreases	-	-
2.2. Unpaid share capital at the end of the period	-	-
3. Treasury stock at the beginning of the period	-	-
3.1. Changes in treasury stock	-	-
a) Increases	-	-
b) Decreases	-	-
3.2. Treasury stock at the end of the period	-	-
4. Reserve capital at the beginning of the period	2 304 119	3 120 874
a) Changes to accepted accounting principles (policy)	148 520	192 778
4.1. Reserve capital at the beginning of the period (opening balance), after reconciliation with comparable data	2 452 639	3 313 652
4.2. Changes in reserve capital	861 013	1 233 197
a) Increases (by virtue of)	861 013	1 233 197
- distribution of profit (above minimum amount statutorily required)	860 640	1 233 089
- from the revaluation reserve	373	108
b) Decreases	-	-
4.3. Reserve capital at the end of the period	3 313 652	4 546 849
5. Revaluation reserve at the beginning of the period	22 705	469 260
a) Changes to accepted accounting principles (policy)	86 483	-
5.1. Revaluation reserve at the beginning of the period (opening balance) after reconciliation with comparable data	109 188	469 260

Item	2002	2003
		(000s of PLN)
5.2. Change in the revaluation reserve	360 072	(305 750)
a) Increases (by virtue of)	360 445	29
- revaluation	360 445	29
b) Decreases (by virtue of)	373	305 779
- realization of assets (sale or liquidation)	373	108
- revaluation		305 671
5.3. Revaluation reserve at the end of the period	469 260	163 510
6. Other reserve capital at the beginning of the period	-	-
6.1. Changes in other reserve capital	-	-
a) Increases	-	-
b) Decreases	-	-
6.2. Other reserve capital at the end of the period	-	-
7. FX gains from converting subordinated units	-	-
8. Profit (loss) carried forward at the beginning of the period	843 563	1 288 041
8.1. Profit carried forward at the beginning of the period	843 563	1 288 041
a) Changes to accepted accounting principles (policy)	74 599	(192 778)
b) Adjustments due to fundamental errors		
8.2. Profit carried forward at the beginning of the period, after reconciliation with comparable data	918 162	1 095 263
a) Increases	-	-
b) Decreases (by virtue of)	1 063 697	1 362 617
- disbursement of dividends	202 928	129 528
- transfers to reserve capital	860 639	1 233 089
- others	130	
8.3. Profit carried forward at the end of the period	(145 535)	(267 354)
8.4. Loss carried forward at the beginning of the period	-	-
a) Changes to accepted accounting principles (policy)	-	-
b) Adjustments due to fundamental errors	-	-
8.5. Losses carried forward at the beginning of the period, after reconciliation with comparable data	-	-
a) Increases	-	-
b) Decreases	-	-
8.6. Losses carried forward at the end of the period	-	-
8.7. Profit (loss) carried forward at the end of the period	(145 535)	(267 354)
9. Net result	1 240 798	1 511 746
a) Net profit	1 240 798	1 511 746
b) Net loss	-	-
c) Charges to profits	-	-
II. Equity at the end of the period (closing balance)	4 964 527	6 041 103
III. Equity after taking into consideration the proposed distribution of profits (coverage of losses)	4 498 225	5 574 801

Financial statements of **PZU SA**

ERNST & YOUNG

Ernst & Young Audit sp. z o.o.
ul. Emilii Plater 53
00-113 Warszawa

Tel. +48 22 557 70 00
Fax +48 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

We issued previously the audit opinion including an emphasis of matter without qualifications dated February 24, 2004 on the financial statements for the year ended December 31, 2003 as presented below:

"INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Powszechny Zakład Ubezpieczeń S.A.

1. We have audited the financial statements for the year ended December 31, 2003 of Powszechny Zakład Ubezpieczeń S.A. ("the Company") located at Jana Pawła II 24 Avenue in Warsaw containing:

   - the introduction to the financial statements,
   - the balance sheet as at December 31, 2003, with total assets and liabilities amounting to 15,872,387 thousand zloty (in words: fifteen billion eight hundred seventy two million three hundred eighty seven thousand zloty),
   - the revenue account for property and casualty insurance for the period from January 1, 2003 to December 31, 2003 with an underwriting profit to be carried forward to the profit and loss account amounting to 243,542 thousand zloty (in words: two hundred forty three million, five hundred forty two thousand zloty),
   - the profit and loss account for the period from January 1, 2003 to December 31, 2003 with a net profit of 900,101 thousand zloty (in words: nine hundred million one hundred and one thousand zloty),
   - the statement of changes in shareholders' equity for the period from January 1, 2003 to December 31, 2003 with a net increase in shareholders' equity amounting to 465,530 thousand zloty (in words: four hundred sixty five million five hundred thirty thousand zloty),
   - the cash flow statement for the period from January 1, 2003 to December 31, 2003 with a net cash inflow amounting to 2,757 thousand zloty (in words: two million seven hundred fifty seven thousand zloty),
   - the listing of the off-balance sheet items,
   - the calculation of the amount of solvency margin,
   - the calculation of the amount of own funds covering the solvency margin,
   - the calculation of the amount of technical reserves,
   - the calculation of the amount of assets covering technical reserves,
   - the calculation of the redundancy of assets covering technical reserves,
   - the additional notes and explanations.

ERNST & YOUNG W POLSCE JEST CZŁONKIEM GLOBALNEJ PRAKTYKI ERNST & YOUNG
Sąd Rejonowy dla m.st. Warszawy w Warszawie,
XIX Wydział Gospodarczy Krajowego Rejestru Sądowego, KRS: 0000006468

ERNST & YOUNG

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

2. The truth and fairness[1] of the financial statements and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

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

   - chapter 7 of the Accounting Act, dated September 29, 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the financial statements and books and records are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of the financial statements. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. In our opinion, the financial statements, in all material respects:

   - present truly and fairly all information material for the assessment of the financial result of the Company's operations for the period for the period from January 1, 2003 to December 31, 2003, as well as its financial position[3] as at December 31, 2003;
   - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above as well as the Minister of Finance Decree dated December 10, 2001 on specific principles of insurers' accounting (Journal of Law No 149, item 1671) and regulations issued based on that and based on properly maintained accounting records;
   - are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Company's articles of association that affect their content.

5. Without qualifying our opinion, we draw attention to the following issue: in accordance with the regulations of the Accounting Act, the Company has presented in the financial statements shares in subsidiaries and associates at cost[4] adjusted for any permanent diminution in value. In accordance with the Accounting Act, the PZU Capital Group (the "Capital Group"), of which the Company is the parent company, will prepare consolidated financial statements. The financial results and net assets of the Capital Group will differ from the Company's financial results for the 12 month period ended December 31, 2003 and its net assets as at that date.

6. An actuarial opinion on set up technical reserves based on actuarial mathematics has been attached to these financial statements.

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[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"
[3] Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"
[4] Translation of the following expression in Polish language: "*cena nabycia*"

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Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

7. We have read the Directors' Report for the period from January 1, 2003 to December 31, 2003 ("Directors' Report") and conclude that the information derived from the financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with art. 49 clause 2 of the Accounting Act as well as § 47 clause 2 of the Minister of Finance Decree dated December 10, 2001 on specific principles of insurers' accounting."

In our opinion the information presented in the published, condensed financial statements on pages 125 to 136 of this annual report is in all material respects fairly stated in relation to the financial statements from which it has been derived. The financial statements that were audited by us include notes that were not fully presented in the attached condensed financial statements. In order for the reader to obtain a true and fair view of the state of affairs of the Company as at December 31, 2003 and the results of its operations for the period from January 1, 2003 to December 31, 2003, the reader must review the full financial statements in their entirety including all supporting schedules and statutory disclosures as required by the Accounting Act and the regulations based thereof.

