

08:30

PZU TIME

annual report 2005



PZU SA
PZU Życie SA
PTE PZU SA, TFI PZU SA

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*We are there for our
customers at each
phase of their lives.*

10:15

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Basic information on the PZU Group

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The Capital Group of Powszechny Zakład Ubezpieczeń SA (the PZU Group) is one of the largest financial institutions in Poland. As an unbeatable leader on the Polish insurance market and the biggest insurance group in Central and Eastern Europe, PZU 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 insurance market and continues to expand the scope of its services. The Group's core businesses comprise the sale of non-life insurance and life assurance, and also management of pension fund, investment funds and savings plans. Since 2002, the PZU Group has operated in Lithuania and since 2005 it has also been present in Ukraine.

The Group's products are sold in over 700 outlets all around the country. Over 12.3 thousand agents are also engaged in active sales in the PZU Group's products. The customer base of the PZU Group amounts to well over a dozen million individuals and companies.

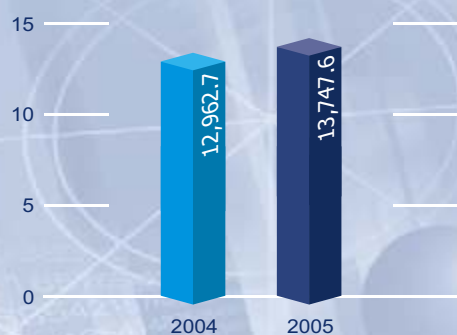
The PZU Group is also one of the country's biggest employers, with total staff of over 16 thousand people.

PZU constitutes one of the best recognised brand names on the Polish market. PZU SA and PZU Życie SA are recognised by over 91% and almost 88% Poles, respectively.

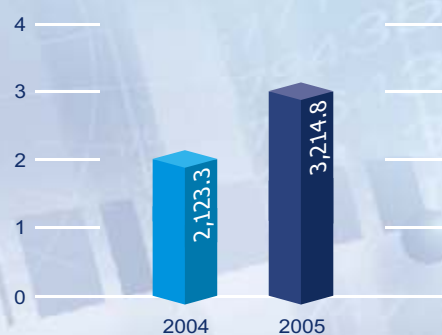
In 2005, the rating agency Standard & Poor's maintained its "A-" rating for the PZU Group financial standing. It has been the highest rating ever attained by an insurance company in Central and Eastern Europe.

Independent rankings, numerous awards and mentions confirm the PZU Group's leading position on the Polish insurance and financial market. In 2005, the PZU Group ranked third in Top 500 ranking of the "Rzeczpospolita" daily, winning the title of the "Best Financial Institution 2004" among property insurers.

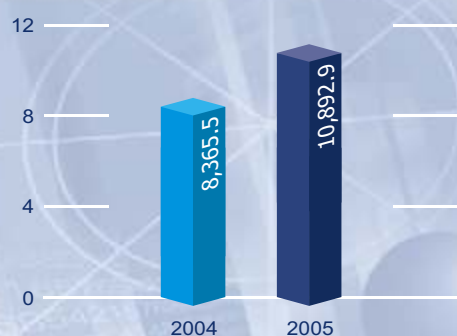
Offering financial support to many social initiatives and public benefits institutions, the PZU Group abides by the principles of corporate social responsibility. Social activities of the Group include health care, education and public safety. Patronage over the Polish culture and arts has for years been the Group's strategic direction in sponsoring and preventive policy.



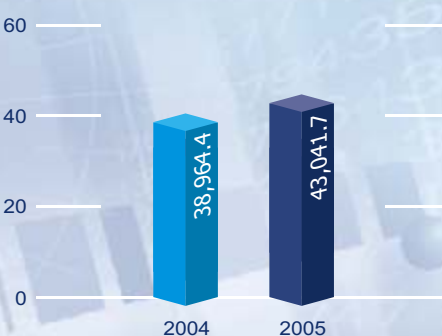
Gross premiums written of the PZU Group
(million zloty)



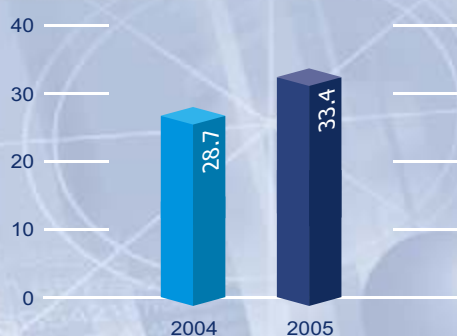
Net earnings of the PZU Group
(million zloty)



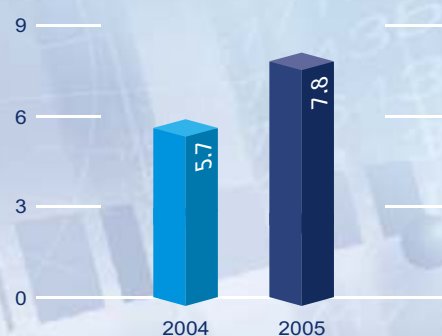
Equity of the PZU Group
(million zloty)



Total assets of the PZU Group
(million zloty)



ROE of the PZU Group
(in %)



ROA of the PZU Group
(in %)

Rating Standard & Poor's
"A-" stable outlook



Information on the most current rating is available at www.standardandpoors.com or from Standard & Poor's at +1 (212) 438-2400.

Ratings are not a guarantee of an insurer's financial strength nor a recommendation as to the insurer.



*We defined the
PZU Group's strategy
for 2006-2010.*

12:00

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Letter from the President of PZU SA Management Board

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Ladies and Gentlemen,

The year 2005 was a successful one for the Polish economy. Last year, economic growth dynamics rose quarter on quarter, while business climate for corporates continued to improve regularly, if moderately. Although internal demand and investments, which are of primary importance for insurance market development, did not see sufficient growth rate, it can generally be concluded that the economic climate was improving gradually. Growth in the insurance market, measured with premiums written considerably outpaced economic growth.

Under such market circumstances, the PZU Group was named the most profitable financial institution in Poland and Central and Eastern Europe in 2005. For the first time ever, the Group's consolidated net earnings exceeded 3.2 billion zloty, placing our institution among the most profitable insurance undertakings in the world, with ROE over 33%.

Both PZU SA and PZU Życie SA saw a considerable increase in underwriting result, with figures reaching 61.3% and 91%, respectively. This significant improvement on last year was possible due to higher premiums written, lower costs of change in provisions and, in non-life business, lower level of paid claims. Analysis of these results shows primarily that modernisation process carried in the PZU Group yielded positive results. There is no doubt that we can now organise sales of our products in an improved and more efficient way. Gradual unification of life and non-life business structures in the country, visible at glance in the same number of non-life and life district branches should enable cross-sell of products and services offered by all PZU Group's companies in two years time. We hope that the new sales organisational structures and revitalisation of agency networks shall bolster positive tendencies from last year.

A particular success of 2005 was PZU Życie SA's assuming leading position in the third pillar of pension business. Currently, the PZU Group runs the biggest number of Employee Pension Programs and Individual Pension Accounts on the Polish market. The role of TFI PZU SA (investment fund company) as distributor of Employee Pension Programs should be emphasised here, as its activity contributed significantly to building the Group's position in this market segment.

Also PTE PZU SA (pension company) managed to bolster its position, with considerably better financial performance than last year.

We performed systematic review of motor-related products and we developed new premium schedules for this group, better accounting for real insurance risk factors. Innovative products launched by PZU Życie SA enabled the Company to react quickly to customers' needs as they appear and to competitors' activities. We also focused on improving customer service quality in claims pay-outs and benefits handling. Last year the PZU Group paid out 8,207.1 million zloty in net claims and benefits. This means that the PZU Group pays out more claims than all other insurance companies operating in Poland together. Last year we managed to shorten motor loss adjustment lead time, an important factor for a few million customers, given the extremely strong position of PZU SA in this market segment. We also continued our efforts aimed at introducing telephone assistance for claims notification all around the country. We plan to finalise implementation of this Telepomoc solution in the second half 2006.

Due to PZU Group's leading role in the Polish financial market and the significance of its assets for the Polish economy, transparency of all the Group's activities is of critical importance. For another time round, we were subject of rating procedure. The renown rating agency Standard & Poor's maintained its "A-" rating assigned to the PZU Group, which is practically the highest possible level that a Polish institution can attain. The PZU Group's own funds rose 30.2% in 2005 to the level of 10,892.9 million zloty. Both insurance undertakings within the Group saw an increase in own funds covering solvency margin: in PZU SA from 402.6% to 782.3%, and in PZU Życie SA from 248% to 267.1%. This serves as the best proof of our financial reliability and full security that all our customers enjoy.

We made a significant step in integrating the PZU Group and getting it ready for turning into a modern financial holding. Our General Meeting of June last year gave us a green light for the direction of these changes. We commenced dialogue with our regulators, necessary to carry out legal aspects of transfer towards a target model. We hope that in 2008 we will operate as a holding.

A watershed event of 2005 was the adoption of a middle-term strategy for the PZU Group for 2006-2010 by the Management Boards of PZU SA, PZU Życie SA, PTE PZU SA and TFI PZU SA at their joint meeting on November 17, 2005. This document was being developed for a whole year, and finally it was adopted by Supervisory Boards of PZU SA and PZU Życie SA. The strategy presents Group's objectives for the coming years and the initiatives that need to be taken to achieve them. According to this document, the PZU Group will continue to be a financial institution offering some millions of customers services that suit their insurance, pension and investment needs at a sensible price. The purpose of PZU is to bring return on capital over 20% and to pay out dividends not lower than 25% of earnings. PZU wants to maintain its rating on par of Poland's and will be rated by the market as the most valuable Polish financial institution.

