

# 700

PZU Annual Report 2004

**700** offices throughout the country cater to our millions of customers, giving them a sense of peace and security in every area of their lives.

## The numbers tell our story

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Net earnings – **2,188.1** million zloty. Every success can easily be measured and counted. Yet no numbers can express the feeling of financial security we provided to our customers.

## Basic Information on the PZU Group

### The Powszechny Zakład Ubezpieczeń SA Group (the PZU Group)

is one of the largest financial institutions in Poland, and also in all of Central and Eastern Europe. As heir to a tradition of insurance on Polish lands that stretches back over 200 years, it has for many years provided comprehensive insurance cover in all the most important fields of private, public and economic life.

The PZU Group offers the broadest product range on the Polish market. The Group's core businesses comprise the sale of non-life insurance and life assurance, and also the management of a pension fund, investment funds and savings plans. The Group's products are available through a network of over 700 offices throughout the country. The active sale of PZU Group products is also carried on by over nine thousand agents. The customer base of the PZU Group amounts to well over a dozen million individuals and companies.

The PZU Group is also one of the country's biggest employers. In 2004, the Group's four principal companies had a total staff of almost 16.5 thousand.

PZU constitutes one of the best recognised brand names in Poland

### PZU Group financial highlights

Premiums written	13 billion zloty
Net profit	2.2 billion zloty
Total assets	39 billion zloty
ROE	29.5%
ROA	5.9%
Standard & Poor's rating	A-



12,962,7

**12,962.7** million zloty in premiums written expresses the trust placed in us by our customers.

## Letter from the President

Dear reader,

On May 1, 2004, Poland became a fully-fledged member of the European Union. This was an event of immense significance for all of Poland's citizens and for future generations. This brought the period of systemic transition to a symbolic close. We are convinced that Poland's accession to the organisational structures of a united Europe will lay a solid foundation for economic growth and social development. We are confident that this is also an opportunity for the further development of the PZU Group.

Joining the European Union was accompanied by the reappearance of an upturn in the Polish economy. Real GDP growth came to 5.6%, as against 1.8% in the euro area and 3.6% for the OECD countries as a whole. This acceleration of economic growth created a favourable environment for the development of the insurance market.

The year 2004 was in every respect a record one and a turning point for the PZU Group. We achieved our highest-ever level of premiums written, almost 13 billion zloty, reversing a two-year downward trend. Net earnings amounted to 2.2 billion zloty, meaning that in 2004 the PZU Group was the most profitable financial institution in Poland. Given the capital held by the PZU Group (nearly 8 billion zloty), this earnings figure makes us one of the most profitable financial institutions in the European Union, reporting a return on equity of 30%. Our underwriting result was twice as high as in 2003, on both life and non-life business. In addition, our combined ratio, which provides a slightly simplified view of the efficiency of our core operations, stood at around 90%, a level virtually unattainable for most European insurance companies.

All ratios depicting our financial soundness continued to improve in 2004, which is particularly important from the point of view of the Group's customers.

Last year, the PZU Group was the subject of a credit rating for the first time in its history. Our aim was to obtain an objective and independent assessment of the market position and financial strength of PZU SA and PZU Życie SA, the Group's principal insurance companies. The "A-" rating assigned to the PZU Group by the renowned agency Standard & Poor's represents the highest awarded to a financial institution in this part of Europe and corresponds to the sovereign rating of the Republic of Poland. At the same time, it matches the ratings given to many well-known insurance firms worldwide.

Our strong market position and financial condition constituted an excellent basis for continuing the process of modernisation at the PZU Group, in terms of both new insurance products and other services on offer. We have been consistent in changing our operating philosophy to one that is above all customer-oriented. Last year, we successfully entered the market for Individual Pension Accounts. The product we launched met with high customer approval. Consumer research reveals that almost 40% of respondents currently associate IPAs with none other than PZU. We have also been developing our collaboration with banks, considering bancassurance to be an important modern distribution channel for insurance products, one that augurs well for the future.

A particularly noteworthy aspect of our work to raise customer service quality is the opening of our Repair Network, which has involved PZU SA establishing close cooperation with almost 800 garages performing vehicle repairs throughout Poland. We are convinced that the more efficient service we have thus introduced will yield positive changes in vehicle loss adjustment, a key area in view of the number of vehicles insured at PZU SA.

Last year also saw the signing of a framework agreement with a consortium of leading IT firms, which is to result in the implementation of an integrated IT system at PZU. This maps out a path for modernising the PZU Group in all areas of operation.

The decisions taken in the course of 2004 mean that the PZU Group is on the eve of profound organisational change. One of the most crucial of these changes is undoubtedly the introduction of a new corporate governance model. Our shareholders instructed the Management Board to commence work with a view to transforming the Group in the direction of a holding company structure, with the clear establishment of central support functions for all our companies, such as finance, human resource management, asset management, IT and administration, to be distinguished from product delivery functions.

The year 2004 failed to bring the long-awaited breakthrough in relations between the largest shareholders of PZU SA. The arrangement with Eureka negotiated by the Minister of the Treasury was ultimately not signed. The issue of the privatisation of PZU SA in the years 1999-2000 is being examined by a parliamentary committee of inquiry set up towards the end of last year.

For some years now, the shareholder conflict has cast a shadow on the ongoing activity of the PZU Group and its capacity to undertake strategic initiatives. Nonetheless, in 2004 we instituted a series of measures and projects that should produce long-term results for the Group. We are involved in a difficult process of change and transition designed to modernise the operation of Group companies, achieve a better coordination of activity, and enhance collaboration in order to take advantage of potential cost and revenue synergies. The year 2005 will therefore be a key one for our future. We are confident that, through the joint efforts of our staff of over 16 thousand, we will establish the PZU Group as an institution not only regarded as a sound and solid insurer on the Polish, Lithuanian and Ukrainian markets, but also as one that is considered to be increasingly well managed. This would lay the best possible basis for a successful share offering and the future listing of PZU SA.

**Cezary Stypułkowski,**  
President, PZU SA

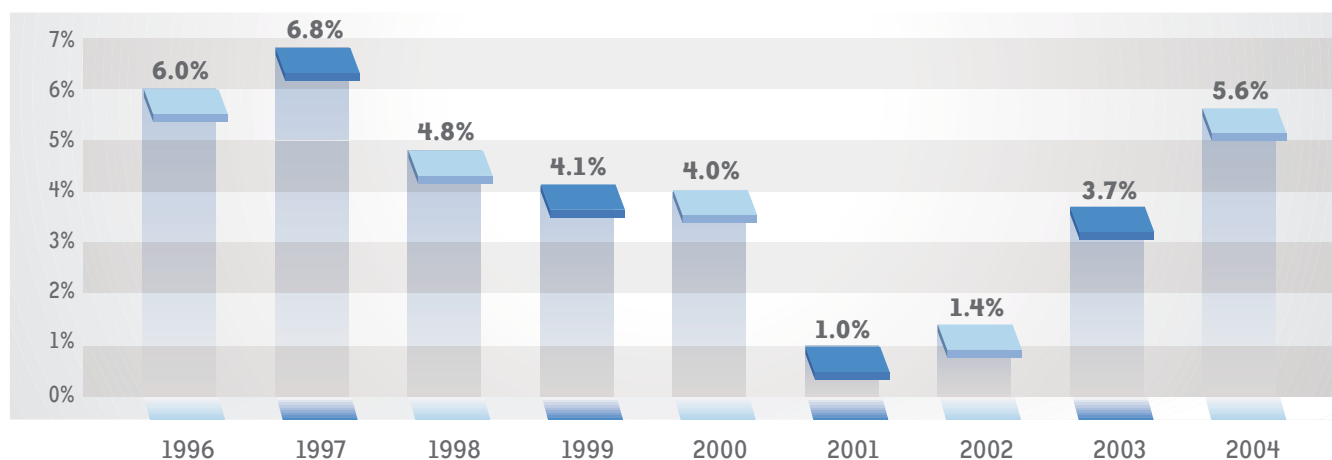
2.2 billion zloty of net profit situates the PZU Group among the best performing insurers in Europe.

## Poland's Economic Situation in 2004

### Economic growth

The year 2004 was a successful one for the entire Polish economy. Real GDP growth came to some 5.6%, as against 1.8% for the euro area and 3.6% for the OECD countries as a whole. The economic upturn begun at the turn of 2002 and 2003 has been rooted in export growth of around 20% (as measured in euro), markedly outpacing import growth, and also in the relatively strong and stable growth of personal consumption. Demand for Polish goods and services has been additionally fuelled by a reversal of the previous trend in investment. Following several years of decline, the year 2004 saw a large increase in capital expenditure, up 5.1% as regards fixed investment (in buildings, machinery and equipment), with a double-digit increase in stockbuilding (raw materials, intermediates and finished goods).

GDP growth in Poland, 1996-2004



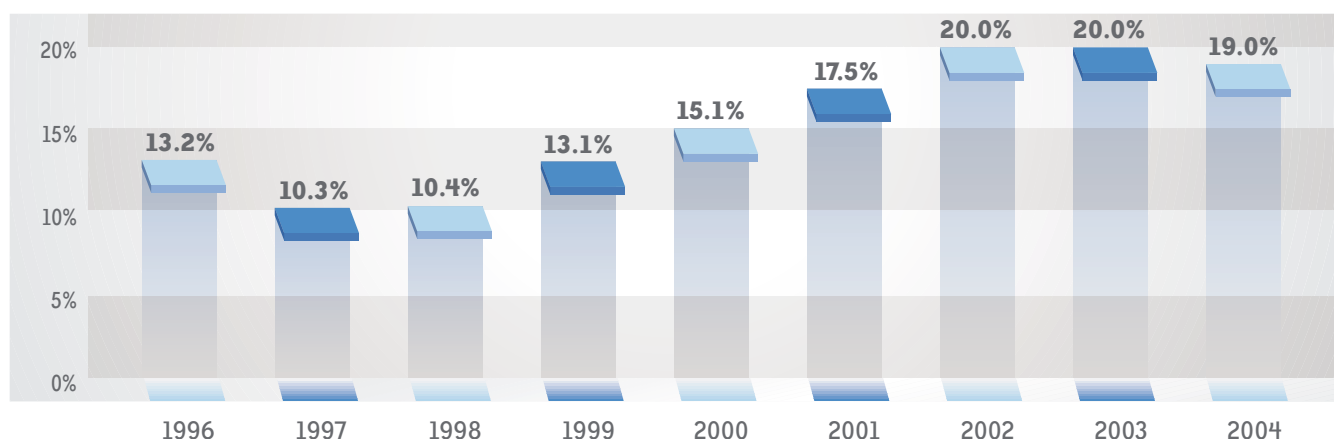
### Corporate finances

At the same time, a significant advance was noted in corporate finances. In 2004, net profit margins climbed very substantially, to stand at 4.8% among companies with a staff of 50 or more, compared to 1.7% a year previously. This major improvement in the financial condition of medium and large corporates, coupled with a considerable increase in aggregate demand, has created an opportunity for double-digit growth in fixed investment in 2005, and also – despite the expected fall in net exports – for further GDP growth in the region of some 4-5%.

### Labour market

The situation on the labour market has gradually been improving as investment growth has quickened. In 2004, the unemployment rate came down by about 0.9 points. However, the jobless rate still remains high, at around 19%. As a result, nominal wages only edged up in 2004, while real wages even slipped somewhat. In 2005, real wages should go up slightly. Thus, higher employment and pay, together with much higher corporate earnings, are yielding an increase in overall national prosperity, which is a key factor in stimulating the growth of the insurance market.

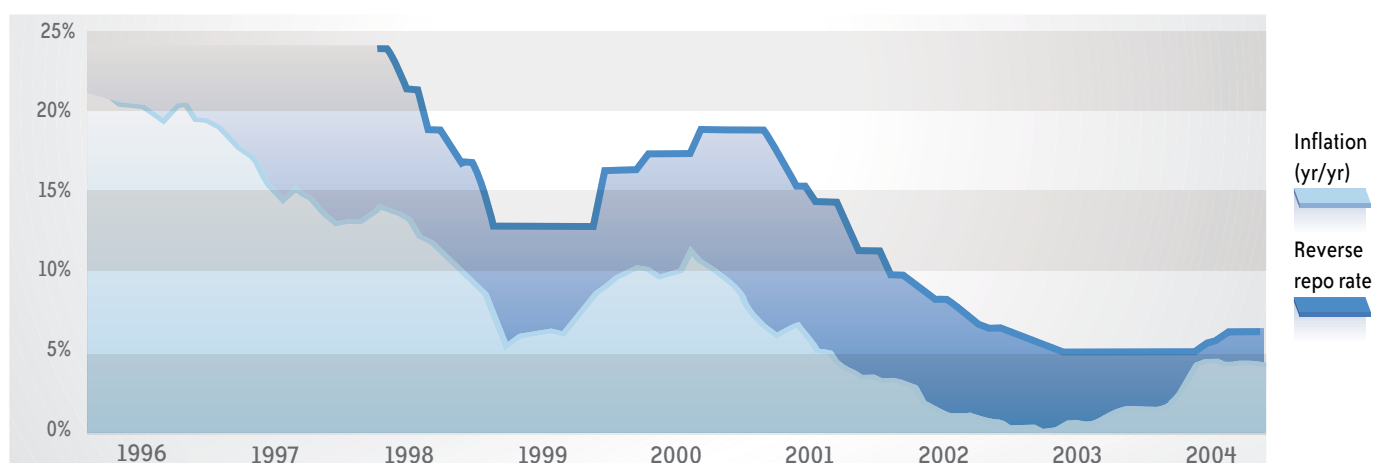
### Unemployment rate in Poland



### Prices

The year 2004 brought a significant rise in inflation, up from 1.7% at year end 2003 to some 4.4% at the end of 2004. This is primarily attributable to a large increase in world prices for fuels and other commodities, and to the one-off effect of Poland joining the European Union, which was particularly visible in an 8.3% rise in food prices. This led the Monetary Policy Council to carry out moderate interest rate hikes, totalling 125 bps over the year 2004 as a whole. The fact that the Council did not respond more sharply to faster inflation was due to the substantial appreciation of the zloty, the lack of inflationary wage pressure, and the slow expansion of bank lending to corporates and households.

### Polish inflation and central bank reverse repo rate



### Impact of EU accession on Polish economy

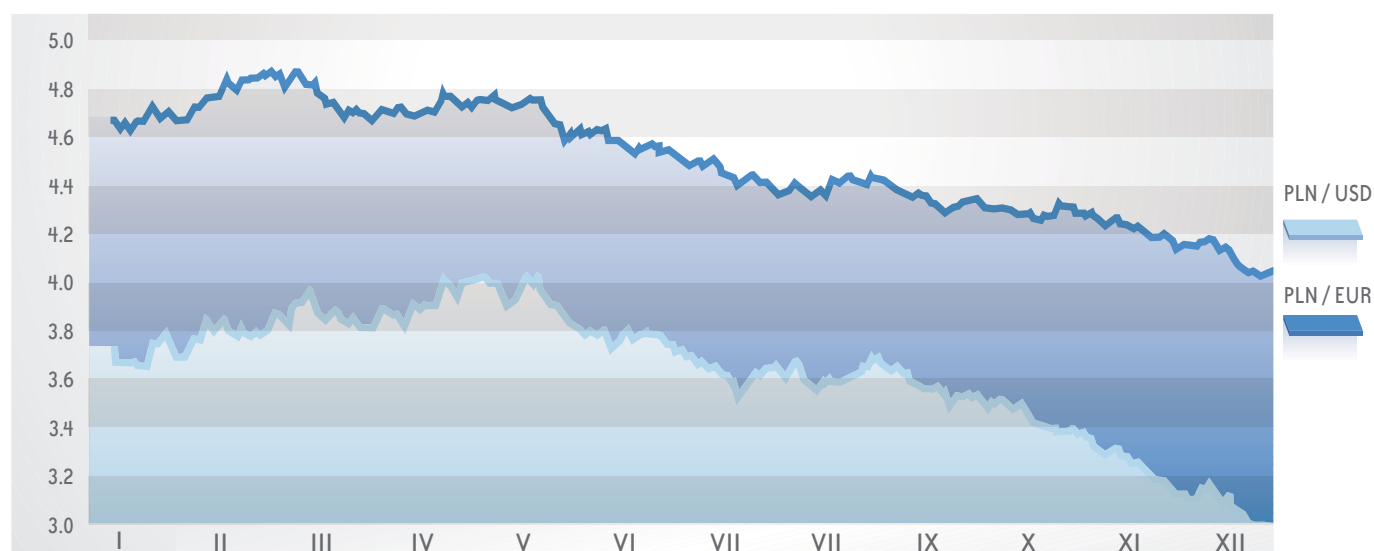
Nonetheless, the year 2004 was primarily about Poland entering the EU. The effects of this should become plain and be positive, yet only over the longer time frame, particularly after Poland joins European Monetary Union and the economy absorbs large-scale EU funding for infrastructure projects. After all, the direct consequences seen in 2004 itself were slightly destabilising. One of these was the sizeable adverse inflationary effect, mentioned above, without which the interest rates of the National Bank of Poland could have been held

virtually flat as they stood at the beginning of 2004, not only for the remainder of that year, but probably in 2005 as well. Swifter inflation and zloty appreciation weakened net exports and real income growth, thereby also slowing economic growth in the second half of 2004. On the other hand, the prospect of Poland joining the EU had stoked demand in the first half of the year. The upshot was that economic growth was much more uneven than it would have been without the direct and indirect effects of EU accession.

### Strengthening of the zloty

Export growth was rapid not only in 2004, but had also been over several years previously. In the last five years, export receipts have doubled, from around €30 billion to some €60 billion. The stronger linkages between the Polish and world economies, and especially with the EU, accentuated the impact of zloty exchange rates and the economic climate abroad on corporate earnings and the general health of the economy in Poland. From March 2004 onwards, the zloty firmed strongly against practically all other currencies. In 2004, this appreciation did not pose large problems for Polish companies. However, a further considerable strengthening of the currency is possible in 2005, with the contributing factors including Poland's enhanced credibility among foreign investors after joining the EU and the greater inflow of funds from the EU budget. This could mean that economic growth in the years 2005 and 2006 will be slower than in 2004.

Zloty exchange rates against US dollar and euro in 2004



### Financial markets

The year 2004 also witnessed major changes on financial markets. Above all, the value placed on Polish companies quoted on the Warsaw Stock Exchange rose substantially. As a result, there was also an increase in the valuation of PZU Group assets held in the form of shares in publicly traded companies. Further, the large interest shown by foreign investors in Polish assets caused a considerable rise in the price of the Treasury securities held by the Group. In all, this produced a strong increase in the income generated by the PZU Group from investment activity on financial markets.

WIG 20 index of Warsaw Stock Exchange in 2004







**402.6%** in non-life insurance and **248%** in life assurance – these were the solvency margin ratios the PZU Group reported in 2004.

## The Polish Market for Insurance and for Pension and Investment Funds in 2004

### The insurance market

#### Key events

The year 2004 was a watershed for both the Polish economy and the Polish insurance market. Poland entering the European Union had a significant impact on Polish legislation governing insurance activity, while heightening competition among establishments offering insurance in Poland and leading to an increase in the quality of the products provided by insurers.

One of the most significant events of 2004 was the taking effect, as of the beginning of the year, of a new legislative package comprising four acts of parliament adopted on May 22, 2003. These are:

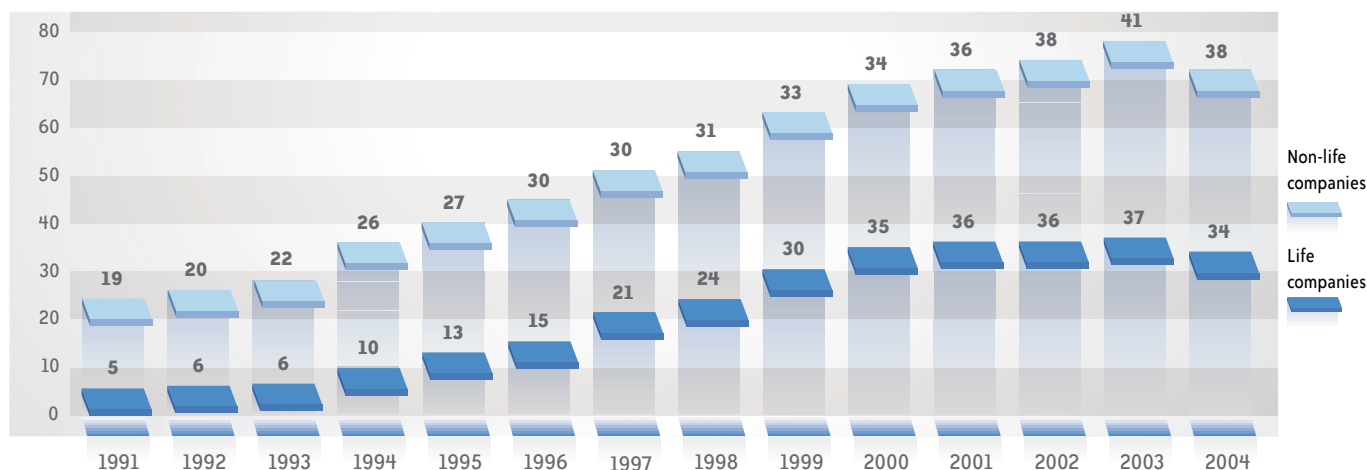
- The Act on Insurance Activity,
- The Act on Insurance Mediation,
- The Act on Insurance and Pension Supervision and the Insurance Ombudsman,
- The Act on Compulsory Insurance, the Insurance Guarantee Fund, and the Polish Office of Transport Insurance.

This legislation brought Polish insurance law into line with the requirements and standards of the EU.

#### Insurance undertakings

At year end 2004, 71 domestic insurance undertakings held authorisations from the Ministry of Finance to conduct the business of insurance in Poland, as did 1 country branch of an insurance company from outside the EU. The sale of insurance policies was being carried on by 68 insurance undertakings and 1 country branch of a foreign insurance company (in non-life business). There were 32 life assurance undertakings, and 36 property and casualty (non-life) undertakings. In connection with Poland's entry to the EU, as of May 2004 almost 180 insurance undertakings from EU countries gave notice of their intention to do business in Poland under the principle of the freedom to provide services. In that same period, four Polish undertakings (two from each division of business) announced their intention to carry on business in EU countries. As a result of EU accession, the Commission for the Supervision of Insurance and Pension Funds ceased its supervision of the previous country branches of companies from within the EU (three firms in all). Another major change was that, as of the beginning of 2004, the Commission assumed responsibility from the Ministry of Finance for the authorisation of insurance undertakings.

#### Number of authorised insurance undertakings in Poland



### Product range

Changes also took place in the products available on the market. As of the moment Poland joined the EU, compulsory third-party liability motor insurance began to cover not only the territory of Poland, but also the whole of the EU, together with the countries of the European Economic Area. The new regulations included in legislation obliged insurance undertakings to adjust their product range, premium schedules, specimen documents and General Terms and Conditions of Insurance to correspond to new requirements and standards. In September 2004, the Act on Individual Pension Accounts took effect, making it possible to save for retirement under special financial plans offered by banks, insurance companies and investment fund management companies.

### Market share

Of the 68 insurance companies operating in Poland in 2004, 22 of them saw their market share decrease. The principal player in the insurance industry was the PZU Group, accounting for almost half of the Polish insurance market (47%).

As in the preceding years, both divisions of the insurance market (life and non-life) were marked by a high degree of industry concentration in 2004. The five largest insurance undertakings took 77.8% of gross premiums in non-life business and 77.1% in life assurance.

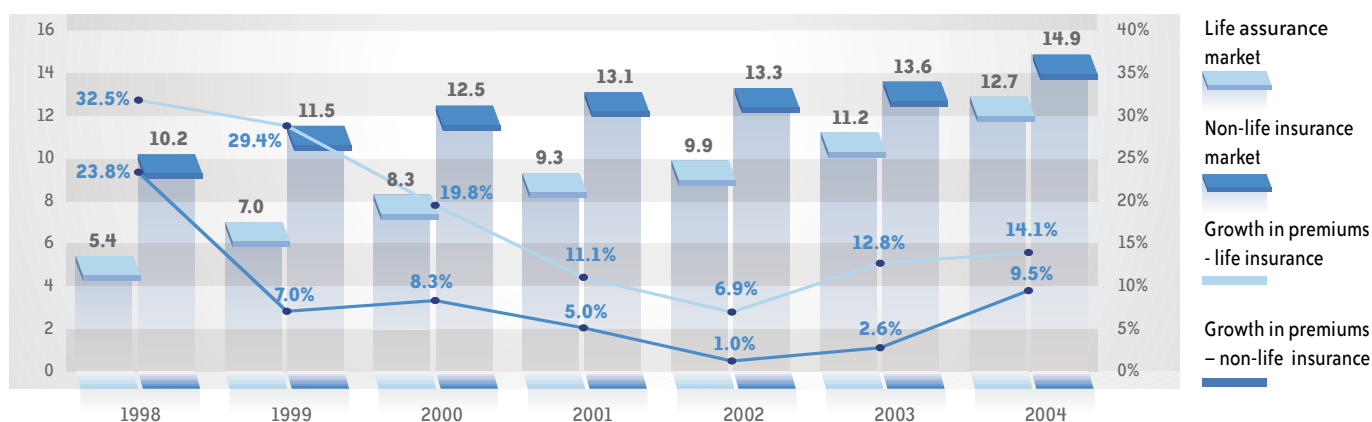
### Industry performance

Total gross premiums written on the Polish insurance market in 2004 amounted to 27.6 billion zloty. This represents an increase of almost 11.6% on 2003.

In life business, premiums written rose 14.1%, to stand at 12.7 billion zloty. Among the largest life assurance companies, growth in premiums written was strongest at PZU Życie SA. As in previous years, growth at smaller firms was faster than at the four largest insurers. There was little change in the composition of premiums written in life assurance. Nearly half of all premiums (49.4%) were written in group assurance. Premiums written under individual assurance cover represented the remaining 50.6%. Broken down by form of payment, 77.8% of premiums were continuing (periodic), while 22.2% were collected on a lump sum basis. As in 2003, very rapid growth was observed in bancassurance activity and the associated insurance products, akin to bank deposits.

At year end, gross premiums written in non-life business stood at 14.9 billion zloty, up almost 9.5% on 2003. This constituted the swiftest growth for several years, well above the pace of inflation. The fastest growth was recorded by firms outside the three biggest companies. As in previous years, the dominant share of premiums were those collected on motor insurance (62.9% altogether). Next came premiums written on property insurance (almost 20%). Despite a rapid increase, other civil liability insurance and financial insurance continued to play a modest role.

Gross premiums written (billion zloty) and growth in insurance premiums in Poland, by life and non-life business



In 2004, insurers paid out 14.3 billion zloty (gross) in claims and benefits, giving an increase of 11.8% on the previous year. In life assurance, gross benefits paid came to 6.1 billion zloty, having climbed 19.4% compared to 2003. In non-life insurance, gross claims paid amounted to 8.2 billion zloty, which represented a rise of 6.7% on the year before.

The underwriting result for the whole insurance sector was positive in 2004, at 1.7 billion zloty. In non-life business, the underwriting result stood at 366 million zloty. In life assurance, it was also positive, amounting to 1.3 billion zloty.

The aggregate earnings of insurers totalled almost 3 billion zloty, up more than 940 million zloty on the previous year. As had been the case a year earlier, the decisive contribution to the earnings of the whole Polish insurance industry was made by the PZU Group companies, which posted a profit in 2004 of over 2.2 billion zloty.

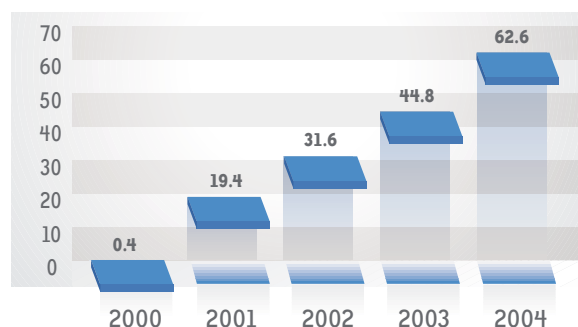
At the end of 2004, the total assets of all the insurance undertakings registered at the Commission for the Supervision of Insurance and Pension Funds amounted to 77.5 billion zloty, with 57.3 billion zloty constituting investments.

The technical reserves of all insurers together stood at 57.5 billion zloty.

## The pensions market

### Market participants and assets

#### Net assets of Poland's open-ended pension funds (billion zloty)



At year end 2004, there were 15 universal pension companies in operation in Poland. During the year, one merger took place.

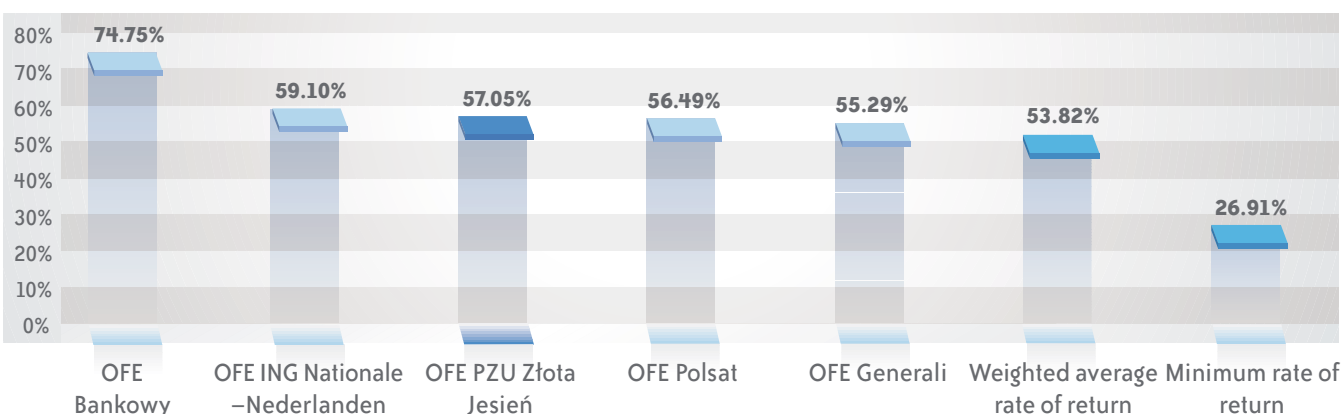
These companies, through the open-ended pension funds they run, managed a total of 62.6 billion zloty, an increase of 17.8 billion zloty on 2003. As in the previous years, the greatest factor in asset growth at the pension funds were the ongoing payments made by Poland's Social Insurance Board (11.4 billion zloty), which included 762 million zloty in arrears of contributions and interest, provided in the form of bonds. However, the earnings being generated are also gradually increasing in importance (in 2004, these stood at 7.1 billion zloty). The expense associated with fees on contributions totalled 0.7 billion zloty.

The number of pension fund members at the end of 2004 was approaching 12 million, having gone up 500 thousand since the previous year. At the same time, the number of accounts operated by the open-ended pension funds rose 560 thousand, and at year end numbered 12.5 million. The number of people transferring between funds was similar to that observed in earlier years (slightly above 310 thousand).

### Performance of pension funds and pension companies

The average value of a "settlement unit" at the pension funds went up 14% during the period under review. A large change was instituted in 2004 in the methodology for calculating rates of return at the open-ended pension funds. The previous 24-month rates of return, calculated quarterly, were replaced by 36-month ones, to be published twice a year. The average 36-month rate of return reported in September 2004 came to 53.82%. All the funds substantially exceeded the required minimum rate of return.

#### Open-ended pension funds showing highest 36-month rates of return (September 28, 2001 – September 30, 2004)<sup>1</sup>



The decided majority of the pension companies in operation generated a profit in 2004. Total earnings for the year amounted to 384.6 million zloty, slipping 14.4% on the year before.

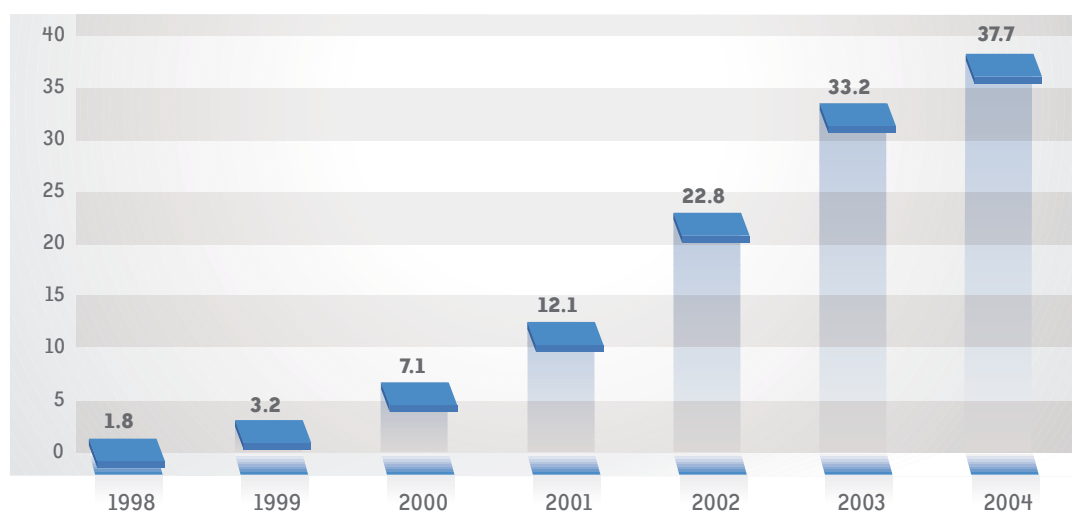
<sup>1</sup> The high of return at the OFE Bankowy fund is traceable to top-up payments by the pension company.

## The investment fund market

### Investment companies and their assets

At the end of 2004, there were 20 investment fund management companies actively operating on the Polish market, with these companies managing a total of 150 investment funds. The market saw the establishment of 3 new fund management companies and 23 new investment funds. The net assets amassed by the investment fund industry in Poland rose 4.5 billion zloty in the course of 2004, to stand at 37.7 billion zloty. Asset growth thereby came to 13.5%, which was slower than in previous years.

### Net assets of Poland's investment funds (billion zloty)

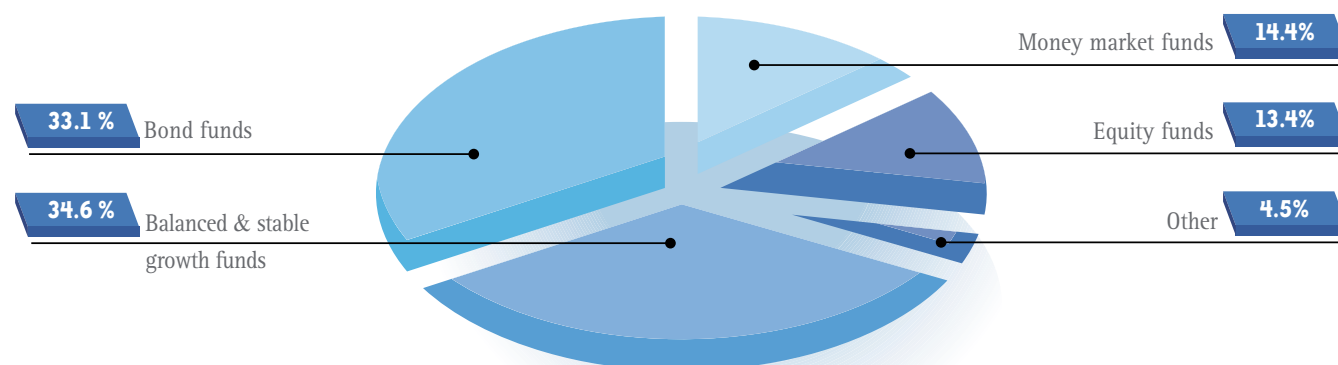


### Fund performance and market structure

The period in question brought an improvement in the key ratios depicting the development of this segment of Poland's financial market. The net assets of the funds rose to 4.3% of GDP in 2004, as against a previous 4.0%, while the volume of assets went up to the equivalent of 19.6% of household deposits, compared to 17.1% before.

The year 2004 also witnessed a noticeable shift in investor preferences as regards particular categories of fund, which was reflected in a change in market structure during the year. A greater interest was shown in funds investing in equities, at the expense of bond funds, which suffered a decline in market share, down from 48.9% to 33.1%. A major increase was thus noted in the weight of investments involving equities, which are marked by generally higher risk, yet also offer the possibility of higher returns.

### Market shares of particular groups of investment fund in 2004



58.3

**58.3** million zloty was assigned by PZU in 2004 to support culture and the arts, education, sports and health care. To let our customers know we are working for the future as well.

## Structure and Activity of the PZU Group

### Group structure

At December 31, 2004, the PZU Group comprised 26 undertakings incorporated as either public or private limited companies.

The following undertakings were included by the full consolidation method in the consolidated accounts of the PZU Group for the year ended December 31, 2004 ("the consolidated accounts"):

- **Powszechny Zakład Ubezpieczeń SA** (PZU SA) – parent undertaking,
- **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** (CIG PZU SA) – indirect subsidiary.

PZU Tower, PTE PZU SA and CIG PZU SA were subject to full consolidation as the parent undertaking believes that only this form of presentation ensures a true and fair view of the financial position and assets of the PZU Group, in accordance with Art. 4, para. 2, of the Accounting Act of September 29, 1994.

The remaining undertakings were not consolidated (pursuant to Art. 4, paras. 1 and 4, of the Accounting Act), since the relevant financial information is not material in its impact on the financial data for the PZU Group. These undertakings are presented in the consolidated accounts at historic cost, adjusted for permanent diminution in value.

The method outlined above was applied to the following undertakings:

- **PZU Asset Management SA** – subsidiary
- **Biuro Likwidacji i Obsługi Szkód Sp. z o.o.** – subsidiary
- **UAB DK PZU Baltija** – subsidiary
- **UAB PZU Lietuva Gyvybes Draudimas** – subsidiary
- **UAB DK PZU Lietuva** – subsidiary
- **Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA** – subsidiary
- **PZU International Sp. z o.o.** – subsidiary
- **Grupa Inwestycyjna Centrum Sp. z o.o., under liquidation** – subsidiary
- **CERPO Sp. z o.o., under liquidation** – subsidiary
- **SYTA Development Sp. z o.o., under liquidation** – subsidiary
- **Towarzystwo Funduszy Inwestycyjnych PZU SA** – indirect subsidiary
- **Krakowska Fabryka Armatur SA** – indirect subsidiary
- **Sigma Investments Sp. z o.o.** – indirect subsidiary
- **Grupa Multimedialna SA, under liquidation** – indirect subsidiary
- **ICH Center SA** – associate

- **Vistula SA** – associate
- **Polskie Towarzystwo Reasekuracji SA** – associate
- **VIS Inwestycje SA** – indirect associate
- **Nadwiślańska Agencja Ubezpieczeniowa SA** – indirect associate
- **Kolej Gondolowa Jaworzyna Krynicka SA** – indirect associate
- **PPW Uniprom SA, in bankruptcy** – indirect associate

#### **Principal business units of the PZU Group – scope of operations**

The activity of the PZU Group consists in the comprehensive provision of insurance cover. Group undertakings offer services in life assurance and non-life insurance, and also manage customer assets through investment funds and an open-ended pension fund.

#### **Powszechny Zakład Ubezpieczeń SA**

PZU SA is the parent undertaking of the PZU Group. The Company operates in the field of non-life insurance. It has traded as a public limited company since December 1991.

#### **Powszechny Zakład Ubezpieczeń na Życie SA**

PZU Życie SA is involved in the business of life assurance. It also offers marriage assurance, annuities, accident insurance and investment-linked schemes. PZU Życie SA is a subsidiary undertaking of PZU SA. The Company commenced operations in 1991, when the life assurance portfolio of Państwowy Zakład Ubezpieczeń was spun off.

#### **Powszechne Towarzystwo Emerytalne PZU SA**

PTE PZU SA manages the PZU Open-Ended Pension Fund “Złota Jesień” [“Golden Autumn”] under the second pillar of the Polish social insurance system. PTE PZU SA was established in 1998. It is a subsidiary of PZU Życie SA.

#### **Towarzystwo Funduszy Inwestycyjnych PZU SA**

TFI PZU SA manages three open-ended investment funds, named “Polonez”, “Mazurek” and “Krakowiak”. The Company offers investment products and services to both personal and institutional customers, and also additional savings plans under the third pillar of the social insurance system. Founded in 1999, TFI PZU SA is a subsidiary of PZU Życie SA.

#### **PZU Asset Management SA**

PZU Asset Management SA was incorporated into the PZU Group in 2001. The Company carries out the management of securities portfolios to order.

#### **Centrum Informatyki Grupy PZU SA**

CIG PZU SA is a company set up to conduct ancillary activities associated with supporting insurance services and pension/annuity funds. It maintains registers and processes account data for investment and pension funds. It also provides IT services, including consultancy with regard to hardware, software, data analysis, and database design and processing. The firm has been part of the PZU Group since June 1998.

#### **PZU Tower Sp. z o.o.**

The activity of PZU Tower Sp. z o.o. involves the provision of services relating to property administration, the lease of office space, and property market transactions. The firm was established in August 1998.

#### **Foreign companies belonging to the PZU Group**

The PZU Group has also been expanding its insurance activity on foreign markets.