Certified Auditor
No 90015/215

on behalf of
Ernst & Young Audit Sp. z o.o.
ul. Emilii Plater, 00-113 Warsaw
Ident. no 130

Duleep Aluwihare

Tomasz Bieske
Certified Auditor No 9291/6975

Warsaw, June 21, 2004

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Balance sheet of PZU SA

Assets

Item	31 Dec. 2002	31 Dec. 2003
	(000s of PLN)	
A. Intangible assets	10 799	23 457
1. Goodwill	-	-
2. Other intangible assets and advance payments towards intangible assets	10 799	23 457
B. Investments	12 186 437	13 850 776
I. Real estate	26 860	25 963
1. Own land and the right of usufruct to land	2 564	1 894
2. Buildings and structures and the cooperative right to premises	14 259	12 915
3. Construction investments and advance payments towards such investments	10 037	11 154
II. Investments in affiliated entities	515 391	513 019
1. Ownership interests or shares in affiliated entities	408 993	424 010
2. Loans granted to affiliated entities and debt securities issued by these entities	106 398	89 009
3. Other investments	-	-
III. Other financial investments	11 639 794	13 307 238
1. Ownership interests, shares, other variable-income securities and participation units and investment certificates in investment funds	431 662	1 083 128
2. Debt securities and other fixed-income securities	10 674 105	11 771 528
3. Ownership interests in joint investment ventures	50	50
4. Mortgage-backed loans	-	-
5. Other loans	-	-
6. Term deposits in credit institutions	533 977	452 367
7. Other investments	-	165
IV. Deposits with ceding companies	4 392	4 556
C. Investments of life insurance assets where the policyholder bears the investment risk	-	-
D. Receivables	1 239 359	1 045 285
I. Insurance-related receivables	931 590	880 947
1. Receivables from policyholders	895 403	847 590
1.1. from affiliated entities	341	146
1.2. from other entities	895 062	847 444
2. Receivables from insurance intermediaries	23 980	11 243
2.1. from affiliated entities	6 833	8 745
2.2. from other entities	17 147	2 498
3. Other receivables	12 207	22 114
3.1. from affiliated entities	-	132
3.2. from other entities	12 207	21 982

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
II. Reinsurance-related receivables	110 175	84 141
1. from affiliated entities	-	2 983
2. from other entities	110 175	81 158
III. Other receivables	197 594	80 197
1. Receivables from the state budget	133 899	76
2. Other receivables	63 695	80 121
2.1. from affiliated entities	3 111	20 796
2.2. from other entities	60 584	59 325
E. Other assets	659 428	667 123
I. Tangible assets	506 051	512 731
II. Cash	147 628	150 496
III. Other assets	5 749	3 896
F. Prepayments and accruals	285 599	285 746
I. Deferred income tax assets	-	-
II. Capitalized acquisition expenses	253 762	260 076
III. Posted interest and rents	219	384
IV. Other accruals	31 618	25 286
TOTAL ASSETS	**14 381 622**	**15 872 387**

Liabilities and equity

Item	31 Dec. 2002	31 Dec. 2003
		(000s of PLN)
A. Equity	3 551 077	4 016 607
I. Share capital	86 352	86 352
II. Unpaid share capital (negative figure)	-	-
III. Treasury stock (negative figure)	-	-
IV. Reserve capital (fund)	2 093 645	2 835 319
V. Revaluation reserve	465 510	160 407
VI. Other reserve capital	-	-
VII. Profit (loss) carried forward	34 428	34 428
VIII. Net profit (loss)	871 142	900 101
B. Subordinated liabilities	-	-
C. Technical reserves	11 145 764	11 705 615
I. Unearned premium reserve and unexpired risk reserve	3 211 196	3 215 324
II. Life insurance reserve	-	-
III. Claims reserve	6 944 960	7 295 758
IV. Reserve for bonuses and rebates for the insureds	-	-
V. Loss ratio (risk) equalization reserve	572 700	581 615
VI. Other technical reserves	416 908	612 918
VII. Technical reserves for life insurance if the policyholder bears the investment risk	-	-
D. Reinsurers' share in technical reserves (negative figure)	(1 898 208)	(1 697 756)
I. Reinsurers' share in the unearned premium reserve and unexpired risk reserve	(180 163)	(157 883)
II. Reinsurers' share in the life insurance reserve	-	-
III. Reinsurers' share in the claims reserve	(1 718 045)	(1 539 873)
IV. Reinsurers' share in the reserve for bonuses and rebates for the insureds	-	-
V. Reinsurers' share in the other technical reserves	-	-
VI. Reinsurers' share in the technical reserves for life insurance if the policyholder bears the investment risk	-	-
E. Other reserves	629 202	438 584
I. Reserves for pension benefits and other compulsory employee benefits	186 272	262 765
II. Deferred income tax reserve	327 939	35 712
III. Other reserves	114 991	140 107
F. Deposits due to reinsurers	32	54

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
G. Other liabilities and special funds	342 903	776 240
I. Liabilities on direct insurance	100 909	90 742
1. Liabilities to policyholders	4 821	5 179
1.1. to affiliated entities	-	-
1.2. to other entities	4 821	5 179
2. Liabilities to insurance intermediaries	96 088	85 563
2.1. to affiliated entities	2 188	2 588
2.2. to other entities	93 900	82 975
3. Other insurance-related liabilities	-	-
3.1. to affiliated entities	-	-
3.2. to other entities	-	-
II. Reinsurance-related liabilities	63 297	104 716
1. to affiliated entities	-	3 840
2. to other entities	63 297	100 876
III. Liabilities on the issue of own debt securities and drawn loans	-	-
1. Liabilities convertible into stock in the insurer	-	-
2. Other	-	-
IV. Liabilities to credit institutions	-	-
V. Other liabilities	105 598	501 947
1. Liabilities to the state budget	9 107	220 202
2. Other liabilities	96 491	281 745
2.1. to affiliated entities	6 500	32 806
2.2. to other entities	89 991	248 939
VI. Special-purpose funds	73 099	78 835
H. Deferred income and accruals	610 852	633 043
1. Cost accruals	445 837	423 705
2. Negative goodwill	-	-
3. Deferred income	165 015	209 338
TOTAL LIABILITIES AND EQUITY	**14 381 622**	**15 872 387**

Off-balance sheet items

Item	31 Dec. 2002	31 Dec. 2003
	(000s of PLN)	
1. Contingent receivables, including:	1 538 544	1 599 766
1.1. Guarantees and sureties received	14 031	18 645
1.2. Others	1 524 513	1 581 121
2. Contingent liabilities, including:	307 292	1 791 298
2.1. Guarantees and sureties granted	20 023	9 820
2.2. Accepted and endorsed bills of exchange	-	-
2.3. Buy sell back assets	267 590	1 699 673
2.4. Other liabilities	19 679	81 805
3. Reinsurance collateral instituted in favor of the insurance company	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-
5. Third party asset components not captured in the assets	17 272	1 346
Equity	3 540 278	3 993 150
Solvency margin	1 041 986	1 144 218
Surplus (deficiency) equity to cover the solvency margin	2 498 292	2 848 932
Technical reserves	11 145 764	11 705 615
Assets covering the technical reserves	12 814 911	14 184 613
Surplus (deficiency) assets covering the technical reserves	1 669 147	2 478 998

Technical property and casualty insurance account of PZU SA

Item		(000s of PLN)	
		2002	2003
I.	Premiums (1-2-3+4)	6 408 714	6 662 722
	1. Gross written premiums in the financial year	7 394 195	7 221 367
	2. Reinsurers' share in the gross written premium	502 763	532 240
	3. Movement in the balance of the unearned premium reserve and unexpired risk premiums	139 735	4 126
	4. Reinsurers' share in the movement in the unearned premium reserve balance	(342 983)	(22 279)
II.	Net investment income after considering costs, transferred from the non-technical profit and loss account	89 238	191 473
III.	Other net technical income	45 789	63 945
IV.	Claims paid (1+/-2)	4 458 655	4 557 191
	1. Net claims paid	3 893 034	4 028 220
	1.1. Gross claims paid	4 471 756	4 329 933
	1.2. Reinsurers' share in gross claims paid	578 722	301 713
	2. Movement in the balance of the net claims reserve:	565 621	528 971
	2.1. Movement in the balance of the gross claims reserve	612 281	350 799
	2.2. Reinsurers' share of the movement in the balance of the gross claims reserve	46 660	(178 172)
V.	Movement in the balance of other net technical reserves	125 340	196 009
	1. Movement in the balance of other gross technical reserves	125 340	196 009
	2. Reinsurers' share of the movement in the balance of other gross technical reserves	-	-
VI.	Net bonuses and rebates, jointly with the movement in the balance of the reserve for bonuses and rebates	-	393
VII.	Insurance activity expenses (1+2-3)	1 439 039	1 683 378
	1. Acquisition expenses	686 762	822 753
	1.1. including the movement in the balance of capitalized acquisition costs	(133 478)	(6 314)
	2. Administrative expenses	932 720	947 482
	3. Reinsurance commissions and profit-sharing	180 443	86 857
VIII.	Other net technical income	209 693	228 713
IX.	Movement in the balance of loss ratio (risk) equalization reserves	58 600	8 914
IX.	Technical result on property and casualty insurance	252 414	243 542