2005 was yet another year not to bring settlement of the dispute between our principal shareholders. However, the appointment of the new PZU SA Supervisory Board's Chairman, after a two-year vacancy, should be seen as a positive signal in shareholder relations. This position was taken up by professor Aleksander Chłopecki, a renown specialist in capital market regulations and operations. We believe that this nomination will contribute to stabilising PZU shareholding structure, if just in a small way.

2006 augurs well for the Polish economy and insurance market. The ambition of the PZU Group in 2006 is to achieve high financial performance and the premium growth at 75% of the total market dynamics.



Cezary Stypułkowski
President of PZU SA Management Board



*We are proud of our over
200-year-old tradition.*

13:45

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Letter from the Chairman of PZU SA Supervisory Board

annual report 2005

Ladies and Gentlemen,

Last year was very successful for the PZU Group. Both PZU SA and the entire PZU Group achieved the status of leading financial institutions in Poland. This is reflected in further growth of their financial performance and their strong positions on the Polish insurance market. It should be remembered that for decades PZU has actually enjoyed monopoly on this market. As new competitive undertakings started to enter the Polish market, one could have expected considerable decrease in PZU's share in the insurance business. However, contrary to these expectations, the PZU Group managed to maintain its unbeatable market leader position, which is a significant success. Tangible expressions of this success are PZU SA's earnings and the dividends paid by the Company.

2005 brought a particularly noteworthy development for PZU SA and the PZU Group over the recent years, i.e. adoption of a multi-annual Group strategy, with the new corporate governance as its basic element. In a nutshell, this strategy should on one hand eliminate costs resulting from overlapping functions in various Group companies, and on the other hand it shall allow for more efficient use of their resources, including the customer base. The strategy also assumes expansion of the Group's customer base, both in Poland and abroad.

In 2005, PZU SA continued its foreign investments, particularly in Lithuania and Ukraine. These are no easy projects, but they augur well for the years to come and are potentially very important for the Group's future. The level of risk related to PZU SA's foreign investments is under constant scrutiny of the Company's Management Board and Supervisory Board. One should also remember that it shall be easier for PZU SA to succeed on the eastern markets rather than in Western Europe, for example, given competition from undertakings that have been present there for years.

It would not be possible for the PZU Group to attain its last year achievements or its strategic objectives without a strong commitment on the part of the employees of PZU SA's and other PZU Group's companies. Their commitment and understanding of corporate needs was visible at all levels, from agents and members of the staff to the Group's Management Boards. We must not hide that transformations related to the implementation of the strategy have already required some changes in employment structure and employees' job descriptions, and will continue to do so in the future. However, it is very clear that they are aware of the fact that these changes ensure financial and market success of the Group, thus bringing improvement and stability for the Group's employees.

As Chairman of PZU SA Supervisory Board, and its independent member, i.e. not related to any shareholder, I would like to express my hope that, just like it has been the case so far, the shareholder conflict will not impact management of PZU SA and other companies of the PZU Group. This is important both for PZU and for the whole country given economic significance of the Group in Poland. I also believe that this conflict will find its solution and PZU SA shall become a public company in a near future.



Professor Aleksander Chłopecki, Ph. D.
Chairman of PZU SA Supervisory Board



Our hotline is available
24 hours per day
and 365 days per year.

15:20

P Z U TIME

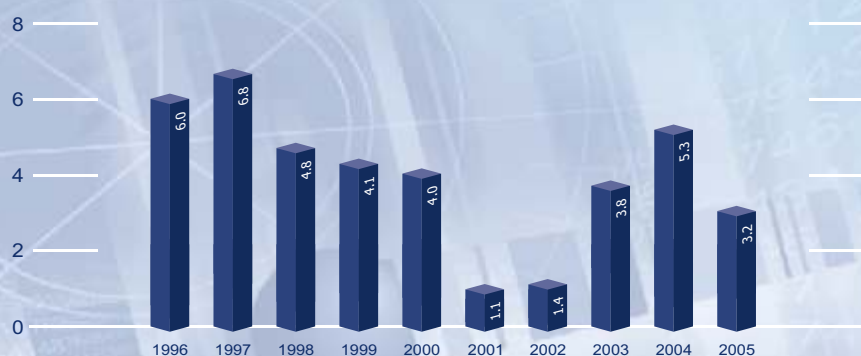
Poland's economic situation in 2005

annual report 2005

Economic growth

According to GUS (The Main Office for Statistics), GDP growth in 2005 came to 3.2%. This is below a long-term trend of 4.5% in 1991-2005. The main reason behind lower growth dynamics was stagnation of the domestic demand during the first three quarters of the year. Low consumer demand stemmed from stagnation of real salaries, which resulted from an unexpectedly large, if short-term, price increase after Poland's accession to the European Union. NBP interest rate hikes in the second half of 2004, accompanied by strengthening of the Polish zloty in 2005 spoke of significant increase in restrictive attitude of the Polish monetary policy, also contributing to trimming domestic demand. Lower inflation and interest rate cuts in the first half of 2005 changed the picture considerably in the fourth quarter, when real salaries and private consumption saw considerable growth, along with increase in capital expenditures in fixed assets.

12



GDP growth in Poland in 1996-2005
(in %)

Companies' financial performance

2005 was the second consecutive year of exceptional corporate profitability. This was particularly true for financial institutions, like banks and insurance companies, among others. Profitability of non-financial companies' sales was also high and stable, although it slipped from 6.4% in 2004 to around 5.6% in 2005. This result is mainly due to an exceptionally low increase in salaries and reduction of some product and raw materials reserves, primarily during the first three quarters of 2005.

Labour market

2005 saw a reduction in unemployment rate, which dropped from 19% as in December 2004 to 17.6% in December 2005. Regardless of poor production growth within 2005, average employment in corporate sector in December 2005 was 2.5% higher than in 2004. At the end of the year, the corporate sector employed ca. 4.8 million people, against 12.8 million people employed in Poland.



Unemployment rate in Poland in 1996-2005
(in %)

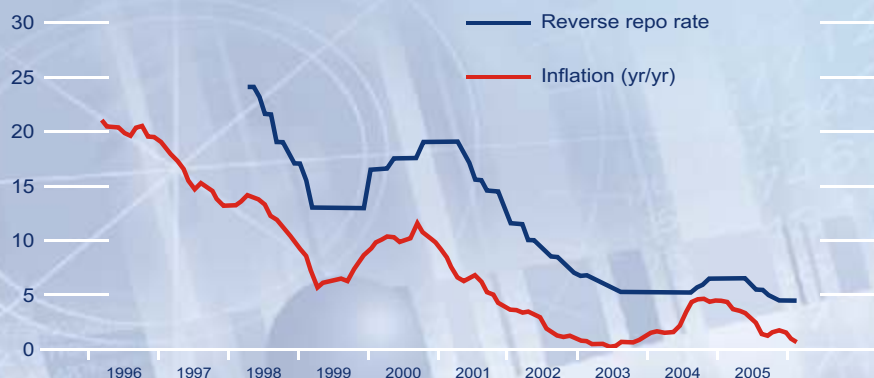
Decline in the jobless rate in 2005 was also supported by opening of the labour markets from the "old" members states of the European Union for the Polish citizens.

Although the situation in the labour market has improved, the unemployment rate remains very high, especially among young people and those living outside large cities.

Prices

In 2005, prices of goods and services only edged up by 0.7%. Average food prices dropped by 1.3%, while the prices of clothing and shoes saw a decline of 6.2%. Inflation was primarily driven by 6.4% increase in the price of fuels for private vehicles and 4.5% hike in energy prices. Prices of sold industrial production remained at a relatively stable level.

This exceptionally low inflation is primarily attributed to strengthening of the Polish zloty. Poor increase in salaries and good 2004 and 2005 harvests also contributed to price stability.



Inflation and reverse repo rate in Poland in 1996-2005
(in %)

Currency market

Exchange rates of the Polish zloty against world currencies saw considerable changes, but an overall tendency was for the Polish currency to appreciate.

In PLN / USD, Polish currency strengthened significantly already in the second half 2004, which alleviated the negative impact of considerable increase in global commodity prices on domestic costs and prices in 2005.

In PLN / EUR, strong zloty appreciation started in the second quarter 2005. This was due to a large influx of foreign funds, and especially portfolio capital.

Foreign currency operations of the Ministry of Finance, consisting in exchanging currencies gained on foreign bonds issues in the Polish market also contributed to strengthening of the Polish zloty.

Polish currency appreciation was halted in the second half 2005, probably due to higher political and fiscal risk and development in interest rates, i.e. hikes in the USA and cuts in Poland.