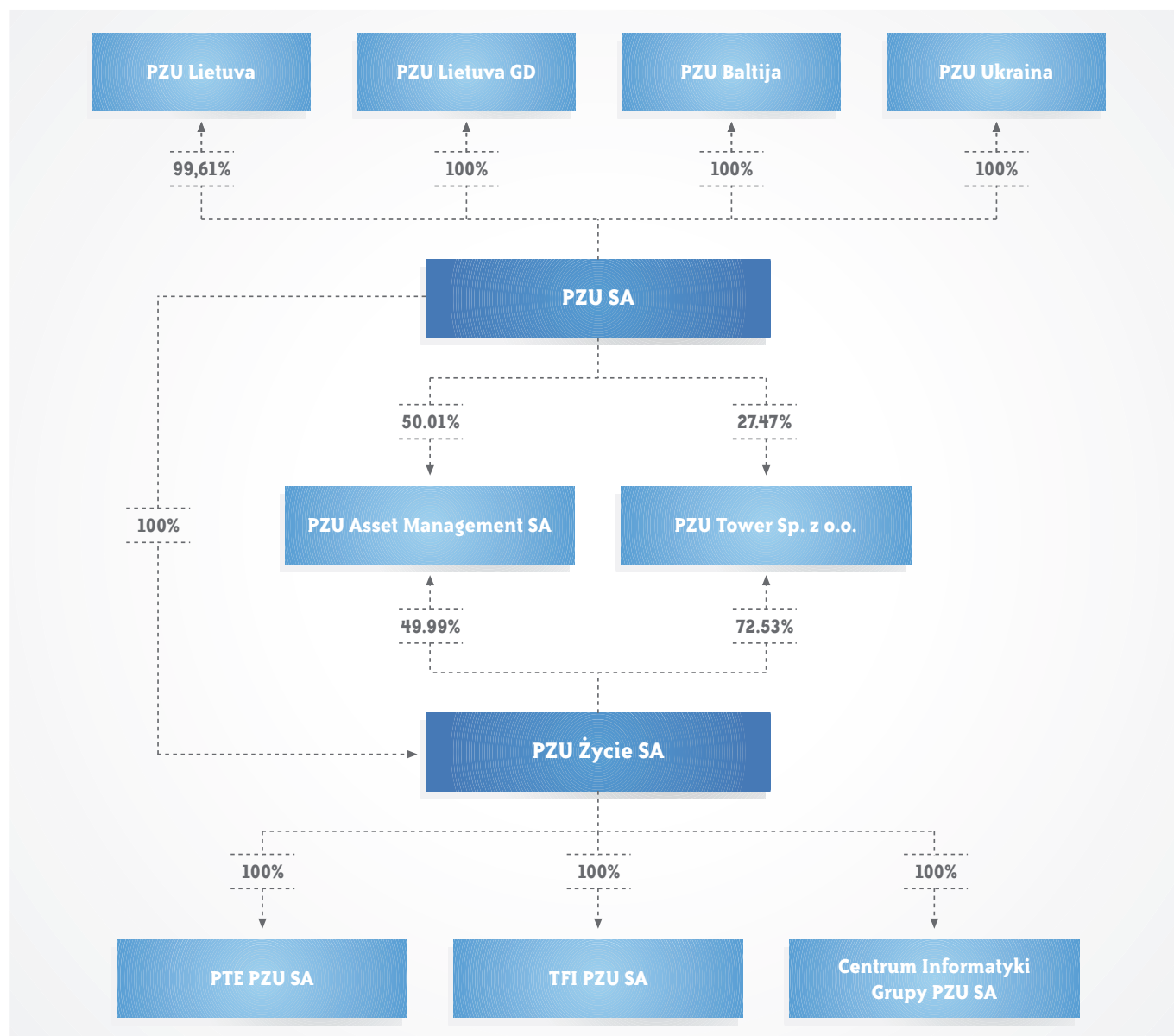
The Group has been present in Lithuania since 2002. PZU trades in Lithuania under the brand name PZU Lietuva, offering both life and non-life cover. The Lithuanian companies of the PZU Group together have a market share of over 16% in non-life business and around 3% in life assurance.



In 2004, the PZU Group was also involved in preparatory work with a view to gaining control of the Ukrainian insurance group Skide-West. The agreement to purchase shares in the companies of this group was finally concluded on February 17, 2005.

As of February 28, 2005, the PZU Group operates in Ukraine under the name PZU Ukraina.

#### Capital links among selected PZU Group companies (as at December 31, 2004)<sup>2</sup>



The financial performance of PZU Group companies outlined in the present Report is drawn from their solo accounts. The performance of the entire Group has been taken from the consolidated accounts of the PZU Group.

The present Report examines the performance and operations of the principal Group companies delivering customer products.

<sup>2</sup> PZU Ukraina has been part of the PZU Group since February 17, 2005.

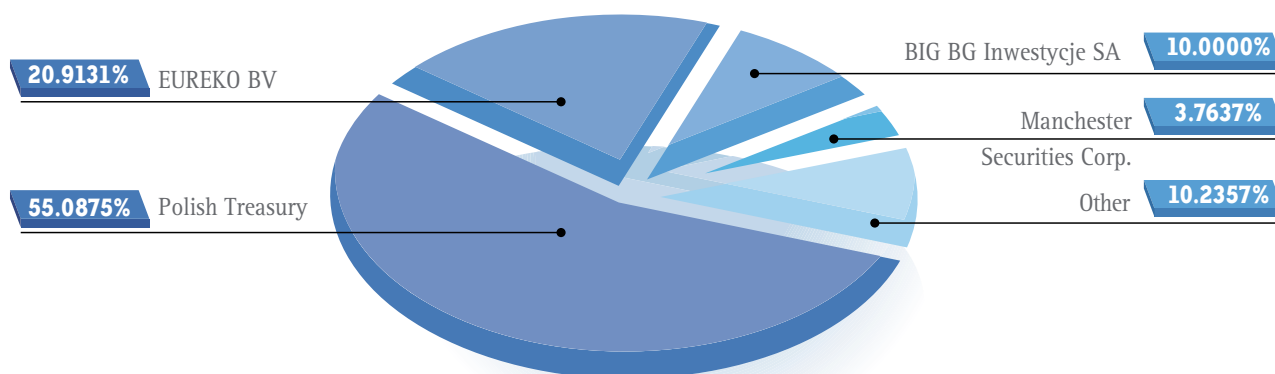


## Shareholders

### Ownership structure

The authorised capital of PZU SA amounts to 86,352,300 zloty and is divided into 86,352,300 registered shares, each with a par value of 1 zloty. The ownership structure of PZU SA at December 31, 2004, was as follows:

The ownership structure of PZU SA (at December 31, 2004)<sup>3</sup>



### Dividend policy

In February 2004, the Management Board of PZU SA adopted a resolution setting out the Company's long-term dividend policy. The resolution projects that the dividends proposed by the Management Board of PZU SA will be in the region of 25-50% of distributable net profit. The exact proportion of net profit assigned to dividend payouts will be contingent on the financial performance of PZU SA and the anticipated capital requirements of the Company.

### Investor relations

Transparency of information is one of the primary objectives that the Company's Management Board has set itself. PZU SA is already attempting to satisfy the standards required of publicly traded companies in the area of information policy. One of the measures designed to bring PZU SA closer to that goal was an intensification of activity in 2004 in the field of investor relations. Thanks to the efficient provision of reliable information on the activity, performance and intentions of the PZU Group, the Company aims to ensure that all capital market participants, shareholders and analysts have the best possible basis for carrying out a full assessment of the firm and taking the relevant decisions in relation to it. Work is also under way to implement International Financial Reporting Standards.

<sup>3</sup>In 2004, Eureko BV purchased a 10% equity interest in PZU from BIG BG Inwestycje SA. On January 12, 2005, Eureko BV was entered in the register of shareholders of PZU SA as the owner of this shareholding

## Directing bodies of principal Group companies (at 31 December, 2004)

## PZU SA Management Board

**Cezary Stypułkowski**  
Prezes Zarządu

**Piotr Kowalczewski**  
Wiceprezes Zarządu

**Witold Walkowiak**  
Członek Zarządu

**Ryszard Bociong**  
Member

**Mirosław Szturmowicz**  
Member

**Kazimierz Ortyński**  
Member  
(until August 5, 2004)

**Włodzimierz Soiński**  
Member  
(until August 5, 2004)

## PZU SA Supervisory Board

**Agneta Rowińska**  
Deputy Chairperson

**Ernst Jansen**  
Deputy Chairperson

**Maciej Bednarkiewicz**  
Secretary

**Dimitrios Contominas**  
Member

**Wojciech Dąbrowski**  
Member

**Paweł Antosiewicz**  
Member

**Bogusław Kott**  
Member

**Anita Ryng**  
Member

**Jakub Kaliński**  
Member  
(until March 23, 2004)

## PZU Życie SA Management Board

**Bogusław Kasprzyk**  
President

**Frederik Hoogerbrug**  
Vice President

**Jerzy Kochański**  
Vice President

## PZU Życie SA Supervisory Board

**Andrzej Wieczorkiewicz**  
Chairperson

**Joyce Deriga**  
Deputy Chairperson

**Witold M. Góralski**  
Secretary

**Bolesław Samoliński**  
Member

**Marek Szmelter**  
Member

**Jerzy Tomaszewski**  
Member

**Ane Ate Sijsma**  
Member

## PTE PZU SA Management Board

**Jakub Tropiło**  
President

**Stanisław Rataj**  
Vice President

**Andrzej Sołdek**  
Vice President

## PTE PZU SA Supervisory Board

**Wiktor Askanas**  
Chairperson

**Jerzy Kochański**  
Deputy Chairperson

**Jerzy Zdrzałka**  
Secretary

**Władysław Jaworski**  
Member

**Piotr Kowalczewski**  
Member

**Ewa Frątczak**  
Member

**Frederik Hoogerbrug**  
Member

**Stanisław Niecarz**  
Chairperson  
(until February 6, 2004)

**Paulina Pietkiewicz**  
Secretary  
(until November 17, 2004)

**Jan Szachułowicz**  
Member  
(until September 30, 2004)

**TFI PZU SA Management Board****Cezary Burzyński**  
President**Michał Nastula**  
Vice President**Czesław Gawłowski**  
Member  
(until April 1, 2004)**Magdalena Jagiełło-Szostak**  
President  
(until February 9, 2004)**TFI PZU SA Supervisory Board****Marek Żytniewski**  
Chairperson**Frederik Hoogerbrug**  
Deputy Chairperson**Jerzy Czarkwiani**  
Member**Paweł Durjasz**  
Member**Paulina Pietkiewicz**  
Member**Michał Nastula**  
Member  
(until January 14, 2004)

## Portfolio of PZU Group products and services

### PZU Group product range

The PZU Group offers its customers the broadest variety of products available on the Polish insurance market. In its core insurance business, which comprises both life and non-life cover, the Group's customers had almost 140 types of insurance to choose from in 2004. In addition, PZU Group products include three investment funds and a pension fund.

### Non-life insurance

In 2004, the insurance on offer from PZU SA comprised over 100 property and casualty products in all 18 statutory classes of non-life insurance. These included motor insurance, property insurance, farm insurance, civil liability insurance, accident insurance, sickness insurance and financial insurance. A major part in the wide-ranging catalogue of insurance provided by PZU SA was played by comprehensive insurance policies. These bring together property, personal and civil liability cover, thereby expanding and upgrading the products available to both personal and institutional customers.

PZU SA is constantly working to extend its product range. In 2004, this work bore fruit in the launch of three new types of insurance:

- The "Minicasco" policy, which constitutes an addition to the motor insurance products previously available. This is a policy addressed to those vehicle owners who only hold compulsory third-party cover, along with those who have for various reasons decided not to take out traditional own damage and theft insurance. "Minicasco" insurance provides protection against the heaviest risks, i.e., vehicle writeoffs, loss or theft;
- The "Safe Stay" policy, which offers comprehensive insurance cover to foreign nationals visiting the Republic of Poland and was introduced by PZU SA in connection with Poland joining the European Union. This product covers accident indemnity, the cost of medical treatment in cases of sudden illness or accident, and personal liability;
- Further, in 2004 PZU SA also began offering "Voluntary farm building insurance against fire and other acts of fate".

As part of the continuing process of tailoring the product range to correspond to changing market needs, a thoroughgoing modification of 27 insurance products was performed in 2004.

### Life assurance

In 2004, PZU Życie SA offered its customers 38 types of group and individual insurance, both solely protective and investment-linked. The bulwark of the Company's product range in 2004, as has traditionally been the case, was protective employee insurance, i.e., "P" group life assurance and "P Plus" group employee insurance. Each of these products can be extended to include additional life and health cover for both the insured and the coinsured. What undoubtedly sets these products of PZU Życie SA apart from those of its competitors is the option to continue insurance cover on an individual basis, on the same terms that were already known when the group contract was concluded.

An excellent supplement to protective insurance products was the group pension policy named "Serene Autumn". This has for years been firmly established on the market as a product that allows customers both to assemble funds, and to multiply them to their profit. As regards individual insurance, PZU Życie SA has continuously been developing and enhancing its range of products. Its flagship products are the "Maximum" personal life policy, and "Optima" personal endowment policy. For those wishing to safeguard their child's financial future, the Company has an individual policy named "Futura Pro".

As in group insurance, PZU Życie SA offers the "Serene Autumn" policy to individual customers as a splendid addition to protective cover. One of the most important events of the year 2004 was the launch of Individual Pension Accounts (IPAs). This new savings vehicle, which functions under the third pillar of the social insurance system, allows customers to place their savings in funds offered jointly by PZU Życie SA and TFI PZU SA. The PZU IPA received a very warm reception from customers, enabling the PZU Group to capture a significant share of the whole IPA market. This share is estimated to stand at over 25% by volume of account agreements and almost 24% by value of funds deposited.

PZU Życie SA is also constantly expanding its range of accident and sickness cover, which represents a supplement to its basic insurance products. In the first quarter of 2004, seven types of additional cover were unveiled. One new product, unique to PZU Życie SA on the whole Polish marketplace, is "Ekspert", which constitutes supplementary group insurance for medical consultations abroad.

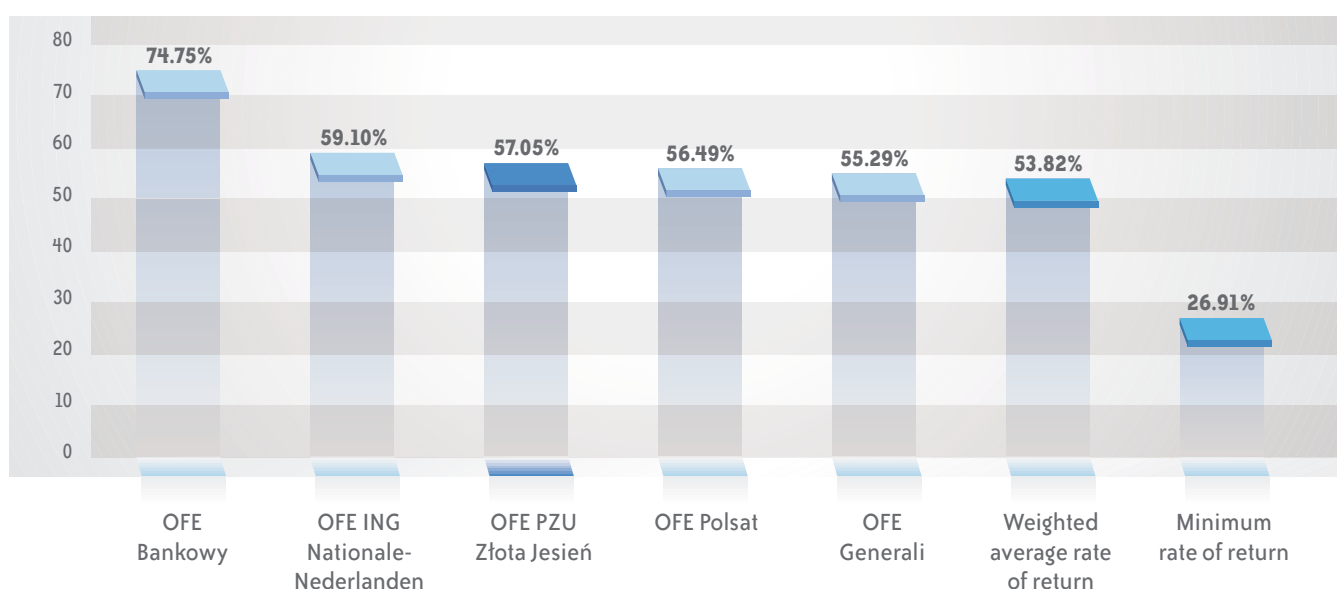
The year 2004 saw the enhancement of the Company's range of health insurance, whereby PZU Życie SA collaborates with clinics providing medical services. Health insurance can be bought in the form of either group or individual cover.

Given that the new Act on Insurance Activity took effect in 2004, both PZU SA and PZU Życie SA carried out a legal and formal review of their entire product range.

### Open-ended pension fund

The PZU Open-Ended Pension Fund "Złota Jesień", managed by PTE PZU SA, allows customers to participate in a pension fund operating in the framework of the second pillar of the social insurance system. The "Złota Jesień" Fund is the third largest on the market, by both value of assets under management and number of members. At December 31, 2004, the net assets of "Złota Jesień" totalled 8.7 billion zloty. Over 1.9 million people were enrolled. The quality of the product provided by PTE PZU SA is attested to by the position that its open-ended pension fund occupies in the schedules depicting rates of return published by the Commission for the Supervision of Insurance and Pension Funds. Over the three-year calculation period from September 28, 2001, to September 30, 2004, the "Złota Jesień" Fund attained the third highest rate of return on the market, at 57.05%. It is also worth noting that in 2004 PTE PZU SA was awarded the ISO 9002 quality certificate.

36-month rates of return, "Złota Jesień" pension fund vs. competitors (September 28, 2001 – September 30, 2004)<sup>4</sup>



<sup>4</sup> The high rate of return at the OFE Bankowy fund is traceable to top-up payments by the pension company.

### Investment funds

In 2004, the TFI PZU SA investment company managed three open-ended funds with a diverse investment profile, namely, the "Polonez", "Mazurek" and "Krakowiak" funds.

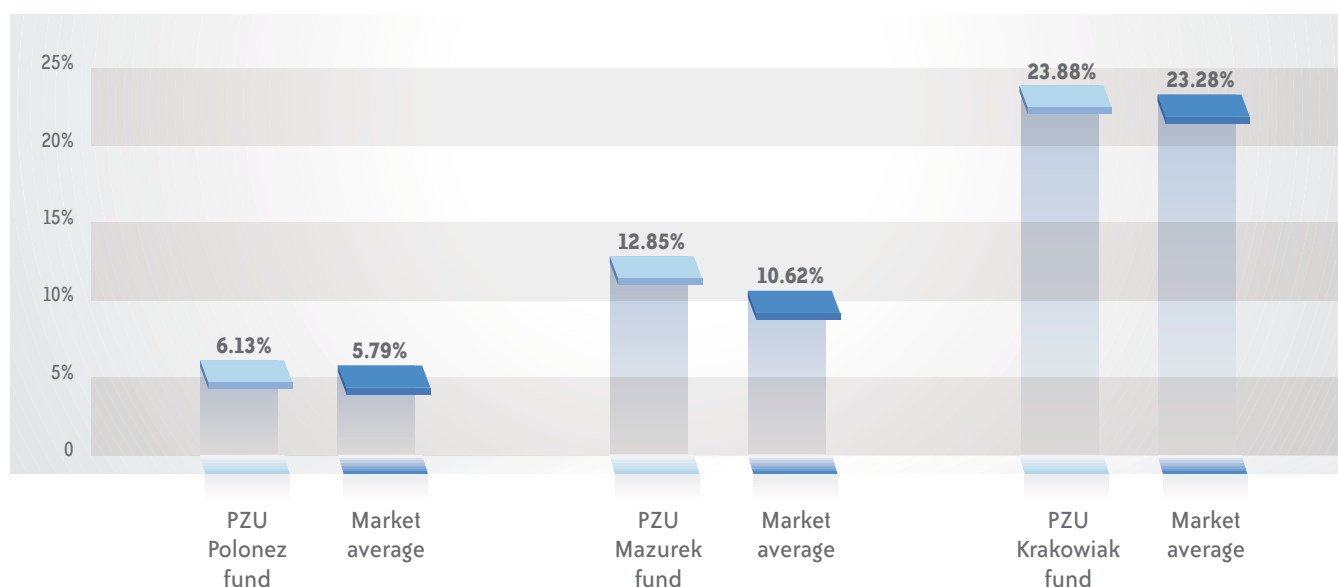
The "Polonez" Open-Ended Debt Fund invests in safe debt securities, chiefly in Treasury bonds and Treasury bills. It is addressed to those who prefer to avoid the heightened risk that comes with investing in equities, for example. Debt funds represent a very good alternative savings vehicle to bank deposits.

The “Mazurek” Open-Ended Stable Growth Fund is designed for those who are seeking an investment which in the longer run allows a considerably higher return to be earned than, for instance, on bank deposits or bonds. At the same time, this product mitigates the risk exposure involved in equity investments. To maintain the greatest possible margin of safety, this Fund holds the vast majority of its assets in debt securities (60-100%), although in an appropriate market environment it may also invest in equities to some degree. The “Krakowiak” Open-Ended Equity Fund is geared towards those who recognise what investment risk entails and are prepared to accept periodic fluctuations in unit values, even substantial ones, as a result of the Fund primarily investing in equities. The Fund mainly targets the shares of listed companies which it believes to display major upside potential over the longer term.

On the basis of the above funds, the TFI PZU SA investment company offered three other products in 2004 – Individual Pension Accounts, Savings Plans and Occupational Pension Schemes.

In 2004, all the investment funds managed by TFI PZU SA achieved sound investment performance, generating profits well above the average market rate of return.

Rates of return in 2004, TFI PZU SA investment funds vs. market average



## **PZU Group sales network and delivery channels**

The PZU Group operates the largest distribution network in the Polish insurance industry, comprising over 700 offices and more than 9 thousand agents.

### **PZU SA sales network**

In 2004, the largest Group company, PZU SA, ran a network of 332 district offices and 34 sub-offices. PZU SA non-life products were sold by 7,473 tied agents, 1,937 multi-tied agents, 568 permanent intermediaries and 716 brokers.

In 2004, work was carried on at PZU SA with a view to arriving at a clearly-defined and well-considered identification of customer segments and to situating relationships with these customers at the appropriate levels of the organisation. Three basic categories of customer were distinguished, namely, mass customers, corporate customers, and small and medium enterprises (SMEs).

The changes that have been implemented will allow the Group to bring on stream a modern and efficient sales management system. A number of measures have been taken to align the products on offer to the specific nature of delivery channels. A system of direct sales coaching has been vigorously pursued, together with a comprehensive training programme for sales staff.

All of this is set to yield greater cost efficiency and better resource allocation. A rapid improvement in customer service quality is projected, as is a qualitatively new level of relationships with external business partners. The complete implementation of the new sales model is planned to take place by the end of 2005.

### **PZU Życie SA sales network**

In 2004, PZU Życie SA marketed its products via 26 branch offices and 386 customer service outlets. The Company collaborated with almost 5,400 tied agents (including 3,400 also working with PZU SA), and with the majority of insurance brokers operating on the Polish market.

Work was commenced in 2004 to increase the efficiency of the Company's sales structure.

### **PTE PZU SA sales network**

An agreement with the PZU Open-Ended Pension Fund "Złota Jesień" could be concluded in 2004 at every office of the PZU Group. Over 7,200 representatives were involved in actively sourcing customers. The operations of the pension fund sales network are overseen by forty PTE PZU SA sales coordinators, located throughout the country. This team of staff is also the primary source of information for all those conducting or beginning sales activity.

A tangible indicator of the work done by the whole sales network was that the previous negative trend as regards people transferring between particular open-ended pension funds was reversed in 2004, with positive annual growth being achieved in this area.

A major innovation introduced in 2004 was the implementation of a system allowing agreements with the Fund to be concluded on line via the Internet.

### **TFI PZU SA sales network**

The TFI PZU SA company conducts its sales activity through the PZU Group network. In 2004, the Company had at its disposal a nationwide network of 1,200 authorised representatives. The Company's products were also available via the Internet banks belonging to the BRE Group.

### **Cross-selling**

In 2004, the PZU Group carried out an intensive expansion of its cross-selling initiatives. In May, the cross-selling was begun of life and non-life products addressed to the customer segment of SMEs. Sales of an insurance package marketed as "A Secure Company and Secure Staff" were undertaken under a pilot programme run for three months in northern and eastern Poland. The primary objectives of this campaign were to offer customers a comprehensive insurance solution that better suited their needs, and also to lay the basis for further local cooperation between the sales divisions of PZU SA and PZU Życie SA.

A perceptible effect of cross-selling in 2004 was the cooperation established between the agents of PZU SA and PZU Życie SA in marketing Individual Pension Accounts.

**Bancassurance**

The sale of insurance cover under bancassurance arrangements was continued in 2004 with great success. The PZU Group is currently collaborating with several banks, principally under strategic agreements with PKO BP SA (including its Inteligo Internet arm) and Bank Millennium SA. In 2004, the PZU Group was very active in rolling out new measures designed to ensure the further development of its bank sales channels. Bancassurance activity was extended to include more products, both investment-linked and typical protective cover, strictly tailored to the needs of particular categories of bank customer. Year on year, growth in premiums written from bancassurance within the PZU Group in 2004 came to nearly 7,500%. The share of the PZU Group in the bancassurance market in 2004 is estimated at around 15-20%, despite the extremely swift growth of this market in Poland.

**State-of-the-art delivery channels**

The year 2004 saw PZU SA vigorously involved in developing its Internet delivery channel as a new vehicle for sales of insurance products. Customers of the Inteligo bank were able to purchase six new Internet products from the PZU Group (making a total of nine in all), giving the Group the broadest product range on this segment of the market.



## Loss adjustment

### Repair network and “TeleAssistance” programme

In June, PZU SA brought into operation its Repair Network. This is a vehicle assistance programme addressed to both PZU SA customers and those drivers whose vehicles suffer damage from policyholders with third-party liability motor insurance at PZU SA. The programme involves the Company cooperating with selected garages for the purpose of vehicle repairs following accidents. The network consists of over 800 repair garages, both authorised and independent.

The Repair Network project represents the first step towards putting in place a comprehensive assistance programme for injured parties. Implementation of this programme will make motor vehicle loss adjustment at PZU SA even simpler. The programme will also ensure the optimisation of repair costs and better control over them.

The “TeleAssistance” service is planned to come into operation in 2005, together with a network of mobile experts throughout the country, and implementation is also scheduled of a central IT application to support and manage the process of vehicle loss adjustment. The development of the Repair Network has already brought an expansion of cooperation with the Company’s external partners that offer accident and breakdown services. Customers using a breakdown service are provided with comprehensive information about having repairs carried out at a garage belonging to the Network, which guarantees a high quality of repairs without the need for drivers to lay out their own cash up front.

### Cooperation with car dealerships

In 2004, further car dealers were acquired as partners for PZU SA selling the Company’s insurance packages. Cooperation agreements were concluded with these dealers that provide for innovative solutions in vehicle loss adjustment. These agreements guarantee that customers can obtain trouble-free professional repairs of their damaged vehicles at authorised garages run by the dealers cooperating with PZU SA. Discounts were negotiated on original replacement parts used in repairs, which significantly reduces vehicle repair costs. Customers can also report their claim directly to the dealer cooperating with PZU SA, yielding substantial time savings.

### New IT systems

To raise service quality in loss adjustment involving property insurance where claims relate to the loss or damage of moveables, PZU SA purchased a computer system known as the Integrated Internet Replacement Price List. Implementing this system produced shorter loss adjustment times and lower appraisal costs, and also a decline in average claim values.

### International Loss Adjustment Centre

In response to Poland joining the European Union and the need to bring the Company’s operations into line with the requirements of EU legislation, PZU SA – as part of the centralisation of its loss adjustment function – established an International Loss Adjustment Centre. This is a specialist central unit responsible for loss adjustment in accordance with the principles laid down in the EU Fourth Motor Insurance Directive and for dealing with other claims arising in foreign travel and motor transport. The centralisation of international claims is designed to simplify the handling of claims documentation within PZU SA, and also to shorten the loss adjustment process for claims of this kind, paving the way for better customer service. Since the Company no longer uses the services of external firms in this area, this move will also bring considerable savings.

## Promotion and advertising

### Corporate identity

The key task in 2004 in relation to developing an integrated marketing message was the introduction of a consistent corporate identity for the PZU Group. The goal here was to unify the symbols associated with all Group company brands and introduce a uniform system of product identification for operations undertaken by more than one Group undertaking.

### Advertising activity of PZU SA

The chief aim of the advertising and promotional activity undertaken by PZU SA in 2004 was to provide direct support to the Company's sales function. Two nationwide advertising campaigns were conducted to promote key insurance products.

The first of these, publicising a comprehensive personal insurance package marketed as "A Safe Home", was designed to draw the attention of a very broadly defined group of existing and potential customers to the need to insure their homes.

The second campaign involved motor vehicle insurance. In a ground-breaking approach previously unseen on the insurance market, this campaign encouraged customers to take out third-party liability cover at PZU SA. The central axis of the message sent out to potential customers was that they would gain the opportunity to win one of many prizes on offer in the "PZU AutoLottery". Customers concluding a third-party motor insurance contract during the "AutoLottery" campaign would have a chance to win one of over 5.5 thousand prizes, including 16 cars.

Aside from nationwide ATL, or "above-the-line" advertising campaigns (marketing activity in the traditional media, via television, radio, the press, posters, etc.), various forms of advertising and promotional activity were conducted of smaller scale and scope. Particularly significant in this respect were local sales campaigns based on the agent network and promotions in support of particular products.

### Advertising activity of PZU Życie SA

The marketing activity conducted by PZU Życie SA in 2004 was designed both to support ongoing sales and to assist in developing the Company's image over the long term.

The first advertising campaign run by PZU Życie SA in 2004 – using the slogan "In 30 Years' Time" – was used to promote the products "Optima", "Futura Pro", "Serene Autumn" and "Serene Future". In addition, PZU Życie SA sponsored the production of a CD entitled "Everything About Your Pension", which was bundled with copies of the Rzeczpospolita daily newspaper.

The second half of the year saw promotional activity for Individual Pension Accounts, as a new savings vehicle for retirement. Surveys of the public response to the promotional campaign conducted for the IPAs of PZU Życie SA demonstrated that nearly 40% of adult Poles who had heard of IPAs associated the product with the PZU brand, while almost 60% of those interested in buying this product in the future associated IPAs with PZU.


Given the statutory requirement to convert investment-linked group life assurance into Universal Pension Schemes, promotional activity was conducted in 2004 to publicise the schemes available at PZU Życie SA. The aim here was to help employers realise that the "Serene Future" pension scheme represented a good staff incentive and an opportunity to recognise tax-deductible costs, while helping the staff themselves realise that thanks to this scheme they would gain an additional pension.

A joint advertising campaign was also mounted in 2004 by the PZU Group and Bank PKO BP to promote the banking product "Swedish Deposits".

Further, health insurance was promoted in those towns where "Medical Care" cover was on offer.

### Advertising activity of PTE PZU SA

The marketing activity carried out on behalf of PTE PZU SA in 2004 had the objective of strengthening the market position of the Open-Ended Pension Fund "Złota Jesień" by supporting sales of this product and emphasising the very sound investment results obtained by the Fund. The target customers here were mainly those newly entering employment and those intending to switch from their existing pension fund. The selection of suitable promotional methods led to the Fund reinforcing its market position in terms of both number of members and value of net assets. For the first time ever, the "Złota Jesień" Fund recorded a positive balance on members transferring between funds. A major achievement in 2004 was the development and implementation of a uniform tool for measuring the level of customer service satisfaction, as was the introduction of enrolment in the Fund via an Internet site. Sources of information for existing Fund members were



upgraded (the Internet and a call centre), and all sales support activity was conducted in accordance with the procedures of ISO 9002, which is in force at PTE PZU SA.

**Advertising activity of TFI PZU SA**

In 2004, TFI PZU SA focussed on integrating its marketing activity with that of the other PZU Group companies. This brought very tangible results, with the associated sales support yielding asset growth of almost 30%, along with over a dozen thousand new investors. A significant component in the marketing approach employed was effecting a change in the Company's image.

## Corporate social responsibility

The activity conducted by the PZU Group in the area of corporate social responsibility is financed from its prevention fund, and is also partly carried on through sponsorship projects.

The prevention fund was established pursuant to Art. 149, para. 2, subpara. 1, of the Act on Insurance Activity of May 22, 2003 (as published in Dziennik Ustaw [the Journal of Laws] no. 124/2003, item 1151), and also in performance of the relevant provisions of the Articles of Association of PZU SA and PZU Życie SA. Contributions to the fund may total up to 1% of premiums written in the last financial year.

### Loss prevention at PZU SA

The loss prevention measures undertaken by PZU SA in 2004 were based on policy guidelines for loss prevention approved by the Company's Management Board. The primary purpose of these measures was to reduce loss experience by raising levels of safety. PZU SA assigned the sum of 14.7 million zloty to loss prevention in 2004, with a further 23.6 million zloty being set aside for the development and implementation of an IT support system for traffic police.

Most of the activity conducted in 2004 was concentrated on the improvement of road traffic safety, including measures to safeguard both drivers and pedestrians. The principal projects carried out in 2004 in application of the prevention fund included the following: the purchase of light RTA rescue vehicles for the State Fire Service and Volunteer Fire Service throughout the country; a summertime safety campaign conducted by PZU SA and PZU Życie SA under the slogan "A Safe Summer with PZU"; a series of brief programmes on Polish Television entitled "The Safe Driver" and "Safety on the Roads"; a programme entitled "The Safe Driving Ace", developed together with the Axel Springer publishing house; and the third edition of the school campaign "Fluorescent First Formers".

The Company also continued its collaboration with the Axel Springer publishing house in organising the competition for "Safest Car of the Year". The above accident prevention programmes were funded by PZU SA in 2004 to the tune of 12.9 million zloty.

During the year, the PZU SA prevention fund was also used to support initiatives taken by the following organisations: the Cardiology Rehabilitation Fund, which received a donation for the purchase of specialist cardiology equipment; the Volunteer Mountain Rescue Service, which received a donation for the purchase of a snow scooter and rescue sledge; the Polish Motoring Association, which received a contribution towards the organisation of a National Motoring and Road Safety Competition; Warsaw Police Headquarters, which received a donation for the purchase of computer equipment; the "Ex Animo" Foundation, which received a donation to purchase medical equipment for the Oncology Clinic of the Children's Health Centre; and the local authority of Kedzierzyn-Kozle, which received a contribution towards the construction of a roundabout in the town centre. The above donations totalled 620 thousand zloty.

### Loss prevention at PZU Życie SA

In 2004, PZU Życie SA assigned 21.5 million zloty to prevention activity (of which 3.6 million zloty involved the performance of projects carried over from 2003), involving itself both in nationwide projects and in supporting local initiatives through the Company's branch offices around the country.

The prevention measures taken by PZU Życie SA focussed on health protection, public safety and education, and also included support to charitable causes and to police crime prevention.

The aim of increasing safety was principally served by the prevention campaign conducted jointly with PZU SA under the slogan "A Safe Summer with PZU". In addition, PZU Życie SA carried out a National Community Campaign for the Prevention and Intensified Treatment of Diabetes, organised around the slogan "Diabetes without Fear or Complications". The Company also took part in the campaign "Give Up Smoking Along With Us", run for years by the "Promocja Zdrowia" Foundation. In all, PZU Życie SA provided over 2.2 million zloty in finance for the above prevention activity in 2004.

The Company also made donations in 2004 to the following hospitals, primarily for the purchase of specialist equipment: the Military Medical Institute, Voivodship Hospital no. 5 in Sosnowiec, the Florian Ceynowa Specialist Hospital in Wejherowo, the Institute of Transplantology of Warsaw Medical Academy, the Ludwik Rydygier Specialist Hospital in Cracow, and St. John's Hospital in Starogard Gdanski. These donations came to a total of 435 thousand zloty.

As part of its support to science and education, in 2004 the PZU Życie SA Academic Scholarship Fund at Warsaw University provided scholarships for 120 students.

### **PZU Foundation**

In May 2004, the Management Boards of PZU SA and PZU Życie SA adopted resolutions to change the profile of activity of the PZU Charitable Foundation and to rename it "the PZU Foundation". Up to that point, the aim of the Foundation had been to provide financial assistance to the sick, the disabled, and those who had found themselves in difficulty as a result of misfortune. Under its new Articles, the purpose of the PZU Foundation is to carry on activity that advances the public good, culture and the arts, health protection and social work, particularly with a view to supporting, promoting and developing opportunities for the disabled to lead an active life. The sum at the Foundation's disposal at the beginning of 2004 stood at nearly 12 million zloty. In the course of the year, it spent almost 2.2 million zloty on activity in performance of its Articles. The most significant event in the life of the Foundation in 2004 was its involvement in the purchase of a painting by Aleksander Gierymski, "Boy Carrying Sheaf". Paid for half by the Ministry of Culture and the Arts, and half by the Foundation, this work was placed in the National Museum in Wrocław in December 2004. Thanks to donations from the PZU Foundation, the National Library was able to acquire a self-portrait of Cyprian Norwid, "Ipse Ipsum", drawn in 1857, and the autograph of Frederick Chopin, from a letter he sent to Teresa Wodzińska.

In all, the PZU Foundation donated 630 thousand zloty to these causes.

### **PZU Group sponsorship activity**

The key premiss of the sponsorship policy pursued by PZU SA in 2004 was to cultivate the Company's image as a patron and champion of culture, and also as a firm that actively supports sport. During the year, the Company assigned a total of 14.4 million zloty to this purpose. PZU Życie SA also continued its strategy of assisting culture and sport, one that it had adopted in earlier years. In 2004, the Company spent 5.7 million zloty on sponsorship.

### **PZU and culture**

One of the largest sponsorship projects of PZU SA in 2004 was the assistance it provided to Warsaw Royal Castle. In pursuing this end, the Company helped organise a number of significant cultural events, including exhibitions, concerts and festivals. An important cultural event involving PZU SA was also the third Festival of Dialogue between Four Cultures, held in Łódź, as were the IXth International Drama Festival "Theatrical Confrontations" in Lublin, the Festival of Borderland Culture in Mragowo, the IIIrd "Bimba Film" Film Review in Sopot, the IIIrd International Congress of Culture, Business and the Media in Cracow, and the festival entitled "Olden Music – Persona Grata". In addition, PZU SA acted as the sponsor of such events as the European Economic Summit in Warsaw, the Economic Forum in Krynica, the IIIrd National Conference on "Polish Women in Europe", and a concert promoting a record released by Marian Zafucki. The financial assistance provided by PZU SA to the above activity in 2004 amounted to almost 2.5 million zloty.

Major cultural events supported by PZU Życie SA in 2004 included the Beethoven Festival, the Vratislavia Cantans Festival, the "Film Summer in Kazimierz" Festival, the productions of the Witkacy Theatre in Zakopane, and the Piano Competition organised by the Ignacy Paderewski Society. The aid given to these events by PZU Życie SA in 2004 totalled around 300 thousand zloty. Both Companies also sponsored a CD entitled "Makowicz vs. Moździerz at the Carnegie Hall".

### **PZU and sport**

Under long-term sponsorship agreements, PZU SA continued to provide support in 2004 to the PZU Polfa Pabianice women's basketball team, the PZU AZS Olsztyn men's volleyball team and the Lotto PZU SA Professional Cycling Team. The Company also sponsored the Vitalar Jelfa Jelenia Góra women's handball team, tennis tournaments organised by the Polish Tennis Association, the XIVth Solidarity and Olympic Participants' Cycle Race, the Unia Tarnów sports club, the 30th "Cormorant" Car Rally and the 61st Polish Car Rally. PZU SA provided 6.7 million zloty in funding for the above ends.

The sponsorship carried on by PZU Życie SA involved numerous teams and events, including the KGHM Polish Indoors tennis tournament, the "Bieg Piastów" mass cross-country ski race, the MKS Zagłębie Lubin handball team, the Stal Bielsko Biala volleyball team, the Odra Wodzisław football team, the AZS Politechnika Warszawska volleyball team, the Solidarity Cycle Race, and a large number of smaller events that helped to build relationships with the Company's present and future customers. The financial contribution of PZU Życie SA to the above sporting projects in 2004 amounted to over 1.1 million zloty.

## Reinsurance

### Outward reinsurance programme

The reinsurance programme of PZU SA in 2004 comprised 8 obligatory reinsurance treaties and some 100 facultative contracts. The chief aim of the Company's reinsurance activity was to ensure the safety of its operations and market position, in particular with regard to the risk of catastrophic losses.

The marked improvement in the financial condition of the PZU Group recorded in 2003 found reflection in a consistent reinsurance policy that sought to replace proportional programmes with non-proportional contracts, and in a policy of increasing the business retained. In 2004, quota terms for both obligatory and facultative reinsurance continued to be affected by factors connected with the loss experience of the years 2001-2003. However, despite the persistence of a "tough" market as regards the reinsurance terms being offered to ceding undertakings, the first signs became visible that it might be possible to secure more favourable terms in the years immediately ahead, at least as regards non-life risks.

### Catastrophic risk accumulation project

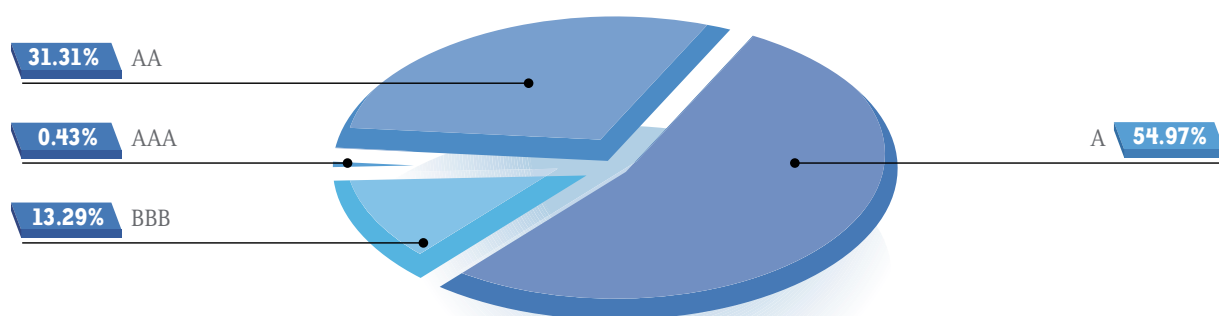
Work was continued in 2004 on the catastrophic risk accumulation project being carried on at PZU SA. The results of this work, applied in the renewals process, were used to support the process of analysing the PZU insurance portfolio exposed to catastrophic losses. The effect of this was that the Company was able to negotiate better priced terms for a CAT XL treaty.

### Inward reinsurance

As in previous years, the Company's inward reinsurance activity involved supporting domestic insurers, mainly by providing facultative cover, and it also participated in several foreign inward reinsurance treaties.

In 2004, PZU SA provided significant support to PZU Lietuva (the Lithuanian insurer belonging to the PZU Group), as regards both obligatory reinsurance (as one of the principal reinsurers) and facultative cover.