Non-technical profit and loss account of PZU SA

Item		2002	2003
			(000s of PLN)
I.	Technical result on property and casualty insurance	252 414	243 542
II.	Investment income (1+2+3+4+5)	662 100	1 026 671
	1. Investment income on real estate	5 710	5 663
	2. Investment income from affiliated entities	25 516	8 664
	2.1. on ownership interests and shares	6 388	3 300
	2.2. on loans and debt securities	19 128	5 363
	2.3. on other investments	-	1
	3. Other financial investment income	299 733	264 769
	3.1. ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	6 473	17 316
	3.2. on debt securities and other fixed income securities	286 813	236 230
	3.3. on term deposits in credit institutions	6 447	11 223
	3.4. on other investments	-	-
	4. Gain on investment revaluation	3 438	14 752
	5. Gain on investment realization	327 703	732 823
III.	Unrealized investment gains	713 551	569 249
IV.	Net investment income after including costs transferred from the technical life insurance account	-	-
V.	Investment activity expenses (1+2+3+4)	200 648	157 439
	1. Real estate maintenance expenses	1 910	1 618
	2. Other investment activity expenses	487	8 095
	3. Loss on investment revaluation	55 335	3 150
	4. Loss on investment realization	142 916	144 576
VI.	Unrealized investment losses	35 930	164 922
VII.	Net investment income after including costs transferred to the technical property and casualty insurance account	89 238	191 473
VIII.	Other operating income	59 770	63 887
IX.	Other operating expenses	113 693	137 948
X.	Operating profit (loss)	1 248 326	1 251 567
XI.	Extraordinary gains	21	49
XII.	Extraordinary losses	25	31
XIII.	Gross profit (loss)	1 248 322	1 251 585
XIV.	Income tax	377 180	351 484
XV.	Other compulsory reductions in profit (increase in losses)	-	-
XVI.	Net profit (loss)	871 142	900 101

Cash flow statement of PZU SA

Item	2002	2003
		(000s of PLN)
A. Net cash flow on operating activity	601 657	604 682
I. Proceeds	8 752 563	8 772 246
1. Proceeds on direct activity and inward reinsurance	7 599 581	7 620 336
1.1. Proceeds on gross premiums	7 455 892	7 468 756
1.2. Proceeds on recovery claims and gross returns of claims paid	73 413	111 214
1.3. Other proceeds on direct activity	70 276	40 366
2. Proceeds on outward reinsurance	909 756	519 004
2.1. Payments received from reinsurers for their share of claims paid	691 486	406 202
2.2. Proceeds on reinsurance commissions and profit-sharing	217 383	109 885
2.3. Other proceeds from outward reinsurance	887	2 917
3. Proceeds on other operating activity	243 226	632 906
3.1. Proceeds for acting as an emergency adjuster	48 182	9 435
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	763	611
3.3. Other proceeds	194 281	622 860
II. Expenditures	8 150 906	8 167 564
1. Expenditures on direct activity and inward reinsurance	6 430 010	6 368 124
1.1. Returns of gross premiums	219 113	224 397
1.2. Gross claims paid	4 338 410	4 264 229
1.3. Acquisition expenditures	528 863	546 690
1.4. Administrative expenditures	1 248 619	1 253 001
1.5. Commissions paid and profit-sharing on inward reinsurance	1 423	1 671
1.6. Other expenditures on direct activity and inward reinsurance	93 582	78 136
2. Expenditures on outward reinsurance	995 360	564 188
2.1. Premiums paid for outward reinsurance	989 161	511 011
2.2. Other expenditures on outward reinsurance	6 199	53 177
3. Expenditures on other operating activity	725 536	1 235 252
3.1. Expenditures for acting as an emergency adjuster	10 996	4 605
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	82 263	72 650
3.3. Other expenditures	632 277	1 157 997

Item	2002	2003
		(000s of PLN)
B. Cash flow on investing activity	(388 683)	(468 314)
I. Proceeds	60 774 369	78 497 488
1. Sale of real estate	53 779	680
2. Sale of ownership interests and shares in affiliated entities	4 075	-
3. Sale of ownership interests and shares in other entities and participation units and investment certificates in investment funds	87 204	37 641
4. Realization of debt securities issued by affiliated entities and the amortization of loans granted to these entities	80 037	7 107
5. Realization of debt securities issued by other entities	39 754 922	43 133 843
6. Liquidation of term deposits in credit institutions	20 744 773	35 267 606
7. Realization of other investments	-	-
8. Proceeds from real estate	5 004	4 881
9. Interest received	27 857	28 070
10. Dividends received	16 705	17 524
11. Other investment proceeds	13	136
II. Expenditures	61 163 052	78 965 802
1. Purchase of real estate	-	5
2. Purchase of ownership interests and shares in affiliated entities	85 281	750
3. Purchase of ownership interests and shares in other entities, participation units and investment certificates in investment funds	96 782	236 756
4. Purchase of debt securities issued by affiliated entities and repayment of loans granted to these entities	-	-
5. Purchase of debt securities issued by other entities	40 026 163	43 995 411
6. Purchase of term deposits in credit institutions	20 946 650	34 718 600
7. Purchase of other investments	-	-
8. Expenditures to maintain real estate	7 755	8 490
9. Other investment expenditures	421	5 790

Item		(000s of PLN)
	2002	2003
C. Cash flow on financing activity	(202 847)	(133 611)
I. Proceeds	-	-
1. Net proceeds from issuing shares and additional capital contributions	-	-
2. Credits, loans and issues of debt securities	-	-
3. Other financial proceeds	-	-
II. Expenditures	202 847	133 611
1. Dividends	202 840	133 611
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-
3. Purchase of treasury stock	-	-
4. Repayment of credits, loans and redemption of own debt securities	-	-
5. Interest on credits and loans and issued debt securities	-	-
6. Other financial expenditures	7	-
D. Total net cash flow	10 127	2 757
E. Balance sheet change in cash balance:	10 121	2 868
1. including change in the balance of cash on FX gains	(6)	111
F. Cash at the beginning of the period	137 507	147 628
G. Cash at the end of the period:	147 628	150 496
1. including with limited ability to use	49 080	77 380

Statement of changes in equity of PZU SA

Item	2002	2003 (000s of PLN)
I. Equity at the beginning of the period (opening balance)	2 402 335	3 551 077
a) Changes to accepted accounting principles (policy)	120 910	-
b) Adjustments due to fundamental errors	-	-
I.a. Equity at the beginning of the period (opening balance), adjusted	2 523 245	3 551 077
1. Share capital at the beginning of the period	86 352	86 352
1.1. Change in the share capital	-	-
a) Increase	-	-
b) Decrease	-	-
1.2. Balance of share capital at the end of the period	86 352	86 352
2. Unpaid share capital at the beginning of the period	-	-
2.1. Change in the unpaid share capital	-	-
a) Increase	-	-
b) Decrease	-	-
2.2. Unpaid share capital at the end of the period	-	-
3. Treasury stock at the beginning of the period	-	-
3.1. Changes in treasury stock	-	-
a) Increase	-	-
b) Decrease	-	-
3.2. Treasury stock at the end of the period	-	-
4. Reserve capital at the beginning of the period	1 619 476	2 093 645
4.1. Changes in the balance of reserve capital	474 169	741 674
a) Increase (by virtue of)	474 169	741 674
- issue of shares above par value	-	-
- distribution of profit (statutorily)	-	-
- distribution of profit (above minimum amount statutorily required)	473 989	741 614
- from revaluation reserve by discharges of fixed assets	180	60
b) Decrease	-	-
- coverage of losses	-	-
4.2. Reserve capital at the end of the period	2 093 645	2 835 319

Item	2002	2003
		(000s of PLN)
5. Revaluation reserve at the beginning of the period	19 591	465 510
a) Changes to accepted accounting principles (policy)	86 483	-
b) Adjustments due to fundamental errors	-	-
5a. Revaluation reserve at the beginning of the period, adjusted	106 074	465 510
5.1. Change in the revaluation reserve	359 436	(305 103)
a) Increase (by virtue of)	359 616	-
- valuation of long-term financial investments	359 616	-
b) Decrease (by virtue of)	180	305 103
- sale and liquidation of fixed assets	180	60
- valuation of long-term financial investments	-	305 043
5.2. Revaluation reserve at the end of the period	465 510	160 407
6. Other reserve capital at the beginning of the period	-	-
6.1. Changes in other reserve capital	-	-
6.2. Other reserve capital at the end of the period	-	-
7. Profit (loss) carried forward at the beginning of the period	676 916	905 570
7.1. Profit (loss) carried forward at the beginning of the period	676 916	905 570
a) Changes to accepted accounting principles (policy)	34 428	-
b) Adjustments due to fundamental errors	-	-
7.2. Profit (loss) carried forward at the beginning of the period, adjusted	711 344	905 570
a) Increase	-	-
b) Decrease (by virtue of)	676 916	871 142
- disbursement of dividends	202 928	129 528
- transfer to reserve capital	473 988	741 614
7.3. Profit carried forward at the end of the period	34 428	34 428
7.4. Loss carried forward at the beginning of the period	-	-
a) Changes to accepted accounting principles (policy)	-	-
b) Adjustments due to fundamental errors	-	-
7.5. Loss carried forward at the beginning of the period, adjusted	-	-
7.6. Losses carried forward at the end of the period	-	-
7.7. Profit (loss) carried forward at the end of the period	34 428	34 428
8. Net result	871 142	900 101
a) Net profit	871 142	900 101
b) Net loss	-	-
II. Equity at the end of the period (closing balance)	3 551 077	4 016 607
III. Equity after considering the proposed distribution of profit (coverage of losses)	3 551 077	3 550 305

Financial statements of
PZU Życie SA

ERNST & YOUNG

Ernst & Young Audit sp. z o.o.
ul. Emilii Plater 53
00-113 Warszawa

Tel. +48 22 557 70 00
Fax +48 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

We issued previously the audit opinion without qualifications dated February 4, 2004 on the financial statements for the year ended December 31, 2003 as presented below:

"INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Powszechny Zakład Ubezpieczeń na Życie S.A.