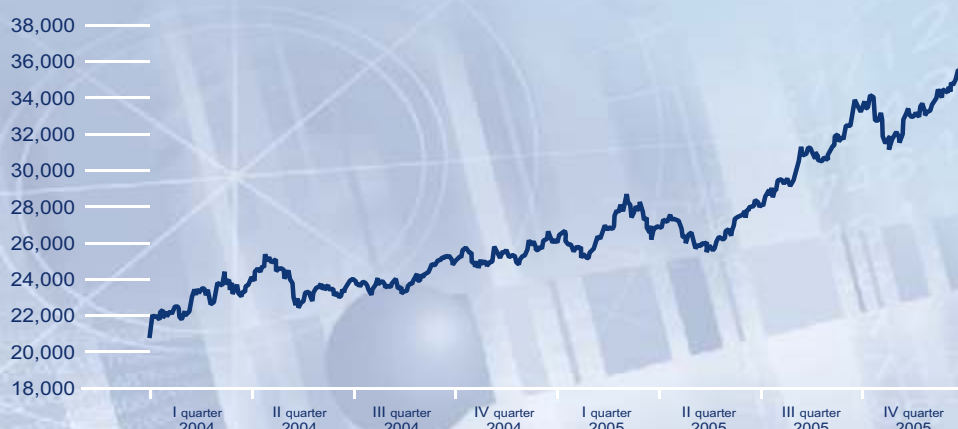


Average zloty exchange rates against USD and EUR
in 2004-2005

Financial markets

In 2005, just like in the previous year, stock exchange market generated the biggest assets increase in the Polish financial system. At the end of the period in question, the value of stock exchange assets stood at 308.4 billion zloty and was 43.9% higher than in 2004. This significant growth was mainly due to increase in share prices (33.7% for broad market index WIG) and higher number of listed companies (growth from 230 to 255). Large assets growth was also recorded by two other market segments, i.e. pension funds and investment funds.

Regardless of these developments, both the size and the structure of the Polish financial system still fail to match the global standards. Financial system assets to GDP ratio in Poland remains at 25% of the level in the "old" member states of the European Union.



WIG index of Warsaw Stock Exchange in 2004-2005
(points)



*Our long-term investment
strategy guarantees financial stability
and security for our customers.*

16:05

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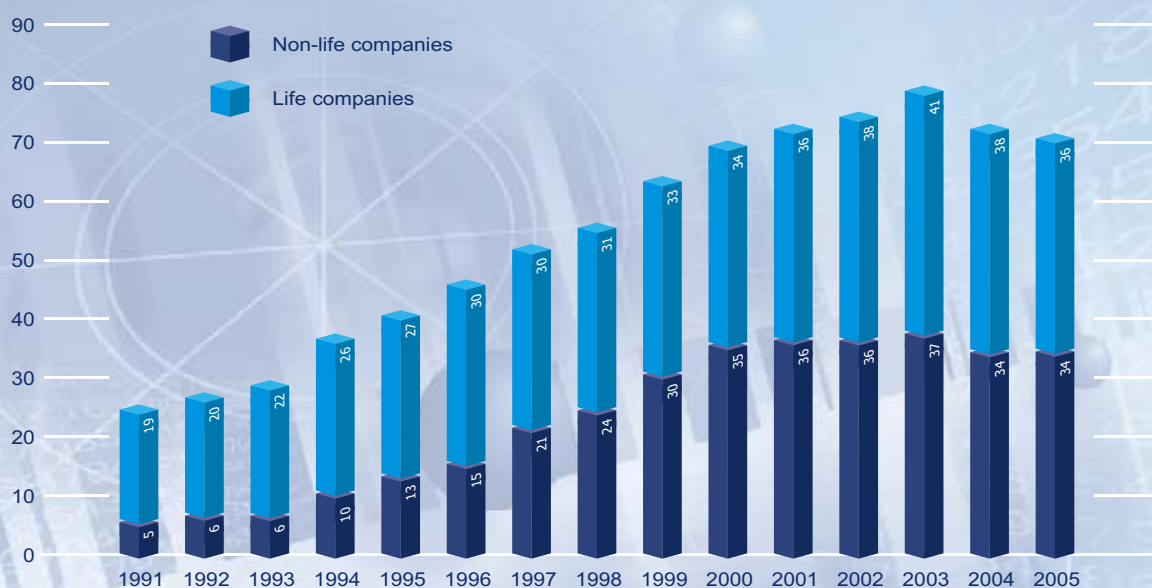
The Polish market for insurance and for pension and investment funds in 2005

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The insurance market

Insurance undertakings

At the end of 2005, 70 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 67 undertakings and 1 country branch of a foreign insurance company (in non-life business). There were 32 life assurance undertakings, and 35 non-life undertakings. The number of the EU and EFTA insurance undertakings notified in Poland grew significantly. At the end of 2005, the total of 50 life assurance companies and over 250 non-life insurance undertakings gave notice of their intention to do business in Poland under the principle of the freedom to provide services. In the same period, 10 Polish undertakings announced their intention to sell insurance policies in the EU member states.



Number of authorised insurance undertakings
in Poland in 1991-2005

Market share

Of the 67 insurance companies operating in Poland in 2005, 33 saw their market share increase. The principal player in the insurance industry was still the PZU Group, accounting for almost half of the Polish insurance market (44.4%).

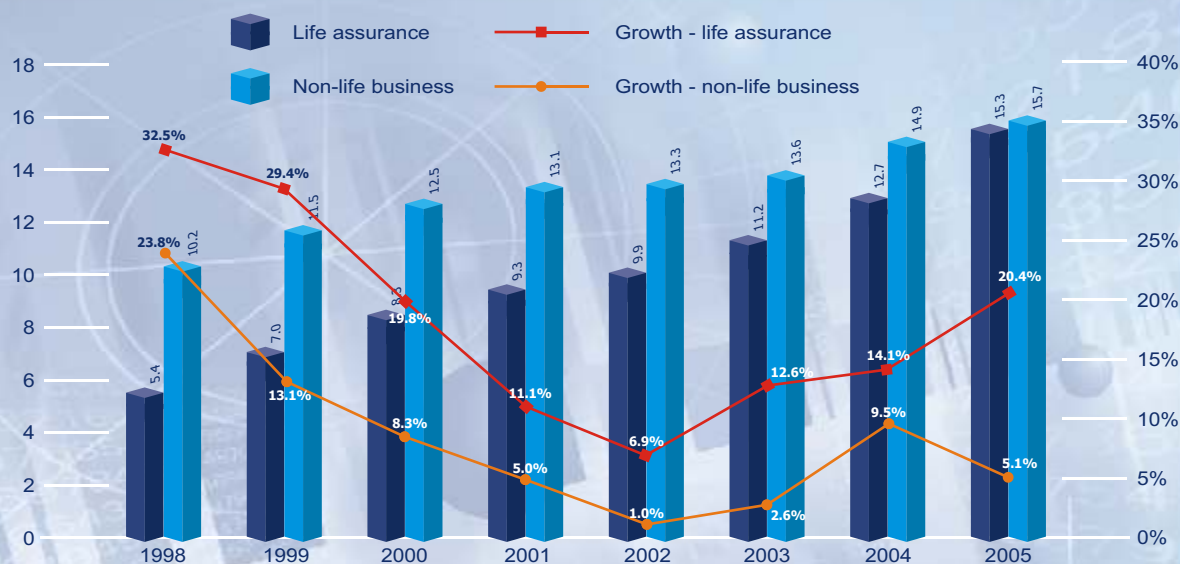
As in the preceding years, both divisions of the insurance market (life and non-life) were marked by a high degree of industry concentration in 2005. The five largest insurance undertakings took 76.9% of gross premiums in non-life business and 73.3% in life assurance.

Industry performance

Total gross premium written on the Polish insurance market in 2005 amounted to 31 billion zloty. This represents an increase of almost 12.1% on 2004.

In life business, premiums written rose 20.4% to stand at 15.3 billion zloty. As in previous years, growth at smaller companies was faster than at the five biggest insurance undertakings. There was little change in the composition of premiums written in life assurance. Over half of all premiums (51%) were written in group assurance. Premiums written under individual assurance cover represented the remaining 49%. Significant changes were seen in premiums forms of payment. Periodic premiums accounted for 68.4% in 2005 (9.4 bps less than in 2004), while 31.6% were collected on a lump sum basis. As in 2003-2004, the bancassurance sector was developing very rapidly.

At the year end, premiums written in non-life business stood at 15.7 billion zloty, up almost 5.1% on 2004. Although this growth pace did not match 2004 dynamics, it was still considerably higher than inflation. As in life-business, the fastest growth was recorded by firms outside of the five biggest companies. As in previous years, the dominant share of premiums were those collected on motor insurance (63.2% altogether).



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

In 2005, insurers paid out 15.8 billion zloty (gross) in claims and benefits, giving an increase of 10.6% on the previous year. In life assurance, gross benefits paid came to 7.5 billion zloty, having climbed 22.7% as compared to 2004. In non-life insurance, gross claims paid amounted to 8.3 billion zloty, which represents a rise of 1.6% on the year before.

The underwriting result for the whole insurance sector in 2005 amounted to 3.3 billion zloty, or 1.5 billion more than in 2004. In non-life business, the underwriting result stood at 0.9 billion zloty. In life assurance, it was also positive and reached 2.4 billion zloty.

The aggregate earnings of insurers exceeded 5.2 billion zloty, up more than 2.4 billion zloty on the previous year. As in previous years, the decisive contribution to the earning of the whole Polish insurance industry was made by the PZU Group companies, which posted a profit of over 3.2 billion zloty in 2005.

At the end of 2005, the total assets of all the insurance undertakings registered at KNUiFE (The Insurance and Pension Funds Supervisory Commission) amounted 89.6 billion zloty, with 63.5 billion zloty constituting investments. The technical reserves of all insurance together stood at 65.2 billion zloty.