Breakdown of PZU SA reinsurers by rating, 2004



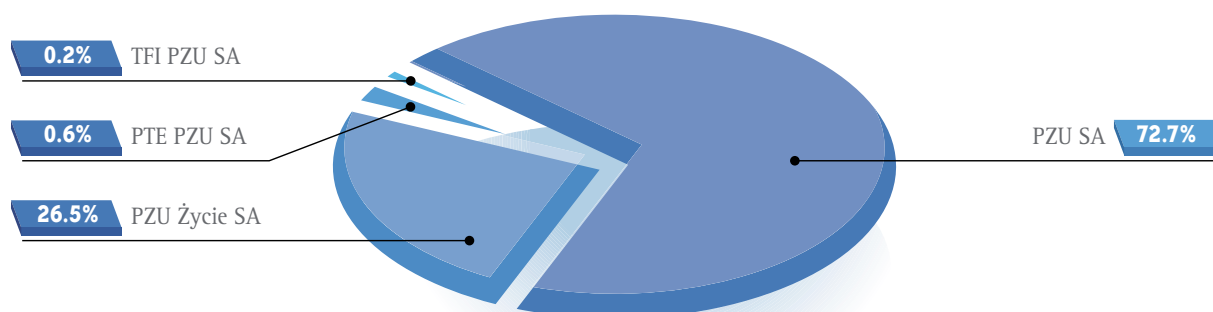
## Staff of PZU

### Major financial sector employer

The PZU Group is one of the largest employers in Poland's financial service sector. At year end 2004, the four principal Group companies employed a staff of 16,482.

Thanks to an extensive training system, the firm provides its staff with an opportunity for constant professional development and raising their qualifications, with respect to both specialist expertise and interpersonal skills. Selected staff are entered into unique development programmes in the form of training panels and post-graduate courses. One such programme is the PZU SA Management Academy. In a ranking compiled by the AIESEC student association for "Employer of the Year 2004", PZU once again came out in one of the top positions, occupying first place among employers in the insurance industry.

### Breakdown of staffing at PZU Group companies, end 2004



### Employee satisfaction survey

In 2004, the first-ever survey of employee satisfaction levels was conducted at PZU Group companies, with all members of staff free to express their opinions. The survey was carried out electronically and the respondents remained anonymous. The firm plans to repeat this survey on a cyclical basis.

### Placement and work experience programme

In 2004, a draft programme was drawn up for integrated placements and work experience at PZU SA, which constitutes an original project designed to attract young, talented and well-educated staff to the Company and to develop the image of PZU SA as an appealing employer among the students and graduates of Poland's most celebrated universities and colleges.

### Management by Objective

During 2004, a Management by Objective (MBO) system and procedures were developed at PZU SA. First and foremost, the introduction of this modern system will fundamentally change performance assessment and the effectiveness of the decisions taken at various levels of the organisation. Initially, the MBO system will be used with senior management, with the target being to extend it to all staff.

### Awards won by PZU Group companies

The numerous prizes and awards won by PZU Group companies testify to the trust which customers place in the Group's products and services, and the regard in which the companies are held in the financial community and among opinion makers.

The continuous trust of the Polish public in the PZU brand was confirmed in 2004 in prestigious rankings such as "European Trusted Brands" and "Superbrands". In addition to accolades for the brand, PZU also collects awards for its product range. In 2004, prizes and distinctions were received for both life and non-life products, and also for pension funds marketed under the PZU brand name.

Readers of the Auto-Moto magazine voted "Minicasco", a motor vehicle policy from PZU SA, "Auto-Moto Leader of 2004".

The "Serene Future" occupational pension scheme, an investment-linked group life product, gained the prestigious title of "Europroduct", awarded by the Polish Prime Minister, the Minister of the Economy, the Polish Enterprise Development Agency and trade associations.

The "Maximum" life policy was given the "Good Policy" Insurance Quality Certificate, conferred by the Council of Experts of the National Insurance Institute and the Insurance Ombudsman. The student community chose the insurance offered by PZU Życie SA as "Student Product of the Year" in the category "Student Security".

The PZU Open-Ended Pension Fund "Złota Jesień" received the European Medal awarded by the Business Centre Club and the Office of the Committee for European Integration. The European Medal is a non-commercial, nationwide award intended to distinguish and promote goods and services provided by firms operating within Poland. The "Złota Jesień" Fund also took 3rd place in voting to select the best "Student Pension".

The editors of Gazeta Finansowa newspaper gave the "Złota Jesień" Fund the title "Financier of the Year 2004" in recognition of the consistent growth it achieved in the account balances held by its members.





140 types of insurance were available from the PZU Group in 2004. Insuring their lives, health, property and future, we allowed our customers to forget millions of different worries.

## Key Events at PZU Group Companies Impacting Group Operations and Earnings in 2004

### Investment in Lithuania

On April 19, 2004, PZU SA acquired from AB NORD/LB Lietuva a 100% equity interest in the Lithuanian non-life insurer NORD/LB Draudimas and the life insurer NORD/LB Gyvybes Draudimas. Under the agreement concluded, PZU SA also gave a commitment to raise the authorised capital of the non-life company. This transaction opened the way to bringing together, in one corporate group, the companies NORD/LB Draudimas, NORD/LB Gyvybes Draudimas and UAB DK Lindra, with PZU SA being the majority shareholder in each. At the end of 2004, the total share of the Lithuanian market attributable to PZU Group insurers stood at over 16% (the third largest). As of November 2004, the companies trade under the common brand name of PZU Lietuva. PZU will be seeking to make the group of companies using this brand the market leader in Lithuanian insurance.

### Standard & Poor's rating

On July 21, 2004, the Standard & Poor's agency assigned the PZU Group insurance companies a rating of "A-". This represents the rating for the long-term credit and financial strength of PZU SA and PZU Życie SA.

On October 12, 2004, Standard & Poor's upgraded its outlook for both these PZU Group companies from negative to stable, while maintaining its "A-" long-term rating.

The rating assigned to PZU is not only the highest that Standard & Poor's has given to a financial institution in Central and Eastern Europe. It is also comparable to the ratings of the leading insurers in Western Europe. This testifies to the very sound condition of PZU companies, and also to the Group's great potential. It constitutes a confirmation of financial security for the Group's customers and partners, and a guarantee of complete solvency. The agency underlined the very high capitalisation of the Group. It also took a very positive view of the insurance activity of both the companies. In doing so, it stressed that, despite the possibility of an interim decline in operating efficiency due to the modernisation measures instituted at the companies, the long-term outlook was for this to remain at its present very high level. The composition of the investment portfolio at the PZU Group companies was considered robust. At the same time, it was emphasised that the adequacy of this portfolio in matching the liability mix was limited by the availability of long-term instruments on the Polish market and by regulatory constraints on investing in foreign instruments. Standard & Poor's believes that the PZU Group companies display suitable liquidity thanks to large opportunities for leveraging equity with debt and their capacity to reinsure risks. The agency also observed that the potential for the companies to acquire capital infusions from their shareholders appeared limited. Standard & Poor's considers that, notwithstanding a gradual decrease in the market share of PZU SA and PZU Życie SA, the strong competitive franchise of these companies will be sustained. In the longer time frame, the prospects for the PZU Group maintaining its significant market position are contingent on a deeper diversification of the product portfolio and on the greater involvement of PZU Życie SA in the personal insurance business. The uncertainty surrounding the future ownership structure was not taken to be a key factor in the rating ultimately assigned. However, it was noted that some of the possible scenarios for resolving ownership issues could impact the rating in the future, were these to delay implementation of strategic initiatives at PZU Group companies. Standard & Poor's expects that, once issues related to the ownership structure are resolved, a partial release of surplus capital could take place. Nevertheless, the agency believes that the capital position of the companies will remain strong and there will be no decline in the quality of that capital. Standard & Poor's observed that current management strategy has to take account of the long-term impact of previous management changes on Group operating efficiency, a factor difficult to define, and the uncertainty as to impending shifts in ownership structure.

**Exit from NFI programme**

On October 21, 2004, the Group companies PZU SA and PZU Życie SA signed an agreement with CA IB Fund Management SA to sell the shares held by the PZU Group in National Investment Funds (NFIs), together with the Group's interest in the NFI management company PZU NFI Management Sp. z o.o.

The decision to sell the holdings of PZU SA and PZU Życie SA in the Second National Investment Fund SA, the Progress National Investment Fund SA and the Eugeniusz Kwiatkowski National Investment Fund SA, along with the equity stake in the fund management company PZU NFI Management Sp. z o.o., came as the result of putting into practice the PZU Group strategy, which is to focus on insurance and financial activity, while withdrawing from investments unconnected with this main area of operations.

The disposal procedure had begun on December 11, 2003, with the publication of an invitation to tender in a national daily newspaper. The tender proceedings involved 12 bidders, one of which – CA IB Fund Management SA – was selected as the buyer.

The sale of shares in the Funds was carried out via the public announcement of calls for subscriptions to the sale. This allowed all the interested parties, including minority shareholders, to exit their investment in the Funds on identical terms.

**Corporate governance at PZU Group**

On June 29, 2004, an Ordinary General Meeting of the company of PZU SA required the Company's Management Board and Supervisory Board to prepare and present a position on the introduction of modern principles of corporate oversight, in accordance with the best practices of publicly traded companies. This position had to be presented to a Shareholders' General Meeting by October 31, 2004. At an Extraordinary General Meeting of PZU SA held on October 29, the shareholders were provided with a "Programme for the corporate governance model at the PZU Group", drawn up by the PZU SA Management Board, and adopted a resolution recommending that the Board institute measures with a view to implementing the Programme. At the same time, the PZU SA Management Board was instructed to present the Supervisory Board with the detailed principles that would underlie the corporate governance model at the PZU Group. In their resolution, the shareholders indicated that the process of implementing the corporate governance model would be carried out in observance of the legal regulations in force, the internal policies and procedures of PZU Group companies, and the agreements concluded by the Minister of the Treasury with the Consortium of Eureka BV and Bank Millennium SA.

The objective of the measures outlined in the Programme is to add value to the PZU Group, and to strengthen the transparency of its operations and the efficiency of oversight and management functions. It is projected that applying certain of the measures described in the document should allow a public share offering to be conducted on the best possible terms for the PZU Group and its shareholders.


**Corporate governance in investment activity of PZU "Złota Jesień" pension fund**

In December 2004, the PZU Open-Ended Pension Fund "Złota Jesień" adopted principles for corporate governance in its investment activity. It did so as the second pension fund in Poland to take the decision to approve additional rules governing its investment policy. The Fund's assets are managed by the PTE PZU SA universal pension company. The Company acts in pursuit of the Fund's objective of maximising the value of its members' assets over the long term, while also maintaining the safety of the funds invested. On the one hand, the Company fulfils the requirements strictly stipulated by the provisions of law, while on the other it assumes responsibility for the activity carried on for the benefit and on behalf of Fund members. The adoption of corporate governance principles reflects a responsible approach to the performance of its objectives and the role the Company is to play. The establishment of internal procedures in the asset management area represents the application of the principle of due diligence, in the best understood interests of Fund members.

**Investment in Ukraine**

Under an agreement signed in Kiev on February 17, 2005, the PZU Group purchased 100% of the equity of the companies OJSC Skide-West and OJSC Skide-West Life, thereby acquiring control of the Skide-West insurance group. As of February 28, 2005, the group trades under a new name, as PZU Ukraina.

Work on the project of investing in the Ukrainian insurance market was begun within the PZU Group in January 2004. The aim of the investment is to secure a strong position on that market, particularly in the segments of motor vehicle insurance, corporate insurance and life assurance. PZU intends to expand and strengthen the existing sales network throughout Ukraine. Drawing on its own experience, PZU also plans to focus on the development of bancassurance products.



At present, PZU holds about 4% of the Ukrainian insurance market, targeting a share of around 15% by the year 2010. PZU Ukraina projects the capture of a significant section of this market, particularly in motor insurance, by taking advantage of the unique opportunity presented by the introduction of compulsory third-party liability cover in Ukraine.



**73%** of profits in the Polish insurance industry were earned by the PZU Group

## Outline of PZU Group Strategy

***There are three central targets underpinning the development strategy of the PZU Group, namely:***

- to create value for its shareholders by maintaining a leading position on the Polish insurance market in terms of market share and profitability,***
- to retain its universal character, offering all groups of customer a broad range of insurance and investment products and related services,***
- to be the institution of first choice for customers thanks to the tailoring of its products to meet their needs, the accessibility of the sales network, reasonable pricing, and efficient and reliable service.***

### **Strong market position**

The PZU Group will be seeking to maintain its current market positions in those types of insurance where it has historically occupied a leading market position, and which at the same time represent a significant source of income. At PZU SA, these constitute motor vehicle insurance and property insurance (homes and buildings and their contents), while at PZU Życie SA this is group assurance cover. An important goal is also to sustain the strong position of PTE PZU SA on the market for pension fund products. At the same time, the PZU Group has launched a number of initiatives designed to bolster its position in areas where it is not a market leader at present, or on new markets (including unit-linked personal life assurance, investment funds, health insurance and IPAs).

The emphasis is to be placed on product innovation. A major portion of growth in premiums written will be generated by bringing to market new products tailored to the needs of particular customer groups. Growth in premiums written will also be stimulated by the establishment of a sales management and product support network for personal customers and for SMEs. Separate dedicated units at Head Office and Regional Branches have been set up to deal with sales and servicing for the largest corporate customers.

At the same time, a very important role in the growth of premiums written is to be played by utilising the potential for cross-selling among PZU Group companies. In parallel with this, promising new distribution channels will developed successively, such as the dealership channel in motor insurance and the bancassurance channel in life assurance. Further, a segmentation will be performed of the agent network at PZU Życie SA.

The PZU Group also plans to be active in other countries of Central and Eastern Europe, treating these as a source of future profits and corporate value. So far, PZU has established a presence in Lithuania and Ukraine. Decisions on whether to continue expansion abroad will be based on an analysis of the growth potential of a given market, the quality of the institutional and regulatory environment, and the capacity of the PZU Group to gain a competitive advantage.

### **High profitability**

The scope of operations and strong market position of the PZU Group naturally destine it for the role of clear industry leader as regards the profitability of its insurance business. A series of projects are under way at the Group which are designed to yield greater operating efficiency in the medium term.

A start has been made on the process of reorganising the PZU network of field offices. At smaller outlets, back office functions will be scaled down, as will sales processing and cash services. A system of electronic settlement with the agent network will be progressively brought on stream throughout the country. Within two years, financial processing and accounting operations will be fully centralised, in contrast to the current dispersal of these at most PZU field offices. These measures will cut administrative expenses at PZU and provide a new quality of

customer service (shortening transaction times and improving data quality).

At the same time, a product management system will be put in place. Among other things, this will allow a precise calculation of product yields and pricing for various terms of insurance, and enable rates to be diversified to correspond to customer risk profiles.

The centralisation is also being undertaken of loss adjustment for all types of non-life business. The professional loss adjustment function will be centralised at nine Loss Adjustment Centres. The changes being made are to produce a decline in claims paid in proportion to premium income (thanks to the optimisation of repair costs and a reduction in insurance fraud), lower loss adjustment expenses, and shorter loss adjustment lead times.

Better utilisation is to be achieved of cost synergies among Group undertakings, particularly in those between the life and non-life companies, with this including the elimination of overlapping structures, posts and representatives, and the creation of a central purchasing system. To take full advantage of the synergies between the companies, the target solution planned is to move to a two-tier group structure. Activity will be split between companies delivering customer products (e.g., PZU SA, PZU Życie SA, PTE PZU SA and TFI PZU SA) and ones delivering support functions (e.g., PZU Asset Management SA), with the latter providing a common back-office service to the former. The totality of operations will be managed via a holding company.

The efficiency-enhancing initiatives outlined above will not be possible without modernising the IT infrastructure at particular PZU Group companies. A crucial task over the next few years is to implement an integrated IT system within the Group that includes centralised systems for product management, financial processing and accounting, loss adjustment, management information and customer data bases, running under a uniform integration layer.

29,5

29.5% return on equity is an achievement to make any company worldwide feel proud.

## Market Position and Financial Results of PZU Group Companies

### Market position

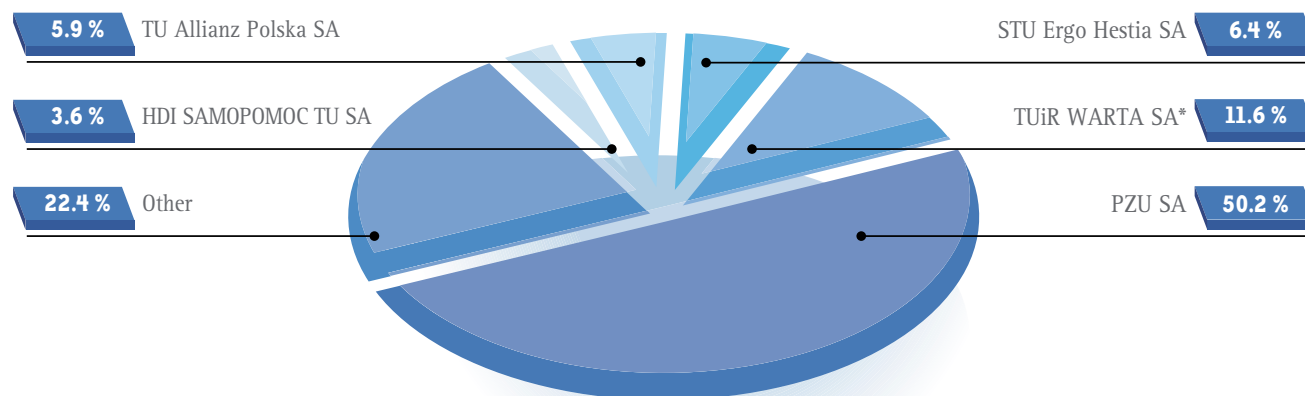
The PZU Group has for years maintained its position as leader of the Polish insurance industry. The market share of the PZU Group in insurance, measured by gross premiums written, stood at 47% at year end 2004, having come down 2.9 points compared to the previous year.

In non-life insurance, the market share of PZU SA came to 50.2% in 2004, down 2.9 points.

In life assurance, the market share of PZU Życie SA also slipped 2.9 points, to stand at 43% at year end.

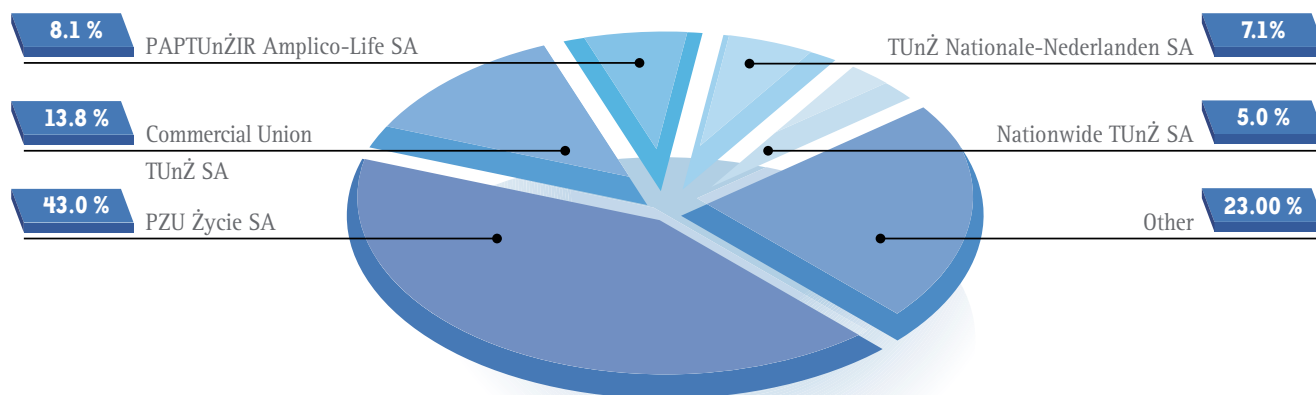
Among open-ended pension funds, the market share of the PZU "Złota Jesień" Fund, measured by fund membership, was 16.2% at the end of 2004.

### Market share of PZU SA in non-life insurance by gross premiums written, end 2004

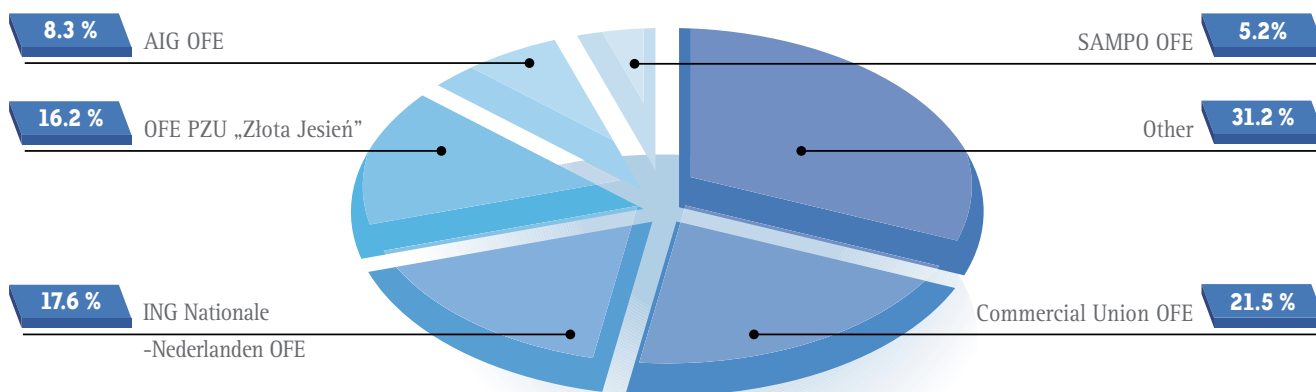


(\* premiums for TUiR Warta SA summed with those of acquired company, Agropolisa).

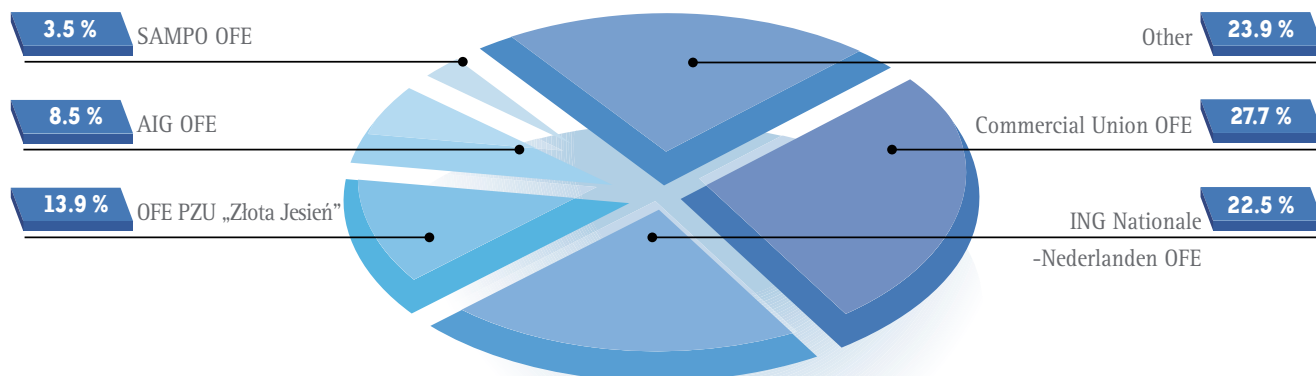
Market share of PZU Życie SA in life assurance by gross premiums written, end 2004



Market share of OFE PZU „Złota Jesień” among open-ended pension funds by fund membership, end 2004



Market share of OFE PZU „Złota Jesień” among open-ended pension funds by assets under management, end 2004



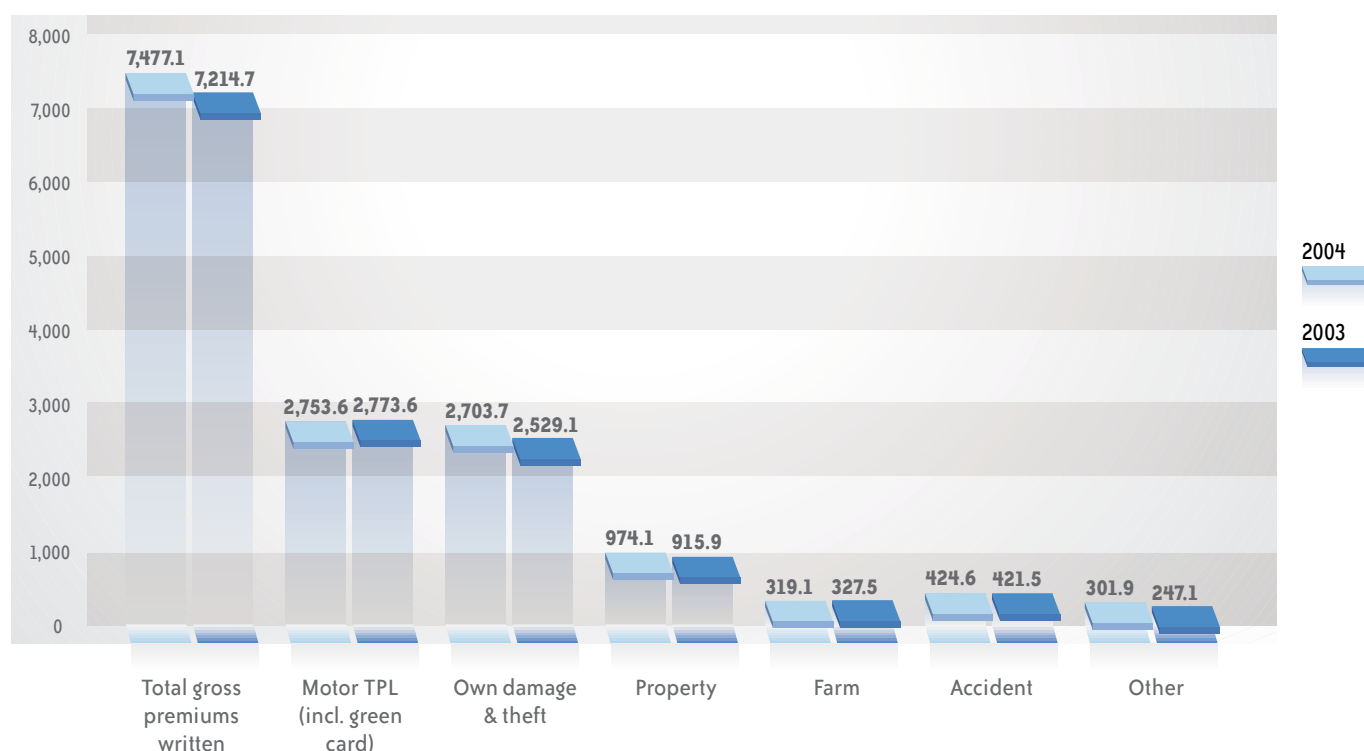


### Gross premiums written

In 2004, the gross premiums written by the PZU Group on life and non-life business, following consolidation adjustments, amounted to 12,962.7 million zloty, an increase of 5.0% on the previous year.

The gross premiums written by PZU SA in 2004 stood at 7,485.1 million zloty, representing growth of 3.6%. Total premiums written on direct insurance came to 7,477.1 million zloty. The largest rise in premiums written was seen in own damage and theft motor insurance, property insurance and other group insurance. The decline previously witnessed in premiums on third-party liability motor insurance was arrested significantly. A 2.5% decrease in premiums written was noted in farm insurance.

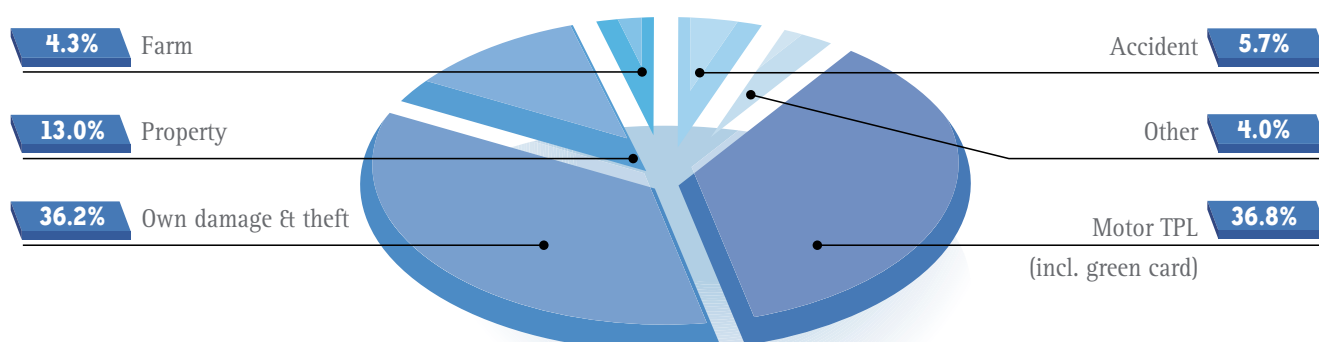
#### Gross premiums written in direct insurance at PZU SA, by main product categories (million zloty)



The dominant items in the portfolio continued to be third-party liability motor insurance and own damage and theft motor insurance, which together accounted for almost 73% of business, while property insurance increased its relative weight from 12.7% to 13% of total premiums, farm insurance earned 4.3% of total premiums, accident and sickness cover brought in 5.7%, and the remaining product lines generated 4.0%.

The gross premiums written by PZU SA on inward reinsurance in 2004 amounted to 8 million zloty.

#### Gross premiums written by PZU SA, 2004, by main product categories

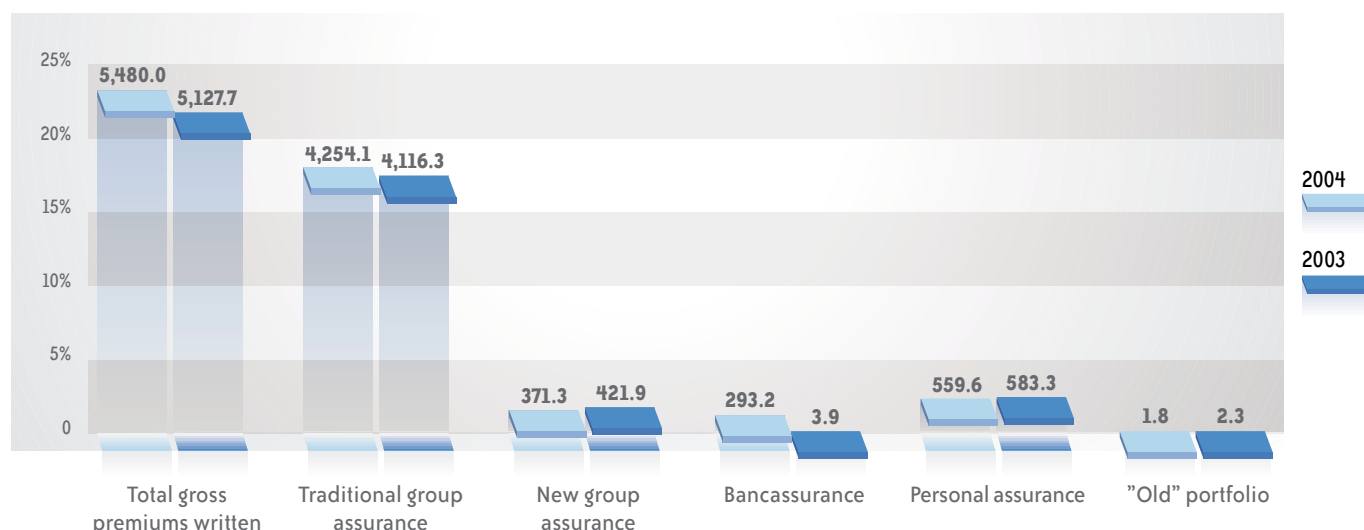




The number of insurance contracts concluded by PZU SA dropped 4.5% to stand at 39,919 thousand. The average premium came to 187.3 zloty, up 8.5% on 2003.5

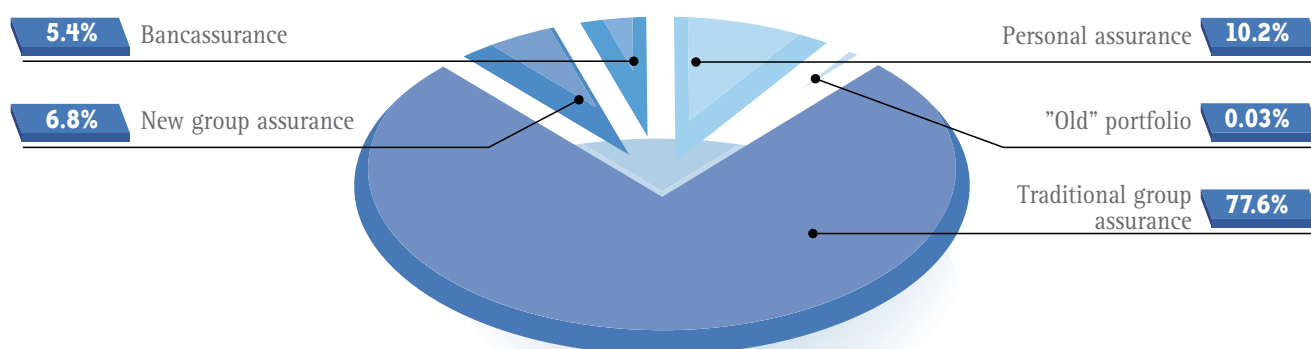
Gross premiums written at PZU Życie SA in 2004 totalled 5,480.0 million zloty, an increase of 6.9% compared to the previous year. The fastest growth was recorded in bancassurance (up 7,428.9%). In traditional group assurance cover, premiums were also up, by 3.3%. In personal policies, however, premiums written fell 4.1%.

#### Gross premiums written by PZU Życie SA, by main product categories (million zloty)



As in previous years, the largest proportion of premiums written by PZU Życie SA were on traditional group assurance products, which constituted 77.6% of total gross premiums written. New forms of group assurance represented 6.8% of premiums. A large increase on the previous year was seen in the share of premiums generated from bancassurance. By contrast, the contribution made to total premiums by the old portfolio of insurance products has been steadily declining for some years now.

#### Gross premiums written by PZU Życie SA, by main product categories



In 2004, the number of assured at PZU Życie SA totalled 13,686 thousand, down 236 thousand compared to 2003, which is mainly traceable to a decrease in the numbers assured within the "D" continuing assurance risk portfolio and the "old" assurance portfolio.

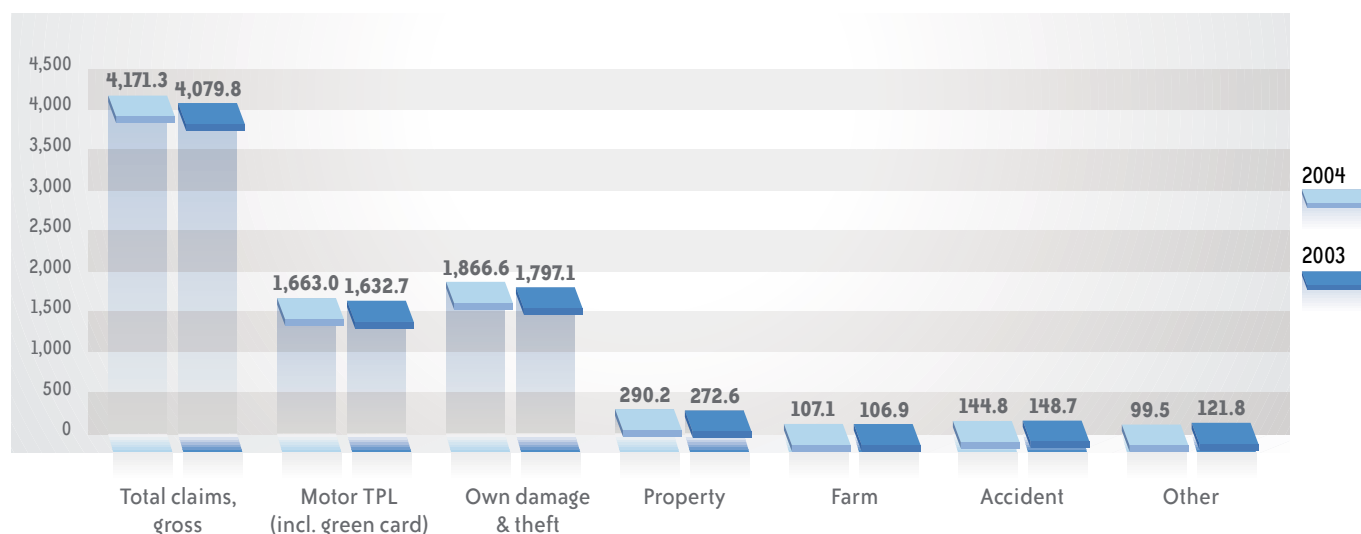
<sup>5</sup> Maintaining comparability. The average premium and number of contracts concluded have been calculated and adjusted for previous years in accordance with the new guidelines issued by the Commission for the Supervision of Insurance and Pension Funds.

## Claims and benefits

The claims and benefits paid by the PZU Group in 2004, gross, amounted to 8,005.5 million zloty, representing an increase on 2003 of 6.5%.

The gross claims and benefits paid by PZU SA in 2004, together with loss adjustment expenses, stood at 4,443.2 million zloty, with claims and benefits arising from direct insurance (excluding loss adjustment expenses) alone coming to 4,171.3 million zloty. This constituted a rise of 2.2% relative to 2003. The increase in claims paid was chiefly seen on property insurance, third-party liability motor insurance, and own damage and theft motor insurance.

### Gross claims and benefits paid at PZU SA, excluding loss adjustment expenses, by main product categories (million zloty)



The dominant category of claims and benefits paid were those on motor vehicle cover, representing 84.6% of total payments, while property insurance accounted for 7%, accident and sickness insurance for 3.5%, farm insurance for 2.6%, and other categories for 2.4%.

The number of claims paid by PZU SA in 2004 totalled 1,398 thousand, up 3.7% on 2003.

The value of the average claim paid out stood at 2,985 zloty, thereby coming down 1.4% compared to 2003.<sup>6</sup>

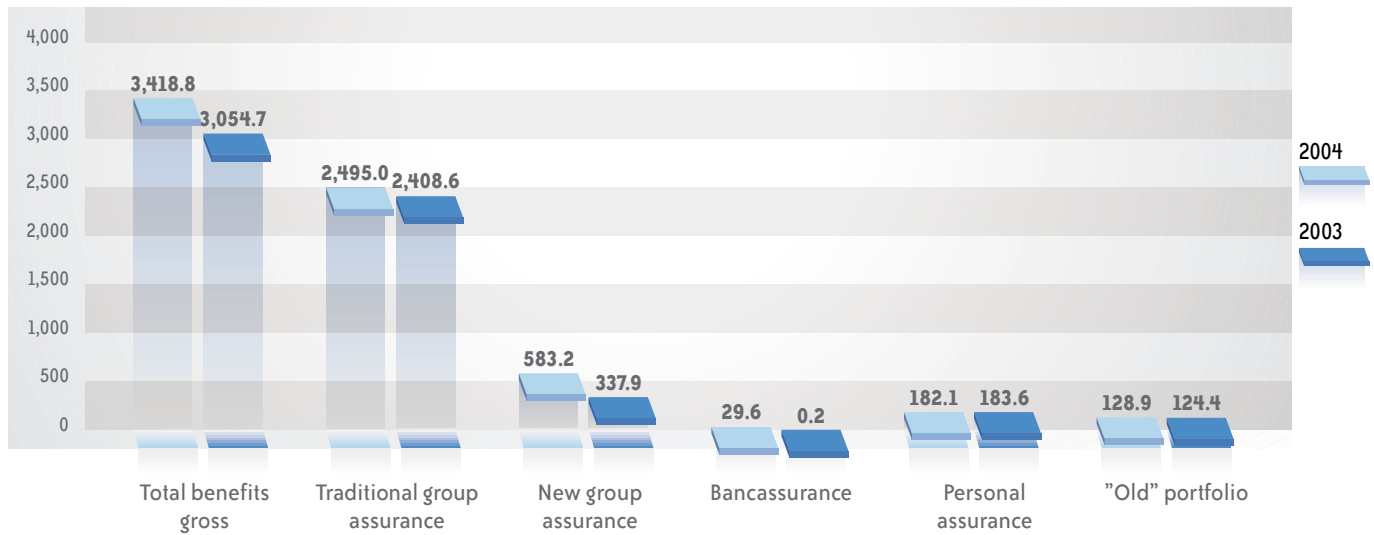
Loss adjustment expenses at PZU SA came to 381.7 million zloty in 2004, up 3.6% on the previous year. The increase in these expenses is attributable, among other things, to higher materials and energy costs and a rise in the cost of external services.

PZU Życie SA paid out a total of 3,565.5 million zloty, gross, in claims and benefits in the course of 2004, an increase of 12% on the year before. Excluding loss adjustment expenses, the value of benefits paid amounted to 3,418.8 million zloty.

<sup>6</sup> Maintaining comparability. The average claim paid has been calculated and adjusted for previous years in accordance with the new guidelines issued by the Commission for the Supervision of Insurance and Pension Funds.

The largest portion of benefits paid were those on traditional group assurance, which accounted for 73% of all benefits. The relative share of benefits on new forms of group assurance rose 6 points, to 17.1%

Gross benefits paid at PZU Życie SA, excluding loss adjustment expenses, by main product categories (million zloty)



Loss adjustment expenses at PZU Życie SA in 2004 amounted to 146.7 million zloty.