1. We have audited the financial statements for the year ended December 31, 2003 of Powszechny Zakład Ubezpieczeń na Życie S.A. ("the Company") located in Warsaw, Jana Pawła II 24 Avenue, containing:
   - the introduction to the financial statements,
   - the balance sheet as at December 31, 2003 with total assets amounting to 19,526,506,177.45 zlotys (in words: nineteen billion five hundred twenty six thousand five hundred six zlotys and forty five grosz),
   - the revenue account for life insurance for the period from January 1, 2003 to December 31, 2003 with underwriting profit amounting to 657,995,564.26 zlotys (in words: six hundred fifty seven million nine hundred ninety five thousand five hundred sixty four zlotys and twenty six grosz),
   - the profit and loss account for the period from January 1, 2003 to December 31, 2003 with a net profit amounting to 580,318,645.95 zlotys (in words: five hundred eighty million three hundred eighteen thousand six hundred forty five zlotys and ninety five grosz),
   - the statement of changes in shareholders' equity for the period from January 1, 2003 to December 31, 2003 with a net increase in shareholders' equity amounting to 579,693,555.23 zlotys (in words: five hundred seventy nine million six hundred ninety three thousand five hundred fifty five zlotys and twenty three grosz),
   - the cash flow statement for the period from January 1, 2003 to December 31, 2003 with a net cash outflow amounting to 3,436,298.22 zlotys (three million four hundred thirty six thousand two hundred ninety eight zlotys and twenty two grosz),
   - statement of off-balance sheet items,
   - solvency margin calculation,
   - calculation of surplus of own funds covering the solvency margin,
   - calculation of technical reserves,
   - calculation of assets covering technical reserves,
   - calculation of surplus of assets covering technical reserves,
   - the additional notes and explanations.

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Ernst & Young

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

2. The truth and fairness[1] of the financial statements and the proper maintenance of the accounting records are the responsibility of the Management Board. Our responsibility was to audit the financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

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

   - chapter 7 of the Accounting Act, dated September 29, 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

   in order to obtain reasonable assurance whether the financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statement. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. In our opinion, the financial statements, in all material respects:

   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from January 1, 2003 to December 31, 2003, as well as its financial position[3] as at December 31, 2003;
   - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and regulations issued based on that Act and based on properly maintained accounting records;
   - are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Company's articles of association that affect their content.

5. We have read the Directors' Report for the period from January 1, 2003 to December 31, 2003 ("Directors' Report") and conclude that the information derived from the financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with art. 49 clause 2 of the Accounting Act and § 47 clause 2 of the Ministry of Finance Decree dated December 10, 2001 on specific principles for insurers' accounting."

[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"

[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"

[3] Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"

ERNST & YOUNG

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

In our opinion the information presented in the published, condensed financial statements on pages 140 to 152 of this annual report is in all material respects fairly stated in relation to the financial statements from which it has been derived. The financial statements that were audited by us include notes that were not fully presented in the attached condensed financial statements. In order for the reader to obtain a true and fair view of the state of affairs of the Company as at December 31, 2003 and the results of its operations for the period from January 1, 2003 to December 31, 2003, the reader must review the full financial statements in their entirety including all supporting schedules and statutory disclosures as required by the Accounting Act and the regulations based thereof.

Certified Auditor
No 9528/7104

on behalf of
Ernst & Young Audit Sp. z o.o.,
ul. Emilii Plater 53, 00-113 Warsaw
Ident. no. 130

Iwona Kozera

Tomasz Bieske
Certified Auditor No 9291/6975

Warsaw, June 21, 2004

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Balance sheet of PZU Życie SA

Assets

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
A. Intangible assets	49 025	46 703
1. Goodwill	-	-
2. Other intangible assets and advance payments towards intangible assets	49 025	46 703
B. Investments	14 922 592	17 259 002
I. Real estate	89 988	71 418
1. Own land and the right of usufruct to land	78 031	63 302
2. Buildings and structures and the cooperative right to premises	11 957	8 116
3. Construction investments and advance payments towards such investments	-	-
II. Investments in affiliated entities	731 299	773 539
1. Ownership interests or shares in affiliated entities	518 885	559 833
2. Loans granted to affiliated entities and debt securities issued by these entities	212 414	213 706
3. Other investments	-	-
III. Other financial investments	14 101 305	16 414 045
1. Ownership interests, shares, other variable-income securities and participation units and investment certificates in investment funds	940 675	1 343 170
2. Debt securities and other fixed income securities	12 980 253	14 852 380
3. Ownership interests in joint investment ventures	-	-
4. Mortgage-backed loans	8 750	6 787
5. Other loans	-	-
6. Term deposits in credit institutions	170 624	210 708
7. Other investments	1 003	1 000
IV. Deposits with ceding companies	-	-
C. Investments of life insurance assets where the policyholder bears the investment risk	1 217 994	1 392 603

Item	31 Dec. 2002	31 Dec. 2003
		(000s of PLN)
D. Receivables	346 031	293 816
I. Insurance - related	87 455	69 371
1. Receivables from policyholders	86 355	69 189
1.1. from affiliated entities	46	-
1.2. from other entities	86 309	69 189
2. Receivables from insurance intermediaries	1 093	182
2.1. from affiliated entities	1 093	-
2.2. from other entities	-	182
3. Other receivables	7	-
3.1. from affiliated entities	-	-
3.2. from other entities	7	-
II. Reinsurance - related	-	-
1. from affiliated entities	-	-
2. from other entities	-	-
III. Other receivables	258 576	224 445
1. Receivables from the budget	15 918	53
2. Other receivables	242 658	224 392
2.1. from affiliated entities	167 734	165 771
2.2. from other entities	74 924	58 621
E. Other assets	366 252	317 431
I. Tangible assets	271 197	225 978
II. Cash	92 998	89 542
III. Other assets	2 057	1 911
F. Prepayments and accruals	257 889	216 951
I. Deferred tax assets	-	-
II. Capitalized acquisition expenses	192 965	150 609
III. Posted interest and rents	558	2
IV. Other accruals	64 366	66 340
TOTAL ASSETS	**17 159 783**	**19 526 506**

Liabilities and equity

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
A. Equity	1 997 755	2 577 448
I. Share capital	295 000	295 000
II. Unpaid share capital (negative figure)	-	-
III. Treasury stock (negative figure)	-	-
IV. Reserve capital (fund)	1 209 697	1 699 055
V. Revaluation reserve	3 750	3 074
VI. Other reserve capital	-	-
VII. Profit (loss) carried forward	186 923	-
VIII. Net profit (loss)	302 385	580 319
B. Subordinated debt	-	-
C. Technical reserves	14 652 213	16 318 253
I. Unearned premium reserve and unexpired risk reserve	58 353	63 576
II. Life insurance reserve	12 439 805	13 661 287
III. Claims reserves	391 223	454 003
IV. Reserve for bonuses and rebates for the insureds	4 316	3 899
V. Loss ratio (risk) equalization reserve	-	-
VI. Other technical reserves	536 486	737 081
VII. Technical reserves for life insurance if the policyholder bears the investment risk	1 222 030	1 398 407
D. Reinsurers' share in technicalc reserves (negative figure)	150	152
I. Reinsurers' share in the unearned premium reserve and unexpired risk reserve	-	-
II. Reinsurers' share in the life insurance reserve	150	152
III. Reinsurers' share in the claims reserve	-	-
IV. Reinsurers' share in the reserve for bonuses and rebates for the insureds	-	-
V. Reinsurers' share in the other technical reserves	-	-
VI. Reinsurers' share in the technical reserves for life insurance if the policyholder bears the investment risk	-	-
E. Other reserves	329 068	277 297
I. Reserves for pension benefits and other compulsory employee benefits	42 299	39 173
II. Deferred income tax reserve	223 976	172 986
III. Other reserves	62 793	65 138
F. Deposits due to reinsurers	-	-

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
G. Other liabilities and special funds	170 389	326 130
I. Liabilities on direct insurance	132 120	123 823
1. Liabilities to policyholders	125 491	114 298
1.1. to affiliated entities	514	9
1.2. to other entities	124 977	114 289
2. Liabilities to insurance intermediaries	4 750	8 020
2.1. to affiliated entities	1 038	-
2.2. to other entities	3 712	8 020
3. Other insurance-related liabilities	1 879	1 505
3.1. to affiliated entities	-	-
3.2. to other entities	1 879	1 505
II. Reinsurance-related liabilities	176	909
1. to affiliated entities	-	-
2. to other entities	176	909
III. Liabilities on the issue of own debt securities and drawn loans	-	-
1. Liabilities convertible into stock in the insurer	-	-
2. Other	-	-
IV. Liabilities to credit institutions	10	3 224
V. Other liabilities	27 317	188 270
1. Liabilities to the state budget	5 244	156 032
2. Other liabilities	22 073	32 238
2.1. to affiliated entities	2 029	1 289
2.2. to other entities	20 044	30 949
VI. Special-purpose funds	10 766	9 904
H. Deferred income and accruals	10 508	27 530
1. Cost accruals	3 978	21 142
2. Negative goodwill	-	-
3. Deferred income	6 530	6 388
TOTAL LIABILITIES AND EQUITY	**17 159 783**	**19 526 506**