The pension funds' market

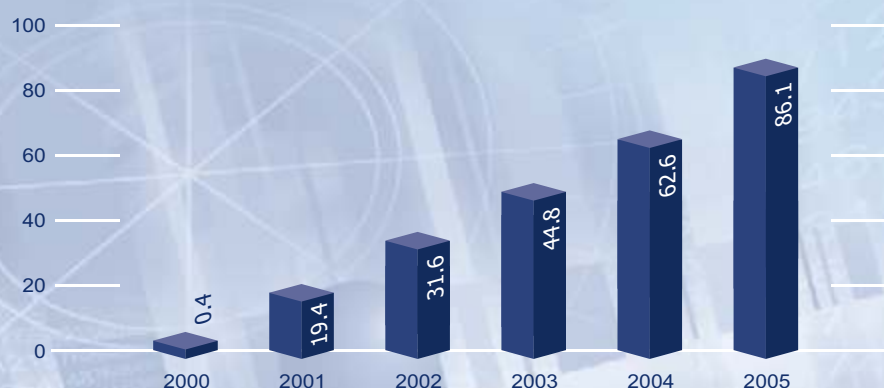
Open pension funds (OFE)

At the end of 2005, there were 15 pension companies operating in Poland. This marked the beginning of another phase in the OFE market consolidation. In the second half of the year, one acquisition was concluded, which shall bring about a single pension company and a single open pension fund in 2006. Two other transactions started in 2005 are conditioned upon the consent from supervisory body.

Net assets

Through the open pension funds they run, the pension companies managed a total of 86.1 billion zloty at the end of 2005, an increase of almost 23.5 billion zloty or 37.4% on 2004.

As in the previous years, the greatest factor in assets growth at the pension funds were the ongoing payments made by the Poland's Social Insurance Board of 14 billion zloty in 2005, a 2.6 billion zloty increase on 2004. Also the earnings generated by the pension funds saw a considerable increase of over 46%. At the end of 2005 they exceeded 10.3 billion zloty. The third source of assets growth was fees on contributions charged by the companies, which totalled 0.8 billion zloty at the end of 2005.



Net assets of open pension funds in Poland
(billion zloty)

Accounts, fund members and transfers

2005 saw significant changes in records of open pension funds' members kept by the Social Insurance Board. Accounts of people who were not covered by compulsory pension insurance, as provided for in the social security regulations, were closed. Therefore, the number of open pension funds' members was reduced by over 900 thousand. At the same, time over 600 thousand new members entered the open pension funds in 2005. In the final analysis, the number of all funds' members at the end of 2005 exceeded 11.7 million, a 2.2% decrease on last year.

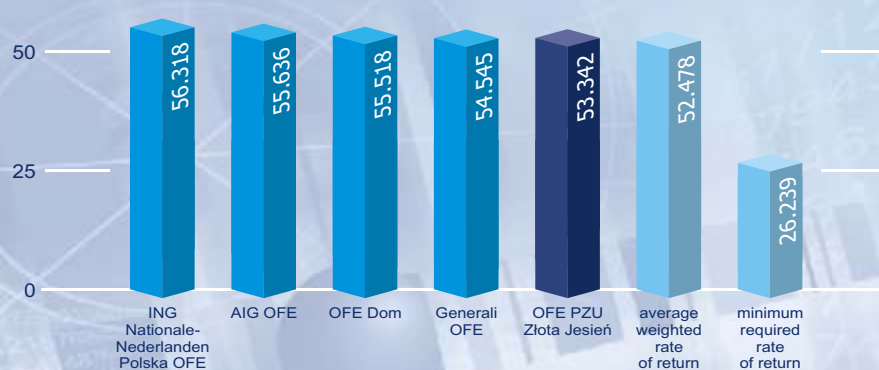
Changes in fund membership brought about reduction in the number of accounts kept by the open pension funds (drop of over 340 thousand), which stood at 12.1 million at the end of the year.

The number of transfers remained at a level similar to previous years (just above 320 thousand).

Efficiency of investment activity and rate of return

The average weighted value of open pension funds' settlement unit went up 15% in 2005. Given very low inflation during the period in question, this was the highest real annual growth ever achieved by pension funds. Starting from 2005, settlement units of all open pension funds exceeded 20 zloty, i.e. doubled their value over the last six years.

In 2005, KNUiFE (The Insurance and Pension Funds Supervisory Commission) re-calculated 36-months rates of return generated by individual open pension funds. Average 36-month rate of return, published in September 2005 totalled 52.478%. All the funds exceeded the required minimum rate of return (26.239%), and the difference between the best and the worst performing fund was just over 10 bps.



Open pension funds showing highest 36-month rates of return
(September 30, 2002 - September 30, 2005)
(in %)

Financial performance and capital of pension companies (PTE)

Large majority of pension companies in operation generated a profit in 2005. Only three companies recorded losses during this period. Total earnings of the year amounted to 459.1 million zloty, growing 20% on the year before.

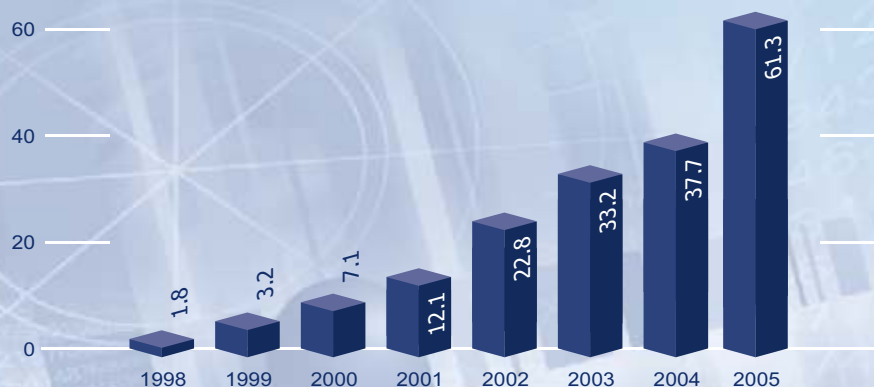
The investment funds' market

Investment fund companies and their assets

At the end of 2005, there were 23 investment fund companies actively operating on the Polish market, with these companies managing a total of 203 investment funds. The market saw the establishment of 5 new investment fund companies and 60 new investment funds.

The net assets collected by the investment fund industry in Poland totalled 61.3 billion zloty at the end of the year, a 23.6 billion zloty increase on 2004. In nominal terms, this growth was twice as the highest recorded in the best years on the Polish investment fund market. Assets growth thereby came to 62.5% in 2005, and was much faster than in 2004 (13.5%).

In 2005, first foreign investment funds entered the Polish market. According to the Securities and Exchange Commission, which keeps records of foreign funds, 22 such funds managed by 8 global financial institutions were authorised to sell their units in Poland at the end of the period under review.

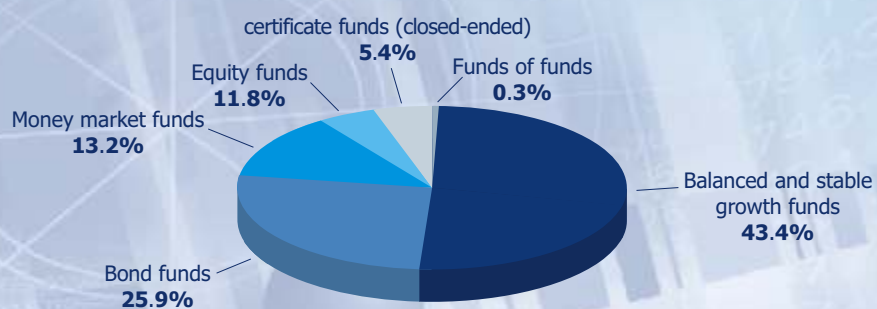


Net assets of investment funds market in Poland
(billion zloty)

Fund performance and market structure

2005 brought a considerable improvement in the key ratios depicting the development and position of investment funds in the Polish financial market as well as the entire economy. The ratio of funds' assets to household deposits kept in zloty grew from 19.6% to 30.1% at the end of the year, thus confirming continuing flow of savings from bank deposits and into the investment funds. The ratio of funds' net assets to WSE capitalisation rose from 17.6% to 19.9%. The net assets of the funds grew from 4.1% of GDP to 6.3%.

The year 2005 also witnessed a change in investment fund market structure. During the period under review, the greatest interest was shown in balanced and stable growth funds; their market share grew to 43.4% (8.5 bps). Some increase was also noted in certificate funds (closed-ended), which rose from 4.5% to 5.4%. Other funds' categories reduced their share in market assets. Bond funds saw the largest losses of 7.4 bps.



Market share of particular groups of investment funds
as of 31 December 2005



*We defined the
PZU Group's strategy
for 2006-2010.*

17:40

P Z U T I M E

Structure and activity of the PZU Group

annual report 2005

Structure

At December 31, 2005, the PZU Group comprised 24 undertakings incorporated as either joint stock or private limited companies.

The following undertakings were included in the consolidated accounts of the PZU Group for the year ended December 31, 2005 by the full consolidation method:

Powszechny Zakład Ubezpieczeń SA (PZU SA) - parent entity,
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. - indirect subsidiary,
Centrum Informatyki Grupy PZU SA (CIG PZU SA) - indirect subsidiary.

PTE PZU SA, PZU Tower Sp. z o.o., and CIG PZU SA were also subject to full consolidation as the parent entity 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 (with amendments, hereinafter referred to as the "Accounting Act").

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 impairment.