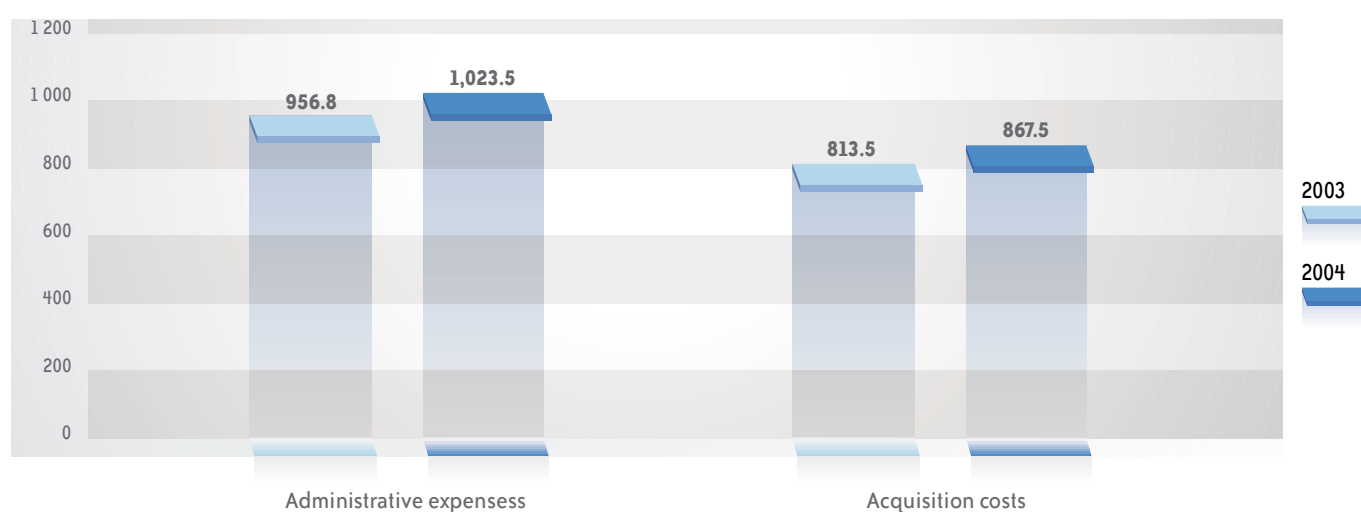
### Costs of insurance activities

The costs of insurance activities on the insurance business of the PZU Group, which include acquisition costs and administrative expenses, totalled 2,568.4 million zloty in 2004, equivalent to an increase of 4.1% compared to 2003.

The costs of insurance activities of PZU SA during this period came to 1,796.2 million zloty, up 6.7% on the year before.

Administrative expenses rose 7%. This was primarily the result of greater outlays on special projects, higher personnel expenses (including expenses related to the occupational pension scheme) and IT expenses (associated with technical support and maintenance). Acquisition costs increased 6.6%, which mainly stemmed from higher costs in marketing and insurance mediation.

#### Costs of insurance activities at PZU SA, broken down by administrative expenses and acquisition costs (million zloty)

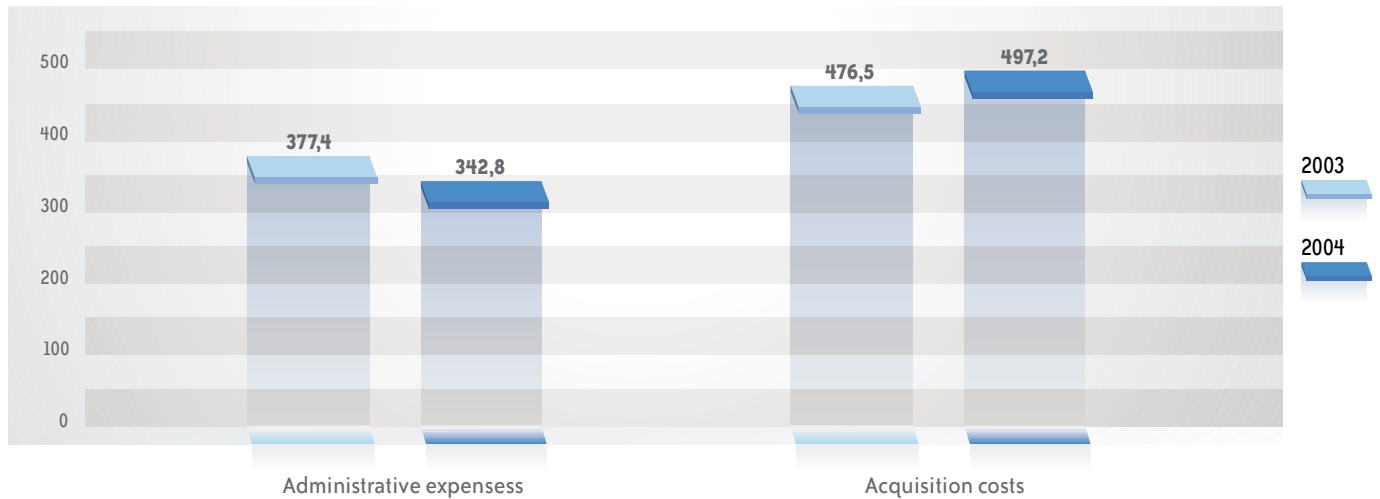


In 2004, the ratio of costs of insurance activities to premiums written at PZU SA came to 24%.

Costs of insurance activities at PZU Życie SA (as allocated) stood at 837.6 million zloty in 2004, having declined 1.4% compared to 2003.

Acquisition costs rose 4.3%. By contrast, administrative expenses came down 9.2% relative to 2003, mainly thanks to the strict observance of cost controls.

Costs of insurance activities at PZU Życie SA, broken down by administrative expenses and acquisition costs (million zloty)



The proportion of costs of insurance activities to premiums also fell significantly. At year end 2004, this ratio stood at 15.3%, 1.3 points less than in 2003.

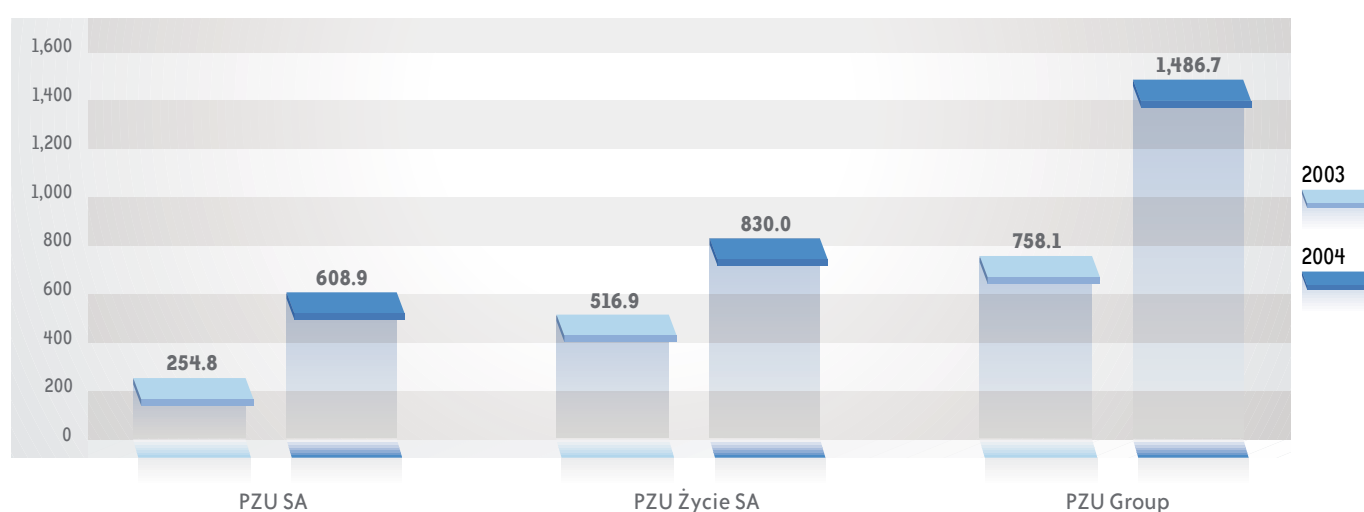
## Underwriting result

The total underwriting result of the PZU Group transferred to the consolidated general profit and loss account in 2004 stood at 1,486.7 million zloty.<sup>7</sup>

PZU SA recorded an underwriting result of 608.9 million zloty. This constitutes a soaring increase of 139% on the previous year, which can be traced to higher premiums, a relatively small rise in claims and benefits paid, and much lower expense arising from movements in reserves. A positive underwriting result was recorded on all main product categories, with the exception of own damage and theft motor insurance.

PZU Życie SA also reported a large rise in its underwriting result, of over 60%, taking it to 830 million zloty.

### Underwriting result of PZU Group companies (million zloty)

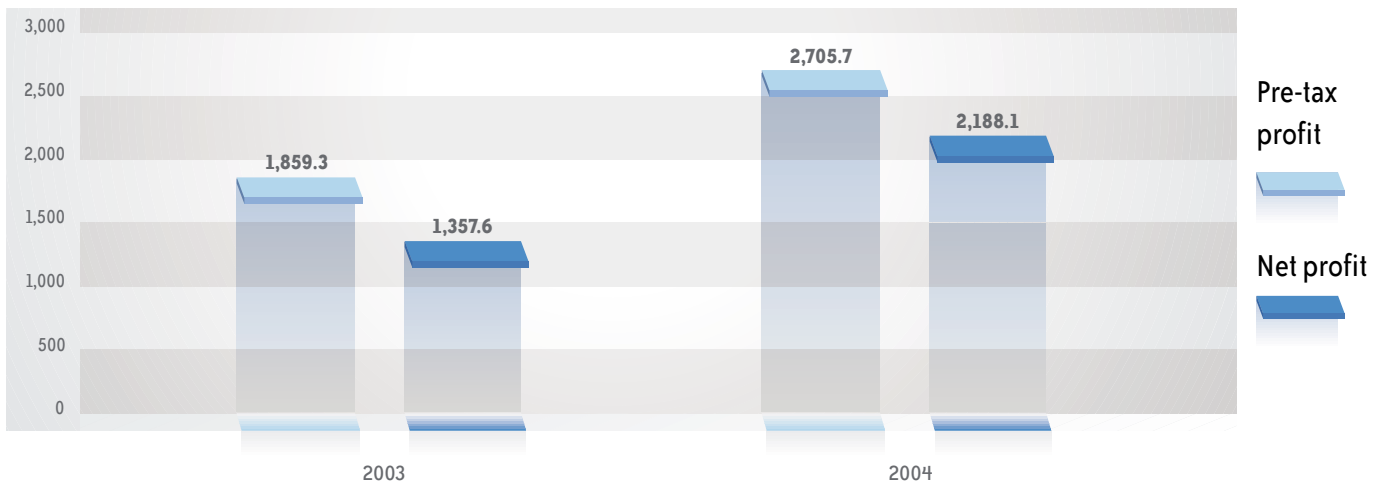


<sup>7</sup> Given the specific nature of the companies making up the PZU Group, the consolidated technical account has been drawn up separately for life assurance and for non-life insurance.

## Earnings

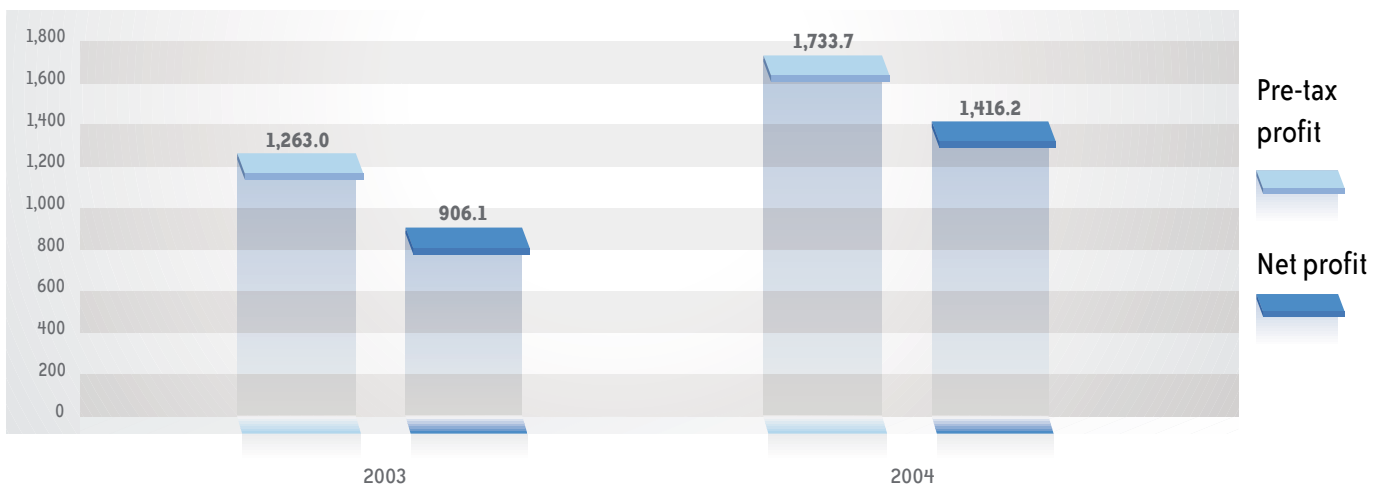
The PZU Group posted record earnings in 2004, unprecedented for both the firm itself and the entire insurance industry. The consolidated pre-tax profit of Group companies amounted to 2,705.7 million zloty, a hefty 45.5% increase compared to 2003. Since the rate of corporate income tax was lowered in 2004 to 19%, growth in the Group's net profit was even stronger, at 61.2%, taking it to 2,188.1 million zloty.

PZU Group earnings, pre-tax & net (million zloty)



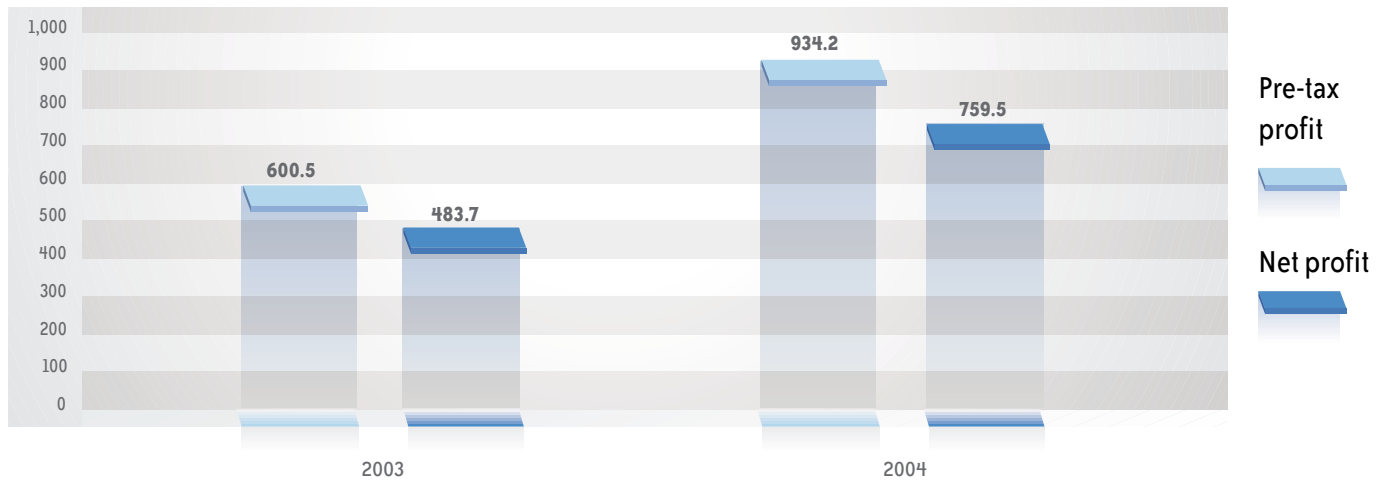
PZU SA generated a net profit in 2004 of 1,416.2 million zloty, up 56.3% on the year before.

Earnings at PZU SA, pre-tax & net (million zloty)



The net profit reported by PZU Życie SA in 2004 came to 759.5 million zloty, an increase of 57% on 2003.

#### Earnings at PZU Życie SA, pre-tax & net (million zloty)



However, a decline in net profit, to 45.6 million zloty, was recorded at PTE PZU SA, which was due to ending the recognition of amounts released from winding up the reserve fund.



## Investment activity

The investment income of the PZU Group in 2004 totalled 3,276.3 million zloty, signifying an increase on 2003 of 7.2%.

The Group's investments at year end 2004 stood at 35.2 billion zloty, having risen 12.8% compared to the previous year.

At PZU SA, investment income came to 1,319.5 million zloty in 2004. This constituted a decline of 10.9% year on year.

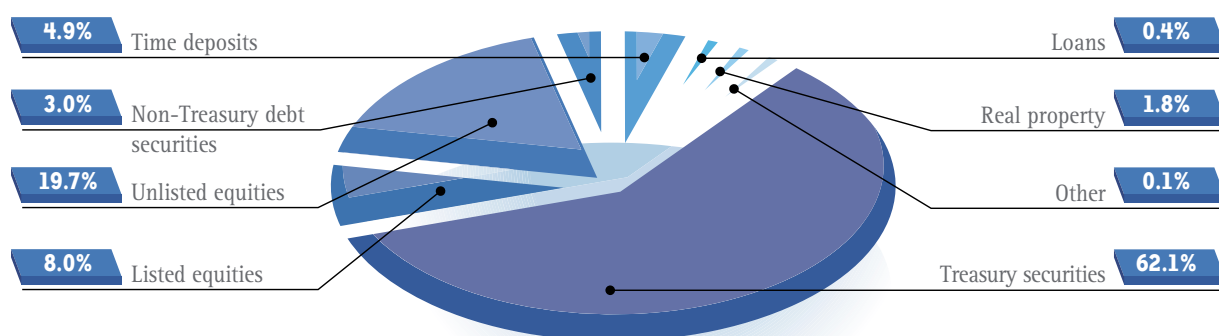
As in previous years, the primary target of the investment activity conducted by PZU SA in 2004 were Treasury securities, i.e., T-bonds and T-bills. At year end, these instruments accounted for 62.1% of the Company's investment portfolio, as against 58.8% at the end of 2003.

PZU SA also increased its investment in listed equities. This reflected both a firming of share prices thanks to the upturn on the Warsaw Stock Exchange, and also the purchase of further equity paper in the course of the year. The upshot was that listed equities rose from 6.7% of the PZU SA investment portfolio at year end 2003 to 8.0% at the end of 2004.

The Company also increased its holdings of non-Treasury debt securities. The share of these in the portfolio climbed from 1.4% in 2003 to 3.0% at year end 2004. A contributing factor here was that PZU SA began investing on the market for structured financial instruments.

The large proportion of the PZU SA investment portfolio made up of unlisted equities and other ownership interests is attributable to the inclusion of shares in PZU Życie SA, valued at 3,543.3 million zloty, which represented 96.8% of those equities and interests. The increase in this segment of the portfolio in 2004 principally stemmed from a higher valuation of shares in PZU Życie SA, and also from the acquisition of equity stakes in insurance companies in Lithuania.

### Composition of PZU SA investment portfolio, end 2004

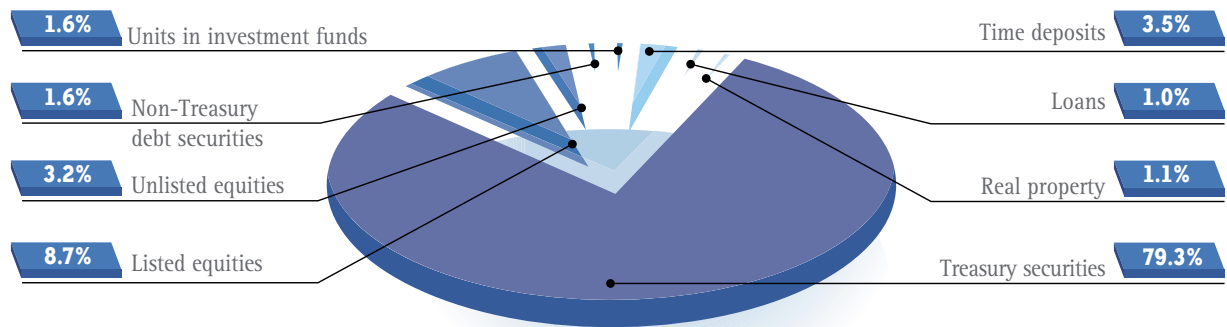


The rate of return on the PZU SA investment portfolio in 2004 stood at 6.6%.

The investment income obtained by PZU Życie SA in 2004 rose 17.1%, to stand at 1,972.7 million zloty.

The composition of the investment portfolio at PZU Życie SA resembles that of the portfolio at PZU SA. The changes that took place in the portfolio mix in 2004 were also similar. As at PZU SA, Treasuries constitute the largest proportion of the investment portfolio held by PZU Życie SA. At year end 2004, these represented 79.3% of the portfolio, down 2.9 points compared to the end of 2003. There was a substantial increase in the investment of PZU Życie SA in listed equities. These accounted for 6.4% of the portfolio in 2003, but by year end 2004 had risen to 8.7%.

### Composition of PZU Życie SA investment portfolio, end 2004



The rate of return on the PZU Życie SA investment portfolio in 2004 came to 9.7%.

## Technical reserves

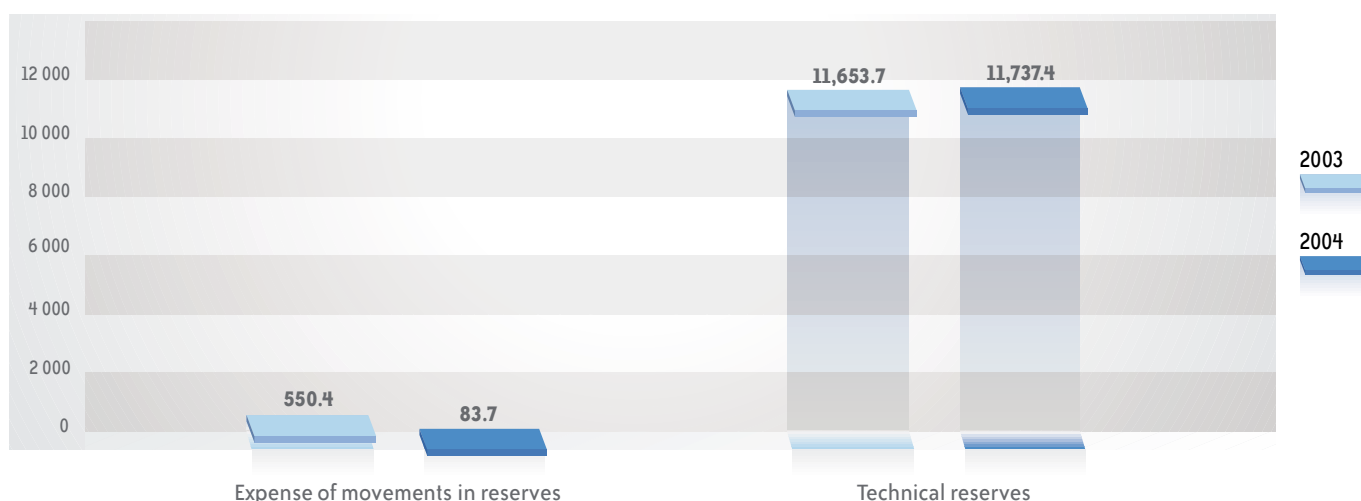
At the end of 2004, the technical reserves of the PZU Group totalled 28.1 billion zloty, gross. Compared to 2003, this constitutes an increase of 8.9% in reserves established.

At PZU SA, technical reserves at December 31, 2004, amounted to 11.7 billion zloty gross (10.3 billion net of reinsurance), a sum that ensured the financial security of the Company. Compared to the opening balance for 2004, when gross technical reserves stood at 11.6 billion zloty (10 billion net of reinsurance), the gross amount of reserves had risen 0.7% (3.4% net of reinsurance).

The technical provisioning policy of PZU SA is above all founded on a prudent approach, one that also takes into consideration foreseeable events which might result in increased liabilities, such as a greater awareness of insurance issues, and future economic and legislative developments.

The expense of movements in reserves at PZU SA in 2004 stood at 83.7 million zloty. The gross reserves were equivalent to 156.8% of gross premiums written.

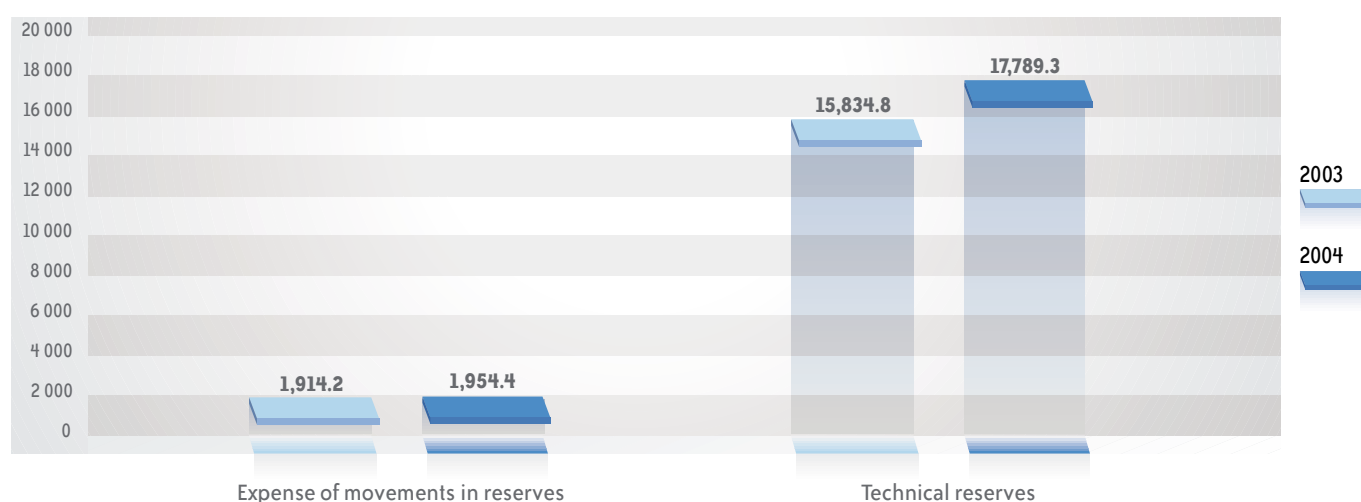
### Technical reserves at PZU SA (gross)



At December 31, 2004, the gross technical reserves held by PZU Życie SA amounted to 17.8 billion zloty, with the net figure being almost the same. This represents an increase during the year of over 12.3%.

The expense of movements in reserves at PZU Życie SA in 2004 came to 1,954.4 million zloty.

### Technical reserves at PZU Życie SA (gross)



## Efficiency ratios

Return on assets and equity	2003	2004
Return on assets (ROA), PZU Group (net earnings / average total assets) x 100%	4.1%*	5.9%
The increase in ROA for the PZU Group demonstrates that, within the total assets of the Group, the capacity for earning assets to generate profit per unit of assets is high and continues to strengthen.		
Return on equity (ROE), PZU Group (net earnings / average equity) x 100%	23.8%*	29.5%
The return on equity reported, above average for the insurance industry, indicates a high efficiency of capital utilisation within the PZU Group.		
Return on investment (net investment income / investments at period end)	8.1%	8.1%
The maintenance of a high return on investment in the PZU Group testifies to an effective policy for investing assets covering technical reserves; particularly strong performance was noted in investments in bonds and equities.		

\* due to changes in accounting principles, this data is not comparable with 2004.

Solvency and liquidity ratios (measures of financial soundness)	2003	2004
Solvency margin, non-life insurance (million zloty)	1,144.2	1,195.5
Solvency margin, life assurance (million zloty)	1,335.9	1,403.5
Own funds covering solvency margin, non-life insurance (million zloty)	3,993.2	4,813.4
Own funds covering solvency margin, life assurance (million zloty)	2,737.3	3,481.2
Solvency margin cover ratio, non-life insurance	349.0%	402.6%
Solvency margin cover ratio, life assurance	204.9%	248.0%
Guarantee fund, non-life insurance (million zloty)	381.4	398.5
Guarantee fund, life assurance (million zloty)	445.3	467.8
Surplus own funds covering guarantee fund, non-life insurance	3,611.7	4,414.9
Surplus own funds covering guarantee fund, life assurance	2,292.0	3,013.3

The volume of own funds and the solvency margin cover ratio represent the key measures of solvency. Those ratios show capital requirements are satisfied several times over, with a large surplus of own funds held, which reflects the excellent financial soundness of the principal PZU Group companies.

Performance ratios	2003	2004
Gross loss ratio (simple) (gross claims & benefits paid / gross premiums written)	60.9%	61.8%
Net loss ratio (composite) (claims & benefits paid / net premiums earned)	66.2%	65.1%
Operating expense ratio (costs of insurance activities / net premiums earned)	20.9%	21.0%
Combined ratio (net loss ratio + operating expense ratio)	87.2%	86.1%
Administrative expense ratio (administrative expenses / net premiums earned)	10.9%	10.7%

The difference in the direction of change seen in loss ratios (the simple and composite ratios) stems from slower growth in technical reserves, mainly at PZU SA. The increase in the operating expense ratio, despite a decline in the administrative expense ratio, is attributable to the rise in acquisition costs, which is related to changes in the structure of distribution channels (with a diminishing role played by the channel free of commissions). The decrease in the combined ratio indicates an improvement in overall operating performance.



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### Contact details

**InfoLine: +48 801 102 102**

#### **PZU SA**

Al. Jana Pawła II 24  
00-133 Warsaw

#### **PZU Życie SA**

Al. Jana Pawła II 24  
00-133 Warsaw

#### **PTE PZU SA**

Al. Jana Pawła II 24  
00-133 Warsaw

#### **TFI PZU SA**

Ul. Ogrodowa 58  
00-876 Warsaw

#### **PZU SA Press Spokesperson**

tel. +48 22 582-23-63  
fax +48 22 582-28-84

#### **Coordinator, Investor Relations**

tel. +48 22 582-30-16  
fax +48 22 582-28-81



Consolidated accounts and auditor's opinion

“A-” is the highest rating that the Standard and Poor’s agency has assigned to a financial institution in Central and Eastern Europe. That institution is PZU.

## Consolidated accounts for the year ended December 31, 2004, and auditor’s opinion

- | Introduction to the consolidated accounts
- | Consolidated accounts, PZU Group
- | PZU SA accounts
- | PZU Życie SA accounts
- | PTE PZU SA accounts

# Introduction to the consolidated accounts

## 1. Composition of Powszechny Zakład Ubezpieczeń SA Group, and scope and method of consolidation

The Powszechny Zakład Ubezpieczeń SA Group ("the PZU Group") comprises:

- **Powszechny Zakład Ubezpieczeń SA** ("PZU", "the parent undertaking") as the parent undertaking;
- **Powszechny Zakład Ubezpieczeń na Życie SA** ("PZU Życie") as a subsidiary subject to full consolidation;
- **Powszechne Towarzystwo Emerytalne PZU SA** ("PTE PZU") as a subsidiary subject to full consolidation;
- **PZU Tower Sp. z o.o.** ("PZU Tower") as a subsidiary subject to full consolidation;
- **Centrum Informatyki Grupy PZU SA** („CIG PZU”), formerly PZU-CL Agent Transferowy SA, as a subsidiary subject to full consolidation as of December 1, 2001;
- **Other subsidiaries and affiliates presented in the table in point 4.**

Pursuant to Article 4.2 of the Accounting Act of September 29, 1994 (as published in *Dziennik Ustaw* no. 76/1994, item 694, and subsequently amended; hereinafter referred to as "the Accounting Act"), events, including business transactions, are entered into books of account and presented in the accounts according to the business nature thereof. In relation to these consolidated accounts, this applies in particular to the method of consolidation of undertakings which have been set up in order to perform a specific function for the parent undertaking or the whole PZU Group ("special purpose undertakings") and which are financed by member undertakings of the PZU Group. There are then grounds to treat this form of business as a transfer of part of the parent undertaking's activities to other juridical persons. In such cases, a significant part of the sales revenue of the undertakings set up in this way comes from the parent undertaking and other member undertakings of the PZU Group. Consequently, the undertakings PZU Tower, PTE PZU and CIG PZU are consolidated under the full method, because, in the opinion of the parent undertaking, only such a presentation guarantees a true and fair view of the financial position of the PZU Group.

Pursuant to the legal regulations effective as of January 1, 2005, which will be applicable to the consolidated accounts of the PZU Group for the year ending December 31, 2005, the full consolidation of PZU Tower, PTE PZU and CIG PZU will comply with the Ordinance of the Minister of Finance of December 8, 2003, on specific accounting principles for insurance companies (as published in *Dziennik Ustaw* no. 218/2003, item 2144; hereinafter referred to as "the Insurance Accounting Ordinance").

Detailed information about changes in accounting policies after January 1, 2004, is presented in point 6 of the Introduction to the consolidated accounts.

Other undertakings are excluded from consolidation since, under the criteria set out in Article 4, paras. 1 and 4, of the Accounting Act, their financial data are not material relative to that of the PZU Group.

### 1.1 Powszechny Zakład Ubezpieczeń SA

PZU is a public limited company with its registered office in Warsaw, at Al. Jana Pawła II 24. It was formed by the transformation of the state-owned enterprise Państwowy Zakład Ubezpieczeń into a public limited company owned by the Treasury, pursuant to Art. 97 of the Act on Insurance Activity of July 28, 1990 (as published in consolidated form in *Dziennik Ustaw* no. 11/1996, item 62, and subsequently amended; hereinafter referred to as "the Insurance Act of July 28, 1990").

The mode and the procedures of the transformation, and the assumption of liabilities, of the former Państwowy Zakład Ubezpieczeń were regulated by the Ordinance of the Minister of Finance of December 18, 1991 (as published in *Dziennik Ustaw* no. 119/1991, item 522). The transformation of Państwowy Zakład Ubezpieczeń into a Treasury-owned public limited company took place on December 23, 1991, in accordance with Notarial Deed Reference No. A-III-21516/91.

PZU took over the whole non-life business, while the life business was transferred to Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie"), a subsidiary created in 1991, in which PZU held 100% of shares as at December 31, 2004.

On December 27, 1991, Powszechny Zakład Ubezpieczeń Spółka Akcyjna was entered in the Commercial Register of the District Court for the capital city of Warsaw, XVI Commercial Registry Department, in Section B as Entry No. 30314.

Until November 10, 1999, Powszechny Zakład Ubezpieczeń SA was a public limited company wholly owned by the Polish Treasury. On that day, the Polish Treasury sold 30% of its shares to a consortium of Eureko B.V. and BIG Bank Gdański SA.

On November 25, 1999, the Management Board of PZU announced its decision to transfer, free of charge, 1,295,284 registered series A shares (12,952,840 shares after a split), each with a nominal value of 10 zloty, to eligible former and current employees of the Company. On April 30, 2001, PZU was registered in the National Court Register kept by the District Court for the capital city of Warsaw, XIX Commercial Department of the National Court Register, under the number KRS 0000009831.



The company was assigned the statistical reference number REGON 010001345.

PZU has been incorporated for an indefinite period.

table  
1.

The parent undertaking's ownership structure, according to the register of shareholders, as at December 31, 2004, is presented below.

Shareholder	Voting rights at General Meeting of Shareholders
1 Polish Treasury	55.0875%
2 Eureko B.V.	20.9131%
3 BIG BG Inwestycje SA	10.0000%
4 Manchester Securities Corp.	3.7637%
5 Other shareholders	10.2357%
<b>Total</b>	<b>100.00%</b>

In 2004, Eureko BV purchased a 10% equity interest in PZU from BIG BG Inwestycje SA. On January 12, 2005, Eureko BV was entered in the register of shareholders of PZU SA as the owner of this shareholding.

The core area of the Company's activities, as defined in the Classification of Economic Activity in the European Union (NACE), is non-life insurance (NACE 66.03).

Under the Company's Articles of Association, its business is to take up and carry on:

- direct insurance and indirect insurance (reinsurance) at home and abroad,
- preventive activities aimed at forestalling the occurrence of losses and lessening their severity,
- loss adjustment, i.e., assessing the extent of losses, securing rights of recourse and pursuing claims, and also performing other loss adjustment activities under agreements or assignments from other insurers,
- other insurance and reinsurance services,
- acquisition services for open-ended pension funds, pursuant to regulations on the organisation and operation of pension funds.

The insurance activity is conducted in the area of non-life insurance (Section II of the Appendix to the Insurance Act).

## 1.2 Powszechny Zakład Ubezpieczeń na Życie SA

Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna is a public limited company with its registered office in Warsaw, at Al. Jana Pawła II 24, incorporated on December 18, 1991, and on December 20, 1991, entered in the Commercial Register kept by the District Court for the capital city of Warsaw, XVI Commercial Registry Department, in section B as Entry No. RHB 30260.

PZU Życie has been incorporated for an indefinite period.

On July 26, 2001, PZU Życie was entered in the Register of Enterprises of the National Court Register, Entry No. KRS 0000030211, under a decision by the District Court in Warsaw, XIX Commercial Department.

The core area of the activity of PZU Życie, as defined in the Classification of Economic Activity in the European Union (NACE), is life assurance (NACE 66.01).

Under the Company's Articles of Association, its business is to take up and carry on assurance and assurance-related activity as specified in Section I "Life assurance" of the Appendix to the Insurance act, namely:

1. Life assurance,
2. Marriage assurance, child maintenance assurance,
3. Investment-linked life assurance,
4. Annuities,
5. Accident and sickness insurance, if complementary to the insurance specified in points 1 to 4 above.

In accordance with its Articles of Association, PZU Życie may also conduct business activity in the field of inward and outward reinsurance and retrocession.

On September 18, 1998, PZU Życie received a license to conduct acquisition activities on behalf of open-ended pension funds.

### 1.3 Powszechne Towarzystwo Emerytalne PZU SA

PTE PZU was incorporated on the basis of a Notarial Deed dated August 6, 1998. It was registered by the District Court for the capital city of Warsaw, XVI Commercial Registry Department, on December 8, 1998.

On December 8, 2001, PTE PZU was entered in the Commercial Register of the National Court Register, kept by the District Court, XIX Commercial Department of the National Court Register, as Entry No. KRS 0000040724.

The company was assigned the statistical reference number REGON 013273720.

As at December 31, 2004, PTE PZU had its registered office in Warsaw, at Al. Jana Pawła II 24.

PTE PZU has been incorporated for an indefinite period.

The business of PTE PZU is to:

- establish an open-ended pension fund,
- manage the open-ended pension fund thus established and represent it in dealings with third parties in the manner described in the Articles of Association, and also manage more than one open-ended pension fund in the cases and on the basis specified by the provisions of the Act on the Organisation and Operations of Pension Funds of August 28, 1997 (as published in consolidated form in *Dziennik Ustaw* no. 159/2004, item 1667; hereinafter referred to as "the Pension Funds Act").

PZU PTE manages the PZU Open-Ended Pension Fund "Złota Jesień" ("OFE PZU"), established under a license granted by the Office for the Supervision of Pension Funds (Urząd Nadzoru nad Funduszami Emerytalnymi - "UNFE") on January 26, 1999. The Fund was entered in the Register of Pension Funds kept by the District Court in Warsaw on February 3, 1999, as Entry No. Rfe6.

The core business of PTE PZU, as defined in the Classification of Economic Activity in the European Union (NACE), are activities auxiliary to insurance and pension funding (NACE 67.20).

### 1.4 PZU Tower Sp. z o.o.

PZU Tower has its registered office in Warsaw, at ul. Ogrodowa 58, and was incorporated for an indefinite period of time on the basis of a Notarial Deed, Reference A, No. 4499/98, dated August 25, 1998.

On August 27, 1998, PZU Tower was entered in the Commercial Register kept by the Registration Court for the capital city of Warsaw, XVI Commercial Registry Department, as Entry No. RHB 54506.

On July 2, 2001, PZU Tower was entered in the National Court Register kept by the District Court for the capital city of Warsaw, XIX Commercial Department, as Entry No. KRS 0000021844.

Under the Company's Articles of Association, its business includes:

- proprietary development and sale of real property,
- proprietary purchase and sale of real property,
- proprietary renting of real property,
- managing of residential real property,
- managing of non-residential real property,
- intermediation in the purchase, sale, renting and valuation of real property,
- advertising activity,
- cleaning of real property,
- activities relating to the organisation of trade fairs.

The core business activity of PZU Tower, as defined in the Classification of Economic Activity in the European Union (NACE), is the development and selling of real property (NACE 70.11).

### 1.5 Centrum Informatyki Grupy PZU SA

CIG PZU was incorporated on the basis of a Notarial Deed dated June 29, 1998, as PZU-CL Agent Transferowy SA. On May 12, 2003, pursuant to Resolution 8/2003 of an Extraordinary General Meeting of Shareholders of April 23, 2003, PZU-CL Agent Transferowy changed its name to Centrum Informatyki Grupy PZU SA. On September 26, 2001, CIG PZU was entered in the Commercial Register of the National Court Register kept by the District Court for the capital city of Warsaw, XX Commercial Department, as Entry No. KRS 0000043026. The Company was assigned the statistical reference number REGON 013104910.

As at December 31, 2004, CIG PZU had its registered office in Warsaw, at ul. Matuszewska 14.

CIG PZU has been incorporated for an indefinite period.

In accordance with the Company's Articles of Association, the business of CIG PZU covers the following:

- activities auxiliary to insurance and pension funding (Polish Classification of Economic Activity, PKD 67.20), activities auxiliary to financial intermediation n.e.c. (investment fund servicing, settlements for life assurance and for pension insurance – PKD 67.13),
- hardware consultancy (PKD 72.10), software consultancy and supply (PKD 72.20), data processing (PKD 72.30) and database activities (PKD 72.40),
- proprietary commercial and service activity, and such activity conducted in cooperation with other undertakings, including:
  - a) wholesaling and retailing of goods, except for goods subject to licensing requirements under regulations on the conduct of business activity;
  - b) export and import of goods subject to licensing requirements under regulations on the conduct of business activity (PKD 51.52).

## **2. Sources of information for the preparation of the consolidated accounts of the PZU Group**

The consolidated accounts of the PZU Group for the year ended December 31, 2004 ("the consolidated accounts") were prepared by the parent undertaking based on data derived from consolidation documentation. The consolidation documentation complies with the Accounting Act and the Insurance Accounting Ordinance.

For consolidation purposes, the financial data taken from the standalone accounts of PZU Tower, PTE PZU and CIG PZU was allocated to the appropriate items of the consolidated accounts.

The format of the consolidated accounts of the PZU Group for the year ended December 31, 2004, as included in this document, and the scope of information disclosed, are in compliance with:

- the Accounting Act;
- the Insurance Accounting Ordinance.

The financial year of the undertakings subject to consolidation is the same as the financial year of the parent undertaking. The financial year covered by the consolidated accounts is the period from January 1, 2004, to December 31, 2004.