Off-balance sheet items

Item	31 Dec. 2002	31 Dec. 2003
		(000s of PLN)
1. Contingent receivables, including:	583 197	570 948
1.1. Guarantees and sureties received	-	-
1.2. Others	583 197	570 948
2. Contingent liabilities, including:	689 635	277 848
2.1. Guarantees and sureties granted	-	-
2.2. Accepted and endorsed bills of exchange	-	-
2.3. Assets subject to the obligation of resale	641 500	215 214
2.4. Other liabilities secured on assets or income	-	-
3. Reinsurance collateral instituted in favor of the insurance company	-	-
4. Reinsurance collateral instituted by the insurance company in favor of ceding companies	-	-
5. Third party asset components not captured in the assets	-	-
Total off-balance sheet items	**1 272 832**	**848 796**
Equity	1 948 729	2 530 744
Solvency margin	1 324 911	1 355 273
Surplus (deficiency) equity to cover the solvency margin	623 818	1 175 471
Technical reserves	14 652 213	16 318 253
Assets covering the technical reserves	15 875 986	18 212 383
Surplus (deficiency) assets covering the technical reserves	1 223 773	1 894 130

Technical account of PZU Życie SA

Items	2002	2003 (000s of PLN)
I. Premiums	4 888 799	5 114 674
1. Gross written premium	4 898 333	5 127 724
2. Reinsurers' share of the gross written premium	5 641	7 828
3. Movement in the balance of the unearned premium reserve and unexpired risk reserve	3 893	5 222
4. Reinsurers' share of the movement in the premium reserve balance	-	-
II. Investment income	1 023 145	790 859
1. Investment income on real estate	1 725	1 340
2. Investment income from affiliated entities	47 107	9 195
2.1. on ownership interests and shares	6 336	3 071
2.2. on loans and debt securities	40 771	6 124
2.3. on other investments	-	-
3. Other financial investment income	522 176	564 229
3.1. ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	6 918	9 529
3.2. on debt securities and other fixed-income securities	495 347	540 096
3.3. on term deposits in credit institutions	19 911	14 566
3.4. on other investments	-	38
4. Gain on investment revaluation	6 010	61 004
5. Gain on investment realization	446 127	155 091
III. Unrealized investment gains	1 148 548	883 535
IV. Other net technical income	3 550	8 450
V. Claims paid	3 098 224	3 242 924
1. Net claims paid	3 034 931	3 180 144
1.1. Gross claims paid	3 035 435	3 182 154
1.2. Reinsurers' share in claims paid	504	2 010
2. Movement in the balance of net claims reserves	63 293	62 780
2.1. Gross reserves	63 293	62 780
2.2. Reinsurers' share	-	-

Item	(000s of PLN) 2002	2003
VI. Movement in the balance of other net technical reserves	2 162 403	1 598 453
1. Movement in the balance of the net life insurance reserves	2 014 843	1 221 480
1.1. Gross reserves	2 014 837	1 221 482
1.2. Reinsurers' share	(6)	2
2. Movement in the balance of net technical reserves for life insurance if the policyholder bears the investment risk	146 668	176 377
2.1. Gross reserves	146 668	176 377
2.2. Reinsurers' share	-	-
3. Movement in the balance of other net technical reserves envisaged in the articles of association	892	200 596
3.1. Gross reserves	892	200 596
3.2. Reinsurers' share	-	-
VII. Bonuses and rebates jointly with the movement in net reserves	3 053	2 807
VIII. Insurance activity expenses	843 563	849 321
1. Acquisition expenses	451 515	476 537
1.1. including the change in the balance of capitalized acquisition costs	14 723	42 355
2. Administrative expenses	393 740	377 358
3. Reinsurance commissions and profit-sharing	1 692	4 574
IX. Investment activity expenses	297 569	56 516
1. Real estate maintenance expenses	1 259	1 017
2. Other investment activity expenses	10 627	11 013
3. Loss on investment revaluation	157 779	33 479
4. Loss on investment realization	127 904	11 007
X. Unrealized investment losses	190 241	171 906
XI. Other net technical income	39 330	45 536
XII. Net investment income after considering costs transferred to the non-technical profit and loss account	29 452	172 059
XIII. Technical life insurance result	400 207	657 996

Profit and loss account of PZU Życie SA

Item		(000s of PLN) 2002	2003
I.	Technical result on property and casualty insurance or the technical result on life insurance	400 207	657 996
II.	Investment income	-	-
	1. Investment income on real estate	-	-
	2. Investment income from affiliated entities	-	-
	2.1. on ownership interests and shares	-	-
	2.2. on loans and debt securities	-	-
	2.3. on other investments	-	-
	3. Other financial investment income	-	-
	3.1. on ownership interests, shares, other variable-income securities, participation units and investment certificates in investment funds	-	-
	3.2. on debt securities and other fixed income securities	-	-
	3.3. on term deposits in credit institutions	-	-
	3.4. on other investments	-	-
	4. Gains on investment revaluation	-	-
	5. Gains on investment realization	-	-
III.	Unrealized investment gains	-	-
IV.	Net investment income after including costs transferred from the technical life insurance account	29 452	172 059
V.	Investment activity expenses	-	-
	1. Real estate maintenance expenses	-	-
	2. Other investment activity expenses	-	-
	3. Loss on investment revaluation	-	-
	4. Loss on investment realization	-	-
VI.	Unrealized investment losses	-	-
VII.	Net investment income after including costs transferred to the technical property and casualty insurance account	-	-
VIII.	Other operating income	72 997	26 987
IX.	Other operating expenses	21 499	102 785
X.	Operating profit (loss)	481 157	754 257
XI.	Extraordinary gains	438	62
XII.	Extraordinary losses	262	40
XIII.	Gross profit (loss)	481 333	754 279
XIV.	Income tax	178 948	173 960
XV.	Other compulsory reductions in profit (increase in losses)	-	-
XVI.	Net profit (loss)	302 385	580 319

Cash flow statement of PZU Życie SA

Item	2002	2003
	(000s of PLN)	
A. Cash flow on operating activity		
I. Proceeds	5 052 852	5 186 535
1. Proceeds on direct activity and inward reinsurance	4 940 000	5 132 720
1.1. Proceeds on gross premiums	4 909 800	5 124 270
1.2. Proceeds on recovery claims and gross returns of claims paid	-	-
1.3. Other proceeds on direct activity	30 200	8 450
2. Proceeds on outward reinsurance	2 196	6 584
2.1. Payments received from reinsurers for their share of claims paid	504	2 010
2.2. Proceeds on reinsurance commissions and profit-sharing	1 692	4 574
2.3. Other proceeds from outward reinsurance	-	-
3. Proceeds on other operating activity	110 656	47 231
3.1. Proceeds for acting as an emergency adjuster	-	-
3.2. Sale of other intangible assets and tangible components of non-current assets besides investments	-	-
3.3. Other proceeds	110 656	47 231
II. Expenditures	4 085 438	4 073 287
1. Expenditures on direct activity and inward reinsurance	3 846 835	3 988 503
1.1. Returns of gross premiums	-	-
1.2. Gross claims paid	3 035 435	3 182 154
1.3. Acquisition expenditures	451 515	476 537
1.4. Administrative expenditures	299 518	284 276
1.5. Commissions paid and profit-sharing on inward reinsurance	-	-
1.6. Other expenditures on direct activity and inward reinsurance	60 367	45 536
2. Expenditures on outward reinsurance	5 641	7 828
2.1. Premiums paid for reinsurance	5 641	7 828
2.2. Other expenditures on outward reinsurance	-	-
3. Expenditures on other operating activity	232 962	76 956
3.1. Expenditures for acting as an emergency adjuster	-	-
3.2. Purchase of other intangible assets and tangible components of non-current assets besides investments	-	-
3.3. Other expenditures	232 962	76 956
III. Net cash flow on operating activity (I-II)	967 414	1 113 248