The method outlined above was applied to the following undertakings:

- OJSC IC PZU Ukraine - subsidiary,
- OJSC IC PZU Ukraine Life - subsidiary,
- UAB DK PZU Lietuva - subsidiary,
- UAB PZU Lietuva Gyvybės Draudimas - subsidiary,
- PZU International Sp z o.o.- subsidiary,
- Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA - subsidiary,
- Biuro Likwidacji i Obsługi Szkód Sp. z o.o. - subsidiary,
- SYTA Development Sp. z o.o. under liquidation - subsidiary,
- CERPO Sp. z o.o. under liquidation - subsidiary,
- Towarzystwo Funduszy Inwestycyjnych PZU SA - indirect subsidiary,
- PZU Asset Management SA - indirect subsidiary,
- Sigma Investments Sp. z o.o. - indirect subsidiary,
- Krakowska Fabryka Armatur SA - indirect subsidiary,
- ICH Center 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 - scope of operations

The activity of the PZU Group consists in the comprehensive insurance service. Group undertakings offer services in life assurance and non-life business, and also manage customer assets through investment funds and an open 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 joint stock 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 for individual and group customers. PZU Życie SA is a subsidiary 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 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 six investment funds. The Company offers investment products and services to both personal and institutional customers, and also additional savings plans under the third pillar of the pension 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 management of securities portfolio 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 data 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 related to property administration, the lease of office space and property market transactions. The Firm was established in August 1998.

UAB DK PZU Lietuva i UAB PZU Lietuva Gyvybės Draudimas

PZU is active in the Lithuanian market, offering both life and non-life insurance cover. It trades under the brand name of PZU Lietuva. The Group has been present in Lithuania since February 2002. The Lithuanian companies are subsidiaries of PZU SA.

OJSC IC PZU Ukraine i OJSC IC PZU Ukraine Life

Since February 2005, the PZU Group has also been present in the Ukrainian market. PZU Ukraine companies offer life-assurance and non-life products, and are subsidiaries of PZU SA.

Parent entity of the PZU Group

PZU SA

Polish product companies of the PZU Group

PZU ŻYCIE SA

PZU SA - 100.00%

PTE PZU SA

PZU Życie SA - 100.00%

TFI PZU SA

PZU Życie SA - 100.00%

Foreign product companies of the PZU Group

**OJSC IC
PZU Ukraine**

PZU SA - 99.9985%
PZU International Sp. z o.o. - 0.0010%
BLOS Sp. z o.o. 0.0005%

**OJSC IC PZU
Ukraine Life**

PZU SA - 60.8652%
PZU International Sp. z o.o. - 0.0043%
OJSC IC PZU Ukraine - 39.1304%

UAB DK PZU Lietuva

PZU SA - 99.7160%

**UAB PZU Lietuva
Gyvybės Draudimas**

PZU SA - 99.3378%

Principal service companies of the PZU Group

**PZU Asset
Management SA**

PZU SA - 49.997%
PZU Życie SA - 50.003%

PZU Tower Sp. z o.o.

PZU SA - 27.47%
PZU Życie SA - 72.53%

CIG PZU SA

PZU Życie SA - 100.00%

Capital links among principal PZU Group companies
as of 31 December 2005

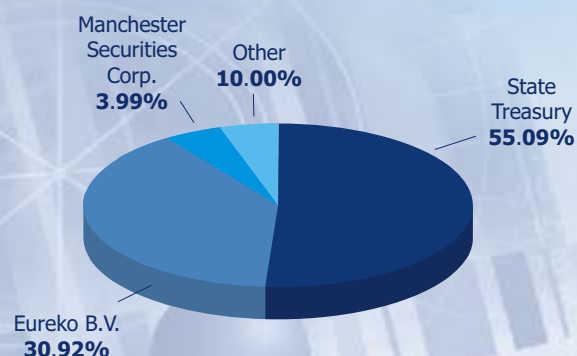
The financial performance of PZU Group companies outlined in the present Report is drawn from their solo accounts. The performance of the entire Group has been taken from the consolidated accounts of the PZU Group.

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

Shareholders

Ownership structure

The share capital of PZU SA amounts to 86,352,300 zloty and is divided into 86,352,300 registered shares, each with the par value of 1 zloty.



Ownership structure of PZU SA
at December 31, 2005

Dividend policy

In 2005, the Management Board of PZU SA continued to implement its dividend policy as previously adopted. In line with the resolution adopted by the Management Board in February 2004, dividend payouts proposed to the General Meeting should be in the range of 25-50% of distributable net profit, while 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.

On June 16, 2005, the General Meeting of PZU SA adopted a resolution in which dividends paid for 2004 profit amounted to 50%, while dividend per share was 8.20 zloty. The company's shareholders received over 708 million zloty from net profit. This was the highest ever dividend paid by the Company.



Dividend payouts from net profit in PZU SA
2001-2004

Investor relations

In 2005, PZU SA continued its policy in investor relations. Transparency of information is one of the primary objective that the Company's Management has set itself. PZU SA is already attempting to satisfy the standards required of publicly trading company; therefore in 2005 it conducted a number of activities aimed at enhancing the Company's transparency and optimizing communication with financial market players.

PZU SA Management Board makes the Group companies' results publicly available on quarterly basis, it organizes meetings with analysts and other financial market players, as well as conferences devoted to presenting PZU activities and results. A dedicated sub-web page on investor relations features all necessary information on PZU Group companies.

In 2005, both insurance undertakings of the PZU Group were again subject to a rating examination performed by Standard & Poor's.

Directing bodies of principal companies

PZU SA Management Board

Cezary Stypułkowski	- President
Piotr Kowalczewski	- Deputy President
Ryszard Bociong	- Board Member
Mirosław Szturmowicz	- Board Member
Witold Walkowiak	- Board Member

PZU SA Supervisory Board

Aleksander Chłopecki	- Chairman (from May 6, 2005)
Ernst Jansen	- Deputy Chairman
Agata Rowińska	- Deputy Chairperson
Paweł Antosiewicz	- Supervisory Board Member
Maciej Bednarkiewicz	- Supervisory Board Member
Wojciech Dąbrowski	- Supervisory Board Member
Gerard van Olphen	- Supervisory Board Member (from May 17, 2005)
Kick van der Pol	- Supervisory Board Member (from November 16, 2005)
Anita Ryng	- Supervisory Board Member

Bogusław Kott	- Supervisory Board Member (until May 17, 2005)
Dimitrios Contominas	- Supervisory Board Member (until November 16, 2005)

PZU Życie SA Management Board

Jerzy Kochański	- President (from April 19, 2005; earlier Deputy President)
Roelfina Banus	- Deputy President (from October 26, 2005)
Krzysztof Rosiński	- Deputy President (from April 19, 2005)

Bogusław Kasprzyk	- President (until April 19, 2005)
Frederik Hoogerbrug	- Deputy President (until October 26, 2005)

PZU Życie SA Supervisory Board

Andrzej Wieczorkiewicz	- Chairman
Joyce Deriga	- Deputy Chairperson
Witold M. Góralski	- Secretary
Reinuod C.J. van den Broek	- Supervisory Board Member (from November 28, 2005)
Bolesław Samoliński	- Supervisory Board Member
Ane Ate Sijsma	- Supervisory Board Member
Jerzy Tomaszewski	- Supervisory Board Member

Marek Szmelter	- Supervisory Board Member (until October 24, 2005)
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PTE PZU SA Management Board

Jakub Tropiło	- President
Stanisław Rataj	- Deputy President
Andrzej Sołdek	- Deputy President

PTE PZU SA Supervisory Board

Wiktor Askanas	- Chairman
Jerzy Kochański	- Deputy Chairman
Ewa Frątczak	- Secretary
Frederik Hoogerbrug	- Supervisory Board Member
Władysław Jaworski	- Supervisory Board Member
Piotr Kowalczewski	- Supervisory Board Member
Jerzy Zdrzałka	- Supervisory Board Member

TFI PZU SA Management Board

Cezary Burzyński	- President
Michał Nastula	- Deputy President

TFI PZU SA Supervisory Board

Krzysztof Rosiński	- Chairman (from December 19, 2005)
Frederik Hoogerbrug	- Deputy Chairman
Paweł Durjasz	- Supervisory Board Member
Piotr Osiecki	- Supervisory Board Member (from April 21, 2005)
Paulina Pietkiewicz	- Supervisory Board Member

Marek Żytniewski	- Supervisory Board Chairman (until December 18, 2005)
Jerzy Czarkwiani	- Supervisory Board Member (until April 20, 2005)

Portfolio of products and services

The PZU Group offers its customers the broadest variety of products available on the Polish insurance market. It consists of over 150 insurance products addressed at individual customers, small and medium-sized enterprises and corporate customers. Next to non-life and life cover, the PZU Group offer includes many attractive pension and investment products.

Non-life insurance - PZU SA

In 2005, PZU SA continued its work on customer segmentation and developing its offer for individual customer groups. Currently the Company offers insurance cover in three basic customer segments: mass customers, SME and corporates. PZU SA offer comprises products from all 18 statutory insurance classes, including motor insurance, property insurance, agriculture insurance, civil liability insurance, accident insurance, sickness insurance and financial insurance.

Individual customer offer

2005 saw significant restructuring of PZU SA's offer for individual customers. Currently, the Company's offer for this customer segment includes over 80 products, which are continuously being updated and optimized with new solutions. Motor own damage and theft insurance as well as motor third-party liability insurance continue to be the main products that PZU SA offers to individual customers. In 2005, a new premium schedule was introduced for this insurance products, accounting for more risk factors that influence the final price of insurance cover. Thanks to these changes, PZU SA motor insurance products became more modern and attractive for customers, especially those with claims-free history.