All figures presented in the consolidated accounts are in thousand zloty unless stated otherwise.

### **3. Going concern assumption**

The consolidated accounts of the PZU Group are prepared on the assumption that the Group undertakings will operate as a going concern in the foreseeable future, i.e., for at least 12 months from the balance sheet date (December 31, 2004). As at the signing of these consolidated accounts, the Management Board of PZU sees no facts or circumstances that would indicate a threat to the continued activity of PZU over the period of twelve months following the balance sheet date due to any intended or compulsory withdrawal from, or major limitation of, its activities.

#### **3.1 Business combinations**

During the period covered by these consolidated accounts there were no business combinations of PZU and other companies.

4. Schedule of undertakings belonging to the PZU Group and their basic financial data

The following information is presented below:

- a schedule of undertakings belonging to the PZU Group as at December 31, 2004, and their basic financial data for the reporting year ended December 31, 2004;
- a table presenting the percentages of share capital held and of voting rights exercised (directly or indirectly) by PZU in individual undertakings belonging to the PZU Group as at December 31, 2004, and December 31, 2003, and information on the business of those undertakings.

table 2.

Lp.	Name of undertaking	Equity						Liabilities and special purpose funds	of which:		Receivables	of which:		Total assets	Revenues	Financial income	Unpaid allotted share capital	Dividends received or receivable for financial year
		Share capital	Unpaid share capital (negative value)	Capital surplus	Remaini ng equity, including:	Accumulate d profits (losses) from previous years	Net profit (loss) for the period		long term-liabilities	short-term liabilities		long-term	short-term					
	Subsidiaries fully consolidated at December 31, 2004:	738 500	-	2 595 393	666 529	(294 705)	798 467	1 191 100	374 237	475 207	170 830	12 514	158 316	23 016 050	5 789 830	1 983 339	-	-
1	PZU Życie SA /1	295 000	-	2 279 428	968 904	206 280	759 500	753 838	1 565	427 457	156 164	12 221	143 943	22 121 699	5 487 226	1 972 643	-	-
2	PTE PZU SA	32 000	-	288 000	(116 166)	(162 419)	45 610	14 046	-	2 404	6 166	293	5 873	217 879	151 681	8 611	-	-
3	Centrum Informatyki Grupy PZU SA	500	-	27 965	5 549	(776)	6 325	8 216	-	3 898	7 314	-	7 314	42 230	71 197	663	-	-
4	PZU Tower Sp. z o.o.	411 000	-	-	(191 758)	(337 790)	(12 968)	415 000	372 672	41 448	1 186	-	1 186	634 242	79 726	1 422	-	-
	Subsidiaries not consolidated at December 31, 2004:	98 976	-	29 228	(17 865)	(16 293)	(12 238)	84 900	7 592	40 810	52 068	22	20 496	290 784	263 318	6 239	-	-
5	Krakowska Fabryka Armatur SA (KFA) /2	57 000	-	600	(7 789)	(10 494)	2 705	26 712	7 549	16 812	16 151	-	16 151	76 523	101 266	409	-	-
6	SYTA Development Sp. z o.o., under liquidation /2/3	(3 448)	-	-	-	-	-	32 876	-	18 792	3 359	-	3 359	29 428	247	1	-	-
7	TFI PZU SA /2	13 000	-	10 297	3 195	-	197	542	-	355	798	-	798	27 033	7 737	590	-	-
8	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS) /2	192	-	220	-	-	(154)	54	-	54	115	-	115	467	1 272	22	-	-
9	Sigma Investments Sp. z o.o. /2	50	-	27	(3)	-	(3)	-	-	-	-	-	-	75	-	2	-	-
10	PZU Asset Management SA	4 500	-	7 000	(6 474)	(4 762)	(2 212)	156	43	112	47	22	25	5 282	288	68	-	-
11	Grupa Inwestycyjna Centrum Sp. z o.o., under liquidation /2/3	185	-	-	-	-	-	30	-	3	39	-	39	215	(2)	5	-	-
12	CERPO Sp. z o.o., under liquidation /2/3	(4 682)	-	-	-	-	-	4 682	-	4 682	-	-	-	-	-	-	-	-
13	Grupa Multimedialna SA, under liquidation /2/3	(266)	-	-	-	-	-	-	-	-	9	-	9	11	-	318	-	-
14	UAB DK PZU Lietuva (formerly UAB DK Lindra) /2/1	12 404	-	11 084	2 023	-	134	15 118	no data available	no data available	no data available	no data available	no data available	95 443	95 768	2 339	-	-
15	UAB DK PZU Baltija (formerly UAB Nord/LB Draudimas) /2/1	14 766	-	-	(10 353)	(1 480)	(12 831)	4 331	no data available	no data available	8 774	no data available	no data available	43 838	52 970	1 144	-	-
16	UAB PZU Lietuva Gyvybes Draudimas (formerly UAB Nord/LB Gyvybes Draudimas) /2/1	4 725	-	-	1 536	443	(74)	399	no data available	no data available	211	no data available	no data available	12 469	3 772	1 341	-	-
17	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA /2/4	500	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	-	-
18	PZU International Sp. z o.o. /2/4	50	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	no data available	-	-
	Associates not consolidated at December 31, 2004:	99 261	-	8 621	7 380	(36 743)	23 858	248 904	8 187	203 974	78 164	-	12 034	582 035	400 920	18 898	-	643
19	VIS Inwestycje SA (formerly Fabryka Wyrobów Precyzyjnych VIS SA)	42 000	-	397	(25 311)	(22 131)	(3 180)	32 233	-	21 915	8 611	-	8 611	49 319	7 823	38	-	-
20	Polskie Towarzystwo Reasekuracji SA (PTR) /2/1	105 180	-	6 471	8 085	2 474	4 652	19 079	no data available	no data available	66 130	no data available	no data available	356 683	245 772	18 045	-	500
21	PPW Uniprom SA, in bankructpy /2/3/5	(102 256)	-	-	-	-	-	154 332	-	152 607	2 379	-	2 379	52 076	1 687	335	-	-
22	Kolej Gondolowa Jaworzyna Krynicka SA /2	40 627	-	-	(14 844)	(17 086)	2 236	11 316	7 500	3 638	210	-	210	37 099	9 848	222	-	-
23	ICH Center SA	510	-	441	1 016	-	590	715	-	466	685	-	685	2682	3 750	93	-	143
24	Nadwiślańska Agencja Ubezpieczeniowa SA /2	1 200	-	1 312	303	-	303	128	-	127	149	-	149	2 944	1 724	165	-	-
25	Vistula SA /2/6	12 000	-	no data available	38 131	no data available	19 257	31 101	687	25 221	no data available	no data available	no data available	81 232	130 316	no data available	-	-
TOTAL		936 737	-	2 633 242	656 044	(347 741)	810 087	1 524 904	390 016	719 991	301 062	12 536	190 846	23 888 869	6 454 068	2 008 476	-	643

1/ "Revenues" include gross premiums written and other technical net income.

2/ Unaudited data.

3/Due to liquidation or bankruptcy, the whole amount of equity is presented under “Share capital”, in line with Article 36, para. 3, of the Accounting Act.

4/ The company did not prepare accounts at December 31, 2004.

5/ Data as at November 30, 2004, for the period of 11 months then ended.

6/ Consolidated data.

table  
3.

Name of undertaking	Domicile	% of share capital directly or indirectly owned by PZU		% of voting rights directly or indirectly held by PZU		Business
		December 31, 2004	December 31, 2003	December 31, 2004	December 31, 2003	
Subsidiaries fully consolidated at December 31, 2004:						
1 PZU Życie SA	Warsaw	100,00%	100,00%	100,00%	100,00%	Life assurance
2 PTE PZU SA	Warsaw	100,00%	100,00%	100,00%	100,00%	Establishment and management of open-ended pension funds
3 Centrum Informatyki Grupy PZU SA	Warsaw	100,00%	100,00%	100,00%	100,00%	Auxiliary activities relating to insurance and pension fund operations
4 PZU Tower Sp. z o.o.	Warsaw	100,00%	100,00%	100,00%	100,00%	Real property – trading, development, rental and administration
Subsidiaries not consolidated at December 31, 2004:						
5 SYTA Development Sp. z o.o., under liquidation	Warsaw	100,00%	100,00%	100,00%	100,00%	Real property – trading, intermediation and administration
6 TFI PZU SA	Warsaw	100,00%	100,00%	100,00%	100,00%	Establishment, representation and management of investment funds
7 Sigma Investments Sp. z o.o.	Warsaw	100,00%	100,00%	100,00%	100,00%	Investment activities. Purchase and sale of shares in publicly traded companies, bonds and other listed securities
8 PZU Asset Management SA	Warsaw	100,00%	100,00%	100,00%	100,00%	Investment portfolio management to order
9 Grupa Inwestycyjna Centrum Sp. z o.o., under liquidation	Warsaw	100,00%	100,00%	100,00%	100,00%	Financial services and consulting with respect to the performance of rights attaching to shares
10 CERPO Sp. z o.o., under liquidation	Gliwice	100,00%	100,00%	100,00%	100,00%	Data storage and processing related to register of vehicles
11 Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS)	Warsaw	100,00%	79,17%	100,00%	79,17%	Loss adjustment services for insurers
12 UAB DK PZU Baltija (formerly UAB Nord/LB) Draudimas)	Vilnius (Lithuania)	100,00%	0,00%	100,00%	0,00%	Non-life insurance
13 UAB PZU Lietuva Gyvybes Draudimas (formerly UAB Nord/LB Gyvybes Draudimas)	Vilnius (Lithuania)	100,00%	0,00%	100,00%	0,00%	Life assurance
14 Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	Warsaw	100,00%	0,00%	100,00%	0,00%	Establishment and management of Occupational Pension Scheme
15 PZU International Sp. z o.o.	Warsaw	100,00%	0,00%	100,00%	0,00%	Business and management consultancy, corporate group operations and other financial activities
16 UAB DK PZU Lietuva (formerly UAB DK Lindra)	Vilnius (Lithuania)	99,61%	75,28%	99,60%	74,33%	Non-life insurance
17 Grupa Multimedialna SA, under liquidation	Warsaw	99,28%	99,28%	96,75%	96,75%	ICT investment activities
18 Krakowska Fabryka Armatur SA (KFA)	Cracow	90,53%	90,53%	90,53%	90,53%	Manufacture of bathroom and kitchen fittings & fixtures
19 PZU NFI Management Sp. z o.o.	Warsaw	0,00%	100,00%	0,00%	100,00%	Purchases of shares, and financial services and consultancy with respect to the performance of rights attaching to shares
Associates not consolidated at December 31, 2004:						
20 VIS Inwestycje SA (formerly Fabryka Wyrobów Precyzyjnych VIS SA)	Warsaw	45,14%	45,14%	45,14%	45,14%	Manufacture of tools, equipment and spare parts
21 Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	38,23%	38,64%	37,12%	37,22%	Operation of ski-lifts
22 Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	30,00%	30,00%	30,00%	30,00%	Insurance agency
23 ICH Center SA	Warsaw	26,00%	26,00%	26,00%	26,00%	Loss adjustment under Green Card insurance
24 Polskie Towarzystwo Reasekuracji SA (PTR)	Warsaw	23,76%	23,76%	23,76%	23,76%	Organisation and performance of indirect insurance activities (reinsurance)
25 Vistula SA	Cracow	22,19%	17,21%	22,19%	17,21%	Manufacturing of clothing
26 PPW Uniprom SA , in bankruptcy	Warsaw	21,28%	21,28%	21,28%	21,28%	Publishing and printing services; manufacture of paper and cardboard packaging
27 IX NFI im. Kwiatkowskiego SA	Warsaw	0,00%	31,95%	0,00%	31,95%	Financial activities, management of National Investment Funds
28 Laktopol Sp. z o.o.	Warsaw	0,00%	29,89%	0,00%	29,89%	Processing of milk and dairy products
29 IV NFI Progress SA	Warsaw	0,00%	20,27%	0,00%	20,27%	Financial activities, management of National Investment Funds
30 II NFI SA	Warsaw	0,00%	20,13%	0,00%	20,13%	Financial activities, management of National Investment Funds

4.1 Type and impact of changes in the list of undertakings included in the consolidated accounts

In the consolidated accounts for the year 2003, shares in VIS – Inwestycje SA (formerly “Fabryka Wyrobów Precyzyjnych VIS SA”, hereinafter referred to as “VIS”) and in Krakowska Fabryka Armatur SA were presented under the equity method. The presentation method for these undertakings has now changed since the relevant financial information is not material in its impact on the financial data of the parent undertaking. Their shares have been valued at adjusted acquisition cost.



## 5. Principal accounting policies

All of the consolidated undertakings in the PZU Group apply methods of asset and liability valuation conforming to the Accounting Act and the Ordinance of the Minister of Finance of December 12, 2001, on detailed procedures for the recognition of financial instruments, the measurement methods applicable to such instruments, the scope of their disclosure and the manner of their presentation (as published in *Dziennik Ustaw* no. 149/2001, item.1674; hereinafter referred to as "the Financial Instruments Ordinance"), and in the case of PZU and PZU Życie, also conforming to the Insurance Accounting Ordinance. For consolidation purposes, the financial data from the standalone accounts of PZU Tower, PTE PZU and CIG PZU have been allocated to the appropriate items of the insurer's accounts.

### 5.1 Basis of consolidation

The consolidated accounts for the year ended December 31, 2004, embrace four subsidiaries of the parent undertaking which have been consolidated under the full method.

The selection of undertakings subject to full consolidation or shown by the equity method is based on the criterion of materiality, i.e., whether or not the operating result, net result (in absolute terms), and total assets are material in relation to the corresponding values in the consolidated accounts of the PZU Group, without consolidation adjustments.

The criterion of materiality does not apply to undertakings which, on the instructions of an insurance establishment, perform the activities specified in Article 3, paras. 1-6, and Article 5 of the Act on Insurance Activity of May 22, 2003 (as published in *Dziennik Ustaw* no. 124/2001, item 1151; hereinafter referred to as "The Insurance Act of May 22, 2003") and in respect of which the full consolidation method is required under the Insurance Accounting Ordinance.

The consolidated accounts of the PZU Group show the account balances of the parent undertaking and the subsidiaries after elimination of intercompany transactions and recognition of minority interests in the subsidiaries.

To draw up the consolidated accounts, the following consolidation eliminations were introduced to the financial data of the companies consolidated under the full method:

- the book value of the parent undertaking's investments in each subsidiary,
- the share capital of subsidiaries,
- other equity of subsidiaries established before January 1, 1995,
- the intercompany receivables and liabilities of the consolidated undertakings,
- revenues and expenses related to operations performed among the consolidated undertakings,
- unrealised gains or losses (from the perspective of the PZU Group) on operations performed among the consolidated undertakings and included in amounts subject to consolidation,
- dividends paid out to the parent undertaking.

Both this financial year and last, the eliminated earnings, expenses and unrealised profits (from the perspective of the PZU Group) were taken to "accumulated profit (loss)", irrespective of whether such elimination related to loss-making undertakings or to those transferring gains to the capital surplus.

### 5.2 Intangible assets

Intangible assets are recognised where it is probable that in the future they may bring economic benefits attributable thereto, including property rights of potential economic value — in particular, copyrights, licenses and permits — acquired by PZU Group undertakings and counted as fixed assets, the said rights having an estimated useful life of more than one year, and being made available for use by PZU Group undertakings.

Intangible assets are recorded at acquisition cost or production cost, or at a revalued amount less accumulated amortisation and less adjustments for permanent diminution in value.

Intangible assets are amortised using the straight-line method over a predetermined period of their business use, in accordance with the amortisation schedule adopted by PZU Group undertakings in compliance with the Accounting Act and corresponding with the estimated useful lives of those assets.

Computer software, licenses and other property rights are amortised over a period of up to 5 years.

Intangible assets with an initial cost not exceeding 3,500 zloty are expensed in full when brought into use.



### 5.3 Investments

Investments are valued and presented in the consolidated accounts as follows:

#### 5.3.1 Real property investments

The notion of real property investments, which include investments in land, perpetual usufruct, buildings and structures, cooperative freehold rights to a residential unit and cooperative rights to a non-residential unit, investments in constructions and advances therefor, extends to all real properties held by PZU Group undertakings at the balance sheet date.

Land is valued at adjusted acquisition cost less any adjustments for permanent diminution in value. Pursuant to the Accounting Act, land is not depreciated.

Buildings and structures are valued at acquisition cost or cost of production, less accumulated depreciation and any permanent diminution in value.

The perpetual usufruct of land, cooperative freehold rights to a residential unit and cooperative rights to a non-residential unit held as investments are recorded in the books of account at acquisition cost or cost of production, less accumulated depreciation and adjustments for permanent diminution in value.

Investments in constructions and advances for those investments are shown at acquisition cost or cost of production, less adjustments for permanent diminution in value.

Property investments are depreciated over their estimated useful lives.

The PZU Group undertakings apply the following annual depreciation rates:

Perpetual usufruct of land	Prorated for the period over which right of usufruct is held by Group undertakings
Cooperative freehold right to a residential unit and cooperative right to a non-residential unit	2.5%
Buildings and structures	2.5 – 4.5%

table  
4.

Buildings and structures are revalued in accordance with separate regulations using the indices published by the President of the Central Statistical Office (CSO). The last revaluation took place on January 1, 1995.

#### 5.3.2 Investments in affiliated undertakings

Shares in unconsolidated affiliates are valued using the equity method, provided they comply with the materiality criterion defined in the accounting policies of the PZU Group.

Shares in unconsolidated affiliates that are not valued under the equity method are recorded at acquisition cost less adjustments resulting from a permanent diminution of value.

#### 5.3.3 Financial instruments

Upon initial recognition, financial instruments are classified into one of the following categories:

- Financial assets held for trading
- Financial assets held to maturity
- Available-for-sale financial assets
- Loans and receivables originated by the PZU Group
- Term deposits held at credit institutions.

##### 5.3.3.1. Financial assets held for trading

Financial assets held for trading are assets acquired to obtain economic benefits from short-term fluctuations in prices or in other market factors or from the short life of the asset itself, and also derivative instruments, unless under the Financial Instruments Ordinance these are considered hedging instruments.

The debt securities and shares counted as assets held for trading are measured at fair value or, where the fair value cannot be determined in a reliable manner, at acquisition cost less any adjustments for permanent diminution in value.

#### **5.3.3.2. Financial assets held to maturity**

Financial assets held to maturity are financial assets other than loans and receivables originated by the Company, with fixed or determinable payments, e.g., of interest, and fixed maturity, that the Company has the intention and ability to hold until maturity. Financial assets held to maturity include, in particular, debt securities that the Group company has the intention and ability to hold until maturity. At the balance sheet date, financial assets held to maturity are valued at amortised cost, determined in accordance with the provisions of the Financial Instruments Ordinance, less any adjustments for permanent diminution in value.

#### **5.3.3.3. Available-for-sale financial assets**

Available-for-sale financial assets are assets not classified as financial assets held for trading, financial assets held to maturity or loans from, or term deposits at, credit institutions.

Available-for-sale financial assets are measured at fair value or, where the fair value cannot be determined in a reliable manner, at acquisition cost less any adjustments for permanent diminution in value.

#### **5.3.3.4. Loans and receivables originated by the PZU Group**

Loans and receivables originated by the Group are financial assets, irrespective of maturity, resulting from the direct disbursement of cash to a counterparty.

Loans and receivables originated by the Group are stated at the amount due less any adjustments for permanent diminution in value.

#### **5.3.3.5. Term deposits held at credit institutions**

Term deposits held at financial institutions are stated at nominal value. As at the balance sheet date, such deposits expressed in foreign currencies are translated into Polish zloty at the mid-rate announced by the National Bank of Poland and ruling at that date. Term deposits held at credit institutions also include bonds and other debt instruments purchased in exchange for cash disbursed to the counterparty, if it is clear from the transaction contract that the seller has not lost control over the financial instruments issued. Term deposits include, in particular, repurchase agreements concluded with banks.

#### **5.3.3.6. Investments of life assurance fund at policyholders' risk**

"Investments of Life assurance funds where the investment risk is borne by policyholders" include the net assets of investment funds linked with assurance. These net assets comprise the investments of life assurance funds where the investment risk is borne by policyholders, cash, and the receivables and liabilities associated with those investments.

Investments of life assurance funds where the investment risk is borne by policyholders are stated at fair value.

#### **5.3.4 Other investments**

The PZU Group uses forward rate agreements (FRAs) and interest rate swaps (IRSs).

The fair value of derivative financial instruments is determined using the cost-to-close method, i.e., using the closing rate of a given position at the balance sheet date. The fair value of an FRA or IRS at the balance sheet date is compared with its fair value at the previous balance sheet date. The result of this comparison is taken to unrealised gains or unrealised losses, as appropriate. Derivative instruments are recorded under the item "Other investments" on the Asset side of the balance sheet, or under the item "Other liabilities" on the Liabilities and Equity side of the balance sheet.

### 5.3.5 Participation units in investment funds

Participation units in investment funds are recorded at fair value.

### 5.3.6 Investment certificates

Investment certificates quoted on regulated markets are recorded at fair value.

### 5.3.7 Deposits at ceding undertakings

Deposits at ceding undertakings are claims and premium deposits retained by insurers for which PZU provides reinsurance cover. They represent a part of the premium payable to PZU but retained as security for any claims for loss.

Deposits at ceding undertakings are valued at the amount due, determined in compliance with the reinsurance contract and, where the deposit is a financial instrument, also reflecting the valuation of this instrument and any adjustments for permanent diminution in value.

## 5.4 Receivables

As at the balance sheet date, receivables are stated at the amount due, determined using the prudence principle. Their value is adjusted for permanent diminution in value. PZU Group undertakings create provisions for bad or doubtful debts based on an analysis of debtors' financial standing and of receivables ageing, thus evaluating the likelihood of payment.

### 5.4.1 Direct insurance receivables

Direct insurance receivables comprise accounts payable by the insured, arising from premiums paid in instalments and outstanding premiums, receivables due from insurance intermediaries (i.e., insurance brokers and insurance agents), and receivables resulting from recoveries. These receivables are stated at the amount due less any adjustments for permanent diminution in value. Revaluation adjustments of direct insurance receivables are charged to "Other technical expenses".

### 5.4.2 Reinsurance receivables

Reinsurance receivables represent the balances receivable of settlements with ceding undertakings, reinsurers and reinsurance brokers arising from inward and outward reinsurance and retrocession. These receivables refer in particular to the reinsurers' share in any claims and benefits paid by the insurer, reinsurance commission, shares in reinsurers' profits, and premiums or deposits retained. Reinsurance receivables are stated on a net basis, i.e., less any adjustments for permanent diminution in value. Revaluation adjustments of reinsurance receivables are charged to "Other technical expenses".

### 5.4.3 Other non-insurance receivables

Other non-insurance receivables are stated at the amount due, less revaluation adjustments. These adjustments are recorded under other costs of insurance activities.

## 5.5 Property, plant and equipment

Property, plant and equipment comprise tangible fixed assets and their equivalents with expected useful lives of more than one year, completed, ready for use, and made available to PZU Group undertakings.

These tangible fixed assets are stated at acquisition cost, cost of production or revalued amount, less accumulated depreciation and adjustments for permanent diminution in value. Revaluations are governed by separate regulations. The last revaluation took place on January 1, 1995. The result of a revaluation is taken to the revaluation reserve. On asset disposal or liquidation, the amount remaining in the revaluation reserve is transferred to the capital surplus.

Tangible fixed assets are depreciated using the straight-line method over a predetermined period of their business use, in accordance with the PZU Group's depreciation schemes, which comply with the provisions of the Accounting Act. The depreciation periods used by PZU Group undertakings equal the expected useful lives of the given assets.

table  
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## Examples of annual depreciation rates used by PZU Group undertakings:

Plant and machinery	8.5% – 30%
Motor vehicles	17% - 20%
Other tangible fixed assets	5% - 20%

Tangible fixed assets with a low initial cost, i.e., less than 3,500 zloty, are expensed in full when brought into use.

“Property, plant and equipment” also includes construction in progress, which is stated at the amount of aggregate costs directly attributable to the acquisition or production of such assets less any adjustments for permanent diminution in value. Construction in progress is not depreciated until completed and brought into use.

The rates of depreciation taken for tax purposes are those set out in the Corporate Income Tax Act of February 15, 1992, (as published in *Dziennik Ustaw* no. 54/2000, item 654, and subsequently amended; hereinafter referred to as “the Corporate Income Tax Act”). The rates applied to any fixed assets acquired and entered in the books of account prior to January 1, 2000, are those set out in the Ordinance of the Minister of Finance of January 17, 1997, on the depreciation of fixed assets and amortisation of intangibles.

### 5.6 Cash and cash equivalents

Cash and cash equivalents presented in the consolidated accounts are stated at nominal value. As at the balance sheet date, cash and cash equivalents expressed in foreign currencies are translated into Polish zloty at the mid-rate announced by the National Bank of Poland and ruling on that date.

### 5.7 Prepayments and accruals

The PZU Group undertakings account for prepayments and accruals to ensure that expenses and revenues are allocated to the appropriate reporting period. Among the items amortised over future periods are prepaid acquisition costs.

In non-life business, this holds for both direct acquisition costs and indirect costs (intermediaries' commission).

In life and marriage assurance (Groups 1 and 2 in Insurance Section I), the deferral of expense applies to those acquisition costs which are directly or indirectly linked to the sale of insurance policies, and also to commission expenses paid on annualised premium income due on personal assurance contracts and unit-linked assurance.

The PZU Group also recognises accruals and deferrals on income, to ensure that it is allocated to the appropriate accounting period.

Among the items included in accrued income is receivable revenue accrued on term deposits and rental fees.

Deferred income includes deferred reinsurance commission and premiums paid on policies with insurance cover starting after the balance sheet date.

At the level of the PZU Group, the commission paid to sales agents for OFE PZU acquisitions is amortised over a two-year period beginning from the month in which the contract with a member of OFE PZU was signed. Prepaid acquisition costs are presented under the item “Other prepayments and accrued income”. For prepaid acquisition costs related to agreements not expected to generate future income for the PZU Group, a provision is established and shown as at the balance sheet date.

Accrued expenses include costs attributable to the current reporting period but to be incurred in a future period, in particular the costs of outward reinsurance.

### 5.8 Equity

Equity is stated at nominal value by type, pursuant to the applicable legal regulations and the parent undertaking's Articles of Association. The equity items of subsidiaries, except for share capital, have been added to the respective items of the equity of the parent undertaking, in proportion to the latter's ownership interest in the subsidiary.

The revaluation adjustments for available-for-sale financial assets that cause them to be written up above amortised cost (debt securities) or acquisition cost (equity investments) are taken to the revaluation reserve. A decrease in the fair value of a previously revalued investment, where the revaluation gain was not realised until the valuation date, will reduce the revaluation reserve. In all other cases, a decrease in the fair value is recognised as unrealised losses on investments in the General Profit and Loss Account. An increase in the value of an investment for which an impairment loss was previously expensed is recognised as unrealised gains on investments up to the amount of such losses.

#### **5.9 Goodwill on consolidation**

Goodwill on consolidation as at December 31, 2004, relates to PZU Życie and CIG PZU. It was calculated by the parent undertaking on the basis of the net book value of CIG PZU assets at November 30, 2001, and PZU Życie assets at November 12, 2002, proportionally to the Group's equity interest in CIG PZU and PZU Życie, respectively.

Goodwill on consolidation is amortised to the General Profit and Loss Account over a period of 5 years on a straight-line basis, starting from the month following the month in which the goodwill was established.

#### **5.10 Minority interests**

Minority shareholders' equity constitutes that part of the net assets of subsidiaries consolidated under the full method that represents the interests of shareholders from outside the PZU Group.

That part of the result of a subsidiary subject to full consolidation which proportionally corresponds to the interests of shareholders from outside the PZU Group is considered the result (profit or loss) of minority shareholders.

### 5.11 Technical reserves

Technical reserves are established to cover any current and future claims and expenses which may arise under the insurance contracts concluded. They are established in compliance with the prudence principle, as required in Art. 7 of the Accounting Act. The technical reserves shown have been created pursuant to the Articles of Association of PZU Group insurance undertakings, the Insurance Activities Act, the Accounting Act, the Insurance Accounting Ordinance and internal policies concerning technical reserves.

#### 5.11.1 Unearned premium reserve

##### *Non-life insurance*

The unearned premium reserve is created as the amount of premiums written allocated to future reporting periods, in proportion to the insurance cover period for which a premium is written, with the proviso that for insurance contracts with risk unequally spread over the insurance coverage period the reserve is established according to the projected risk in future reporting periods.

The purpose of the unearned premium reserve is to cover risks and risk management expenses in the period from the end of a given reporting period to the expiry date of an insurance policy. It is determined at the end of each reporting period using the individual method, to the nearest day.

For insurance policies that are part of an insurance package and for which the premiums written were not entered in the books of account of individual business units, and consequently the unearned premium reserve was not established under the individual method, the computation of the unearned premium reserve is based on the lump-sum method, whereby the share of that unearned premium reserve in the premium written for the given insurance policy is taken to equal the share of the unearned premium reserve under the individual method in the premium written for the whole insurance package.

Additionally, for insurance policies with an unequal spread of risk over the insurance term, an unearned premium reserve may be created as an amount representing the distribution of that risk over the period of insurance cover.

The reinsurers' share of the unearned premium reserve is calculated in accordance with the terms and conditions of the relevant reinsurance contracts.

**Life assurance**

The unearned premium reserve is created as an amount representing the part of premiums written allocated to future reporting periods, in proportion to the insurance coverage period for which the premium is written.

**5.11.2 Life assurance (mathematical) reserve**

Life assurance (mathematical) reserves are created using actuarial methods, as follows:

- group employee insurance and individually continued insurance – the reserves are based on the prospective actuarial method, under which a life assurance reserve is established separately for each policy, based on certain statistical data regarding the insured,
- unit-linked insurance – the reserves are established collectively as a percentage of the investment fund's value to cover the risk of death, in accordance with the general terms and conditions for such insurance,
- other types of insurance – the reserves are based on the prospective actuarial method, individually for each policy.

For the portfolio of individual assurance policies and annuities taken over from PZU, the life assurance reserve also includes the impact of these policies being revalued by PZU Życie.

**5.11.3 Outstanding claims reserve****Non-life insurance****5.11.3.1. Outstanding claims reserve**

The outstanding claims reserve includes the reserve for claims incurred and reported, the reserve for claims incurred but not reported, the loss adjustment expenses reserve and the annuities reserve.

***Reserve for claims reported and not estimated and for claims estimated but not paid***

The reserve for claims incurred, reported and not estimated, and for claims estimated but not paid (hereinafter referred to as "Reserve I") is created to cover claims that:

- have been reported, but the information available is not sufficient to estimate their amount (unestimated claims),
- have been reported and the information available is sufficient to estimate their amount (estimated claims). A claim is deemed estimated upon assessment by the loss adjuster.

The balance of Reserve I is determined in the following manner:

- For claims not estimated: the reserve balance is determined using average reserve value tables, which are developed and updated centrally for the given undertaking and insurance type. Where no data is provided in the average reserve value tables and sufficient documentation is not available, the balance of the reserve is determined on the basis of the information available, including information on losses of similar type and extent; it is acceptable to create the reserve as the amount of claims reported by the insured, without prejudice to the policies described in point 3.
- For claims estimated: the balance is determined and confirmed by the loss adjuster, without prejudice to the policies described in point 3.
- The reserve balance must take into account the deductible attributable to the insured and the expected increase in the prices of repair materials and services; at the same time, it must not exceed the amount of the sum insured or guaranteed.

***Reserve for losses incurred but not reported***

The reserve for losses incurred but not reported (hereinafter "IBNR" or "Reserve II") is created for losses which have been incurred but not reported by the day the reserve is established.

At the end of each financial year, Reserve II is calculated using triangulation methods such as Bornhuetter-Ferguson, Chain-Ladder or Cape Cod, by type of insurance and year the loss was incurred.

For losses incurred in previous years, the value of Reserve II is derived as the difference between the opening balance of Reserve II in a given year and the value of claims paid for which no Reserve I was included in the opening balance of that given year; it is reduced by the amount of Reserve I for losses reported in the current year.

#### ***Loss adjustment expenses reserve***

The value of the loss adjustment expenses reserve is directly proportional to the outstanding claims reserve. The proportionality coefficient is equal to the quotient of loss adjustment expenses and the value of claims paid. This reserve is broken down by particular years losses are incurred.

#### ***Recourses and recoveries assessment included in technical reserves***

In determining the balance of future payments, PZU makes assessments of future cost recovery due to the assumption of claims against third parties (recourse) and of ownership rights to assets insured (recoveries). The assessed balance of recourses and recoveries includes the costs of their collection.

#### ***Reinsurers' share of technical reserves***

The reinsurers' share of the outstanding claims reserve is derived in accordance with the terms and conditions of the relevant reinsurance contracts.

### **5.11.3.2. Capitalised value of annuities payable from third party liability policies**

The reserve for the capitalised value of annuities ("the annuities reserve") is created for periodic payments (in the form of annuities) which arise from third party liability policies. Its balance is determined at the end of each reporting period.

The reserve is calculated individually for each beneficiary as the present value of the annuity (lifelong or specified term), paid in advance. The technical rate applied is 1.5%. For payments made under a lifelong annuity plan, the term of the plan is determined on the basis of the Polish Mortality Tables for 2003, published by the Central Statistical Office. In determining the balance of the annuities reserve, the cost of handling these annuities is also included, as 4.04% of future payments.

At the end of each reporting period, the annuities reserve balance is increased using statistical methods by an additional amount reflecting the surplus of payments actually made over the value declared in the IT system handling the annuities.

Also at the end of each reporting period, an additional annuities reserve is created for the losses which occurred after December 31, 1990, and were not recorded by the date of the consolidated accounts ("the annuity IBNR reserve").

The annuity IBNR reserve is established separately for specified term and lifelong annuities, as the product of:

- the expected number of annuities,
- the average amount of expected annuity benefit, and
- the average coefficient from an appropriate tariff, weighted by the sums of annual payments for individual age groups (in the case of lifelong annuities) or by periods (in the case of specified term annuities), as at the end of the reporting period.

At the end of each reporting period, an additional reserve is created to cover liabilities arising from an increase in the value of annuities included in the "old portfolio". This additional reserve applies to the annuitants for whom a similar reserve was calculated at the end of 1997 and whose annuity value failed to reach a satisfactory level at the end of the given reporting period. The satisfactory level of annuity is determined as a percentage of the present value of the average salary for the years 1960-1990. In accordance with the regulations in force, the capitalised value of an annuity is calculated for the difference between the satisfactory and actual levels of annuity. The reinsurers' share of the reserve for the capitalised value of annuities is derived in accordance with the terms and conditions of the relevant reinsurance contracts.



## **Life assurance**

### **5.11.3.3. Outstanding claims reserve , including annuities reserve**

The outstanding claims reserve is created to cover claims that:

- have been reported but not paid,
- have been incurred but not reported (IBNR).

The reserve for claims reported but not paid is created for those claims reported yet unsettled by the final day of the reporting period. It is created individually or — for a high volume of claims, where it is not possible to estimate the value of an individual claim — using the average value of individual claims paid in the last quarter before the balance sheet date.

The reserve for claims incurred but not reported by the balance sheet date is created for each type of benefit on a lump-sum basis, as a percentage of the claims and benefits paid during the last twelve months.

The outstanding claims reserve also includes the loss adjustment expenses reserve.

### **5.11.4 Other technical reserves, non-life insurance**

#### **5.11.4.1. Unexpired risk reserve**

The unexpired risk reserve is created as a supplement to the unearned premium reserve, to cover future claims, benefits and expenses arising from insurance contracts that do not expire at the end of a reporting period.

It is created for all groups (types) of insurance policies for which the loss ratio in a financial year exceeds 100%.

The unexpired risk reserve is calculated using a lump-sum method, as the difference between (i) the product of the unearned premium reserve and the loss ratio for a given financial year (the quotient of the liabilities arising from any events that occurred in a given financial year and the premium earned) and (ii) the unearned premium reserve, both relating to the same period of insurance.

The reinsurers' share of the unexpired risk reserve is derived in accordance with the terms and conditions of the relevant reinsurance contracts.

#### **5.11.4.2. Equalisation reserve**

The equalisation reserve is established in non-life insurance as an amount expected to ensure the equalisation of any fluctuations in the loss ratio.

Pursuant to the Insurance Accounting Ordinance, an equalisation reserve is created at the end of each reporting period.

#### **5.11.4.3. Catastrophe and exceptional risks reserve**

The catastrophe and exceptional risks reserve is created using the lump-sum method. Its purpose is to cover any losses incurred as a result of catastrophic, large-scale events, and losses from exceptional risks. As of July 1, 2004, increases to the reserve balance were suspended. Where claims are paid for any losses arising from a catastrophe or exceptional risk events, the reserve is decreased by such payments, net of reinsurance.

### **5.11.5 Other technical reserves, life assurance**

#### **5.11.5.1. Life assurance reserve where the investment risk is borne by the policyholders**

The life assurance reserve where the investment risk is borne by the policyholders is created as the total value of the insured's share of the investment fund involved, measured at fair value at the balance sheet date.

#### **5.11.5.2. Other technical reserves specified in the Articles of Association of PZU Życie**

The other technical reserves specified in the Articles of Association of PZU Życie comprise:

- the reserve for the revaluation of benefits under personal life policies and annuities taken over from PZU (the so-called "old portfolio"),

- the reserve for litigation and benefits related to court rulings changing the amount or manner of providing cash benefits (pursuant to Article 358 § 3 of the Civil Code of April 23, 1964 (as published in *Dziennik Ustaw* no. 16/1964, item 93, and subsequently amended hereinafter referred to as “the Civil Code”).

The above reserves equal the additional benefits expected to be payable as a result of litigation, judging by the information available to PZU Życie on trends in out-of-court settlements and court rulings,

- the reserve for low interest rates relating to income from insurance fund investments, for policies with a guaranteed rate of return (“the low interest rate reserve”)

For personal life assurance, assurance with an increasing sum insured and insurance premium, “Firm” group assurance and annuity assurance, this reserve is created using the actuarial method individually for each insurance policy in an amount corresponding to the difference between:

- the balance of mathematical reserves determined in accordance with appropriate mathematical formulas and using modified technical rates to reflect their potential decrease in the future, and
- the balance of mathematical reserves determined in accordance with the regulations in force concerning the establishment of reserves, using the original technical rate applied in the pricing of these products.

#### **5.11.5.3. Reserve for bonuses and rebates**

This reserve corresponds to the predicted amounts of bonuses representing shares in the profits of the insurance undertaking posted at the balance sheet date, to be awarded after the end of the settlement period.

#### **5.12 Other reserves and special purpose funds**

The item “other reserves” comprises provisions for risks known to PZU Group undertakings and for certain and highly-probable future liabilities, the amount of which can be credibly estimated — notably anniversary bonuses, retirement pay, death benefits, unutilised holiday allowances, provisions for losses from business transactions in progress, guarantees and endorsements extended, and losses from litigation unrelated to insurance contracts.

Deferred tax liability is also included in this item.

The costs of establishing these provisions are included in other costs of insurance activities, other financial expenses or administrative expenses, depending on the type of future liability involved.

The special purpose funds are the Company Social Fund, Bonus Fund, Preventive Fund and other funds. The Bonus Fund and other funds are created from regular amounts transferred by the Company and charged to expenses, from appropriations from net profit (based on Resolutions of the General Meeting of Shareholders), from funds obtained from external sources, and under separate regulations. The Company Social Fund is created in compliance with the relevant regulations on company social funds.

#### **5.13 Liabilities**

Liabilities are stated at the amount payable.

##### **5.13.1 Liabilities resulting from direct insurance, reinsurance and deposit liabilities towards reinsurers**

Liabilities resulting from direct insurance and reinsurance are stated at the amount payable.

Deposit liabilities towards reinsurers are stated at the nominal value of the deposit retained in accordance with the reinsurance contracts in place.

## 5.14 Investment income and expenses

### 5.14.1 Interest income on deposits at credit institutions

Interest income on deposits placed at credit institutions is recognised on an accrual basis, whereby all amounts of interest due to PZU Group for a given reporting period are recorded in the books of account irrespective of the date of actual receipt. If a deposit matures after the balance sheet date, interest accrues proportionally to the period between the placement of the deposit and the balance sheet date, inclusive.

### 5.14.2 Income and expenses on debt securities

The results of the revaluation of debt securities at amortised cost are taken to income on debt securities.

Any difference between the fair value as at the balance sheet date and amortised cost is recognised as follows:

- for debt securities included in the available-for-sale portfolio (not included in the calculation of technical reserves and bonuses/rebates) – under “Revaluation reserve”, as described in point I.5.8,
- for debt securities classified as held for trading (not included in the calculation of technical reserves) – under “Unrealised gains/ losses on investments”.

The income from the sale/redemption of debt securities is recognised under “Gains/losses on disposal of investments”.

Income from investments covering the reserves for capitalised annuities and bonuses/rebates is included in the Non-life insurance revenue account, net of any related costs.

The above rules are not applicable to income on the investments of life assurance funds where the investment risk is borne by the policyholders; in such cases, the income and expenses are shown in the Life Insurance Revenue Account.

### 5.14.3 Income from real property

Income from real property includes rental fees and beneficial lease payments received, and also other fees relating to the management of real property.

Income from real property classed as investments is shown under “Income on investments in real property” in the General Profit and Loss Account (non-life insurance) or in the Revenue Account (life assurance).

### 5.14.4 Income and expenses on equity interests

Income and expenses arising from the revaluation of shares classified as held for trading are recognised under “Unrealised gains/losses on investments” as the difference between the fair value and acquisition cost or, for shares acquired in previous years, as the difference between the fair value and the carrying amount at the end of the previous reporting period.

Income and expenses arising from the revaluation of shares classified as available for sale and of interests in affiliates valued under the equity method are recognised in the revaluation reserve, in accordance with the policies described in point I.5.8.

Income and expenses arising from the disposal of shares are recognised under “Gains/ losses on disposal of investments”.

Investment writedowns during the reporting period due to a permanent diminution in value are included in “Losses on revaluation of investments”, while the income from the reversal of writedowns made in previous reporting periods is included under “Gains on revaluation of investments”.