Item	2002	2003
		(000s of PLN)
B. Cash flow on investing activity		
I. Proceeds	86 274 055	104 545 249
1. Sale of real estate	-	-
2. Sale of ownership interests and shares in affiliated entities	4 445	10
3. Sale of ownership interests and shares in other entities as well as participation units and investment certificates in investment funds	420 875	294 153
4. Realization of debt securities issued by affiliated entities and the amortization of loans granted to these entities	235 094	23 673
5. Realization of debt securities issued by other entities	36 156 293	27 495 401
6. Liquidation of term deposits in credit institutions	48 928 490	75 662 736
7. Realization of other investments	-	37
8. Proceeds from real estate	1 725	1 340
9. Interest received	515 258	1 056 693
10. Dividends received	11 266	10 710
11. Other investment proceeds	609	496
II. Expenditures	87 218 883	105 661 934
1. Purchase of real estate	-	-
2. Purchase of ownership interests and shares in affiliated entities	167 310	17 850
3. Purchase of ownership interests and shares in other entities as well as participation units and investment certificates in investment funds	316 051	458 937
4. Purchase of debt securities issued by affiliated entities and granting loans to these entities	36 139	-
5. Purchase of debt securities issued by other entities	37 630 643	29 389 351
6. Purchase of term deposits in credit institutions	48 948 608	75 711 513
7. Purchase of other investments	69 801	72 253
8. Expenditures to maintain real estate	1 259	1 017
9. Other expenditures for investments	49 072	11 013
III. Net cash flow on investing activity (I-II)	(944 828)	(1 116 685)

Item	2002	2003
		(000s of PLN)
C. Cash flow on financing activity		
I. Proceeds	-	-
1. Net proceeds from issuing shares and additional capital contributions	-	-
2. Credits, loans and issues of debt securities	-	-
3. Other financial proceeds	-	-
II. Expenditures	-	-
1. Dividends	-	-
2. Other expenditures for distribution of profits besides disbursement of dividends	-	-
3. Purchase of treasury stock	-	-
4. Amortization of credits and loans and the redemption of own debt securities	-	-
5. Interest on credits and loans and issued debt securities	-	-
6. Other financial expenditures	-	-
III. Net cash flow on financing activity (I-II)	22 586	(3 437)
D. Total net cash flow (A.III+/-B.III+/-C.III)	22 586	(3 456)
E. Balance sheet change in cash balance, including:	-	(19)
- Change in the cash balance on account of FX gains	70 412	92 998
F. Cash at the beginning of the period	92 998	89 542
G. Cash at the end of the period (F+/-D), including: - Cash with limited ability to use	-	-

Statement of changes in equity of PZU Życie SA

Item	2002	2003
	(000s of PLN)	
I. Equity at the beginning of the period (opening balance)	1 507 618	1 997 755
a) Changes to accepted accounting principles (policy)	187 050	-
b) Adjustments due to fundamental errors	-	-
I.a. Equity at the beginning of the period (opening balance), after reconciliation with comparable data	1 694 668	1 997 755
1. Share capital at the beginning of the period	295 000	295 000
1.1. Changes to share capital	-	-
a) Increases (by virtue of)	-	-
- issue of shares	-	-
b) Decreases (by virtue of)	-	-
- retiring shares	-	-
1.2. Share capital at the end of the period	295 000	295 000
2. Unpaid share capital at the beginning of the period	-	-
2.1. Changes to unpaid share capital	-	-
a) Increases	-	-
b) Decreases	-	-
2.2. Unpaid share capital at the end of the period	-	-
3. Treasury stock at the beginning of the period	-	-
3.1. Changes in treasury stock	-	-
a) Increases	-	-
b) Decreases	-	-
3.2 Treasury stock at the end of the period	-	-
4. Reserve capital at the beginning of the period	833 167	1 209 697
4.1. Changes in reserve capital	376 530	489 358
a) Increases (by virtue of)	376 530	489 358
- issue of shares above par value	-	-
- distribution of profit (statutorily)	-	-
- distribution of profit (above minimum amount statutorily required)	376 337	489 308
- from the revaluation reserve	193	50
b) Decreases	-	-
4.2. Reserve capital at the end of the period	1 209 697	1 699 055
5. Revaluation reserve at the beginning of the period	3 114	3 750
5.1. Change in the revaluation reserve	636	(676)
a) Increases (by virtue of)	829	-
- sale, liquidation of fixed assets	-	-
- revaluation of investments	829	-

Item	2002	2003
		(000s of PLN)
b) Decreases (by virtue of)	193	676
- realization of assets (sale or liquidation)	193	50
- revaluation of investments	-	626
5.2. Revaluation reserve at the end of the period	3 750	3 074
6. Other reserve capital at the beginning of the period	-	-
6.1. Changes in other reserve capital	-	-
a) Increases	-	-
b) Decreases	-	-
6.2. Other reserve capital at the end of the period	-	-
7. Profit (loss) carried forward at the beginning of the period	376 337	489 308
7.1. Profit carried forward at the beginning of the period	376 337	489 308
a) Changes to accepted accounting principles (policy)	187 050	-
b) Adjustments due to fundamental errors	-	-
7.2. Profit carried forward at the beginning of the period, after reconciliation with comparable data	563 387	489 308
a) Increases (by virtue of)	-	-
- distribution of profits carried forward	-	-
b) Decreases (by virtue of)	376 464	489 308
- disbursement of dividends	-	-
- transfers to reserve capital	376 337	489 308
- others	127	-
7.3. Profit carried forward at the end of the period	186 923	-
7.4. Loss carried forward at the beginning of the period	-	-
a) Changes to accepted accounting principles (policy)	-	-
b) Adjustments due to fundamental errors	-	-
7.5. Losses carried forward at the beginning of the period, after reconciliation with comparable data	-	-
a) Increases (by virtue of)	-	-
- transfer of loss carried forward to be covered	-	-
b) Decreases (by virtue of)	-	-
- coverage of losses with reserve capital	-	-
7.6. Losses carried forward at the end of the period	-	-
7.7. Profit (loss) carried forward at the end of the period	186 923	-
8. Net result	302 385	580 319
a) Net profit	302 385	580 319
b) Net loss	-	-
c) Charges to profits	-	-
II. Equity at the end of the period (closing balance)	1 997 755	2 577 448
III. Equity after taking into consideration the proposed distribution of profits (coverage of losses)	1 997 755	2 577 448

Financial statements of **PTE PZU SA**

ERNST & YOUNG

Ernst & Young Audit sp. z o.o.
ul. Emilii Plater 53
00-113 Warszawa

Tel. +48 22 557 70 00
Fax +48 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

We issued previously the audit opinion with emphasis of matter without qualifications dated February 3, 2004 on the financial statements for the year ended December 31, 2003 as presented below:

"INDEPENDENT AUDITORS' OPINION

To the Supervisory Board of Powszechne Towarzystwo Emerytalne PZU S.A.

1. We have audited the financial statements for the year ended December 31, 2003 of Powszechne Towarzystwo Emerytalne PZU S.A. (the "Company") located at Jana Pawła 24 Avenue, Warsaw, containing:

   - the introduction to the financial statements,
   - the balance sheet as at December 31, 2003 with total assets amounting to 183,293,179.96 zlotys (in words: one hundred eighty three million two hundred ninety three thousand one hundred seventy nine zlotys and ninety six grosz),
   - the profit and loss account for the period from January 1, 2003 to December 31, 2003 with a net profit amounting to 66,626,905.16 zlotys (in words: sixty six million six hundred twenty six thousand nine hundred five zloty and sixteen grosz),
   - the statement of changes in shareholders' equity for the period from January 1, 2003 to December 31, 2003 with a net increase in shareholders' equity amounting to 66,626,905.16 zlotys (in words: sixty six million six hundred twenty six thousand nine hundred five zloty and sixteen grosz),
   - the cash flow statement for the period from January 1, 2003 to December 31, 2003 with a net cash outflow amounting to 11,006,188.42 zlotys (in words: eleven million and six thousand one hundred eighty eight zlotys and forty two grosz) and
   - the additional notes and explanations.

2. The truth and fairness[1] of the financial statements and the proper maintenance of the accounting records are the responsibility of the Management Board. Our responsibility was to audit the financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects, properly maintained.

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

   - chapter 7 of the Accounting Act, dated September 29, 1994 (the "Accounting Act"),
   - the auditing standards issued by the National Chamber of Auditors,

[1] Translation of the following expression in Polish: "*rzetelność, prawidłowość i jasność*"
[2] Translation of the following expression in Polish: "*rzetelne, prawidłowe i jasne*"

1

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

in order to obtain reasonable assurance whether the financial statements are free of material misstatement. In particular, the audit included examining, to a large extent on a test basis, documentation supporting the amounts and disclosures in the financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statement. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. The financial statements for the prior financial year ended December 31, 2002 were subject to our audit and we issued an opinion including an emphasis of matter on these financial statements, dated January 31, 2003. We draw your attention to this emphasis of matter also in this opinion in point 6 below.

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

   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from January 1, 2003 to December 31, 2003, as well as its financial position[3] as at December 31, 2003;
   - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and regulations issued based on that Act and based on properly maintained accounting records;
   - are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Company's articles of association that affect their content.