One of the major developments in PZU SA's motor insurance cover in 2005 was the launch of an additional *Assistance Polska* insurance (*Mini option*), offered free of charge together with a compulsory motor third-party liability insurance of vehicle owners. This additional insurance covers towing of the vehicles from the place of accident for the aggrieved party as well as for the person causing the damage. This is an exceptional for the Polish market combination of a compulsory insurance with an element bringing tangible and practical benefits.

In non-life individual customer business in 2005, PZU SA focused on restructuring general civil liability insurance products. As a result of this exercise, a separate group of products was developed and addressed especially to this customer segment.

Significant changes were also made in agriculture insurance products. This related to the entry into force of a law on payments for arable crops and farm animals.

2005 saw also significant modification of building and flat insurance products, *Bezpieczny Dom* ("Safe Home") insurance and tourist insurance *Wojażer* ("Voyager")

SME offer

In 2005, PZU SA started developing a comprehensive insurance offer for small and medium-sized enterprises. To this end, the SME segment was divided into three subsegments, depending on company size and insurance needs. This served as a point of departure for building separate insurance packages. As a result of this exercise, three insurance packages, i.e. *PZU Partner*, *PZU Doradca* ("Adviser") and *PZU Ekspert* ("Expert") addressed to these customer segments were added to the Company's offer in 2005. Each of these packages includes basic insurance cover for a given subsegment, which can be expanded with additional elements and thus tailored to suit the customer's individual needs.

Package-based construction of the SME insurance cover enables its individualization, depending on the customers' needs and expectations. This reflects tendencies visible both on the Polish market and in other member states of the European Union.

The second development direction of PZU SA's offer for the SME segment was modification of the existing products, which commenced in 2005. It aimed at bringing the offer closer to the insurance needs of PZU's customers. The scope of the exercise covered change in insurance protection cover, modification of servicing and risk assessment in motor insurance and other civil liability insurance, addressed to the SME segment.

2005 saw also dynamic growth in sales of insurance guarantees for the SME, including those securing contracts co-financed with the EU structural funds.

Corporates offer

The PZU Group's offer addressed to large corporates consists of over 30 insurance cover products, such as property insurance, insurance against loss of profits, civil liability insurance, technical and cargo insurance. On top of that, PZU SA offers a number of financial insurance products, such as insurance guarantees or insurance of financial liabilities.

Changes made in corporates offer in 2005 included primarily development and implementation of the new general terms and conditions of civil liability insurance. Some modifications were also introduced to motor own damage and theft insurance conditions and premium schedules for corporate customers, i.e. business car fleets and leasing companies. They entered into force on January 1, 2006, together with modified premium schedule for motor civil liability insurance of business undertakings.

In 2005, PZU SA launched a Centre for Marine and Transport Insurance based in Gdańsk. It is responsible for developing sales of all marine insurance products and fulfils the role of an expert unit for cargo insurance.

Life assurance - PZU Życie SA

PZU Życie SA offers its customers over 40 life assurance products and packages both protective and investment-linked. The Company provides individual and group insurance, selling products from all 5 statutory insurance classes.

Group insurance

The bulwark of PZU Życie SA' product range are group protective insurance products with regular premium. They are mainly addressed to customers who appreciate broad scope of protection (life assurance combined with accident, sickness and family options). "P" group products ("*P*" group employee insurance, "*P*" group life assurance and "*P plus*" group employee insurance), together with individual continuation of this insurance type, were the best selling products of PZU Życie SA.

Basic group protective insurance offer is supplemented with additional insurance. These are products that guarantee benefit pay-out in case of various events pertaining to the insured party's life and health, especially accidents, such as bone fractures, grave bodily injury, loss of life during motor accident or at work.

PZU Życie SA also offers group investment and protection insurance. The most popular among such products is group life assurance with capital fund called *Pogodna Przyszłość* ("Serene Future").

2005 saw successful launch of new group insurance for middle-class customers. *Pełnia Życia* ("Breadth of Life") and *Opieka Medyczna S* ("S Medical Cover") were introduced in January 2006.

Individual insurance

PZU Życie SA offers its individual customers both protective and investment-linked products.

In protective business, the Company offers *Optima* and *Credo* personal endowment policies, *Futura* marriage assurance, *Maximum* whole life personal policy and *Bezpieczny Czas* ("Safe Time") term insurance.

Individual customers may also profit from investment-linked products. Their offer includes *Fundusz Gotówka* ("Cash Fund") individual investment-linked insurance and a new unique product *Prestiż Gwarancja* ("Guarantee Prestige"), combining potentially high and unlimited profits from investment with return on capital guaranteed.

2005 saw development of *NW Plus*, an additional insurance for individual customers who continue their group insurance, the first product of this kind addressed to this customer group.

Bancassurance - PZU SA, PZU Życie SA

The PZU Group offers a number of products sold through bank distribution channels. These include protective and investment-linked products, as well as solely protective ones, e.g. related to mortgage loans, house and flat insurance or life assurance of debtors.

2005 saw dynamic development of bank insurance, bringing the new banking partners to the Group. Together with Deutsche Bank PBC SA, PZU Życie SA launched *db Invest* investment-linked product, and with Bank Ochrony Środowiska SA it introduced *Lokata Kometa* ("Comet Deposit") group endowment policy.

2005 collaboration with Bank Millennium SA brought two new investment-linked products, *MilleInwestycja* and *MilleGwarancja*, which proved to be very popular among the bank's customers. In 2005, Bank Millennium SA continued to offer package insurance for mortgage loan / mortgage borrowing customers, a joint offer of PZU SA and PZU Życie SA. The package includes house and flat insurance and life assurance of debtors who contracted mortgage loans / mortgage borrowings.

In 2005, a new joint product was launched in co-operation with PKO BP SA, i.e. group insurance against job loss and hospitalization of PKO BP SA's debtors. *Superopieka* ("Super care") life assurance policy for holders of individual savings accounts, personal liability insurance and property insurance, continued to sell successfully in the course of 2005. In collaboration with PKO BP SA, in 2005 PZU SA started selling mortgage loan insurance for SME and private individuals, lasting until a mortgage register entry is made, and mortgage loan insurance for private individuals within the scope corresponding to the level of credit funds contracted.

PZU SA continued to develop its relations with co-operative banks associated with the Bank Polskiej Spółdzielczości (Polish Co-operative Bank) under the 2005 general agreement on mortgage loan insurance for private individuals, lasting until a mortgage register entry is made. The agreement and insurance cover of PZU SA included 13 co-operative banks.

Pension insurance and products - PZU Życie SA, PTE PZU SA, TFI PZU SA

The PZU Group offer also includes pension-related products.

Individual customers may profit from Individual Pension Accounts (IKE), developed by PZU Życie SA and TFI PZU SA. The *IKE 50* campaign organized in 2005, under which PZU Życie SA paid the first insurance premium for IKE, proved to be successful.

Also PTE PZU SA has an attractive offer for individual customers. For many years now, the PZU Open Pension Fund *Złota Jesień* ("Golden Autumn") has been among the best open pension funds on the Polish market in terms of the rate of return. In September 2005, KNUiFE (Insurance and Pension Funds Supervisory Commission) published 36-month rates of returns, in which the Fund managed by PTE PZU SA ranked fifth with 53.342% rate of return.

The PZU Group's offer includes also group pension programs. Two flagship products of this type are pension insurance *Pogodna Jesień* ("Serene Autumn") offered by PZU Życie SA (also for individual customers) and the system of structured funds accumulation for employees *Pracowniczy Program Emerytalny* ("Employee Pension Program"). Solely investment-linked version of this product is also offered by TFI PZU SA in the form of an agreement on investment fund premiums.

Investment products - TFI PZU SA

Both individual and corporate customers of the PZU Group may profit from a broad range of investment products. TFI PZU SA offers 6 types of investment funds with various investment profiles. In 2005, TFI enhanced its offer with three new funds: *PZU fio Gotówkowy* ("Cash"), *PZU fio Zrównoważony* ("Balanced") and *PZU fio Akcji Nowa Europa* ("New Europe Equities"). The first two funds supplement the basic offer of the Company. The third one, *PZU fio Akcji Nowa Europa*, satisfies the needs of those customers who look to reap benefits from convergence of European emerging markets and expect investment profits above-par.

In 2005, two specialized investment plans were added to the Company's offer, allowing customers to accumulate their savings in TFI funds under special investment options. The first Investment Plan called *Komfort* ensures favourable conditions for regular savings of small amounts. The second *Investment Plan Prestiż* is addressed at customers who are able to make an upfront payment of at least 10 thousand zloty.

The Company also offers Occupational Investment Plans for employers wishing to secure additional savings for their employees to be paid out upon retirement or earlier.

Sales network and distribution channels

The PZU Group sales network

The PZU Group has the most extensive sales network on the Polish insurance market with more than 360 offices of PZU SA, more than 380 offices of PZU Życie SA, more than 12.3 thousand tied agents and numerous multi-tied agents.

In 2005, the PZU Group offered its non-life products through a network of more than 7000 tied agents and 1750 multi-tied agents. More than 5300 agents were actively selling PZU life policies. The Group companies had working relationships with most of the brokerage firms on the Polish market.