Income is increased by the dividends received in a given period. Dividend income is recorded gross and stated in the General Profit and Loss Account.

Income from investments covering life assurance reserves is shown in the Life Insurance Revenue Account and then allocated to the technical and general parts. The allocation method is presented in point I.5.14.5.

**5.14.5 Presentation of investment income in life assurance**

PZU Życie presents both realised and unrealised investment gains and losses (excluding income and expenses taken to the revaluation reserve) in the Life Insurance Revenue Account. Income from investments of idle funds is reduced by investment expenses and is transferred from the Life Insurance Revenue Account to the General Profit and Loss Account and shown under the item "Net investment income after adjustment for expenses, transferred from Life Insurance Revenue Account".

## 5.15 Income from sale of insurance services, non-life and life business

### 5.15.1 Non-life insurance

Income from premiums written is recorded by premium maturity. For direct insurance, the premium maturity date is the first day covered by an insurance policy, yet no earlier than the premium payment date where the liability of PZU under the insurance contract is contingent on payment of the premium. This requirement in recording premiums is deemed satisfied if the premium is recognised in the month in which it becomes due and payable. In accordance with the interpretation obtained on December 9, 2002, from the Commission for the Supervision of Insurance and Pension Funds, which was agreed with the Ministry of Finance, premium paid in the period to the last day of the reporting period (inclusive) and relating to policies with insurance coverage from the first day of the next month is recorded under deferred income at the balance sheet date.

The reinsurers' share of the premium written is calculated for those insurance groups which have reinsurance coverage; it corresponds to the amount assignable to reinsurers, as stipulated in reinsurance contracts for the given insurance period.

### 5.15.2 Life assurance

Income from premiums written presented in the Life Insurance Revenue Account is based on the amounts due from insurance contracts in the given reporting period, irrespective of whether these amounts relate to the next period in whole or in part. Gross premiums written are adjusted by movements in the unearned premium reserve during the reporting period and reduced by the premiums due to reinsurers.

## 5.16 Investment income transferred from the General Profit and Loss Account to the Non-life Insurance Revenue Account

PZU presents investment gains (realised and unrealised) and investment losses (excluding income and expenses taken to the revaluation reserve) in the Non-life Insurance Revenue Account. Income from investments covering the capitalised annuities reserve is transferred from the General Profit and Loss Account to the Non-life Insurance Revenue Account and recorded as "Net investment income after adjustment for expenses, transferred to Non-life Insurance Revenue Account".

The value of capitalised annuities from third party liabilities is increased by the amount of income from investments covering this reserve. Since the financial resources of PZU and those of the Insurance Fund are invested jointly, without any segregation of such investments, the amount of investment income allocated from the General Profit and Loss Account to the Non-life Insurance Revenue Account in the reporting period is calculated using the following formula:

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

where

**$D_k$**  - amount of investment income allocated to annuities reserve at end of month  $k$ ,

**$RSWR_{i-1}$**  - balance of annuities reserve net of reinsurance at end of month preceding month  $i$ ,

**$r_i$**  - yield for month  $i$  on Treasury bonds held by PZU SA until maturity, taking account of associated investment expenses.

## 5.17 Cost of claims paid

### 5.17.1 Non-life insurance

Direct insurance claims and benefits are entered at the date of payment, irrespective of when the claim is incurred and reported. The value of claims and benefits presented in the Non-life Insurance Revenue Account represents total payments and charges made and incurred in respect of losses which occurred in the current and previous reporting periods; it includes all costs of loss adjustment and recourse collection activities, reduced by any returns, recourses and recoveries.

The reinsurers' share of claims and benefits paid is calculated for the groups of insurance with reinsurance coverage; it corresponds to the amount assignable to reinsurers, as stipulated in the reinsurance contracts for the given insurance period.

### 5.17.2 Life assurance

Claims and benefits paid comprise all payments and charges (set off against receivables) as incurred in the reporting period with regard to claims and benefits relating to losses and accidents that occurred in the reporting period and in prior periods (including annuities and redemptions), together with all direct and indirect claims loss adjustment expenses (internal and external). Loss adjustment expenses also include the cost of dispute proceedings.

Claims and benefits are recognised at the amounts paid after deduction of recoveries and refunds (except for outward reinsurance refunds), adjusted by movements in the unpaid claims reserve at the end and beginning of the reporting period, net of the reinsurers' share of claims and benefits paid and of reserves.

Loss adjustment expenses comprise direct and indirect costs relating to activity aimed at examining and closing claims reported or which support such activity.

## 5.18 Costs of insurance activities

### 5.18.1 Non-life insurance

Acquisition costs comprise expenses relating to the conclusion and renewal of insurance contracts. Direct acquisition costs include agents' commission, employee payroll expenses (related to acquisition), the costs of certification and expert reports, and the cost of research relating to the risk insured. Indirect acquisition costs include the cost of advertising and promoting insurance products, and general expense relating to the examination of insurance applications and issuance of insurance policies.

In order to match revenues (premiums written) with PZU acquisition costs, the following operations are performed with regard to the latter: the outstanding commission payable for the reporting period is charged to acquisition costs; the outstanding commission entered in the previous reporting periods is accounted for; and the acquisition costs attributable to future reporting periods which have been incurred and recorded are deferred.

Administrative expenses comprise costs of insurance activities not classified as acquisition costs, claims/benefits or investment expenses, where these relate to premium collection, insurance and reinsurance portfolio administration, and general overheads.

Costs of insurance activities are adjusted for the value of reinsurance commission and rights to a share in reinsurers' and retrocessionaires' profit, received from insurance brokers and reinsurers as part of outward reinsurance or retrocession. The value of reinsurance commission received or receivable is adjusted by the amount of deferred reinsurance commission in the proportion to which it relates to future reporting periods.

### 5.18.2 Life assurance

Acquisition costs comprise direct and indirect costs relating to the conclusion of insurance contracts and involving activities which seek to:

- conclude new insurance contracts and add them to the insurance portfolio, which results in the writing of additional premiums, and
- change or renew insurance contracts and incorporate these changes into the insurance portfolio, which results in the writing of additional premiums.

In particular, PZU Życie recognises as acquisition costs all the costs of services rendered by third parties who handle group employee assurance.

Administrative expenses comprise costs of insurance activities not classified as acquisition costs, claims/benefits or investment expenses, where these relate to premium collection, insurance and reinsurance portfolio administration, and general overheads.

Commission costs are recognised in the period in which the corresponding premium becomes due and payable. Acquisition costs are adjusted by movements in deferred acquisition costs.

#### 5.19 Costs related to the maintenance of real property owned by the PZU Group for in-house use

Costs related to the maintenance of real property held for the own use of PZU Group undertakings are presented in the consolidated Non-life Insurance Revenue Account and in the consolidated Life Insurance Revenue Account.

The maintenance costs of the Tower building — including the operating costs of PZU Tower, and in particular the depreciation of the building, external services, and materials and energy — are presented in the consolidated Non-life Insurance Revenue Account, in the consolidated Life Insurance Revenue Account, and in the consolidated General Profit and Loss Account, in proportion to the office space used by the given member of the PZU Group.

#### 5.20 Marketing and advertising costs

Marketing and advertising costs are expensed when incurred.

#### 5.21 Recognition of income and expenses relating to the activities of the pension fund management company

The expenses incurred in relation to the acquisition of members for OFE PZU are amortised over two years from the month in which the contract was signed, and are presented under the item “Other costs of insurance activities” in the consolidated General Profit and Loss Account of the PZU Group. Deferred costs are presented in the consolidated balance sheet of the PZU Group under the item “Other prepayments and accrued income”. All other expenses and income related to the activity of PTE PZU are presented in the consolidated General Profit and Loss Account under the item “Other costs of insurance activities” or “Other operating income”.

##### 5.21.1 OFE PZU management fee

PTE PZU receives a management fee from OFE PZU, this being no higher than 0.05% of the net assets under management in a particular month, pursuant to Appendix 3 to the Articles of Association of OFE PZU. Until March 31, 2004, PTE PZU charged monthly fees at 0.05% of the net assets under management. On August 27, 2003, amendments to the Pension Funds Act (as published in *Dziennik Ustaw* no. 170/2003, item 1651; hereinafter referred to as “the Amendments to the Pension Funds Act”) introduced a linkage between the management fee and the value of net assets under management. As of April 1, 2004, PTE PZU has been receiving management fees from OFE PZU in line with the following schedule:

table  
6.

Value of net assets (million zloty)		Monthly management fee
From	To	
	8,000	0.045% of net assets, monthly
8,000	20,000	3.6 million zloty + 0.04% in excess of 8,000 million zloty of net assets, monthly
20,000	35,000	8.4 million zloty + 0.032% in excess of 20,000 million zloty of net assets, monthly
35,000	65,000	13.2 million zloty + 0.023% in excess of 35,000 million zloty of net assets, monthly
65,000		20.1 million zloty + 0.015% in excess of 65,000 million zloty of net assets, monthly

### 5.21.2 Monthly handling fees

PTE PZU charges monthly handling fees on contributions transferred from the Social Security Fund ("ZUS") to OFE PZU, at a level specified in the Company's Articles of Association.

Until March 31, 2004, PTE PZU charged a fee equivalent to 9% of monthly contributions made by OFE PZU members during the first two years of membership and 7% for the period from the beginning of the 3rd year to the 15th year of membership, starting from the enrolment date.

Pursuant to the Amendments to the Pension Funds Act, as of April 1, 2004, PTE PZU charges a fee equivalent to 7% on member contributions made by the end of 2010, 6.125% on contributions made in 2011, 5.25% on contributions made in 2012, 4.375% on contributions made in 2013 and 3.5% on those made after the year 2013.

The handling fee is recognised as income for PTE PZU in the month in which the corresponding contribution is transferred to OFE PZU.

### 5.21.3 Transfer-out fees in PTE PZU

Fees charged to members for their resignation from participation in the fund are collected in accordance with the Articles of Association of OFE PZU and recognised in the periods indicated for the settlement of transfer-out fees.

### 5.21.4 Payments to the Commission for the Supervision of Insurance and Pension Funds and to the Insurance Ombudsman

Pursuant to the Ordinance of the Minister of Finance of December 23, 2003, on fees to meet the cost of supervision in respect of insurance activities, insurance brokerage, pension funds and occupational pension schemes, and the Ordinance of the Minister of Finance of December 17, 2003, on fees to meet the costs of the Insurance Ombudsman, PTE PZU booked the following expenses in the reporting period:

- a fee for the supervision of pension funds equivalent to 0.1064% of the total contributions made to the Pension Fund in 2004 (0.12% of total contributions in 2003),
- a fee to the Office of the Insurance Ombudsman equivalent to 0.0066% of the total contributions made to the Pension Fund in 2004 (the same as in 2003).

### 5.21.5 Payments to the primary part of the Pension Guarantee Fund (payments to the Pension Guarantee Fund until April 7, 2004)

PTE PZU is required to make payments to the primary part of the Pension Guarantee Fund representing 0.1% of the net assets of OFE PZU. Payments due are calculated taking into account all earlier payments, increased by the income from investing those payments, less a fee owed to the National Securities Depository for administering the primary part of the Guarantee Fund.

The resources in the primary part of the Pension Guarantee Fund are used to make payments to an open-ended pension fund when it runs up a shortfall (and when the Guarantee Fund's additional part proves insufficient to cover such a shortfall) and are also used to cover payments for claims for which the management company of the fund does not bear responsibility.

### 5.21.6 Payments to the additional part of the Pension Guarantee Fund

Pursuant to the Amendments to the Pension Funds Act, PTE PZU is required to make payments to an account at the additional part of the Pension Guarantee Fund, which is treated as part of the assets of OFE PZU. The balance on this account at the additional part of the Guarantee Fund should be equivalent to between 0.3% and 0.4% of the net assets of OFE PZU. Payments to the additional part of the Guarantee Fund are expensed in full.

The balance in the additional part of the Guarantee Fund are used to cover a shortfall at an open-ended pension fund when the fund's reserve account proves insufficient to cover such a shortfall. A shortfall at an open-ended pension fund occurs when the fund's 36-month rate of return falls below the required minimum rate of return.

### 5.21.7 Payments to the reserve account

PTE PZU is required to make payments to the reserve account of OFE PZU. The balance on the reserve account should equal 1.5% of all contributions accumulated on members' accounts at OFE PZU.

PTE PZU has adopted a policy of expensing reserve fund contributions upon entry of the contribution payable in its books. The Amendments to the Pension Funds Act referred to above took effect on October 1, 2003.



Pursuant to those amendments, on April 7, 2004, PTE PZU withdrew the funds from the “old” reserve account at OFE PZU, except for a portion (4% of the net assets of OFE PZU) that was transferred to the newly-established additional part of the Guarantee Fund. As this income was certain, it had already been booked in 2003. In the consolidated accounts of the PZU Group for the year ended December 31, 2003, PZU showed its revenues at the level that would have been obtained by PTE PZU from OFE PZU if the transfer had taken place on December 31, 2003, and presented the amount in question in the General Profit and Loss Account under “Other operating income”.

#### **5.21.8 Payments to the premium account/ new reserve account**

Pursuant to the Amended Pension Funds Act, as of April 1, 2004, OFE PZU transfers to PTE PZU a portion of its assets equivalent to 0.005% of the net assets under the management of PTE PZU. PTE PZU deposits this amount in a premium account at OFE PZU. On the day the supervisory authority announces the weighted average rate of return for all open-ended pension funds:

- the company managing the fund with the highest rate of return is entitled to withdraw the entire amount collected on the premium account,
- the company managing the fund with the lowest rate of return is required to transfer immediately the entire balance of the premium account to the pension fund concerned,
- the companies managing the remaining funds are entitled to perform a partial withdrawal of the balance on the premium account, this withdrawal being equivalent to the balance on that account multiplied by a percentage premium coefficient, while the remaining amount is immediately transferred to the pension fund.

The premium coefficient is calculated as a ratio where the numerator equals the difference between the rates of return at the given fund and the worst-performing fund, and the denominator equals the difference between the highest and lowest rates of return. If PTE PZU becomes entitled to funds from the premium account, these are immediately transferred to a new reserve account. The reserve account constitutes part of the fund's assets and influences the value of “settlement” units. PTE PZU may withdraw these funds on the last business day of either April or October, provided the rate of return of the fund under its management for the 72 months preceding the last business day of the previous month is not lower than the consumer price index for the past 72 months, March-on-March or September-on-September, respectively.

The funds withdrawable from the premium account constitute a financial asset of PTE PZU, whose value can be measured reliably. The likelihood of realising this asset is very high, depending on the rate of return of OFE PZU (as compared to other funds) and the inflation rate over the preceding 72 months. This asset is revalued monthly, in relation to the value of the settlement unit at the end of each settlement period.

#### **5.21.9 Depository charges**

PTE PZU is required to make payments to the National Securities Depository in refund of expenses incurred in connection with the processing of transfers-out.

This transfer amounts to 1% of the lowest wage, as defined by regulation, for all transfers-out.

#### **5.21.10 ZUS charges**

PTE PZU is required to pay a fee to the ZUS Social Insurance Board to cover the cost of collecting and enforcing contribution payments, this representing 0.8% of all contributions transferred from ZUS.

PTE PZU is also required to pay a fee to ZUS to cover the costs involved in the servicing of member transfers to other open-ended pension funds, which involves registering declarations of transfer to another pension fund. The fee is equivalent to 1% of the lowest wage, as defined by the Minister of Labour and Welfare Policy pursuant to Art. 774, subpara. 1, of the Labour Code.

### 5.22 Foreign currency transactions

As at the balance sheet date, assets and liabilities expressed in foreign currencies are translated into zloty at the mid-rate announced by the National Bank of Poland and ruling at that date.

Where transactions involving the purchase or sale of foreign exchange, or the collection of receivables or discharge of liabilities, are denominated in foreign currencies, they are recorded in the books of account at the buying or selling rate of the bank used by PZU Group undertakings.

For all other operations, PZU Group undertakings apply the NBP mid-rate for a given currency ruling at the transaction date, unless a different rate is stipulated in a customs declaration or other binding document.

### 5.23 Taxation

Current tax liabilities are calculated in compliance with Polish tax regulations.

The corporate income tax stated in the General Profit and Loss Account consists of current tax liability and deferred tax.

#### **Current tax liability**

As of 2003, PZU and PZU Życie have followed simplified procedures for the payment of corporate income tax advances, as provided for under Art. 25 para. 7, sub-para. 1, pursuant to Art. 25, para. 6, of the Corporate Income Tax Act. The procedures in effect since January 1, 2003, set monthly lump-sum advance payments of corporate income tax at 1/12 of the tax payable stated in the tax return for the previous year. PZU and PZU Życie are required to pay these advances promptly, but are not required to submit tax returns on a monthly basis. Despite the use of this simplified method, in order to ensure the matching of income and expenses and data comparability, the consolidated accounts of PZU and PZU Życie identify a liability towards the Tax Office and a charge against pre-tax profit, in compliance with the general rules for the computation of corporate income tax.

#### **Deferred tax**

Due to interim differences between the carrying amount of assets and liabilities and their tax value, and given the possible future deductibility of tax losses, PZU Group companies create provisions and recognise deferred income tax assets.

The tax value of an asset is the amount deductible for income tax purposes against any taxable direct and indirect economic benefits attributable to that asset. Where such economic benefits are not tax-deductible, the tax value of the asset equals its carrying amount. The tax value of a liability is its carrying amount, less any amount deductible for tax purposes in respect of that liability in future periods. Deferred tax assets are recognised at PZU Group companies at the expected level of future amounts deductible from income tax due to negative interim differences that will in the future cause a reduction of taxable income, and also at the level of deductible tax losses identified on a prudent basis.

The provision for deferred income tax is established at a level corresponding to the expected income tax payable in the future due to the emergence of positive interim differences that will cause an increase in future taxable income.

The deferred tax provision and assets are measured using the tax rates in force in the year in which the tax liability occurred.

The deferred tax provision and assets relating to operations involving equity are taken to equity.

### 5.24 Holiday pay expense

The staff of PZU Group undertakings are entitled to holiday leave in accordance with the Polish Labour Code (as published in *Dziennik Ustaw*, no. 21/1998, item 94, and subsequently amended; hereinafter referred to as "the Labour Code"). The PZU Group companies recognise holiday pay expense on an accrual basis, using the liabilities method. The liability arising from any unused holidays is calculated as the difference between the holidays actually taken and a hypothetical pattern where holidays are taken proportionately to the passage of time in the period for which staff have a holiday entitlement.

### 5.25 Retirement and anniversary benefits

In line with the Group's staff compensation policy, employees are entitled to anniversary bonuses after a specified number of years in service and to retirement pay at retirement. The amounts of these entitlements are linked to length of service and average monthly salary. The expense of anniversary bonuses and retirement pay is recognised on an accrual basis. The associated liability and expenses are calculated using the projected unit credit method, which is an actuarial method whereby each period of service gives rise to an additional unit of benefit entitlement until the final entitlement is built up. The value of an anniversary bonus or of retirement pay is taken to be the present value of the estimated future cash flows involved.

### 5.26 Provision for posthumous and post-employment benefits

PZU and PZU Życie establish provisions for posthumous and post-employment benefits equal to the present value of future liabilities resulting from annual transfers to the Company Social Fund. Past and present employees of PZU and PZU Życie are entitled to receive these benefits under the Labour Code and the Company Social Funds Act of 4 March 1994 (as published in *Dziennik Ustaw*, no. 43/1994, item 163, and subsequently amended; hereinafter referred to as "the Company Social Funds Act").

List of changes in the financial data for the year ended on, and as at, December 31, 2003 (differences between the present consolidated accounts and the consolidated accounts for 2003)

table  
7.

CONSOLIDATED BALANCE SHEET	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
<b>ASSETS</b>				
A. Intangible assets, including:	74 722	-		74 722
- goodwill	-	-		-
B. Goodwill on consolidation	5 475	-		5 475
C. Investments	30 214 580	1 025 020		31 239 600
I. Real property	246 298	925 324	6.2	1 171 622
II. Investments in affiliates	218 977	7 135	7.4	226 112
III. Other financial investments	29 744 749	92 476		29 837 225
	(234)	7.4		
	14 798	6.9		
	78 832	6.7		
	(920)	6.6		
IV. Deposits at ceding undertakings	4 556	85	6.9	4 641
D. Investments of life assurance funds where the investment risk is borne by policyholders	1 392 603	(792)	7.5	1 391 811
E. Receivables	1 184 157	(33 521)		1 150 636
I. Receivables from direct insurance	950 171	(21 408)		928 763
1. Receivables from policyholders	916 633	-		916 633
2. Receivables from insurance intermediaries (agents)	11 424	186	6.9	11 610
3. Other receivables	22 114	(21 594)		520
		(22 114)	6.3	
		520	7.1	
II. Receivables from reinsurance	84 141	1 119		85 260
2.1. from affiliates	2 983	-		2 983
2.2. from other undertakings	81 158	1 119	6.9	82 277
III. Other receivables, including	149 845	(13 232)		136 613
1. Receivables from government	1 592	-		1 592

table  
7.

CONSOLIDATED BALANCE SHEET		Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
2. Other receivables		148 253	(13 232)		135 021
2.1. from affiliates		18 528	(14)		18 514
			(14)	7.1	
2.2. from other undertakings		129 725	(13 218)		116 507
		(12 714)	6.8		
			2	6.9	
			(506)	7.1	
F. Other assets		1 482 877	(927 209)		555 668
I. Property, plant and equipment		1 169 010	(926 963)	6.2	242 047
II. Cash and cash equivalents		242 309	(246)	7.5	242 063
III. Other		71 558	-		71 558
G. Prepayments and accrued income		515 383	448		515 831
I. Deferred tax assets		74 172	448	6.8	74 620
II. Deferred acquisition costs		410 685	-		410 685
III. Accrued interest and rentals		387	-		387
IV. Other prepayments and accrued income		30 139	-		30 139
<b>TOTAL ASSETS</b>		<b>34 869 797</b>	<b>63 946</b>		<b>34 933 743</b>

table  
8.

CONSOLIDATED BALANCE SHEET	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
<b>LIABILITIES AND EQUITY</b>				
A. Equity	6 041 103	413 796		6 454 899
I. Share capital	86 352	-		86 352
II. Unpaid allotted share capital (negative value)	-	-		-
III. Own shares (negative value)	-	-		-
IV. Capital surplus	4 546 849	-		4 546 849
V. Revaluation reserve	163 510	4 923		168 433
		(29)	7.4	
		4 952	6.1	
VI. Other reserves	-	-		-
VII. Foreign exchange differences on valuation of affiliates	-	-		-
1. Positive foreign exchange differences	-	-		-
2. Negative foreign exchange differences (negative value)	-	-		-
VIII. Prior-year undistributed profit/unabsorbed loss	(267 354)	563 062		295 708
		(797)	6.2	
		1 950	7.4	
		56 399	6.3	
		(31 428)	6.3	
		(21 028)	6.8	
		10 213	6.9	
		35 280	6.7	
		55	6.6	
		512 418	12	
IX. Net profit/(loss)	1 511 746	(154 189)		1 357 557
X. Deductions from net profit (loss) for the financial year (negative value)	-	-		-
B. Negative goodwill of affiliates	-	-		-
C. Minority capital	-	-		-
D. Subordinated debt	-	-		-
E. Technical reserves	28 023 579	(535 314)		27 488 265
		(40 525)	6.3	
		(11 392)	6.9	
		(483 397)	12	

table  
8.

CONSOLIDATED BALANCE SHEET	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
F. Reinsurers' share of technical reserves (negative value)	1 697 908	(9 789)		1 688 119
		(522)	6.3	
		(9 267)	6.9	
G. Other provisions	732 674	(90 117)		642 557
I. Provision for retirement pay and similar obligations	303 682	-		303 682
II. Deferred tax liability	223 416	(4 781)		218 635
		96	7.4	
		(20 607)	6.3	
		(2 415)	6.8	
		3 342	6.9	
		14 978	6.7	
		(175)	6.6	
III. Other provisions	205 576	(85 336)	7.3	120 240
H. Liabilities on reinsurance deposits	54	-		54
I. Other liabilities and special funds	1 104 389	258 508		1 362 897
I. Direct insurance liabilities	214 565	(709)		213 856
1. Liabilities to insurers	119 477	-		119 477
2. Liabilities to insurance intermediaries (agents)	93 583	(709)	6.9	92 874
3. Other liabilities	1 505	-		1 505
II. Reinsurance liabilities	105 625	(687)		104 938
2.1. to affiliates	3 840	-		3 840
2.2. to other undertakings	101 785	(687)	6.9	101 098
III. Liabilities on the issuance of debt securities and loans taken out	-	-		-
IV. Liabilities to financial institutions	-	-		-
V. Other liabilities, including	694 985	174 568		869 553
1. Liabilities to government	378 189	177 395	12	555 584
2. Other liabilities	316 796	(2 827)		313 969
2.1. to affiliates	19 673	-		19 673

table  
8.

CONSOLIDATED BALANCE SHEET	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
2.2. to other undertakings	297 123	(2 827)		294 296
		(1 789)	6.8	
		(1 038)	7.5	
VI. Special funds	89 214	85 336	7.3	174 550
J. Accruals and deferred income	665 906	7 284		673 190
I. Accrued expenses	450 180	7 284	6.3	457 464
II. Negative goodwill	-	-		-
III. Deferred income	215 726	-		215 726
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>34 869 797</b>	<b>63 946</b>		<b>34 933 743</b>



table  
9.

<b>NON-LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT</b>	<b>Balance as at 31.12.2003 (before adjustments)</b>	<b>Adjustments</b>	<b>Note</b>	<b>Balance as at 01.01.2004 (after adjustments)</b>
I. Premiums ( 1-2-3+4 )	6 660 346	(3)		6 660 343
1. Gross premiums written	7 219 144	-		7 219 144
2. Reinsurers' share of gross premiums written	532 240	-		532 240
3. Movements in unearned premium reserve and unexpired risk reserve, gross	4 279	11	6.9	4 290
4. Reinsurers' share of movements in unearned premium reserve	(22 279)	8	6.9	(22 271)
II. Investment income, net of costs, transferred from General Profit and Loss Account	191 473	-		191 473
III. Other technical income, net	63 945	-		63 945
IV. Claims and benefits (1+2)	4 556 556	2 099		4 558 655
1. Claims and benefits paid, net of reinsurers' share	4 027 585	11 388		4 038 973
1.1. Claims and benefits paid, gross	4 329 298	5 516	6.3	4 334 814
1.2. Reinsurers' share of claims and benefits paid	301 713	(5 872)	6.3	295 841
2. Movements in outstanding claims reserve, net of reinsurers' share	528 971	(9 289)		519 682
2.1. Movements in outstanding claims reserve, gross	350 799	(9 439)		341 360
		(5 349)	6.3	
		(4 090)	6.9	
2.2. Reinsurers' share of movements in outstanding claims reserve	(178 172)	(150)		(178 322)
		3 051	6.3	
		(3 201)	6.9	
V. Movements in other technical reserves, net of reinsurers' share	196 009	-		196 009
1. Movements in other technical reserves, gross	196 009	-		196 009
2. Reinsurers' share of movements in other technical reserves	-	-		-
VI. Bonuses and rebates for the insured, net of reinsurers' share, including movements in reserve for bonuses and rebates	393	-		393
VII. Costs of insurance activities	1 641 497	-		1 641 497
1. Acquisition costs	816 627	(9 282)	6.5	807 345
2. Administrative expenses	911 727	9 282	6.5	921 009
3. Reinsurance commissions and share in reinsurers' profits	86 857	-		86 857

table  
9.

<b>NON-LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT</b>	<b>Balance as at 31.12.2003 (before adjustments)</b>	<b>Adjustments</b>	<b>Note</b>	<b>Balance as at 01.01.2004 (after adjustments)</b>
VIII. Other technical expenses, net	228 713	(13 364)		215 349
		(14 830)	6.3	
		1 466	6.9	
IX. Movements in equalisation reserve	8 914	-		8 914
X. Non-life insurance underwriting result, of which:	283 682	11 262		294 944
- non-life insurance underwriting result of affiliates	-	-		-

table  
10.

<b>LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT</b>	<b>Balance as at 31.12.2003 (before adjustments)</b>	<b>Adjustments</b>	<b>Note</b>	<b>Balance as at 01.01.2004 (after adjustments)</b>
I. Premiums (1-2-3+4)	5 114 353	-		5 114 353
1. Gross premiums written	5 127 404	-		5 127 404
2. Reinsurers' share of gross premium written	7 829	-		7 829
3. Movements in unearned premium reserve and unexpired risk reserve, gross	5 222	-		5 222
4. Reinsurers' share of movements in unearned premium reserve	-	-		-
II. Investment income	749 121	417 126		1 166 247
1. Income on investments in real property	1 340	-		1 340
2. Income on investments in affiliates	3 196	-		3 196
2.1. shares	3 196	-		3 196
2.2. loans and debt securities	-	-		-
2.3. other investments	-	-		-
3. Income on other financial investments	564 104	411 672		975 776
3.1. Shares and other variable-income securities, participation units and investment certificates in investment funds	9 404	-		9 404
3.2. Debt securities and other fixed-income securities	540 096	411 672	6.4	951 768
3.3. Term deposits at credit institutions	14 566	-		14 566
3.4. Other investments	38	-		38
4. Gains on revaluation of investments	25 390	5 454	7.4	30 844
5. Gains on realisation of investments	155 091	-		155 091
III. Unrealised gains on investments	876 122	(468 146)		407 976
		(9 876)	7.4	
		(487 778)	6.4	
		30 503	6.7	
		(995)	6.6	
IV. Other technical income, net of reinsurers' share	8 450	-		8 450
V. Claims and benefits (1+/-2)	3 239 740	951		3 240 691
1. Claims and benefits paid, net of reinsurers' share	3 176 960	951		3 177 911
1.1. Claims and benefits paid, gross	3 178 970	951	7.7	3 179 921
1.2. Reinsurers' share in claims and benefits paid	2 010	-		2 010

table  
10.

LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
2. Movements in outstanding claims reserve, net of reinsurers' share	62 780	-		62 780
2.1. Movements in outstanding claims reserve, gross	62 780	-		62 780
2.2. Reinsurers' share of movements in outstanding claims reserve	-	-		-
VI. Movements in other technical reserves, net of reinsurers' share	1 598 453	247 738		1 846 191
1. Movements in other non-life technical reserves, net of reinsurers' share, including:	1 221 480	247 738		1 469 218
1.1. Gross reserves	1 221 482	247 738	12	1 469 220
1.2. Reinsurers' share	2	-		2
2. Movements in life assurance reserves, net of reinsurers' share, where the investment risk is borne by policyholders	176 377	-		176 377
2.1. Gross reserves	176 377	-		176 377
2.2. Reinsurers' share	-	-		-
3. Movements in other reserves specified in Articles, net of reinsurers' share	200 596	-		200 596
3.1. Gross reserves	200 596	-		200 596
3.2. Reinsurers' share	-	-		-
VII. Bonuses and rebates for the insured, net of reinsurers' share, including movements in reserve for bonuses and rebates	2 807	-		2 807
VIII. Costs of insurance activities	825 368	(683)		824 685
1. Acquisition costs	466 938	3 142		470 080
		392	6.2	
		2 750	7.7	
2. Administrative expenses	363 004	(3 825)	7.7	359 179
3. Reinsurance commission and share in reinsurers' profits	4 574	-		4 574
IX. Investment expenses	50 666	26 596		77 262
1. Maintenance cost of property investments	1 017	-		1 017
2. Other investment expenses	12 002	(1 278)		10 724
		(1 402)	7.4	
		124	7.7	
3. Losses on revaluation of investments	26 640	27 874		54 514
		1 160	7.4	
		26 714	6.2	

table  
10.

<b>LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT</b>	<b>Balance as at 31.12.2003 (before adjustments)</b>	<b>Adjustments</b>	<b>Note</b>	<b>Balance as at 01.01.2004 (after adjustments)</b>
4. Losses on realisation of investments	11 007	-		11 007
X. Unrealised losses on investments	171 906	(83 295)		88 611
		(7 285)	7.4	
		96	6.9	
		(76 106)	6.4	
XI. Other technical costs, net of reinsurers' share	45 536	-		45 536
XII. Investment income transferred to General Profit and Loss Account	142 269	(34 215)		108 054
		51	7.4	
		(34 266)	7.6	
XIII. Non-life insurance underwriting result	671 301	(208 112)		463 189

table  
11.

CONSOLIDATED GENERAL PROFIT AND LOSS ACCOUNT	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
I. Non-life and life insurance underwriting result	954 983	(196 850)		758 133
II. Investment income	1 022 387	225 813		1 248 200
1. Income on investments in real property	11 902	-		11 902
2. Income on investments in affiliates	3 302	-		3 302
2.1. shares	3 300	-		3 300
2.2. loans and debt securities	-	-		-
2.3. other investments	2	-		2
3. Income on other financial investments	268 340	395 023		663 363
3.1. Shares and other variable-income securities, participation units and investment certificates in investment funds	17 316	-		17 316
3.2. Debt securities and other fixed-income securities	237 907	315 086		552 993
		317 366	6.4	
		(2 280)	7.2	
3.3. Term deposits at credit institutions	13 117	79 937	7.2	93 054
3.4. Other investments	-	-		-
4. Gains on revaluation of investments	6 020	5 294		11 314
		5 294	6.2	
		-	7.4	
5. Gains on realisation of investments	732 823	(174 504)	7.2	558 319
III. Unrealised gains on investments	569 006	(336 080)		232 926
		(8 789)	7.4	
		7 788	6.9	
		(328 966)	6.4	
		(6 113)	6.1	
IV. Investment income transferred from Life Insurance Revenue Account	142 269	(34 215)		108 054
V. Investment expenses	164 985	(71 390)		93 595
1. Maintenance cost of property investments	8 482	6 426	6.2	14 908
2. Other investment expenses	8 095	-		8 095
3. Losses on revaluation of investments	3 832	19 031	6.2	22 863
4. Losses on realisation of investments	144 576	(96 847)	7.2	47 729

table  
11.

CONSOLIDATED GENERAL PROFIT AND LOSS ACCOUNT	Balance as at 31.12.2003 (before adjustments)	Adjustments	Note	Balance as at 01.01.2004 (after adjustments)
VI. Unrealised losses on investments	164 922	(19 455)		145 467
		(8 790)	7.4	
		935	6.9	
		(11 600)	6.4	
VII. Investment income transferred from Non-life Insurance Revenue Account	191 473	-		191 473
VIII. Other operating income	273 714	(4 168)	6.8	269 546
IX. Other costs of insurance activities	372 151	(47 023)		325 128
		(46 427)	6.2	
		(23 418)	6.8	
		22 822	12	
X. Operating profit / (loss)	2 068 828	(207 632)		1 861 196
XI. Extraordinary gains	111	-		111
XII. Extraordinary losses	153	-		153
XIII. Amortisation of goodwill	1 871	-		1 871
XIV. Accretion of negative goodwill	-	-		-
XV. Profit / (loss) before tax	2 066 915	(207 632)		1 859 283
XVI. Corporate income tax	552 918	(51 192)		501 726
a) current tax	737 115	(64 144)	12	672 971
b) deferred tax	(184 197)	12 952		(171 245)
		473	7.4	
		5 601	6.3	
		6 284	6.8	
		21	6.9	
		(1 161)	6.1	
		1 929	6.7	
		(195)	6.6	
XVII. Taxes and other obligatory charges	-	-		-
XVIII. Profit / loss attributable from affiliates consolidated by equity method	(2 251)	2 251	7.4	-
XIX. (Profit) loss of minority shareholders	-	-		-
XX. Net profit/ (loss)	1 511 746	(154 189)		1 357 557

# Consolidated accounts, PZU Group



Ernst & Young Audit sp. z o.o.  
ul. Emilia 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

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

We issued previously the audit opinion without qualifications dated March 29, 2005 on the consolidated financial statements for the year ended December 31, 2004 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, 2004 of Powszechny Zakład Ubezpieczeń S.A. Capital Group (the “PZU Group”) 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, 2004 with total assets amounting to 38,964,417 thousand zlotys
  - the consolidated life insurance revenue account for the period from January 1, 2004 to December 31, 2004 with the underwriting profit to be carried forward to the profit and loss account amounting to 834,711 thousand zlotys,
  - the consolidated non-life insurance revenue account for the period from January 1, 2004 to December 31, 2004 with the underwriting profit to be carried forward to the profit and loss account amounting to 652,025 thousand zlotys,
  - the consolidated profit and loss account for the period from January 1, 2004 to December 31, 2004 with a net profit amounting to 2,188,099 thousand zlotys,
  - the consolidated cash flow statement for the period from January 1, 2004 to December 31, 2004 with a net cash inflow amounting to 36,653 thousand zlotys,
  - the consolidated statement of movements in shareholders’ equity for the period from January 1, 2004 to December 31, 2004 with a net increase in shareholders’ equity amounting to 2,324,401 thousand zlotys,
  - the listing of the off-balance sheet items and
  - the additional notes and explanations.





The Polish original should be referred to in matters of interpretation  
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2. The truth and fairness<sup>1</sup> 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<sup>2</sup> the financial position and financial results of the PZU 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 PZU 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 PZU Group's operations for the period from January 1, 2004 to December 31, 2004, as well as its financial position<sup>3</sup> of the audited PZU Group as at December 31, 2004;
  - 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. Without qualifying our opinion, we draw attention to the following issue. As described in point 8 of the introduction to the consolidated financial statements, PZU Group has included in the opening balance of the financial statements the impact of insurance documentation analysis performed by Powszechny Zakład Ubezpieczeń na Życie S.A. and resulting from these analyses liabilities.
6. We have read the Directors' Report for the period from January 1, 2004 to December 31, 2004 ("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 Appendix 5 to the Decree of Ministry of Finance dated December 8, 2003 on insurance accounting."

<sup>1</sup> Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

<sup>2</sup> Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne"

<sup>3</sup> Translation of the following expression in Polish: "sytuacja majątkowa i finansowa"



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

In our opinion the information presented in the published, condensed financial statements in tables 12 to 20 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, 2004 and the results of its operations for the period from January 1, 2004 to December 31, 2004, 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.

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

Duleep Aluwihare  
Certified Auditor No 90015/215

Tomasz Bieske  
Certified Auditor No 9291/6975

Warsaw, May 4, 2005

**CONSOLIDATED BALANCE SHEET, PZU GROUP (thousand zloty)**table  
12.

ASSETS	December 31, 2004	December 31, 2003 (comparable data)
A. Intangible assets	83 333	74 722
1. Goodwill	-	-
2. Other intangible assets and payments on account	83 333	74 722
B. Goodwill on consolidation	3 604	5 475
C. Investments	35 232 659	31 239 600
I. Real property	1 103 071	1 171 622
1. Land, including perpetual usufruct	158 099	162 952
2. Buildings and structures, and cooperative freehold rights	907 277	939 481
3. Construction in progress and advances for construction in progress	37 695	69 189
II. Investments in affiliates	202 727	226 112
1. Shares	192 218	218 865
2. Loans granted to affiliates and debt securities issued by affiliates	5 509	7 247
3. Other	5 000	-
III. Other financial investments	33 920 055	29 837 225
1. Shares and other variable-income securities, participation units and investment certificates in trust funds	3 562 814	2 439 088
2. Debt securities and other fixed-income securities	28 624 798	24 750 090
3. Participation in investment pools	-	50
4. Loans guaranteed by mortgages	4 867	6 860
5. Other loans	-	-
6. Term deposits at credit institutions	1 726 753	2 639 972
7. Other investments	823	1 165
IV. Deposits at ceding undertakings	6 806	4 641
D. Investments of life assurance funds where the investment risk is borne by policyholders	1 297 450	1 391 811
E. Receivables	1 343 051	1 150 636
I. Receivables from direct insurance	1 011 236	928 763
1. Receivables from policyholders	998 759	916 633
1.1. from affiliates	71	-
1.2. from other undertakings	998 688	916 633

**CONSOLIDATED BALANCE SHEET, PZU GROUP (thousand zloty)**table  
12.

<b>ASSETS</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
2. Receivables from insurance intermediaries (agents)	12 117	11 610
2.1. from affiliates	3 699	8 918
2.2. from other undertakings	8 418	2 692
3. Other receivables	360	520
3.1. from affiliates	149	14
3.2. from other undertakings	211	506
II. Receivables from reinsurance	107 271	85 260
1. from affiliates	-	2 983
2. from other undertakings	107 271	82 277
III. Other receivables	224 544	136 613
1. Receivables from government	71 732	1 592
2. Other receivables	152 812	135 021
2.1. from affiliates	18 713	18 514
2.2. from other undertakings	134 099	116 507
<b>F. Other assets</b>	<b>523 975</b>	<b>555 668</b>
I. Property, plant and equipment	239 435	242 047
II. Cash and cash equivalents	278 694	242 063
III. Other	5 846	71 558
<b>G. Prepayments and accrued income</b>	<b>480 345</b>	<b>515 831</b>
I. Deferred tax assets	37 614	74 620
II. Deferred acquisition costs	411 109	410 685
III. Accrued interest and rentals	145	387
IV. Other prepayments and accrued income	31 477	30 139
<b>Total assets</b>	<b>38 964 417</b>	<b>34 933 743</b>



**CONSOLIDATED BALANCE SHEET, PZU GROUP (thousand zloty)**table  
13.

LIABILITIES AND EQUITY	December 31, 2004	December 31, 2003 (comparable data)
A. Equity	8 365 504	6 454 899
I. Share capital	86 352	86 352
II. Unpaid allotted share capital (negative value)	-	-
III. Own shares (negative value)	-	-
IV. Capital surplus	5 810 652	4 546 849
V. Revaluation reserve	149 982	168 433
VI. Other reserves	-	-
VII. Foreign exchange differences on valuation of affiliates	-	-
1. Positive foreign exchange differences	-	-
2. Negative foreign exchange differences (negative value)	-	-
VII. Prior-year profits (losses)	130 419	295 708
VIII. Net profit (loss)	2 188 099	1 357 557
X. Deductions from net profit (loss) for financial year (negative value)	-	-
B. Negative goodwill of affiliates	-	-
C. Minority capital	-	-
D. Subordinated debt	-	-
E. Technical reserves	29 525 864	27 488 265
I. Unearned premium reserve and unexpired risk reserve	3 474 553	3 278 611
II. Life assurance reserve	15 056 428	13 177 890
III. Outstanding claims reserve	7 675 220	7 697 844
IV. Reserve for bonuses and rebates for the insured	3 548	3 899
V. Equalisation reserve	558 908	581 615
VI. Other technical reserves	1 459 862	1 349 999
VII. Life technical reserves, where the investment risk is borne by policyholders	1 297 345	1 398 407
F. Reinsurers' share of technical reserves (negative value)	1 430 869	1 688 119
I. Reinsurers' share of unearned premium reserve and unexpired risk reserve	173 928	157 883
II. Reinsurers' share of life assurance reserve	122	152
III. Reinsurers' share of outstanding claims reserve	1 256 819	1 530 084
IV. Reinsurers' share of reserve for bonuses and rebates for the insured	-	-
V. Reinsurers' share of other technical reserves	-	-

**CONSOLIDATED BALANCE SHEET, PZU GROUP (thousand zloty)**table  
13.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
VI. Reinsurers' share of life technical reserves where the investment risk is borne by policyholders	-	-
G. Other provisions	660 013	642 557
I. Provision for retirement pay and similar obligations	284 269	303 682
II. Deferred tax liability	343 583	218 635
III. Other provisions	32 161	120 240
H. Liabilities on reinsurance deposits	78	54
I. Other liabilities and special funds	1 223 357	1 362 897
I. Direct insurance liabilities	281 226	213 856
1. Liabilities to insurers	127 340	119 477
1.1. affiliates	1	-
1.2. other undertakings	127 339	119 477
2. Liabilities to insurance intermediaries (agents), of which:	148 298	92 874
2.1. affiliates	1 450	2 557
2.2. other undertakings	146 848	90 317
3. Other insurance liabilities:	5 588	1 505
3.1. affiliates	-	-
3.2. other undertakings	5 588	1 505
II. Reinsurance liabilities:	137 864	104 938
1. affiliates	-	3 840
2. other undertakings	137 864	101 098
III. Liabilities on the issuance of debt securities and loans taken out:	-	-
1. liabilities convertible to shares	12	-
2. other	585 746	869 553
IV. Liabilities to financial institutions	339 855	555 584
V. Other liabilities	245 891	313 969
1. Liabilities to government	19 636	19 673
2. Other, of which:	226 255	294 296
1. affiliates	218 509	174 550

**CONSOLIDATED BALANCE SHEET, PZU GROUP (thousand zloty)**table  
13.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
J. Accruals and deferred income	620 470	673 190
1. Accrued expenses	418 298	457 464
2. Negative goodwill	-	-
3. Deferred income	202 172	215 726
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>38 964 417</b>	<b>34 933 743</b>

table  
14.