6. Without qualifying our opinion to the financial statements, we draw your attention to the issue described in point 18 of the additional notes and explanations to the financial statements. Based on the statute of PZU "Złota Jesień" Otwarty Fundusz Emerytalny ("the Fund"), the Company is entitled to receive the manipulation fee as a certain percentage of the members' contribution paid to the Fund and the management fee as a percentage of the Fund's net assets. In accordance with the respective regulations, setting out the accounting principles to be followed by pension funds, the Fund discloses Fund's members' capital as the amount of members' contributions actually received either in a form of cash or treasury bonds. Data from the Fund's transfer agent and generally available information relating to the whole market of pension funds indicate the fact that for a certain number of the Fund's members the contributions have not been transferred at all or are transferred by Social Security Agency (Zakład Ubezpieczeń Społecznych, "ZUS") irregularly. In line with Act on taking over the ZUS liabilities resulting from not transferred contributions to pension funds by the State Treasury dated July 23, 2003 (Journal of Law 2003 No 149, item 1450), in 2003 the State Treasury started to transfer overdue contributions to pension funds in the form of Treasury bonds. However, the contributions received by the Fund by the end of 2003 constitute only a small part of the overall amount of overdue delays in premium transfers as estimated by the management company. The financial statements of the Company for the year ended December 31, 2003 include only the manipulation fee income due from the

[3] Translation of the following expression in Polish: "*sytuacja majątkowa i finansowa*"

Translation of auditors' opinion originally issued in Polish
The Polish original should be referred to in matters of interpretation

contributions received by the Fund until December 31, 2003 and the management fee income calculated as a percentage of the net assets presented in the Fund's financial statements.

7. We have read the Directors' Report for the period from January 1, 2003 to December 31, 2003 ("Directors' Report") and concluded that the information derived from the financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with art. 49 clause 2 of the Accounting Act."

In our opinion the information presented in the published, condensed financial statements on pages 156 to 165 of this annual report is in all material respects fairly stated in relation to the financial statements from which it has been derived. The financial statements that were audited by us include notes that were not fully presented in the attached condensed financial statements. In order for the reader to obtain a true and fair view of the state of affairs of the Company as at December 31, 2003 and the results of its operations for the period from January 1, 2003 to December 31, 2003, the reader must review the full financial statements in their entirety including all supporting schedules and statutory disclosures as required by the Accounting Act and the regulations based thereof.

Certified Auditor No 9528/7104	on behalf of Ernst and Young Audit Sp. z o.o., ul. Emilii Plater 53, 00-113 Warsaw Ident. no. 130
Iwona Kozera	Tomasz Bieske Certified Auditor No 9291/6975

Warsaw, June 21, 2004

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Balance sheet of PTE PZU SA

Assets

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
A. Non-current assets	45 270	62 174
I. Intangible assets	785	496
1. Costs of completed development work	-	-
2. Goodwill	-	-
3. Other intangible assets	785	496
4. Advance payments towards intangible assets	-	-
II. Property, plant and equipment	1 474	1 248
1. Fixed assets	1 474	1 248
a) Land (including the right of permanent usufruct to land)	-	-
b) Buildings, premises and civil and water engineering facilities	-	-
c) Technical equipment and machinery	168	148
d) Means of transportation	659	650
e) Other fixed assets	647	450
2. Fixed assets under construction	-	-
3. Advance payments for fixed assets under construction	-	-
III. Long-term receivables	354	293
1. from affiliated entities	292	293
2. from other entities	62	-
IV. Long-term investments	-	23 019
1. Real estate	-	-
2. Intangible assets	-	-
3. Long-term financial assets	-	23 019
a) in affiliated entities	-	-
- ownership interests or shares	-	-
- other securities	-	-
- granted loans	-	-
- other long-term financial assets	-	-
b) in other entities	-	23 019
- ownership interests or shares	-	-
- other securities	-	23 019
- granted loans	-	-
- other long-term financial assets	-	-
4. Other long-term investments	-	-
V. Long-term prepayments and accruals	42 657	37 118
1. Deferred income tax assets	42 657	37 118
2. Other accruals	-	-

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
B. Current assets	57 526	121 119
I. Inventory	-	-
1. Materials	-	-
2. Semi-finished products and products in progress	-	-
3. Finished products	-	-
4. Merchandise	-	-
5. Advance payments towards trade payables	-	-
II. Short-term receivables	7 191	8 920
1. Receivables from affiliated entities	-	-
a) for trade receivables due:	-	-
- up to 12 months	-	-
- above 12 months	-	-
b) other	-	-
2. Receivables from other entities	7 191	8 920
a) for trade receivables due:	6 969	8 914
- up to 12 months	6 969	8 914
- above 12 months	-	-
b) on taxes, subsidies, customs duties, social security, health insurance and other performances	-	-
c) other	222	6
d) pursued by litigation	-	-
III. Short-term investments	50 159	111 159
1. Short-term financial assets	50 159	43 812
a) in affiliated entities	-	-
- ownership interests or shares	-	-
- other securities	-	-
- granted loans	-	-
- other short-term financial assets	-	-
b) in other entities	14 304	18 963
- ownership interests or shares	-	-
- other securities	14 304	18 963
- granted loans	-	-
- other short-term financial assets	-	-
c) cash and other cash assets	35 855	24 849
- cash on hand and on accounts	25 855	24 849
- other cash	-	-
- other cash assets	10 000	-
2. Other short-term investments	-	67 347
IV. Short-term prepayments and accruals	176	1 040
Total assets	**102 796**	**183 293**

Liabilities and equity

Item		(000s of PLN)
	31 Dec. 2002	31 Dec. 2003
A. Equity	90 954	157 581
I. Share capital	32 000	32 000
II. Unpaid share capital (negative figure)	-	-
III. Treasury stock (negative figure)	-	-
IV. Reserve capital (fund)	288 000	288 000
V. Revaluation reserve (fund)	-	-
VI. Other reserve capital	-	-
VII. Profit (loss) carried forward	(233 471)	(229 046)
VIII. Net profit (loss)	4 425	66 627
IX. Charges to net profit during the financial year (negative figure)	-	-
B. Liabilities and reserves for liabilities	11 842	25 712
I. Reserves for liabilities	619	14 281
1. Deferred income tax reserve	272	14 080
2. Reserve for pension and similar benefits	347	201
- long-term	255	197
- short-term	92	4
3. Other reserves	-	-
- long-term	-	-
- short-term	-	-
II. Long-term liabilities	-	-
1. to affiliated entities	-	-
2. to other entities	-	-
a) credits and loans	-	-
b) for issuing debt securities	-	-
c) other financial liabilities	-	-
d) other	-	-

Item	(000s of PLN)	
	31 Dec. 2002	31 Dec. 2003
III. Short-term liabilities	2 762	2 428
1. to affiliated entities	177	170
a) for trade receivables due:	177	170
- up to 12 months	177	170
- above 12 months	-	-
b) other	-	-
2. to other entities	2 473	2 214
a) credits and loans	-	-
b) for issuing debt securities	-	-
c) other financial liabilities	-	-
d) for trade receivables due:	488	171
- up to 12 months	488	171
- above 12 months	-	-
e) advance payments received for deliveries	-	-
f) bill of exchange liabilities	-	-
g) for taxes, customs duties, insurance and other performances	348	769
h) for payroll	-	-
i) other	1 637	1 274
3. Special-purpose funds	112	44
IV. Deferred income and accruals	8 461	9 003
1. Negative goodwill	-	-
2. Other accruals	8 461	9 003
- long-term	-	-
- short-term	8 461	9 003
Total liabilities and equity	102 796	183 293

Profit and loss account of PTE PZU SA

Item	(000s of PLN)	
	2002	2003
A. Net sales revenues and equivalents, including:	114 893	132 143
- from affiliated entities	-	-
I. Net revenues on the sales of products	114 893	132 143
II. Change in the balance of products (increase-positive figure, decrease-negative figure)	-	-
III. Cost of manufacturing products for the entity's proprietary needs	-	-
IV. Net revenues on the sale of merchandise and materials	-	-
B. Operating expenses	116 042	117 300
I. Depreciation	1 030	864
II. Consumption of materials and energy	1 034	1 045
III. External services	67 200	63 102
IV. Taxes and fees, including	97	151
- excise tax	-	-
V. Payroll	10 134	10 636
VI. Payroll-related expenses	1 661	1 481
VII. Other types of costs	34 886	40 021
VIII. Cost of merchandise and materials sold	-	-
C. Profit (loss) on sales (A-B)	(1 149)	14 843
D. Other operating income	1 014	68 837
I. Profit on the sale of non-financial non-current assets	4	87
II. Subsidies	-	-
III. Other operating income	1 010	68 750
E. Other operating expenses	1 005	648
I. Loss on the sale of non-financial non-current assets	-	-
II. Revaluation of non-financial assets	-	-
III. Other operating expenses	1 005	648
F. Operating profit (loss) (C+D-E)	(1 140)	83 032
G. Financial income	5 173	2 965
I. Dividends and profit-sharing, including:	-	-
- from affiliated entities	-	-
II. Interest, including:	1 085	1 090
- from affiliated entities	-	1
III. Profit on the sale of investments	4 020	1 676
IV. Revaluation of investments	65	194
V. Other	3	4