The PZU Group had bankassurance partnership agreements with four large banks including Bank Millennium SA, PKO BP SA, Bank Ochrony Środowiska SA and Deutsche Bank PBC SA.

The OFE PZU *Złota Jesień* open pension fund offered its products at all branches of the PZU Group. The PTE PZU SA pension company had 9100 representatives actively seeking new customers who had also the option of joining the plan on-line at the Group's web portal.

To complete the picture, the TFI PZU SA investment funds worked through the Group distribution channels and had a network of nearly 1800 authorised representatives. In 2005, TFI PZU SA made their products available at the BRE Group internet banks, in the networks of Elite Finance & Consulting and of Expander financial advisors, as well as on the AmerBrokers' internet platform.

Reforming the sales network

2005 saw a significant new initiative in PZU Group sales area aiming to improve the sales process organisation and the quality of service.

A major effort was made to integrate the nationwide structures of PZU SA and PZU Życie SA. The Company modified the territories of its branches to match Poland's regional division, which in some cases required merging of district branches both on the PZU SA and PZU Życie SA sides. At the end of January 2005, each of the companies had a network of nine district branches with identical territories.

The branch mergers were preceded by a nationwide rollout of the new PZU SA sales organisation. Most of the changes in this area were aimed at clearly separating the two core competencies represented at the district branch level, i.e. sales of insurance and back office. The objectives of the project included standardisation and optimisation of processes; clarification of the division of responsibilities between the sales structures and the back office support; and centralisation the latter function. The new sales service model is designed to ensure quality customer service, timely file handling and improved quality of data available through the IT systems. The new branch organisation structure involves five hierarchy levels: the Head Quarters, district branch, local branch, customer service centre (COK) and the customer service point (POK). The local branch retained its existing functionality while also becoming a service centre for the POK and COK within the scope of its unique functionality. COK has no accounting function and POK only sells policies (no accounting or administration).

The new segmentation process produced a new operating model for organisational units with processes and organisation including, as one of its key features, the establishment of specialised field sales structures dedicated to specific customer segments: mass customer, small and medium enterprises and the corporate customer.

Cooperation with car dealers

To increase its competitiveness in the car insurance market, PZU SA introduced a range of activities aiming to tap into an existing sales potential by working through car dealers in 2005. The Company developed and implemented a special programme regulating its relationships with this distribution channel and providing it with a tool to directly influence insurance sales activities at the showroom. The programme was aimed at dealers of leading car brands in Poland and included a range of privileges directly linked to the dealer performance in insurance sales.

Cooperation with brokers

The PZU Group is working with the majority of brokerage firms active on the market (more than 700 companies). While the overall share of this distribution channel in the sales of policy products has been steadily growing over the last few years it has proven crucial when offering insurance products to corporate customers.

In 2005, PZU Group conducted a number of activities aiming to further expand its relationship with brokers. The activities included opening of a dedicated service for this distribution channel on the Company's Internet portal, streamlining of the correspondence paths with the brokers and a series of meetings and training sessions specifically arranged for insurance brokers.

Loss adjustment

2005 was yet another year of change in loss adjustment processes. PZU SA focussed on improving the quality of loss adjustment by implementing new tools and modifying processes. In making those changes, the Company mainly aimed to improve customer satisfaction, shorten the loss adjustment lead time and boost its staff efficiency.

Centralised loss adjustment

The field structure of this area of PZU SA's activity was concentrated at 13 Loss Adjustment Centres (CLS) and their sub-branches. Some of the losses, because of their specialised nature, were allocated solely to the CLSs.

In response to the ever more demanding market, PZU established dedicated units dealing with non-life loss adjustment for corporate customers within the Loss Adjustment Division.

Seeking to accelerate the motor insurance loss adjustment process, the Company enhanced its relationship with the Repair Network. The best garages were selected and given an option of accepting the loss claims, assessing the damaged vehicles and calculating the repair costs.

TeleAssistance

By dialling 0 801 102 102, PZU SA customers can file their vehicle-related losses 24 hours a day and seven days a week. The customers can also use the TeleAssistance service to request towing of a damaged vehicle and obtain information about the nearest PZU SA Repair Network garage. In 2005, PZU SA rolled the service out in two of its District Branches: at Lublin and Cracow. It is planned to complete the TeleAssistance rollout by the end of 2006.

Mobile Experts

Mobile Experts constitute a separate group of PZU SA experts whose task is to assess damaged vehicles away from the office. They are equipped with the market's best and innovative technological solutions and IT tools. In 2005, PZU SA Mobile Expert teams started operating in south-eastern district branches with the rest of the offices scheduled to be included by the end of 2006.

Loss Adjustment System and other IT solutions

The Loss Adjustment System (SLS) is a central IT system supporting the loss adjustment process. The system provides the benefit of an entirely paperless process. SLS has been implemented in two of PZU SA district branches and is scheduled for completion in 2006.

2005 also saw a modification of IT support including the implementation of an application used in selling of what is left of damaged vehicles on Internet auctions.

International Loss Adjustment Centre

In 2005, PZU SA opened its International Loss Adjustment Centre. The new project was to concentrate the handling of international loss adjustments for all customers in one single unit.

In this way PZU SA is hoping to simplify the documentary circulation, shorten the loss adjustment process and reduce adjustment costs.

International investments

Strategic foreign investments' overview

The PZU Group started its insurance operations on the international markets by acquiring the Lithuanian insurance group UAB Lindra in February 2002. At the moment, the international strategic company portfolio of PZU SA includes two insurers in the Ukraine and two in Lithuania.

Operations of PZU Lietuva

The PZU Group owns two companies in Lithuania: UAB DK PZU Lietuva (PZU Lietuva) in the non-life business and the life insurer UAB PZU Lietuva Gyvybės Draudimas (PZU Lietuva GD).

2005 was a breakthrough year for the Company's Lithuanian operations. PZU Lietuva went through a series of transformations beginning with a merger with PZU Baltija and ending in restructuring its insurance portfolio. The processes required a considerable organisational and financial effort.

In April, PZU began merging its Lithuanian operations by transferring the insurance portfolios from UAB Lindra Gyvybės Draudimas to UAB PZU Lietuva Gyvybės Draudimas and from UAB DK PZU Baltija (PZU Baltija) to UAB DK PZU Lietuva. The integration of the Lithuanian Group members was intended to produce a synergy effect with a single management structure, single policy and better resource management. The process left only two of initially four companies in the PZU Group's Lithuanian portfolio.

In 2005, PZU also restructured the local non-life insurance portfolios to boost the operating profitability. Until recently, the general trend had been for most of insurers on the Lithuanian market to offer low rates in hope of maximising their market shares, but the losses generated by most of the companies and a series of bankruptcies have slowly produced a reverse trend, which PZU Lietuva has been followed. In the nearest future, this should contribute to a considerable improvement in the technical profitability of the Company's portfolio.

In order to improve the competitiveness of its Lithuanian companies on the local market, PZU SA injected them with 21.4 million lits (26.1 million zlotys) of capital in 2005.

Financial performance and market position of PZU Lietuva

PZU Lietuva's premiums written grossed 109.4 million lits (127.6 million zlotys) and were 1.6% lower than the premiums collected by the two companies combined in 2004. The average premium rose to 279 lits in 2005, i.e. by 86 lits compared to 2004. This confirms the right choice for the Company's new portfolio quality improvement policy.

The net 2005 earnings of PZU Lietuva stood at -8.3 million lits (-9.7 million zloty) compared to -3.4 million lits (-4.5 million zlotys) while PZU Baltija generated -10.7 million lits (-14 million zlotys). With a 15% market share at the end of 2005 PZU Lietuva was the second largest non-life insurer in Lithuania.

PZU Lietuva GD continued its dynamic growth. Its gross premium written doubled on the previous year's figure to 8.1 million lits (9.5 million zlotys). PZU Lietuva GD performed particularly well in the area of bankassurance. This distribution channel generated ca. 38% of the total premium written.

In 2005, PZU Lietuva GD lost 4.5 million lits (5.1 million zlotys), or 1.9 million lits (2.4 million zlotys) more than the year before. These financial figures reflect the stage of intensive development the company is at and which requires considerable expenditure.

With the market share close to three percent at the end of 2005, PZU Lietuva GD ranked seventh among life insurers on the Lithuanian market.

Operations of PZU Ukraine

In February 2005, PZU Grupa purchased 100% of shares in two insurers active in the Ukraine: the non-life OJSC IC Skide West (currently OJSC IC PZU Ukraine) and the life insurer OJSC IC Skide-West Life (currently OJSC IC PZU Ukraine Life).

Just as in Lithuania, the PZU Group's Ukrainian companies received capital injections ensuring their further growth and gains in competitiveness. In 2005, PZU SA provided both companies with the combined amount of 70.5 million hryvnias (ca. 40 million zlotys).

In 2005, the Ukrainian companies began efforts to bring their standards to the Group level. They changed their management models and organisation structures, started building a nationwide sales network and launched the development of a new comprehensive insurance product range. A new technical provisioning policy was introduced and measures were taken to comply with the International Accounting Standards.

Financial performance and market share of PZU Ukraine

PZU Ukraine collected 118 million hryvnias (74.7 million zlotys) in premiums written thus beating the previous-year's performance by 62.1%. However, this was less than expected as the country had failed to effectively implement the general motor third-party liability insurance obligation promised earlier by the Ukrainian government.