	<b>December 31, 2004</b>	<b>December 31, 2003</b>
Book value	8 365 504	6 454 899
Number of shares	86 352 300	86 352 300
Book value per share (zloty)	96,88	74,75
Diluted number of shares	86 352 300	86 352 300
Diluted book value per share (zloty)	96,88	74,75

table  
15.

OFF BALANCE SHEET ITEMS	December 31, 2004	December 31, 2003 (comparable data)
1. Contingent receivables, of which:	2 066 014	1 878 138
1.1. guarantees received	1 163	569
1.2. other	2 064 851	1 877 569
2. Contingent liabilities, of which:	1 238 928	2 069 146
2.1. guarantees issued	13 784	9 820
2.2. bills of exchange accepted and endorsed	-	-
2.3. assets under repurchase agreements	1 113 483	1 914 887
2.4. other liabilities	68 548	81 630
3. Reinsurance guarantees made to PZU Group	-	-
4. Reinsurance guarantees made by PZU Group on behalf of ceding undertakings	-	-
5. External assets not included in PZU Group assets	151	1 486
6. Other off balance sheet items	-	-
<b>Off balance sheet items, total</b>	<b>3 305 093</b>	<b>3 948 770</b>
Own funds in non-life insurance	4 813 421	3 993 150
Solvency margin in non-life insurance	1 195 527	1 144 218
Surplus (shortage) of own funds to cover solvency margin in non-life insurance	3 617 894	2 848 932
Technical reserves, gross in non-life insurance	11 737 396	11 653 698
Assets used to cover technical reserves in non-life insurance	15 475 277	14 184 613
Surplus (shortage) of assets used to cover technical reserves in non-life insurance	3 737 881	2 530 915
Own funds in life assurance	3 481 173	2 737 266
Solvency margin in life assurance	1 403 496	1 335 914
Surplus (shortage) of own funds to cover solvency margin in life assurance	2 077 677	1 401 352
Technical reserves, gross in life assurance	17 789 259	15 834 855
Assets used to cover technical reserves in life assurance	20 892 828	18 290 448
Surplus (shortage) of assets used to cover technical reserves in life assurance	3 103 569	2 455 593



table  
16.

CONSOLIDATED LIFE INSURANCE REVENUE ACCOUNT (thousand zloty)		1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
I. Premiums (1-2-3+4)		5 465 239	5 114 353
1. Gross premiums written		5 480 036	5 127 404
2. Reinsurers' share of gross premiums written		7 826	7 829
3. Movements in premium reserve and unexpired risk reserve, gross		6 971	5 222
4. Reinsurers' share of movements in unearned premium reserve		-	-
II. Investment income		1 389 551	1 166 247
1. Income on investments in real property		1 141	1 340
2. Income on investments in affiliates		14 256	3 196
2.1. shares		14 256	3 196
2.2. loans and debt securities		-	-
2.3. other investments		-	-
3. Income on other financial investments		1 103 165	975 776
3.1. Shares and other variable-income securities, participation units and investment certificates in investment funds		20 842	9 404
3.2. Debt securities and other fixed-income securities		1 068 100	951 768
3.3. Term deposits at credit institutions		14 201	14 566
3.4. Other		22	38
4. Gains on revaluation of investments		5 347	30 844
5. Gains on realisation of investments		265 642	155 091
III. Unrealised gains on investments		511 474	407 976
IV. Other technical income, net of reinsurers' share		7 182	8 450
V. Claims and benefits (1+/-2)		3 601 200	3 240 691
1. Claims and benefits paid, net of reinsurers' share		3 560 523	3 177 911
1.1. Claims and benefits paid, gross		3 562 733	3 179 921
1.2. Reinsurers' share of claims and benefits paid		2 210	2 010
2. Movements in outstanding claims reserve, net of reinsurers' share		40 677	62 780
2.1. Movements in outstanding claims reserve, gross		40 677	62 780
2.2. Reinsurers' share of movements in outstanding claims reserve		-	-

table  
16.

<b>CONSOLIDATED LIFE INSURANCE REVENUE ACCOUNT (thousand zloty)</b>		<b>1 January 2004 - December 31, 2004</b>	<b>1 January 2003 - December 31, 2003 (comparable data)</b>
VI. Movements in other technical reserves, net of reinsurers' share		1 907 138	1 846 191
1. Movements in other non-life technical reserves, net of reinsurers' share, including:		1 878 569	1 469 218
1.1. Gross reserves		1 878 538	1 469 220
1.2. Reinsurers' share		(31)	2
2. Movement in life assurance reserves, net of reinsurers' share, where the investment risk is borne by the policyholders		(101 061)	176 377
2.1. Gross reserves		(101 061)	176 377
2.2. Reinsurers' share		-	-
3. Movement in other reserves defined by Articles, net of reinsurers' share		129 630	200 596
3.1. Gross reserves		129 630	200 596
3.2. Reinsurers' share		-	-
VII. Bonuses and rebates for the insured net of reinsurers' share, including movements in reserve for bonuses and rebates		3 277	2 807
VIII. Costs of insurance activities		817 372	824 685
1. Acquisition costs, of which:		490 700	470 080
1.1. Movements in deferred acquisition costs		16 018	42 356
2. Administrative expenses		329 020	359 179
3. Reinsurance commission and share in reinsurers' profits		2 348	4 574
IX. Investment expenses		31 113	77 262
1. Maintenance costs of property investments		1 623	1 017
2. Other investment expenses		13 111	10 724
3. Losses on revaluation of investments		7 826	54 514
4. Losses on realisation of investments		8 553	11 007
X. Unrealised losses on investments		107 374	88 611
XI. Other technical costs, net of reinsurers' share		29 410	45 536
XII. Investment income, net of costs, transferred to General Profit and Loss Account		41 851	108 054
XIII. Life insurance underwriting result, of which:		834 711	463 189
- life insurance underwriting result of affiliates		834 711	463 189

table  
17.

CONSOLIDATED NON-LIFE INSURANCE REVENUE ACCOUNT (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
I. Premiums (1-2+/-3+/-4)	6 772 167	6 660 343
1. Gross premiums written	7 482 646	7 219 144
2. Reinsurers' share of gross premiums written	537 553	532 240
3. Movements in unearned premium reserve and unexpired risk reserve, gross	188 971	4 290
4. Reinsurers' share of movements in unearned premium reserve	16 045	(22 271)
II. Investment income, net of costs, transferred from General Profit and Loss Account	161 519	191 473
III. Other technical income, net	55 356	63 945
IV. Claims and benefits (1+/-2)	4 368 390	4 558 655
1. Claims and benefits paid, net of reinsurers' share	4 158 426	4 038 973
1.1. claims and benefits paid, gross	4 442 769	4 334 814
1.2. reinsurers' share of claims and benefits paid	284 343	295 841
2. Movements in outstanding claims reserve, net of reinsurers' share	209 964	519 682
2.1. Movements in outstanding claims reserve, gross	(63 301)	341 360
2.2. Reinsurers' share of movements in outstanding claims reserve	(273 265)	(178 322)
V. Movements in other technical reserves, net of reinsurers' share	(19 768)	196 009
1. Movements in other technical reserves, gross	(19 768)	196 009
2. Reinsurers' share of movements in other technical reserves	-	-
VI. Bonuses and rebates for the insured net of reinsurers' share, including movements in reserve for bonuses and rebates	1 106	393
VII. Costs of insurance activities (1+2-3)	1 751 066	1 641 497
1. Acquisition costs, of which:	860 167	807 345
1.1. movements in deferred acquisition costs	(16 442)	(6 314)
2. Administrative expenses	985 605	921 009
3. Reinsurance commissions and share of reinsurers' profits	94 706	86 857
VIII. Other technical expenses, net	258 930	215 349
IX. Movements in equalisation reserve	(22 707)	8 914
<b>IX. Non-life insurance underwriting result</b>	<b>652 025</b>	<b>294 944</b>
-non-life insurance underwriting result of affiliates:	-	-

table  
18.

CONSOLIDATED GENERAL PROFIT AND LOSS ACCOUNT (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
I. Non-life and life insurance underwriting result	1 486 736	758 133
II. Investment income (1+2+3+4+5), of which:	1 063 794	1 248 200
1. on real property	18 007	11 902
2. on investments in affiliates, of which:	15 123	3 302
2.1. shares	14 649	3 300
2.2. loans and debt securities	474	-
2.3. other investments	-	2
3. Income on other financial investments, of which:	697 001	663 363
3.1. shares, variable-income securities, participation units and certificates in investment funds	26 558	17 316
3.2. debt securities and other fixed-income securities	636 219	552 993
3.3. term deposits at credit institutions	34 224	93 054
3.4. other investments	-	-
4. Gains on revaluation of investments	41 693	11 314
5. Gains on realisation of investments	291 970	558 319
III. Unrealised gains on investments	311 523	232 926
IV. Investment income transferred from Life Insurance Revenue Account	41 851	108 054
V. Investment expenses (1+2+3+4)	156 122	93 595
1. Maintenance costs of property investments	15 207	14 908
2. Other investment expenses	20 236	8 095
3. Losses on revaluation of investments	104 335	22 863
4. Losses on realisation of investments	16 344	47 729
VI. Unrealised losses on investments	28 217	145 467
VII. Investment income transferred from Non-life Insurance Revenue Account	161 519	191 473
VIII. Other operating income	367 142	269 546
IX. Other costs of insurance activities	217 607	325 128
X. Operating profit/ (loss)	2 707 581	1 861 196
XI. Extraordinary gains	107	111
XII. Extraordinary losses	75	153
XIII. Amortisation of goodwill	1 871	1 871

table  
18.

CONSOLIDATED GENERAL PROFIT AND LOSS ACCOUNT (thousand zloty)		1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
XIV. Accretion of negative goodwill		-	-
XV. Profit (loss) before tax		2 705 742	1 859 283
XVI. Corporate income tax		517 643	501 726
a) current tax		351 762	672 971
b) deferred tax		165 881	(171 245)
XVII. Taxes and other mandatory charges		-	-
XVIII. Profit attributable from affiliates consolidated by equity method		-	-
XIX. (Profit)/ loss of minority shareholders		-	-
XX. Net profit/ (loss)		2 188 099	1 357 557
Book value		2 188 099	1 357 557
Number of shares		86 352 300	86 352 300
Book value per share (zloty)		25,34	15,72
Diluted number of shares		86 352 300	86 352 300
Diluted book value per share (zloty)		25,34	15,72

table  
19.

CONSOLIDATED CASH FLOW STATEMENT (thousand zloty)		1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
A. Cash flow from operating activities			
I. Inflows		14 116 300	13 913 421
1. Inflows from direct insurance and inward reinsurance, of which:		13 138 520	12 750 339
1.1. Cash inflows from gross premiums written		12 979 465	12 590 309
1.2. Cash inflows from recourses and recoveries		120 899	111 214
1.3. Other cash inflows from direct insurance		38 156	48 816
2. Cash inflows from outward reinsurance		378 754	525 588
2.1. Cash inflows from reinsurers due to share of claims paid		278 567	408 212
2.2. Cash inflows from reinsurers' commission and share of reinsurers' profits		95 760	114 459
2.3. Other cash inflows from outward reinsurance		4 427	2 917
3. Cash inflows from other operating activities		599 026	637 494
3.1. Cash inflows from loss adjusting services on behalf of other insurers		24 587	9 435
3.2. Sale of intangible assets and tangible fixed assets other than long-term investments		3 024	762
3.3. Other		571 415	627 297
II. Outflows		12 570 627	11 665 345
1. Outflows from direct insurance and inward reinsurance		10 655 888	10 252 297
1.1. Gross premium returns		162 733	224 397
1.2. Claims paid, gross		7 810 569	7 446 383
1.3. Acquisition costs		1 155 196	1 023 227
1.4. Administrative expenses		1 484 625	1 432 947
1.5. Commissions paid and share of profit from inward reinsurance		1 291	1 671
1.6. Other direct insurance and inward reinsurance expenses		41 474	123 672
2. Cash outflows from outward reinsurance		571 759	572 016
2.1. Premiums paid in respect of outward reinsurance		518 941	518 839
2.2. Other outward reinsurance expenses		52 818	53 177
3. Other costs of insurance activities		1 342 980	841 032
3.1. Expenses relating to loss adjusting services on behalf of other insurers		15 691	4 605
3.2. Purchase of intangible assets and tangible fixed assets other than long-term investments		165 416	78 489
3.3. Other costs of insurance activities		1 161 873	757 938

table  
19.

CONSOLIDATED CASH FLOW STATEMENT (thousand zloty)		1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
III. Net cash from operating activities (I-II)		1 545 673	2 248 076
B. Cash flow from investing activities		-	-
I. Inflows		214 358 369	189 928 448
1. Sale of real property		882	680
2. Sale of shares in affiliates		29 000	10
3. Sale of shares in other undertakings, participation units and investment certificates in investment funds		1 117 552	331 794
4. Sale of debt securities issued by affiliates and loans repaid by those undertakings		6 221	14 921
5. Sale of debt securities issued by other undertakings		35 221 297	38 006 440
6. Withdrawal of term deposits at credit institutions		176 823 864	150 465 513
7. Withdrawal of other investments		57 024	37
8. Inflows from real property		19 065	16 193
9. Interest received		1 022 129	1 063 994
10. Dividends received		61 305	28 234
11. Other investment inflows		30	632
II. Outflows		215 611 318	192 042 067
1. Purchase of real property		11 892	406
2. Purchase of shares in affiliates		76 265	18 600
3. Purchase of shares in other undertakings, participation units and investment certificates in investment funds		1 372 483	695 693
4. Purchase of debt securities issued by affiliates and loans granted to those undertakings		755	-
5. Purchase of debt securities issued by other undertakings and loans granted to those undertakings		37 813 855	38 459 271
6. Term deposits at credit institutions		176 202 047	152 735 278
7. Other investments		56 176	72 253
8. Outflows for real property maintenance		49 565	43 63
9. Dividends paid to minority interests		-	-
10. Other investments and deposits		28 280	16 803
III. Net cash investing activities (I-II)		(1 252 949)	(2 113 619)

table  
19.

CONSOLIDATED CASH FLOW STATEMENT (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
C. Cash flow from financing activities	-	-
I. Inflows	-	-
1. Net inflow from issue of shares and additional payments to share capital	-	-
2. Loans/advances and issue of debt securities	-	-
3. Other	-	-
II. Outflows	256 071	133 611
1. Dividends	256 071	133 611
2. Outflows due to appropriation of profit other than payments to shareholders	-	-
3. Re-acquisition of own shares	-	-
4. Repayment of loans/advances and redemption of debt securities	-	-
5. Interest on loans/advances and debt securities issued	-	-
6. Other outflows from financing activities	-	-
III. Net cash from financing activities (I-II)	(256 071)	(133 611)
D. Net cash, total (A.III+/-B.III+/-C.III)	36 653	846
E. Change in cash, of which:	36 631	938
1. change in cash and cash equivalents due to foreign exchange losses	(22)	92
F. Cash and cash equivalents at beginning of period	242 063	241 125
<b>G. Cash and cash equivalents at end of period (F+/-E), of which:</b>	<b>278 694</b>	<b>242 063</b>
– of restricted use	148 043	120 043



table  
20.

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
I. Shareholders' equity at beginning of period	6 041 103	4 964 527
a) changes in accounting policies	107 794	51 799
b) adjustments due to fundamental errors	306 002	512 418
I. a. Shareholders' equity at beginning of period , after adjustments	6 454 899	5 528 744
1. Share capital at beginning of period	86 352	86 352
1.1. Changes in share capital	-	-
a) increases	-	-
b) decreases	-	-
1.2. Share capital at end of period	86 352	86 352
2. Unpaid allotted share capital at beginning of period	-	-
2.1. Movements in unpaid allotted share capital	-	-
a) increases	-	-
b) decreases	-	-
2.2. Unpaid allotted share capital at end of period	-	-
3. Own shares at beginning of period	-	-
3.1. Movements in own shares	-	-
a) increases	-	-
b) decreases	-	-
3.2. Own shares at end of period	-	-
4. Capital surplus at beginning of period	4 546 849	3 120 874
a) changes in accounting policies	-	192 778
4.1. Capital surplus at beginning of period , after adjustments	4 546 849	3 313 652
4.2. Movements in capital surplus	1 263 803	1 233 197
a) increases (due to)	1 263 803	1 233 197
- share premium	-	-
- statutory profit distribution	-	-
- profit distribution (in excess of legal requirements)	1 263 639	1 233 089
- from revaluation reserve – fixed asset expenditures	164	108
- shareholders payments	-	-

table  
20.

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
b) decreases (due to)	-	-
- absorption of loss	-	-
- transfers	-	-
4.3. Capital surplus at end of period	5 810 652	4 546 849
5. Revaluation reserve at beginning of period	163 510	469 260
a) changes in accounting policies	4 923	1 155
5.1. Revaluation reserve at beginning of period , after adjustments	168 433	470 415
5.2. Movements in revaluation reserve	(18 451)	(301 982)
a) increases (due to)	39 433	3 795
- revaluation	39 433	3 795
b) decreases (due to)	57 884	305 777
- sales and liquidation of fixed assets	164	108
- revaluation	57 720	305 669
5.3. Revaluation reserve at end of period	149 982	168 433
6. Other reserves at beginning of period	-	-
6.1. Movements in other reserves	-	-
a) increases	-	-
b) decreases	-	-
6.2. Other reserves at end of period	-	-
7. Translation reserves	-	-
8. Prior-year undistributed profit/unabsorbed loss at beginning of period	1 244 392	1 288 041
8.1. Prior-year undistributed profit/unabsorbed loss at beginning of period	1 244 392	1 288 041
a) changes in accounting policies	102 871	(142 134)
b) adjustments due to fundamental errors	306 002	512 418
8.2. Prior-year undistributed profit/unabsorbed loss at beginning of period , after adjustments	1 653 265	1 658 325
a) increases	-	-
b) decreases	1 522 846	1 362 617
- dividends paid	259 057	129 528
- transfer to capital surplus	1 263 639	1 233 089
- other	150	-

table  
20.

CONSOLIDATED STATEMENT OF MOVEMENTS IN EQUITY (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
8.3 Prior-year undistributed profit at end of period	130 419	295 708
8.4. Prior-year unabsorbed loss at beginning of period	-	-
a) changes in accounting policies	-	-
b) adjustments due to fundamental errors	-	-
8.5. Prior-year unabsorbed loss at beginning of period , after adjustments	-	-
a) increases	-	-
b) decreases	-	-
8.6. Prior-year unabsorbed loss at end of period	-	-
8.7. Prior-year profit/ (loss) at end of period	130 419	295 708
8. Net result	2 188 099	1 357 557
a) net profit	2 188 099	1 357 557
b) net loss	-	-
c) profit appropriation	-	-
<b>II. Shareholders' equity at end of period</b>	<b>8 365 504</b>	<b>6 454 899</b>
III. Shareholders' equity after proposed appropriation of profits/absorption of losses	7 637 415	5 988 597

## PZU SA accounts



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

Tel. +48 22 557 7  
Fax +48 22 557 7  
warszawa@pl.ey.com  
www.ey.com/pl

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

We issued previously the audit opinion without qualifications dated March 29, 2005 on the financial statements for the year ended December 31, 2004 as presented below:

### “INDEPENDENT AUDITORS’ OPINION

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

1. We have audited the financial statements for the year ended December 31, 2004 of Powszechny Zakład Ubezpieczeń S.A. (“PZU”, “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, 2004 with total assets amounting 20,452,718 thousand zlotys,
- the non-life insurance revenue account for the period from January 1, 2004 to December 31, 2004 with the underwriting profit to be carried forward to the profit and loss account amounting to 608,926 thousand zlotys,
- the profit and loss account for the period from January 1, 2004 to December 31, 2004 with a net profit amounting to 1,416,181 thousand zlotys,
- the statement of movements in shareholders’ equity for the period from January 1, 2004 to December 31, 2004 with a net increase in shareholders’ equity amounting to 4,423,767 thousand zlotys,
- the cash flow statement for the period from January 1, 2004 to December 31, 2004 with a net cash inflow amounting to 25,959 thousand zlotys,
- the listing of the off-balance sheet items,
- the solvency margin,
- the calculation of the surplus of own funds to cover solvency margin,
- the amount of technical reserves,
- the assets covering technical reserves,
- the calculation of the surplus of assets to cover technical reserves,
- the additional notes and explanations.





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2. The truth and fairness<sup>1</sup> 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<sup>2</sup> 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 financial result of PZU operations for the period from January 1, 2004 to December 31, 2004, as well as its financial position<sup>3</sup> as at December 31, 2004;
  - 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 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, also described in point 5 of introduction to the financial statements. On January 1, 2004 the Decree of Ministry of Finance on insurance accounting dated December 8, 2003 (Journal of Laws No 218, item 2144) became effective and on January 15, 2004 the amendments to the accounting act dated September 29, 1994 introduced by the regulation on amendment to Commercial Code and certain other acts (Journal of Laws No 229, item 2276) („amended accounting regulations”) became effective. The changes to the Company's accounting policies arising from the amended accounting regulations have been further described in points 5 and 11 of introduction to the financial statements. In order to ensure comparability of the financial statements, the financial statements included restated comparable financial data for the period from January 1, 2003 to December 31, 2003 and as at December 31, 2003. As a result, comparable financial data differ from the financial statements for the period from January 1, 2003 to December 31, 2003.
6. Actuary's opinion on technical reserves set up with actuarial techniques is included in the financial statements.

<sup>1</sup> Translation of the following expression in Polish: „rzetelność, prawidłowość i jasność”

<sup>2</sup> Translation of the following expression in Polish: „rzetelne, prawidłowe i jasne”



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Translation of auditors' report originally issued in Polish

7. We have read the Directors' Report for the period from January 1, 2004 to December 31, 2004 ("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 as well as Appendix 5 to the Decree of Ministry of Finance dated December 8, 2003 on insurance accounting."

In our opinion the information presented in the published, condensed financial statements in tables 21 to 27 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, 2004 and the results of its operations for the period from January 1, 2004 to December 31, 2004, 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.

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

Duleep Aluwihare  
Certified Auditor No 90015/215

Tomasz Bieske  
Certified Auditor No 9291/6975

Warsaw, May 4, 2005

**PZU SA BALANCE SHEET (thousand zloty)**table  
21.

ASSETS	December 31, 2004	December 31, 2003 (comparable data)
A. Intangible assets	17 835	23 457
1. Goodwill	-	-
2. Other intangible assets and payments on account	17 835	23 457
B. Long-term investments	18 607 191	16 720 632
I. Real property	343 740	392 697
1. Land, including perpetual usufruct	42 444	47 071
2. Buildings and structures, and cooperative freehold rights	273 230	285 116
3. Construction in progress and prepayments for construction in progress	28 066	60 510
II. Investments in related parties	3 743 135	3 001 331
1. Shares	3 668 849	2 912 322
2. Loans granted to related parties and debt securities issued by related parties	71 786	89 009
3. Other	2 500	-
III. Other financial investments	14 513 510	13 321 963
1. Shares and other variable-income securities, participation units and investment certificates in investment funds	1 483 127	1 083 128
2. Debt securities and other fixed-income securities	12 115 678	10 071 854
3. Shares in collective investment undertakings	-	50
4. Loans guaranteed by mortgages	-	-
5. Other loans	-	-
6. Term deposits at credit institutions	913 882	2 166 766
7. Other investments	823	165
IV. Deposits at ceding undertakings	6 806	4 641
C. Investments of life assurance funds where the investment risk is borne by policyholders	-	-
D. Receivables	1 190 160	1 013 792
I. Receivables from direct insurance	945 913	859 539
1. Receivables from policyholders	933 581	847 590
1.1. from related parties	71	146
1.2. from other undertakings	933 510	847 444
2. Receivables from insurance intermediaries (agents)	11 974	11 429
2.1. from related parties	3 699	8 919



**PZU SA BALANCE SHEET (thousand zloty)**table  
21.

<b>ASSETS</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
2.2. from other undertakings	8 275	2 510
3. Other receivables	358	520
3.1. from related parties	149	14
3.2. from other undertakings	209	506
II. Receivables from reinsurance	107 271	85 260
1. from related parties	-	2 983
2. from other undertakings	107 271	82 277
III. Other receivables	136 976	68 993
1. Receivables from government	71 251	76
2. Other receivables	65 725	68 917
2.1. from related parties	22 270	20 782
2.2. from other undertakings	43 455	48 135
E. Other assets	337 200	299 502
I. Property, plant and equipment	155 859	145 110
II. Cash and cash equivalents	176 433	150 496
III. Other	4 908	3 896
F. Prepayments and accrued income	300 332	285 746
I. Deferred tax assets	-	-
II. Deferred acquisition costs	276 518	260 076
III. Accrued interest and rentals	49	384
IV. Other prepayments and accrued income	23 765	25 286
<b>TOTAL ASSETS</b>	<b>20 452 718</b>	<b>18 343 129</b>



**PZU SA BALANCE SHEET (thousand zloty)**table  
22.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
<b>A. Equity</b>	<b>8 440 374</b>	<b>6 542 898</b>
I. Share capital	86 352	86 352
II. Unpaid allotted share capital (negative value)	-	-
III. Own shares (negative value)	-	-
IV. Capital surplus	3 510 902	2 835 319
V. Revaluation reserve	3 395 223	2 654 981
VI. Other reserves	-	-
VII. Prior-year undistributed profit/unabsorbed loss	31 716	60 139
VIII. Net profit/(loss) for the period	1 416 181	906 107
<b>B. Subordinated liabilities</b>	<b>-</b>	<b>-</b>
<b>C. Technical reserves</b>	<b>11 737 396</b>	<b>11 653 698</b>
I. Unearned premium reserve and unexpired risk reserve	3 404 798	3 215 324
II. Life assurance reserve	-	-
III. Outstanding claims reserve	7 180 540	7 243 841
IV. Reserve for bonuses and rebates for the insured	-	-
V. Equalisation reserve	558 908	581 615
VI. Other technical reserves	593 150	612 918
VII. Life technical reserves, where the investment risk is borne by policyholder	-	-
<b>D. Reinsurers' share of technical reserves (negative value)</b>	<b>(1 430 747)</b>	<b>(1 687 967)</b>
I. Reinsurers' share of unearned premium reserve and unexpired risk reserve	(173 928)	(157 883)
II. Reinsurers' share of life assurance reserve	-	-
III. Reinsurers' share of outstanding claims reserve	(1 256 819)	(1 530 084)
IV. Reinsurers' share of reserve for bonuses and rebates for the insured	-	-
V. Reinsurers' share of other technical reserves	-	-
VI. Reinsurers' share of technical reserves for life assurance policies where the investment risk is borne by the policyholders	-	-
<b>E. Other provisions</b>	<b>378 015</b>	<b>370 077</b>
I. Provision for retirement pay and similar obligations	237 074	262 765
II. Deferred tax liability	109 111	16 403
III. Other	31 830	90 909
<b>F. Deposits received from reinsurers</b>	<b>78</b>	<b>54</b>

**PZU SA BALANCE SHEET (thousand zloty)**table  
22.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
G. Other liabilities and special purpose funds	747 627	824 042
I. Direct insurance liabilities	156 301	90 033
1. Liabilities to the insured	11 737	5 179
1.1. affiliates	1	-
1.2. other undertakings	11 736	5 179
2. Liabilities to insurance intermediaries (agents), of which:	144 381	84 854
2.1. affiliates	1 450	2 557
2.2. other undertakings	142 931	82 297
3. Other insurance liabilities:	183	-
3.1. affiliates	-	-
3.2. other undertakings	183	-
II. Reinsurance liabilities:	135 276	104 029
1. affiliates	-	3 840
2. other undertakings	135 276	100 189
III. Liabilities on issuance of debt securities and loans taken out:	-	-
1. liabilities convertible to shares	-	-
2. other	-	-
IV. Liabilities to credit institutions	12	-
V. Other liabilities	284 648	501 947
1. Liabilities to government	82 738	220 202
2. Other, of which:	201 910	281 745
1. affiliates	26 727	32 806
2. other undertakings	175 183	248 939
VI. Special purpose funds	171 390	128 033
H. Accruals and deferred income	579 975	640 327
1. Accrued expenses	383 571	430 989
2. Negative goodwill	-	-
3. Deferred income	196 404	209 338
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20 452 718</b>	<b>18 343 129</b>

table  
23.

OFF BALANCE SHEET ITEMS	December 31, 2004	December 31, 2003 (comparable data)
1. Contingent receivables, of which:	1 817 646	1 599 766
1.1. guarantees received	1 163	569
1.2. other	1 816 483	1 599 197
2. Contingent liabilities, of which:	745 342	1 791 298
2.1. guarantees issued	13 784	9 820
2.2. bills of exchange accepted and endorsed	-	-
2.3. assets under repurchase agreements	663 010	1 699 673
2.4. other liabilities	68 548	81 805
3. Reinsurance guarantees made to the Company	-	-
4. Reinsurance guarantees made by the Company on behalf of ceding undertakings	-	-
5. External assets not included in the Company's assets	151	1 346
<b>TOTAL OFF BALANCE SHEET ITEMS</b>	<b>2 563 139</b>	<b>3 392 410</b>
Own funds	4 813 421	3 993 150
Solvency margin	1 195 527	1 144 218
Surplus (shortage) of own funds to cover solvency margin	3 617 894	2 848 932
Technical reserves, gross	11 737 396	11 653 698
Assets used to cover technical reserves	15 475 277	14 184 613
Surplus (shortage) of assets used to cover technical reserves	3 737 881	2 530 915

table  
24.

NON-LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT, PZU SA (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
I. Premiums (1-2+/-3+/-4)	6 774 654	6 662 719
1. Gross premiums written	7 485 101	7 221 367
2. Reinsurers' share of gross premiums written	537 018	532 240
3. Movements in unearned premium reserve and unexpired risk reserve, gross	189 474	4 137
4. Reinsurers' share of movements in unearned premium reserve	16 045	(22 271)
II. Investment income, net of costs, transferred from General Profit and Loss Account	161 519	191 473
III. Other technical income, net	55 356	63 945
IV. Claims and benefits (1+/-2)	4 368 828	4 559 290
1. Claims and benefits paid, net of reinsurers' share	4 158 864	4 039 608
1.1. claims and benefits paid, gross	4 443 207	4 335 449
1.2. reinsurers' share in claims and benefits paid	284 343	295 841
2. Movements in outstanding claims reserve, net of reinsurers' share	209 964	519 682
2.1. Movements in outstanding claims reserve, gross	(63 301)	341 360
2.2. Reinsurers' share of movements in outstanding claims reserve	(273 265)	(178 322)
V. Movements in other technical reserves, net of reinsurers' share	(19 768)	196 009
1. Movements in other technical reserves, gross	(19 768)	196 009
2. Reinsurers' share of movements in other technical reserves	-	-
VI. Bonuses and rebates for the insured net of reinsurers' share, including movements in reserve for bonuses and rebates	1 106	393
VII. Costs of insurance activities (1+2-3)	1 796 214	1 683 378
1. Acquisition costs, of which:	867 466	813 471
1.1. movements in deferred acquisition costs	(16 442)	(6 314)
2. Administrative expenses	1 023 454	956 764
3. Reinsurance commissions and share in reinsurers' profits	94 706	86 857
VIII. Other technical expenses, net	258 930	215 349
IX. Movements in equalisation reserve	(22 707)	8 914
<b>X. Non-life insurance underwriting result</b>	<b>608 926</b>	<b>254 804</b>

table  
25.**GENERAL PROFIT AND LOSS ACCOUNT, PZU SA**  
(thousand zloty)1 January 2004 -  
December 31, 20041 January 2003 -  
December 31, 2003  
(comparable data)

I. Non-life insurance underwriting result	608 926	254 804
II. Investment income (1+2+3+4+5), of which:	1 011 237	1 238 827
1. on real property	8 864	5 663
2. on investments in related parties, of which:	20 377	8 664
2.1. shares	14 649	3 300
2.2. loans and debt securities	5 728	5 363
2.3. other investments	-	1
3. Income on other financial investments, of which:	690 026	659 792
3.1. shares, variable-income securities, participation units and certificates in investment funds	26 558	17 316
3.2. debt securities and other fixed-income securities	633 598	551 316
3.3. term deposits at credit institutions	29 870	91 160
3.4. other investments	-	-
4. Gains on revaluation of investments	-	6 389
5. Gains on realisation of investments	291 970	558 319
III. Unrealised gains on investments	308 254	241 958
IV. Investment income transferred from Life Insurance Revenue Account	-	-
V. Investment expenses (1+2+3+4)	93 031	61 042
1. Maintenance costs of property investments	2 362	2 068
2. Other investment expenses	20 236	8 095
3. Losses on revaluation of investments	54 089	3 150
4. Losses on realisation of investments	16 344	47 729
VI. Unrealised losses on investments	51 912	146 230
VII. Investment income transferred from Non-life Insurance Revenue Account	161 519	191 473
VIII. Other operating income	187 630	63 887
IX. Other costs of insurance activities	75 908	137 759
X. Operating profit/ (loss)	1 733 677	1 262 972
XI. Extraordinary gains	57	49
XII. Extraordinary losses	30	31

table  
25.**GENERAL PROFIT AND LOSS ACCOUNT, PZU SA**  
(thousand zloty)1 January 2004 -  
December 31, 20041 January 2003 -  
December 31, 2003  
(comparable data)

XIII. Profit (loss) before tax	1 733 704	1 262 990
XIV. Corporate income tax	317 523	356 883
XV. Other taxes	-	-
XVI. Net profit/ (loss)	1 416 181	906 107

table  
26.**CASH FLOW STATEMENT, PZU SA**  
(thousand zloty)1 January 2004 -  
December 31, 20041 January 2003 -  
December 31, 2003  
(comparable data)

A. Cash flow from operating activity	522 836	1 045 582
I. Inflows	8 389 075	8 623 726
1. Inflows from direct insurance and inward reinsurance, of which:	7 646 332	7 620 336
1.1. Cash inflows from gross premiums written	7 494 435	7 468 756
1.2. Cash inflows from recourses and recoveries	120 899	111 214
1.3. Other cash inflows from direct insurance	30 998	40 366
2. Cash inflows from outward reinsurance	374 196	519 004
2.1. Cash inflows to reinsurers due to share in claims paid	276 357	406 202
2.2. Cash inflows from reinsurers' commission and share in reinsurers' profits	93 412	109 885
2.3. Other cash inflows from outward reinsurance	4 427	2 917
3. Cash inflows from other operating activities	368 547	484 386
3.1. Cash inflows from loss adjusting services on behalf of other insurers	24 587	9 435
3.2. Sale of intangible assets and tangible fixed assets other than long-term investments	701	611
3.3. Other inflows	343 259	474 340
II. Outflows	7 866 239	7 578 144
1. Cash outflows from direct insurance and inward reinsurance	6 456 858	6 368 124
1.1. Gross premium returns	162 733	224 397
1.2. Claims paid, gross	4 245 107	4 264 229
1.3. Acquisition costs	657 979	546 690
1.4. Administrative expenses	1 356 602	1 253 001
1.5. Commissions paid and shares in profits from inward reinsurance	1 291	1 671
1.6. Other direct insurance and inward reinsurance expenses	33 146	78 136
2. Cash outflows from outward reinsurance	563 933	564 188
2.1. Premiums paid in respect of outward reinsurance	511 115	511 011
2.2. Other outward reinsurance expenses	52 818	53 177
3. Other costs of insurance activities	845 448	645 832
3.1. Expenses relating to loss adjusting services on behalf of other insurers	15 691	4 605
3.2. Purchase of intangible assets and tangible fixed assets other than long-term investments	83 563	72 650
3.3. Other costs of insurance activities	746 194	568 577

table  
26.**CASH FLOW STATEMENT, PZU SA**  
(thousand zloty)1 January 2004 -  
December 31, 20041 January 2003 -  
December 31, 2003  
(comparable data)

<b>B. Cash flow from investing activities</b>	<b>(240 806)</b>	<b>(909 214)</b>
<b>I. Inflows</b>	<b>99 584 904</b>	<b>78 497 488</b>
1. Sale of real property	882	680
2. Sale of shares in affiliates	14 500	-
3. Sale of shares in other undertakings, participation units and investment certificates in investment funds	279 989	37 641
4. Sale of debt securities issued by affiliates and loans repaid by those undertakings	7 107	7 107
5. Sale of debt securities issued by other undertakings	7 239 442	10 446 039
6. Withdrawal of term deposits at credit institutions	91 924 261	67 955 410
7. Withdrawal of other investments	56 002	-
8. Inflows from real property	6 802	4 881
9. Interest received	22 511	28 070
10. Dividends received	33 378	17 524
11. Other investment inflows	30	136
<b>II. Outflows</b>	<b>99 825 710</b>	<b>79 406 702</b>
1. Purchase of real property	10 262	5
2. Purchase of shares in affiliates	60 763	750
3. Purchase of shares in other undertakings, participation units and investment certificates in investment funds	331 245	236 756
4. Purchase of debt securities issued by affiliates and loans granted to those undertakings	755	-
5. Purchase of debt securities issued by other undertakings and loans granted to those undertakings	8 519 574	8 979 112
6. Term deposits at credit institutions	90 822 858	70 175 799
7. Other investments	51 468	-
8. Outflows for real property maintenance	13 888	8 490
9. Other investments and deposits	14 897	5 790
<b>C. Cash flow from financing activities</b>	<b>(256 071)</b>	<b>(133 611)</b>
<b>I. Inflows</b>	<b>-</b>	<b>-</b>
1. Net inflow from issue of shares and additional payments to share capital	-	-
2. Loans/advances and issue of debt securities	-	-
3. Other	-	-



table  
26.

CASH FLOW STATEMENT, PZU SA (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
II. Outflows	256 071	133 611
1. Dividends	256 071	133 611
2. Outflows due to appropriation of profit other than payments to shareholders	-	-
3. Re-acquisition of own shares	-	-
4. Repayment of loans/advances and redemption of debt securities	-	-
5. Interest on loans/advances and debt securities issued	-	-
6. Other outflows from financing activities	-	-
D. Total net cash flow	25 959	2 757
E. Balance sheet change in cash and cash equivalents, of which:	25 937	2 868
1. change in cash and cash equivalents due to foreign exchange losses	(22)	111
F. Cash and cash equivalents at beginning of period	150 496	147 628
<b>G. Cash and cash equivalents at end of period, of which:</b>	<b>176 433</b>	<b>150 496</b>
– of restricted use	106 240	77 380

table  
27.

STATEMENT OF MOVEMENTS IN EQUITY, PZU SA (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
I. Shareholders' equity at beginning of period	4 016 607	3 551 077
a) changes in accounting policies	2 526 291	2 032 093
b) adjustments due to fundamental errors	-	-
I. a. Shareholders' equity at beginning of period, after adjustments	6 542 898	5 583 170
1. Share capital at beginning of period	86 352	86 352
1.1. Changes in share capital	-	-
a) increases	-	-
b) decreases	-	-
1.2. Share capital at end of period	86 352	86 352
2. Unpaid allotted share capital at beginning of period	-	-
2.1. Movements in unpaid allotted share capital	-	-
a) increases	-	-
b) decreases	-	-
2.2. Unpaid allotted share capital at end of period	-	-
3. Own shares at beginning of period	-	-
3.1. Movements in own shares	-	-
a) increases	-	-
b) decreases	-	-
3.2. Own shares at end of period	-	-
4. Capital surplus at beginning of period	2 835 319	2 093 645
4.1. Movements in capital surplus	675 583	741 674
a) increases (due to)	675 583	741 674
- share premium	-	-
- statutory profit appropriation	-	-
- profit appropriation (in excess of statutory amounts)	675 473	741 614
- from revaluation reserve – disposal of fixed assets	110	60
b) decreases (due to)	-	-
- absorption of loss	-	-
4.2. Capital surplus at end of period	3 510 902	2 835 319
5. Revaluation reserve at beginning of period	160 407	465 510
a) changes in accounting policies	2 494 574	2 006 382
b) adjustments due to fundamental errors	-	-

table  
27.