Item	(000s of PLN)	
	2002	2003
H. Financial expenses	15	24
I. Interest, including:	-	-
- to affiliated entities	-	-
II. Loss on the sale of investments	-	-
III. Revaluation of investments	-	-
IV. Other	15	24
I. Profit (loss) on economic activity (F+G-H)	4 018	85 973
J. Result on extraordinary items (J.I.-J.II.)	-	-
I. Extraordinary gains	-	-
II. Extraordinary losses	-	-
K. Gross profit (loss) (I±J)	4 018	85 973
L. Income tax	(407)	19 346
M. Other compulsory reductions in profit (increase in losses)	-	-
N. Net profit (loss) (K-L-M)	4 425	66 627

Cash flow statement of PTE PZU SA
(indirect method)

Item	2002	2003
		(000s of PLN)
A. Cash flow on operating activity		
I. Net profit (loss)	4 425	66 627
II. Total adjustments	(8 871)	(52 872)
1. Depreciation	1 030	864
2. FX gains (losses)	-	-
3. Interest and profit-sharing (dividends)	(5 168)	(3 178)
4. Profit (loss) on investing activity	(11)	(88)
5. Change in the balance of reserves	184	13 662
6. Change in the balance of inventory	-	-
7. Change in receivables	(5 034)	(1 668)
8. Change in the balance of current liabilities, except for credits and loans	(4 491)	(334)
9. Change in the balance of prepayments, deferred income and accruals	4 619	5 217
10. Other adjustments	-	(67 347)
III. Net cash flow on operating activity (I±II)	(4 446)	13 755
B. Cash flow on investing activity		
I. Proceeds	85 941	66 448
1. Sale of intangible assets and tangible non-current assets	147	141
2. Sale of investments in real estate and intangible assets	-	-
3. From financial assets, including:	85 794	66 307
a) in affiliated entities	-	-
b) in other entities	85 794	66 307
- sale of financial assets,	84 929	65 000
- dividends and profit-sharing	-	-
- repayment of granted long-term loans	-	-
- interest	865	1 307
- other proceeds from financial assets	-	-
4. Other investment proceeds	-	-

Item	(000s of PLN)	
	2002	2003
II. Expenditures	52 597	91 209
1. Purchase of intangible assets and tangible non-current assets	412	401
2. Investments in real estate and intangible assets	-	-
3. On financial assets, including:	52 185	90 808
a) in affiliated entities	-	-
b) in other entities	52 185	90 808
- purchase of financial assets	52 185	90 808
- granted long-term loans	-	-
4. Other investment expenditures	-	-
III. Net cash flow on investing activity (I-II)	33 344	(24 761)
C. Cash flow on financing activity	-	-
I. Proceeds	-	-
1. Net proceeds on issuing ownership interests (issuing shares) and other capital instruments and additional capital contributions	-	-
2. Credits and loans	-	-
3. Issue of debt securities	-	-
4. Other financial proceeds	-	-
II. Expenditures	-	-
1. Purchase of treasury stock	-	-
2. Dividends and other disbursements to owners	-	-
3. Other expenditures for distribution of profits besides disbursements to owners	-	-
4. Repayment of credits and loans	-	-
5. Redemption of debt securities	-	-
6. On other financial liabilities	-	-
7. Liability payments for financial lease agreements	-	-
8. Interest	-	-
9. Other financial expenditures	-	-
III. Net cash flow on financing activity (I-II)	-	-
D. Total net cash flow (A.III+/-B.III+/-C.III)	28 898	(11 006)
E. Balance sheet change in the balance of cash, including	28 898	(11 006)
- Change in the cash balance on account of FX gains	-	-
F. Cash at the beginning of the period	6 957	35 855
G. Cash at the end of the period (F+/-D), including	35 855	24 849
- Cash with limited ability to use	-	-

Statement of changes in equity of PTE PZU SA

Item		(000s of PLN)
	2002	2003
I. Equity at the beginning of the period (opening balance)	86 529	90 954
- Adjustments due to fundamental errors	-	-
I.a. Equity at the beginning of the period (opening balance), adjusted	86 529	90 954
1. Share capital at the beginning of the period	32 000	32 000
1.1. Changes to share capital	-	-
a) Increase (by virtue of)	-	-
- issue of ownership interests (issue of shares)	-	-
b) Decrease (by virtue of)	-	-
- retirement of ownership interests (shares)	-	-
1.2. Share capital at the end of the period	32 000	32 000
2. Unpaid share capital at the beginning of the period	-	-
2.1. Change in unpaid share capital	-	-
a) Increase	-	-
b) Decrease	-	-
2.2. Unpaid share capital at the end of the period	-	-
3. Treasury stock at the beginning of the period	-	-
a) Increase	-	-
b) Decrease	-	-
3.1. Treasury stock at the end of the period	-	-
4. Reserve capital at the beginning of the period	288 000	288 000
4.1. Changes to reserve capital	-	-
a) Increase (by virtue of)	-	-
- issue of shares above par value	-	-
- distribution of profits (statutorily)	-	-
- distribution of profits (above the minimum amount statutorily required)	-	-
b) Decrease (by virtue of)	-	-
- coverage of losses	-	-
4.2. Balance of reserve capital at the end of the period	288 000	288 000
5. Revaluation reserve at the beginning of the period	-	-
5.1. Changes in the revaluation reserve	-	-
a) Increase (by virtue of)	-	-
- revaluation of investments	-	-
b) Decrease (by virtue of)	-	-
- sale of fixed assets	-	-
5.2. Revaluation reserve at the end of the period	-	-

Item	2002	2003 (000s of PLN)
6. Other reserve capital at the beginning of the period	-	-
6.1. Change in other reserve capital	-	-
a) Increase	-	-
b) Decrease	-	-
6.2. Other reserve capital at the end of the period	-	-
7. Profit (loss) carried forward at the beginning of the period	(233 471)	(229 046)
7.1. Profit carried forward at the beginning of the period	-	-
- Adjustments due to fundamental errors	-	-
7.2. Profit carried forward at the beginning of the period, adjusted	-	-
a) Increase (by virtue of)	-	-
- distribution of profits carried forward	-	-
b) Decrease	-	-
7.3. Profit carried forward at the end of the period	-	-
7.4. Loss carried forward at the beginning of the period,	(233 471)	(229 046)
- Adjustments due to fundamental errors	-	-
7.5. Loss carried forward at the beginning of the period, adjusted	(233 471)	(229 046)
a) Increase (by virtue of)	-	-
- transfer of loss carried forward to be covered	-	-
b) Decrease	-	-
7.6. Losses carried forward at the end of the period	(233 471)	(229 046)
7.7. Profit (loss) carried forward at the end of the period	(233 471)	(229 046)
8. Net result	4 425	66 627
a) Net profit	4 425	66 627
b) Net loss	-	-
c) Charges on profit	-	-
II. Equity at the end of the period (closing balance)	90 954	157 581
III. Equity after considering the proposed distribution of profits (coverage of losses)	90 954	157 581

PZU Group's addresses and telephone numbers

PZU SA

Al. Jana Pawła II 24
00-133 Warsaw
0-801 102 102 (information line)
tel. (+48 22) 582 21 57
fax (+48 22) 582 24 48
e-mail: poczta@pzu.pl
www.pzu.pl/pzusa

PZU Życie SA

Al. Jana Pawła II 24
00-133 Warsaw
0-801 100 007 (information line)
tel. (+48 22) 582 34 00
fax (+48 22) 582 34 01
e-mail: kontakt@pzuzycie.pl
www.pzuzycie.pl

PTE PZU SA

Al. Jana Pawła II 24
00-133 Warsaw
0-801 316 091 (information line)
tel. (+48 22) 582 29 00
fax (+48 22) 582 29 05
e-mail: ptepzu@ptepzu.pl
www.ptepzu.pl

TFI PZU SA

ul. Prosta 30
00-838 Warsaw
0-800 337 889 (information line)
tel. (+48 22) 656 37 00
fax (+48 22) 656 36 38
e-mail: org@tfipzu.com.pl
www.tfipzu.pl

PZU Asset Management SA

Al. Jana Pawła II 24
00-133 Warsaw
tel. (+48 22) 582 21 90
fax (+48 22) 582 26 55

PZU Tower Sp. z o.o.

ul. Ogrodowa 58
00-876 Warsaw
tel. (+48 22) 520 27 40
fax (+48 22) 520 27 41

Centrum Informatyki Grupy PZU SA

ul. Matuszewska 14
03-876 Warsaw
tel. (+48 22) 511 42 00
fax (+48 22) 511 42 01

Designed and printed by Viva Plus
tel. (+48 32) 386 80 86