STATEMENT OF MOVEMENTS IN EQUITY, PZU SA (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
5a. Revaluation reserve at beginning of period , after adjustments	2 654 981	2 471 892
5.1. Movements in revaluation reserve	740 242	183 089
a) increases (due to)	797 935	488 192
- valuation of long-term financial investments	797 935	488 192
b) decreases (due to)	57 693	305 103
- valuation of long-term financial investments	56 248	305 043
- valuation of real property	1 335	-
- disposal and liquidation of fixed assets	110	60
5.2. Revaluation reserve at end of period	3 395 223	2 654 981
6. Other reserves at beginning of period	-	-
6.1. Movements in other reserves	-	-
6.2. Other reserves at end of period	-	-
7. Prior-year undistributed profit/unabsorbed loss at beginning of period	934 529	905 570
7.1. Prior-year undistributed profit/unabsorbed loss at beginning of period	934 529	905 570
a) changes in accounting policies	31 717	25 711
b) adjustments due to fundamental errors	-	-
7.2. Prior-year undistributed profit/unabsorbed loss at beginning of period , after adjustments	966 246	931 281
a) increases	-	-
b) decreases (due to)	934 530	871 142
- dividends paid out	259 057	129 528
- transfer to capital surplus	675 473	741 614
7.3. Prior-year undistributed profit at end of period	31 716	60 139
7.4. Prior-year unabsorbed loss at beginning of period	-	-
a) changes in accounting policies	-	-
b) adjustments due to fundamental errors	-	-
7.5. Prior-year unabsorbed loss at beginning of period , after adjustments	-	-
7.6. Prior-year unabsorbed loss at end of period	-	-
7.7. Prior-year undistributed profit/unabsorbed loss at end of period	31 716	60 139

table  
27.

STATEMENT OF MOVEMENTS IN EQUITY, PZU SA (thousand zloty)	1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
8. Net result	1 416 181	906 107
a) net profit	1 416 181	906 107
b) net loss	-	-
II. Shareholders' equity at end of period	8 440 374	6 542 898
III. Shareholders' equity after proposed appropriation of profit/absorption of loss	7 712 285	6 076 596

## PZU Życie SA accounts



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

Tel. +48 22 557 7  
Fax +48 22 557 7  
warszawa@pl.ey.com  
www.ey.com/pl

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

We issued previously the audit opinion with emphasis of matter dated March 15, 2005 on the financial statements for the year ended December 31, 2004 as presented below:

### "INDEPENDENT AUDITORS' OPINION"

#### To the Supervisory Board of Powszechny Zakład Ubezpieczeń na Życie SA

1. We have audited the financial statements for the year ended December 31, 2004 of Powszechny Zakład Ubezpieczeń na Życie SA (the "Company" or the "Insurer") located in Warsaw, Al. Jana Pawła II 24, containing:

- the introduction to the financial statements,
- the balance sheet as at December 31, 2004 with total assets amounting to 22,121,699,267.52 zlotys,
- the life insurance revenue account for the period from January 1, 2004 to December 31, 2004 with underwriting profit to be carried forward to the profit and loss account amounting to 829,986,771.42 zlotys,
- the profit and loss account for the period from January 1, 2004 to December 31, 2004 with a net profit amounting to 759,500,239.14 zlotys,
- the statement of changes in shareholders' equity for the period from January 1, 2004 to December 31, 2004 with a net increase in shareholders' equity amounting to 965,884,741.63 zlotys,
- the cash flow statement for the period from January 1, 2004 to December 31, 2004 with a net cash inflow amounting to 11,520,846.79 zlotys and
- 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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2. The truth and fairness<sup>1</sup> 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<sup>2</sup> 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 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 results of the Company's operations for the period from January 1, 2004 to December 31, 2004, as well as its financial position as at December 31, 2004;
  - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and regulations issued based on that Act;
  - are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Company's articles of association.
5. Without qualifying our opinion, we draw attention to the following issue. As described in points E and H of the introduction to the financial statements, to allow for comparability of the financial data, the Company has disclosed in the financial statements the impact of changes made to the opening balance sheets resulting from changes of accounting principles required by law and the impact of the results of the analysis of insurance documentation and the underlying liabilities.
6. We have read the Directors' Report for the period from January 1, 2004 to December 31, 2004 ("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 as well as Appendix 5 to the Decree of Ministry of Finance dated December 8, 2003 on insurance accounting."

<sup>1</sup> Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

<sup>2</sup> Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne"



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In our opinion the information presented in the published, condensed financial statements in tables 28 to 34 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, 2004 and the results of its operations for the period from January 1, 2004 to December 31, 2004, 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.

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

Iwona Kozera  
Certified Auditor No  
9528/7104

Tomasz Bieske  
Certified Auditor No 9291/6975

Warsaw, May 4, 2005

**PZU Życie SA BALANCE SHEET (thousand zloty)**table  
28.

ASSETS	December 31, 2004	December 31, 2003 (comparable data)
A. Intangible assets	62 160	46 703
1. Goodwill	-	-
2. Other intangible assets and payments on account	62 160	46 703
B. Investments	20 233 568	17 478 438
I. Real property	214 914	216 422
1. Land (including usufruct rights)	70 884	71 111
2. Buildings and structures	134 401	136 633
3. Construction investments and payments on account	9 629	8 678
II. Investments in affiliated undertakings	836 807	769 986
1. Shares in affiliates	626 284	556 280
2. Loans to affiliates and debt securities issued by affiliates	210 523	213 706
3. Other	-	-
III. Other financial investments	19 181 847	16 492 030
1. Shares and other variable-income securities, participating units and investment certificates in investment funds	2 105 849	1 422 003
2. Debt securities and other fixed-income securities	16 373 250	14 636 246
3. Participation in investment pools	-	-
4. Loans guaranteed by mortgages	4 867	6 859
5. Other loans	-	-
6. Term deposits at credit institutions	697 881	425 922
7. Other	-	1 000
IV. Deposits at ceding undertakings	-	-
C. Investments of life assurance funds where the investment risk is borne by the policyholders	1 297 450	1 391 811
D. Receivables	156 164	134 816
I. Receivables arising from direct insurance operations	65 323	69 371
1. Policyholders	65 178	69 189
1.1. affiliates	-	-
1.2. other undertakings	65 178	69 189
2. Insurance intermediaries	143	182
2.1. affiliates	-	-
2.2. other undertakings	143	182



**PZU Życie SA BALANCE SHEET (thousand zloty)**table  
28.

<b>ASSETS</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
3. Other	2	-
3.1. affiliates	-	-
3.2. other undertakings	2	-
II. Receivables arising from reinsurance operations	-	-
1. affiliates	-	-
2. other undertakings	-	-
III. Other receivables	90 841	65 445
1. Government	264	53
2. Other	90 577	65 392
2.1. affiliates	6 779	6 771
2.2. other undertakings	83 798	58 621
E. Other assets	173 350	172 181
I. Tangible fixed assets	70 515	80 973
II. Cash and cash equivalents	100 817	89 296
III. Other	2 018	1 912
F. Prepayments and accruals	199 007	216 951
I. Deferred tax assets	-	-
II. Deferred acquisition costs	134 591	150 609
III. Accrued interest and rentals	96	2
IV. Other	64 320	66 340
<b>Total assets</b>	<b>22 121 699</b>	<b>19 440 900</b>

**PZU Życie SA BALANCE SHEET (thousand zloty)**table  
29.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
<b>A. Equity</b>	<b>3 543 332</b>	<b>2 783 969</b>
I. Share capital	295 000	295 000
II. Unpaid allotted share capital (negative value)	-	-
III. Own shares (negative value)	-	-
IV. Capital surplus	2 279 428	1 699 055
V. Revaluation reserve	3 124	3 315
VI. Other reserve capital	-	-
VII. Prior-year undistributed profit/unabsorbed loss	206 280	302 869
VIII. Net profit (loss)	759 500	483 730
<b>B. Subordinated liabilities</b>	<b>-</b>	<b>-</b>
<b>C. Technical reserves</b>	<b>17 789 259</b>	<b>15 834 856</b>
I. Unearned premium reserve and unexpired risk reserve	70 547	63 576
II. Life assurance reserve	15 056 427	13 177 889
III. Outstanding claims reserve	494 680	454 004
IV. Reserve for bonuses and rebates for the insured	3 548	3 899
V. Equalisation reserve	-	-
VI. Other technical reserves	866 712	737 081
VII. Technical reserves for life assurance policies where the investment risk is borne by the policyholders	1 297 345	1 398 407
<b>D. Reinsurers' share of technical reserves (negative value)</b>	<b>121</b>	<b>152</b>
I. Reinsurers' share of unearned premium reserve and of unexpired risk reserve	-	-
II. Reinsurers' share of life assurance reserve	121	152
III. Reinsurers' share of outstanding claims reserve	-	-
IV. Reinsurers' share of reserve for bonuses and rebates for the insured	-	-
V. Reinsurers' share of other technical reserves	-	-
VI. Reinsurers' share of technical reserves for life assurance policies where the investment risk is borne by the policyholders	-	-
<b>E. Other provisions</b>	<b>278 346</b>	<b>256 072</b>
I. Provision for retirement pay and similar obligations	45 287	39 173
II. Deferred tax liability	233 059	187 899
III. Other	-	29 000
<b>F. Deposits received from reinsurers</b>	<b>-</b>	<b>-</b>

**PZU Życie SA BALANCE SHEET (thousand zloty)**table  
29.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
G. Other liabilities and special purpose funds	475 493	538 625
I. Direct insurance liabilities	124 925	123 823
1. Liabilities to the insured	115 603	114 298
1.1. affiliates	-	9
1.2. other undertakings	115 603	114 289
2. Liabilities to insurance intermediaries (agents), of which:	3 917	8 020
2.1. affiliates	-	-
2.2. other undertakings	3 917	8 020
3. Other insurance liabilities:	5 405	1 505
3.1. affiliates	-	-
3.2. other undertakings	5 405	1 505
II. Reinsurance liabilities:	2 588	909
1. affiliates	-	-
2. other undertakings	2 588	909
III. Liabilities from issuance of debt securities and loans taken out:	-	-
1. liabilities convertible to shares	-	-
2. other	-	-
IV. Liabilities to credit institutions	13 047	2 186
V. Other liabilities	288 463	365 666
1. Liabilities to government	254 904	333 428
2. Other, of which:	33 559	32 238
1. affiliates	1 266	1 289
2. other undertakings	32 293	30 949
VI. Special purpose funds	46 470	46 041
H. Accruals and deferred income	35 390	27 530
1. Accrued expenses	29 622	21 142
2. Negative goodwill	-	-
3. Deferred income	5 768	6 388
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>22 121 699</b>	<b>19 440 900</b>

table  
30.

OFF BALANCE SHEET ITEMS	December 31, 2004	December 31, 2003
1. Contingent receivables, of which:	543 368	570 948
1.1. guarantees and endorsements received	-	-
1.2. other	543 368	570 948
2. Contingent liabilities, of which:	493 586	277 848
2.1. guarantees and endorsements issued	-	-
2.2. bills of exchange accepted and endorsed	-	-
2.3. assets under repurchase agreements	450 473	215 214
2.4. other	-	-
3. Reinsurance guarantees received	-	-
4. Reinsurance guarantees issued on behalf of ceding undertakings	-	-
5. External assets not included in assets	-	-
<b>Total off balance sheet items</b>	<b>1 036 954</b>	<b>848 796</b>
Own funds	3 481 173	2 737 266
Solvency margin	1 403 496	1 335 914
Surplus (shortage) of own funds to cover solvency margin	2 077 677	1 401 352
Technical reserves, gross	17 789 259	15 834 855
Assets used to cover technical reserves	20 892 828	18 290 448
Surplus (shortage) of assets used to cover technical reserves	3 103 569	2 455 593

table  
31.

LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT, PZU ŻYCIE SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
I. Premiums	5 465 247	5 114 674
1. Gross premiums written	5 480 044	5 127 725
2. Reinsurers' share of gross premiums written	7 826	7 829
3. Movements in unearned premium reserve and unexpired risk reserve, gross	6 971	5 222
4. Reinsurers' share of movements in unearned premium reserve	-	-
II. Investment income	1 390 266	1 166 110
1. Income on investments in real property	1 141	1 340
2. Income on investments in affiliates,	19 681	9 194
2.1. on shares	14 256	3 071
2.2. on loans and debt securities	5 425	6 123
2.3. on other investments	-	-
3. Income on other financial investments	1 103 165	975 902
3.1. Shares and other variable-income securities, participation units and investment certificates in investment funds	20 842	9 530
3.2. Debt securities and other fixed-income securities	1 068 100	951 768
3.3. Term deposits at credit institutions	14 201	14 566
3.4. Other	22	38
4. Gains on revaluation of investments	637	24 583
5. Gains on realisation of investments	265 642	155 091
III. Unrealised gains on investments	582 377	518 836
IV. Other technical income, net of reinsurers' share	7 182	8 450
V. Claims and benefits	3 603 929	3 242 924
1. Claims and benefits paid, net of reinsurers' share	3 563 253	3 180 144
1.1. Claims and benefits paid, gross	3 565 463	3 182 154
1.2. Reinsurers' share of claims and benefits paid	2 210	2 010
2. Movements in outstanding claims reserve, net of reinsurers' share	40 676	62 780
2.1. Movements in outstanding claims reserve, gross	40 676	62 780
2.2. Reinsurers' share of movements in outstanding claims reserve	-	-

table  
31.

<b>LIFE INSURANCE REVENUE ACCOUNT AND UNDERWRITING RESULT, PZU ŻYCIE SA (thousand zloty)</b>	<b>January 1, 2004 - December 31, 2004</b>	<b>January 1, 2003 - December 31, 2003 (comparable data)</b>
VI. Movements in other technical reserves, net of reinsurers' share	1 907 138	1 846 191
1. Movements in other non-life technical reserves, net of reinsurers' share, including:	1 878 569	1 469 218
1.1. Gross reserves	1 878 538	1 469 220
1.2. Reinsurers' share	(31)	2
2. Movements in life assurance reserves net of reinsurers' share where the investment risk is borne by the policyholders	(101 062)	176 377
2.1. Gross reserves	(101 062)	176 377
2.2. Reinsurers' share	-	-
3. Movements in other reserves defined by Articles, net of reinsurers' share	129 631	200 596
3.1. Gross reserves	129 631	200 596
3.2. Reinsurers' share	-	-
VII. Bonuses and rebates for the insured net of reinsurers' share, including movements in reserve for bonuses and rebates	3 277	2 807
VIII. Costs of insurance activities	837 642	849 321
1. Acquisition costs, of which:	497 217	476 537
1.1. movements in deferred acquisition costs	16 018	42 356
2. Administrative expenses	342 773	377 358
3. Reinsurance commission and share in reinsurers' profits	2 348	4 574
IX. Investment expenses	28 200	69 907
1. Maintenance costs of property investments	1 623	1 017
2. Other investment expenses	13 383	11 013
3. Loss on revaluation of investments	4 641	46 870
4. Loss on realisation of investments	8 553	11 007
X. Unrealised losses on investments	110 559	96 688
XI. Other technical costs, net of reinsurers' share	29 410	45 536
XII. Investment income, net of costs, transferred to General Profit and Loss Account	94 929	137 793
XIII. Life insurance underwriting result	829 988	516 903

table  
32.

GENERAL PROFIT AND LOSS ACCOUNT, PZU ŻYCIE SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
I. Life insurance underwriting result	829 988	516 903
II. Investment income, of which:	-	-
1. on real property	-	-
2. on investments in affiliates, of which:	-	-
2.1. shares	-	-
2.2. loans and debt securities	-	-
2.3. other investments	-	-
3. Income on other financial investments, of which:	-	-
3.1. shares, variable-income securities, participation units and certificates in investment funds	-	-
3.2. debt securities and other fixed-income securities	-	-
3.3. term deposits at credit institutions	-	-
3.4. other investments	-	-
4. Gains on revaluation of investments	-	-
5. Gains on realisation of investments	-	-
III. Unrealised gains on investments	-	-
IV. Investment income transferred from Life Insurance Revenue Account	94 929	137 793
V. Investment expenses	-	-
1. Maintenance Costs of property investments	-	-
2. Other investment expenses	-	-
3. Loss on revaluation of investments	-	-
4. Loss on realisation of investments	-	-
VI. Unrealised losses on investments	-	-
VII. Investment income transferred from Non-life Insurance Revenue Account	-	-
VIII. Other operating income	66 319	26 987
IX. Other operating expenses	57 093	81 209
X. Operating profit (loss)	934 143	600 474
XI. Extraordinary gains	50	62
XII. Extraordinary losses	24	40

table  
32.**GENERAL PROFIT AND LOSS ACCOUNT, PZU ŻYCIE SA**  
(thousand zloty)January 1, 2004 -  
December 31, 2004January 1, 2003 -  
December 31, 2003  
(comparable data)

XIII. Profit (loss) before tax

934 169

600 496

XIV. Income tax

174 669

116 766

XV. Other taxes

-

-

**XVI. Net profit (loss) for the financial year****759 500****483 730**



table  
33.

CASH FLOW STATEMENT, PZU ŻYCIE SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
A. Cash flow from operating activities		
I. Inflows	5 525 215	5 187 030
1. Inflows from direct insurance and inward reinsurance, of which:	5 494 781	5 132 720
1.1. Cash inflows from gross premiums written	5 487 623	5 124 270
1.2. Cash inflows from recourses and recoveries	-	-
1.3. Other cash inflows from direct insurance	7 158	8 450
2. Cash inflows from outward reinsurance	4 558	6 583
2.1. Cash inflows from reinsurers due to share of claims paid	2 210	2 010
2.2. Cash inflows from reinsurers' commission and share of reinsurers' profits	2 348	4 573
2.3. Other cash inflows from outward reinsurance	-	-
3. Cash inflows from other operating activities	25 876	47 727
3.1. Cash inflows from loss adjusting services on behalf of other insurers	-	-
3.2. Sale of intangible assets and tangible fixed assets other than long-term investments	1 847	496
3.3. Other	24 029	47 231
II. Outflows	4 713 385	4 142 578
1. Outflows from direct insurance and inward reinsurance	4 322 079	3 988 503
1.1. Gross premium returns	-	-
1.2. Claims paid, gross	3 565 462	3 182 154
1.3. Acquisition costs	497 217	476 537
1.4. Administrative expenses	251 072	284 276
1.5. Commissions paid and share of profit from inward reinsurance	-	-
1.6. Other direct insurance and inward reinsurance expenses	8 328	45 536
2. Cash outflows from outward reinsurance	7 826	7 828
2.1. Premiums paid in respect of outward reinsurance	7 826	7 828
2.2. Other outward reinsurance expenses	-	-
3. Other operating expenses	383 480	146 247
3.1. Expenses relating to loss adjusting services on behalf of other insurers	-	-
3.2. Purchase of intangible assets and tangible fixed assets other than long-term investments	70 390	69 292
3.3. Other costs of insurance activities	313 090	76 955
III. Net cash from operating activities (I-II)	811 830	1 044 452

table  
33.

CASH FLOW STATEMENT, PZU ŻYCIE SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
B. Cash flow from investing activities	-	-
I. Inflows	98 849 971	104 544 753
1. Sale of real property	-	-
2. Sale of shares in affiliates	14 500	10
3. Sale of shares in other undertakings, participation units and investment certificates in investment funds	837 563	294 153
4. Sale of debt securities issued by affiliates and loans repaid by those undertakings	14 973	23 673
5. Sale of debt securities issued by other undertakings	27 858 233	27 495 401
6. Withdrawal of term deposits at credit institutions	69 078 037	75 662 736
7. Withdrawal of other investments	1 022	37
8. Inflows from real property	1 141	1 340
9. Interest received	1 016 575	1 056 693
10. Dividends received	27 927	10 710
11. Other investment inflows	-	-
II. Outflows	99 650 280	105 592 888
1. Purchase of real property	-	-
2. Purchase of shares in affiliates	15 502	17 850
3. Purchase of shares in other undertakings, participation units and investment certificates in investment funds	1 041 238	458 937
4. Purchase of debt securities issued by affiliates and loans granted to those undertakings	-	-
5. Purchase of debt securities issued by other undertakings and loans granted to those undertakings	29 083 901	29 389 351
6. Term deposits at credit institutions	69 489 925	75 711 759
7. Other investments	4 708	2 961
8. Outflows for real property maintenance	1 623	1 017
9. Other investments and deposits	13 383	11 013
III Net cash from financing activities (I-II)	(800 309)	(1 048 135)
C. Cash flow from financing activities	-	-
I. Inflows	-	-
1. Net inflow from issue of shares and additional payments to share capital	-	-
2. Loans/advances and issue of debt securities	-	-
3. Other	-	-

table  
33.

<b>CASH FLOW STATEMENT, PZU ŻYCIE SA (thousand zloty)</b>	<b>January 1, 2004 - December 31, 2004</b>	<b>January 1, 2003 - December 31, 2003 (comparable data)</b>
II. Outflows	-	-
1. Dividends	-	-
2. Outflows due to appropriation of profit other than payments to shareholders	-	-
3. Re-acquisition of own shares	-	-
4. Repayment of loans/advances and redemption of debt securities	-	-
5. Interest on loans/advances and debt securities issued	-	-
6. Other outflows from financing activities	-	-
III. Net cash from financing activities (I-II)	-	-
D. Net cash, total (A.III+/-B.III+/-C.III)	11 521	(3 683)
E. Change in cash, of which:	11 521	(3 702)
1. change in cash and cash equivalents due to foreign exchange losses	-	(19)
F. Cash and cash equivalents at beginning of period	89 296	92 998
<b>G. Cash and cash equivalents at end of period (F+/-E), of which:</b>	<b>100 817</b>	<b>89 296</b>
– of restricted use	-	-

table  
34.

STATEMENT OF MOVEMENTS IN EQUITY, PZU ŻYCIE SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
I. Shareholders' equity at beginning of period	2 577 448	1 997 755
a) changes in accounting policies	(99 481)	(209 424)
b) adjustments due to fundamental errors	306 002	512 418
I. a. Shareholders' equity at beginning of period, after adjustments	2 783 969	2 300 749
1. Share capital at beginning of period	295 000	295 000
1.1. Movements in share capital	-	-
a) increases, due to	-	-
- shares issued	-	-
b) decreases, due to	-	-
- shares redeemed	-	-
1.2. Share capital at end of period	295 000	295 000
2. Unpaid allotted share capital at beginning of period	-	-
2.1. Movements in unpaid share capital	-	-
a) increases	-	-
b) decreases	-	-
2.2. Unpaid share capital at end of period	-	-
3. Own shares at beginning of period	-	-
3.1. Movements in own shares	-	-
a) increases	-	-
b) decreases	-	-
3.2 Own shares at end of period	-	-
4. Capital surplus at beginning of period	1 699 055	1 209 697
4.1. Movements in capital surplus	580 373	489 358
a) increases	580 373	489 358
- shares issued above par	-	-
- profit distribution (statutory)	-	-
- profit distribution (in excess of legal requirements)	580 319	489 308
- revaluation reserve	54	50
b) decreases	-	-
4.2. Capital surplus at end of period	2 279 428	1 699 055

table  
34.

STATEMENT OF MOVEMENTS IN EQUITY, PZU ŻYCIE SA (thousand zloty)		January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
5. Revaluation reserve at beginning of period		3 074	3 750
a) changes in accounting policies		241	125
b) adjustments due to fundamental errors		-	-
5.a. revaluation reserve at beginning of period, after adjustments		3 315	3 875
5.1. Movements in revaluation reserve		(191)	(560)
a) increases		-	116
- sale/liquidation of fixed assets		-	-
- revaluation		-	116
b) decreases		191	676
- asset sale/liquidation		54	50
- investment revaluation		137	626
5.2. Capital surplus at end of period		3 124	3 315
6. Other reserve capital at beginning of period		-	-
6.1. Movements in other reserve capital		-	-
a) increases		-	-
b) decreases		-	-
6.2. Other reserve capital at end of period		-	-
7. Prior-year undistributed profit/unabsorbed loss at beginning of period		580 319	489 308
7.1. Prior-year undistributed profit at beginning of period		580 319	489 308
a) changes in accounting policies		(99 722)	(209 549)
b) adjustments due to fundamental errors		306 002	512 418
7.2. Prior-year undistributed profit at beginning of period , after adjustments		786 599	792 177
a) increases		-	-
- prior-year profit distribution		-	-
b) decreases		580 319	489 308
- dividends paid		-	-
- transfer to capital surplus		580 319	489 308
- other		-	-
7.3. Prior-year undistributed profit at end of period		206 280	302 869

table  
34.

STATEMENT OF MOVEMENTS IN EQUITY, PZU ŻYCIE SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
7.4. Prior-year unabsorbed loss at beginning of period	-	-
a) changes in accounting policies	-	-
b) adjustments due to fundamental errors	-	-
7.5. Prior-year unabsorbed loss at beginning of period, after adjustments	-	-
a) increases	-	-
- prior-year unabsorbed loss carried forward	-	-
b) decreases	-	-
- loss absorption via capital surplus	-	-
7.6. Prior-year unabsorbed loss at end of period	-	-
7.7. Prior-year undistributed profit/unabsorbed loss at end of period	206 280	302 869
8. Net result	759 500	483 730
a) net profit	759 500	483 730
b) net loss	-	-
c) appropriation from profit	-	-
<b>II. Shareholders' equity at end of period</b>	<b>3 543 332</b>	<b>2 783 969</b>
III. Shareholders equity after proposed appropriation from profit/absorption of losses	3 543 332	2 783 969



## PTE PZU SA accounts



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

Tel. +48 22 557 7  
Fax +48 22 557 7  
warszawa@pl.ey.co  
www.ey.com/pl

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

We issued previously the audit opinion with emphasis of matter dated February 25, 2005 on the financial statements for the year ended December 31, 2004 as presented below:

### "INDEPENDENT AUDITORS' OPINION"

#### To the Supervisory Board of Powszechnie Towarzystwo Emerytalne SA

1. We have audited the financial statements for the year ended December 31, 2004 of Powszechnie Towarzystwo Emerytalne PZU SA (the "Company") located at Al. Jana Pawła 24, Warsaw, containing:

- the introduction to the financial statements,
- the balance sheet as at December 31, 2004 with total assets amounting to 217,879,409.34 zlotys,
- the profit and loss account for the period from January 1, 2004 to December 31, 2004 with a net profit amounting to 45,609,973.54 zlotys,
- the statement of changes in shareholders' equity for the period from January 1, 2004 to December 31, 2004 with a net increase in shareholders' equity amounting to 46,252,899.02 zlotys,
- the cash flow statement for the period from January 1, 2004 to December 31, 2004 with a net cash inflow amounting to 35,146,515.55 zlotys and
- the additional notes and explanations.

2. The truth and fairness<sup>1</sup> 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<sup>2</sup> 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

<sup>1</sup> Translation of the following expression in Polish: "rzetelność, prawidłowość i jasność"

<sup>2</sup> Translation of the following expression in Polish: "rzetelne, prawidłowe i jasne"





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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, 2003 were subject to our audit and we issued an opinion including an emphasis of matter on these financial statements, dated February 3, 2004. 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, 2004 to December 31, 2004, as well as its financial position as at December 31, 2004;
  - 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, we draw attention to the following issue described in point 18 of the additional notes and explanations to the financial statements. Based on the statute of Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("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 July 23, 2003 Act on taking over the ZUS liabilities resulting from not transferred contributions to pension funds by the State Treasury (Dz.U. 2003 Nr 149, item 1450), the State Treasury started in 2003 and continued in 2004 to transfer overdue contributions to pension funds in a form of treasury bonds. However, according to the Company's Management Board estimations, the contributions received by the Fund by the end of 2004 constitute only a part of overall estimated State Treasury liability to the Fund. The financial statements of the Company for the year ended December 31, 2004 include only the manipulation fee income due from the contributions received by the Fund until December 31, 2004 in form of cash or treasury bonds 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, 2004 to December 31, 2004 ("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 Act."





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In our opinion the information presented in the published, condensed financial statements in tables 35 to 39 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, 2004 and the results of its operations for the period from January 1, 2004 to December 31, 2004, 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.

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

Iwona Kozera  
Certified Auditor No  
9528/7104

Tomasz Bieske  
Certified Auditor No 9291/6975

Warsaw, May 4, 2005

**PTE PZU SA BALANCE SHEET (thousand zloty)**table  
35.

<b>ASSETS</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
<b>A. Fixed assets</b>	<b>64 565</b>	<b>62 174</b>
I. Intangible assets	203	496
1. Formation expenses	-	-
2. Goodwill	-	-
3. Other intangible assets	203	496
4. Payments on account	-	-
II. Tangible fixed assets	1 786	1 248
1. Fixed assets	1 786	1 248
a) Land (including usufruct)	-	-
b) Buildings	-	-
c) plant and machinery	280	148
d) transport vehicles	1 208	650
e) other	298	450
2. Fixed assets under construction	-	-
3. Payments on account	-	-
II. Long-term receivables	293	293
1. From affiliates	293	293
2. From other undertakings	-	-
IV. Long-term investments	49 341	23 019
1. Real property	-	-
2. Intangible assets	-	-
3. Long-term financial assets	49 341	23 019
a) related undertakings	-	-
- shares	-	-
- other securities	-	-
- loans extended	-	-
- other long-term financial assets	-	-
b) other undertakings	49 341	23 019
- shares	-	-
- other securities	49 341	23 019

**PTE PZU SA BALANCE SHEET (thousand zloty)**table  
35.

<b>ASSETS</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
- loans extended	-	-
- other long-term financial assets	-	-
4. Other long-term investments	-	-
V. Long-term prepayments and accrued income	12 942	37 118
1. Deferred income tax	12 942	37 118
2. Other	-	-
B. Current assets	153 314	121 119
I. Stocks	-	-
1. Materials	-	-
2. Work in progress	-	-
3. Finished goods	-	-
4. Goods for resale	-	-
5. Payments on account	-	-
II. Short-term receivables	5 872	8 920
1. Receivables from affiliates	-	-
a) trade receivables:	-	-
- up to 12 months	-	-
- above 12 months	-	-
b) other	-	-
2. Receivables from other undertakings	5 872	8 920
a) trade receivables:	5 857	8 914
- up to 12 months	5 857	8 914
- above 12 months	-	-
b) taxes, subsidies, customs duties, social/health insurance	-	-
c) other	15	6
d) claims in litigation	-	-
III. Short-term investments	147 292	111 159
1. Short-term financial assets	146 516	43 812
a) affiliated undertakings	-	-
- shares	-	-
- other securities	-	-

**PTE PZU SA BALANCE SHEET (thousand zloty)**table  
35.

<b>ASSETS</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
- loans extended	-	-
- other short-term financial assets	-	-
b) other undertakings	86 520	18 963
- shares	-	-
- other securities	86 520	18 963
- loans extended	-	-
- other short-term financial assets	-	-
c) cash and cash equivalents	59 996	24 849
- cash at hand and at bank	59 996	24 849
- other cash	-	-
- equivalents	-	-
2. Other short-term investments	776	67 347
IV. Short-term prepayments and accrued income	150	1 040
<b>Total assets</b>	<b>217 879</b>	<b>183 293</b>

**PTE PZU SA BALANCE SHEET (thousand zloty)**table  
36.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
<b>A. Equity</b>	<b>203 834</b>	<b>157 581</b>
I. Share capital	32 000	32 000
II. Unpaid allotted share capital (negative value)	-	-
III. Own shares (negative value)	-	-
IV. Capital surplus	288 000	288 000
V. Revaluation reserve	643	-
VI. Other reserve capital	-	-
VII. Prior-year undistributed profit/unabsorbed loss	(162 419)	(229 046)
VIII. Net profit (loss) for the financial year	45 610	66 627
IX. Appropriation from net profit during financial year (negative value)	-	-
<b>B. Liabilities and provisions for liabilities</b>	<b>14 045</b>	<b>25 712</b>
I. Provision for liabilities	1 410	14 281
1. Provision for deferred income tax	1 160	14 080
2. Provision for pensions and similar benefits	250	201
- long-term	246	197
- short-term	4	4
3. Other provisions	-	-
- long-term	-	-
- short-term	-	-
II Long-term liabilities	-	-
1. To affiliated undertakings	-	-
2. To other undertakings	-	-
a) loans and advances	-	-
b) debt securities	-	-
c) other financial obligations	-	-
d) other	-	-
III Short-term liabilities	2 403	2 428
1. To affiliated undertakings	312	170
a) trade creditors :	312	170
- up to 12 months	312	170
- above 12 months	-	-

**PTE PZU SA BALANCE SHEET (thousand zloty)**table  
36.

<b>LIABILITIES AND EQUITY</b>	<b>December 31, 2004</b>	<b>December 31, 2003 (comparable data)</b>
b) other	-	-
2. To other undertakings	2 024	2 214
a) loans and advances	-	-
b) debt securities	-	-
c) other financial obligations	-	-
d) trade creditors	838	171
- up to 12 months	838	171
- above 12 months	-	-
e) payments received on account	-	-
f) bills of exchange payable	-	-
g) taxes, customs, social security and other	417	769
h) wages and salaries	-	-
i) other	769	1 274
3. Special-purpose funds	67	44
IV Accrued expenses and deferred income	10 232	9 003
1. Negative goodwill	-	-
2. Other accrued expenses and deferred income	10 232	9 003
- long-term	-	-
- short-term	10 232	9 003
<b>Total liabilities and equity</b>	<b>217 879</b>	<b>183 293</b>

table  
37.

PROFIT AND LOSS ACCOUNT, PTE PZU SA (thousand zloty)		1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
A. Net sales revenue, of which:		151 681	132 143
- from affiliates		-	-
I. Sales of goods		151 681	132 143
II. Change in goods (+/- increase/decrease)		-	-
III. Cost of goods for in-house consumption		-	-
IV. Net sales of goods for resale and materials		-	-
B. Cost of sales		111 861	117 300
I. Depreciation/amortisation		767	864
II. Materials and energy		1 076	1 045
III. External services		70 459	63 102
IV. Taxes and surcharges, of which:		224	151
- excise duty		-	-
V. Wages and salaries		10 798	10 636
VI. Social security and other benefits		1 987	1 481
VII. Other costs		26 550	40 021
VIII. Goods for resale and materials		-	-
C. Gross profit (A-B)		39 820	14 843
D. Other operating income		8 691	68 838
I. Gain from disposal of non-financial fixed assets		68	88
II. Subsidies		-	-
III. Other operating income		8 623	68 750
E. Other costs of insurance activities		366	648
I. Loss from disposal of non-financial fixed assets		-	-
II. Non-financial assets value adjustment		-	-
III. Other		366	648
F. Operating profit (loss) (C+D-E)		48 145	83 033
G. Financial income		8 611	2 965
I. Dividends and profit sharing, of which:		-	-
- from affiliates		-	-
II. Interest, of which:		2 282	1 090
- from affiliates		-	1

table  
37.

PROFIT AND LOSS ACCOUNT, PTE PZU SA (thousand zloty)		1 January 2004 - December 31, 2004	1 January 2003 - December 31, 2003 (comparable data)
III. Gains from disposal of investments		2 621	1 676
IV. Investment value adjustment		3 707	194
V. Other		1	4
H. Financial expense		41	24
I. Interest, of which:		-	-
- from affiliates		-	-
II. Losses on disposal of investments		-	-
III. Investment value adjustment		-	-
IV. Other		41	24
I. Profit (loss) on ordinary activities (F+G-H)		56 715	85 974
J. Extraordinary items (J I - J II)		-	-
I. Extraordinary gains		-	-
II. Extraordinary losses		-	-
K. Profit (loss) before tax (I-J)		56 715	85 974
L. Income tax		11 105	19 347
M. Other taxes		-	-
N. Net profit (loss) for the financial year (K-L-M)		45 610	66 627



table  
38.**CASH FLOWS STATEMENT, PTE PZU SA (indirect method)**  
**(thousand zloty)**January 1, 2004 -  
December 31, 2004January 1, 2003 -  
December 31, 2003  
(comparable data)

<b>A. Cash flows from operating activities</b>		
I. Net profit/(loss)	45 610	66 627
II. Adjustments, total	74 967	(52 872)
1. Depreciation/amortisation	767	864
2. Currency translation adjustments	-	-
3. Interest and dividends	(8 751)	(3 178)
4. Profit/(loss) on asset disposals	(68)	(88)
5. Change in reserves/provisions	(12 871)	13 662
6. Change in stocks	-	-
7. Change in claims and receivables	3 048	(1 668)
8. Change in short-term liabilities (excluding loans and advances)	(24)	(334)
9. Change in accrued/deferred income and expense	26 295	5 217
10. Other	66 571	(67 347)
III. Net cash from operating activities (I–II)	120 577	13 755
<b>B. Cash flows from investing activities</b>		
I. Inflows	126 127	66 448
1. Disposal of intangible assets and tangible fixed assets	233	141
2. Disposal of investments in real property and in intangible assets	-	-
3. From financial assets, of which:	125 894	66 307
a) in affiliates	-	-
b) in other undertakings	125 894	66.307
-sale of financial assets,	123 622	65.000
- dividends and profit sharing	-	-
- repayment of long-term loans extended	-	-
- interest	2 272	1.307
- other inflows from financial assets	-	-
4. Other investment inflows	-	-
II. Outflows	211 557	91 209
1. Purchase of intangible assets and tangible fixed assets	1 177	401
2. Investments in real property and in intangible assets	-	-

table  
38.

CASH FLOWS STATEMENT, PTE PZU SA (indirect method) (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
3. Financial assets, of which	210 380	90 808
a) in affiliates	-	-
b) in other undertakings	210 380	90.808
- purchase of financial assets	210 380	90.808
- long-term loans extended	-	-
4. Other investment outflows	-	-
III. Net cash from investing activities (I-II)	(85 430)	(24 761)
C. Cash flows from financing activities	-	-
I. Inflows	-	-
1. Net inflows from shares issued and shareholders' supplementary contributions	-	-
2. Loans and advances	-	-
3. Debt securities issued	-	-
4. Other financial inflows	-	-
II. Outflows	-	-
1. Treasury stock (own shares)	-	-
2. Dividends and other payouts to owners	-	-
3. Profit distribution other than payouts to owners	-	-
4. Repayment of loans and advances	-	-
5. Redemption of debt securities	-	-
6. Other financial obligations	-	-
7. Disbursements under financial lease agreements	-	-
8. Interest	-	-
9. Other financial expenses	-	-
III. Net cash from financing activities (I-II)	-	-
D. Net cash, total (A.III-B.III-C.III)	35 147	(11 006)
E. Change in net cash, of which:	35 147	(11 006)
- currency translation	-	-
F. Cash at beginning of period	24 849	35 855
G. Cash at end of period (F-D), of which	59 996	24 849
- of restricted use	-	-

table  
39.

STATEMENT OF MOVEMENTS IN EQUITY, PTE PZU SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
I. Shareholders' equity at beginning of period	157 581	90 954
- adjustments due to fundamental errors	-	-
I.a. Shareholders' equity at beginning of period, after adjustments	157 581	90 954
1. Share capital at beginning of period	32 000	32 000
1.1. Movements in share capital	-	-
a) increases	-	-
- shares issued	-	-
b) decreases	-	-
- shares redeemed	-	-
1.2. Share capital at end of period	32 000	32 000
2. Unpaid allotted share capital at beginning of period	-	-
2.1. Movements in unpaid allotted share capital	-	-
a) increases	-	-
b) decreases	-	-
2.2. Unpaid allotted share capital at end of period	-	-
3. Treasury stock (own shares) at beginning of period	-	-
a) Increases	-	-
b) Decreases	-	-
3.1. Treasury stock (own shares) at end of period	-	-
4. Capital surplus at beginning of period	288 000	288 000
4.1. Movements in capital surplus	-	-
a) increases	-	-
- shares issued above par	-	-
- statutory profit distribution	-	-
- profit distribution above statutory minimum	-	-
b) decreases	-	-
- absorption of loss	-	-
4.2. Capital surplus at end of period	288 000	288 000
5. Revaluation reserve at beginning of period	-	-
5.1. Movements in revaluation reserve	-	-

table  
39.

STATEMENT OF MOVEMENTS IN EQUITY, PTE PZU SA (thousand zloty)	January 1, 2004 - December 31, 2004	January 1, 2003 - December 31, 2003 (comparable data)
a) increases	643	-
- long-term investment valuation	643	-
b) decreases	-	-
- sale of fixed assets	-	-
5.2. revaluation reserve at end of period	643	-
6. Other reserve capital at beginning of period	-	-
6.1. Movements in other reserve capital	-	-
a) Increases	-	-
b) Decreases	-	-
6.2. Other reserve capital at end of period	-	-
7. Prior-year profit/(loss) at beginning of period	(162 419)	(229 046)
7.1. Prior-year undistributed profit at beginning of period	-	-
- adjustments due to fundamental errors	-	-
7.2. Prior-year undistributed profit after adjustments	-	-
a) increases	-	-
- distribution of prior-year profit	-	-
b) decreases	-	-
7.3. Prior-year undistributed profit at end of period	-	-
7.4. Prior-year unabsorbed loss at beginning of period	(162 419)	(229 046)
- adjustments due to fundamental errors	-	-
7.5. Prior-year unabsorbed loss at beginning of period, after adjustments	(162 419)	(229 046)
a) increases	-	-
- prior-year loss carried forward	-	-
b) decreases	-	-
7.6. Prior-year unabsorbed loss at end of period	(162 419)	(229 046)
7.7. Prior-year undistributed profit/unabsorbed loss at end of period	(162 419)	(229 046)
8. Net profit/(loss) for the financial year	45 610	66 627
a) net profit	45 610	66 627
b) net loss	-	-
c) appropriation from profit	-	-
<b>II. Equity at end of period</b>	<b>203 834</b>	<b>157 581</b>
III. Shareholders' equity after proposed appropriation of profit/absorption of loss	203 834	157 581