The Company generated the net income of -35 million hryvnias (-22.2 million zlotys) or 24.9 million hryvnias (16.4 million zlotys) less than in 2004. This was primarily caused by a growing development spending including on the sales network, but also on putting its losses and reserves in order.

At the end of 2005, PZU Ukraine had a 4.1 percent market share in the conventionally understood non-life market* and ranked seventh in the Ukraine by premiums written.

PZU Ukraine Life is at an early stage of development just as the rest of the Ukrainian life insurance market. In 2005, PZU Ukraine Life had 6.5 million hryvnias (4.1 million zlotys) in premiums written, which translated into a 2 percent market share. The company generated -1.7 million hryvnias (-1.1 million zlotys) in earnings primarily, as a result of a still small scale of operations.

* According to PZU Ukraine's own estimates

Strategy

The PZU Group 2006-2010 Strategy was adopted by the Management Boards of PZU SA, PZU Życie SA, PTE PZU SA and TFI PZU SA on 17 November 2005, by the Supervisory Board of PZU SA on 29 November 2005 and by the Supervisory Board of PZU Życie SA on 19 December 2005.

Mission and ambitions of the PZU Group

- PZU wants to offer millions of customers its services focussed on their insurance, pension and investment needs at reasonable prices.
- PZU will bring a return on equity in excess of 20% and will pay a dividend of no less than 25% of its earnings.
- PZU will maintain its rating at sovereign level and will be rated by the market as the most valuable Polish financial institution.

Purpose of existence and values of PZU

- The main purpose of PZU is to create value for its shareholders.
- PZU wants to maintain its status of the most valuable Polish financial institution.
- PZU wants to retain its leading position on the Polish insurance market by market share and profitability.
- PZU will also be active in related and associated areas of financial services and on other Central and Eastern European markets so long as this activity increases the shareholder value.
- PZU wants to be a first choice institution for customers by following their changing needs with matching products and network availability and by offering reasonable prices, as well as an providing efficient and reliable service. Good understanding of the customers' needs based on their systematic analysis will be crucial for the Group's strategy.
- PZU wants to be a good employer respecting its personnel and taking care of its development and an employer that strikes the right balance between the need to modernise the company and the responsibility for the future of its employees. PZU is going to promote innovation and readiness to apt risk taking and to overcome bureaucratic habits among its employees and especially among the managerial staff.
- As a company PZU always wants to be a "good citizen" both in Poland and in any other country it operates in.

The main areas of activity under the PZU Group Strategy

The PZU Group is going to focus on four main areas in pursuing its Strategy.



Main areas of activity under the PZU Group Strategy

Clients oriented sales organisation

The 2006-2010 Strategy strongly highlights the Group's growing sales capability. The final aim of the Group's activities is to organise its management activities and processes around the customer's needs. To do this the following customer segments have been identified:

- mass private customers,
- medium net worth private customers,
 - lower subsegment,
 - higher subsegment,
- small and medium-sized enterprises (SME),
- corporate customers.

The PZU Group will be present in all of those customer segments by diversifying its product offering, sales and service models and intensity of activities between segments. The customer insurance and investment needs will be systematically researched.

Efficient back-office

To increase its selling capacity the Group will need changes not just on the sales organisation side, but also a brand new organisation of the sales handling, IT support and systems' data input. The development of a new organisation model for those functions will facilitate, among other things, efficient settlements between the sales and sales handling areas, as well as transaction processing for all members of the PZU Group with a possibility to differentiate the processes depending on the customer segment.

Another precondition for the organisation of the PZU Group around the customer segments will be the implementation of a Central Customer Database and ensuring the quality of the gathered data. In order to reduce the cost of support and for a better control of the sales activity it will also be necessary to develop the IT support in areas, such as the mass customer product system, the Corpo system for the corporate segment and the Agent System supporting the agents.

The improvement of the customer satisfaction will be one of the Company's important goals. It will be consistently monitored. Customer satisfaction largely depends on the efficiency of the loss adjustment process and the Group intends to half the non-life loss adjustment time.

International expansion

With its strong capitalisation level and facing a gradually slowing growth rates on the Polish market, PZU will be expanding its activities on the international markets.

In 2006, the Group will focus on developing its existing foreign investments in the Ukraine and Lithuania, but will not rule out further acquisitions. At the same time, PZU will keep improving its international operation management methods. Once an efficient model of managing those operations is ready, the Group is going to expand to other Central and Eastern European markets. The Company's main area of interest includes those countries where the potential for growth of the insurance market is high and the opportunities for gaining competitive advantage are strong.

Efficient management system

The introduction of transparent ownership and managerial relationships between Group members and the shift from the product-oriented to function-oriented organisation structure (the New Corporate Governance Project) are regarded as important preconditions of a successful implementation of the Company's strategic initiatives, especially at the Group level. The ownership relationships will be streamlined by transforming the Group into a two-tier holding structure. A new function-oriented organisational division will rest on separate areas dealing with product development and management (separate product companies); sales and distribution; after-sales service; and internal services and operations. The Group is going to introduce tools for management of division, customer and product profitability.

The transformation will be accompanied by a changing corporate culture, especially in the human resource area. The PZU Group is going to stress productivity gains, improvement of dynamism and a sense of responsibility among its staff. At the same time, PZU will promote internal careers within the Group and will further develop its skill improvement system for staff.

Key strategic tasks

To achieve its strategic aims during 2006-2010, the PZU Group will pursue the following crucial tasks:

- Implement the New Corporate Governance
- Maintain leadership in the mass customer segment (including: revitalisation of the agent network, development of the direct and automatic renewals' channel and new product packages)
- Consolidate the Company's leadership in the corporate customer segment (including winning of the leading position in the non-life non-motor business)
- Consolidate the leading position in the SME segment
- Consolidate the Company's position in the medium-net worth private customer
- Build the Central Customer Database and organise the sales channels and the product offering around the customer segmentation
- Develop and roll-out a new model of PZU offices
- Strengthen relationships with banks
- Incorporate a new Assistance company
- Expand internationally
- Establish effective and cost-efficient operations
- Improve loss adjustment
- Implement new rules and procedures of IT Governance
- Introduce an advanced and uniform human resources' management system throughout the Group
- Manage well the PZU image

Marketing and advertising

In 2005, the Group members continued their efforts to integrate the marketing, sponsorship and preventive policies.

Visual identification of BTL materials

The key task in the area of integrated marketing communication, completed in 2005, was the implementation of a coherent visual identification to BTL materials of the PZU Group. This was yet another step on the path to an overall unification of symbols used in the product presentation throughout the PZU Group. In March 2005, the PZU Group Book of BTL Visual Identification was launched.

Corporate Portal

In 2005, the Group launched a corporate web portal (www.pzu.pl). It combined the functionalities of the existing websites of the individual companies, but new services and functionalities were added on including: extranet for brokers, virtual press office, interactive search for offices, investor relations service, a PZU Career service and on-line loss claiming. By the end of 2005, the new integrated PZU website had been visited by more than 750 thousand of consumers (unique users) with nearly six million hits. Between February and December 2005, the number of users visiting the Company's corporate portal doubled.

Advertising

At PZU SA and PZU Życie SA the main objective of their advertising and promotion activities in 2005 was to provide direct support for the sales processes. The marketing activity of the two Companies is consistently aiming to improve the acquisition effect of their advertising.

The largest advertising campaign of 2005 promoted the motor third-party liability insurance. Part one aimed to promote a system of discounts and rebates for the assistance services offered with the main policy and part two presented a special service included in the *Mini Assistance* package added on to the main policy with free towing services for both the perpetrator and victim of the accident or a collision.

The motor insurance was also supported by two promotion programmes targeted at buyers of new and second-hand cars.

The PZU Group advertising activity of 2005 included also two apartment insurance campaigns. The first, *Twoje cztery kąty* ("Place to call your own"), promoted a comprehensive insurance coverage for apartments and apartment buildings offering high discounts. Running in the summertime, the second campaign combined the *Wojażer* ("Voyager") policy with apartment coverage. This campaign was accompanied by a photo contest.

2005 saw our first advertising campaign targeted at corporate customers. A range of other activities supported the sales of new products dedicated for the small and medium enterprise sector.

PZU Życie SA focussed their 2005 advertising efforts on maintaining the leading position held its IKE PZU individual pensions account (IPAs). The commercial presence in the media was further reinforced by special promotion and education programmes about IPAs.

Health insurance also featured strong in the advertising activity. A two-stage Health Care campaign in the 23 cities where the product was available utilised, alongside conventional advertising tools, an educational series about health insurance and health care issues in the regional press.

In April and May, PZU Życie SA and Deutsche Bank PBC SA ran a joint campaign marking their newly established partnership promoting *db Gwarancja*, a new banking product with an integrated life insurance component.

Alongside the nationwide ATL campaigns (i.e. marketing in conventional media, i.e. TV, radio, press, the Internet, etc.) the companies carried out numerous advertising and promotional activities with a lower profile and at a smaller geographical scale. The most important of them included: local sales actions based on the agency network; promotions supporting the sales of individual products; and the provision of the internal advertising network (PZU offices) with BTL materials that accompanied the conventional media campaigns.

Marketing research and analyses

PZU SA and PZU Życie SA focused their marketing research and analyses largely on products and consumer needs. PZU SA concentrated primarily on its new insurance products for small and medium enterprises and on the motor insurance.

Major research projects looking into customer needs, customer service and the sales network involved: loss adjustment, agency network (a joint project with PZU Życie SA), call center, broker satisfaction and the broker portal. The research was used among other things for the segmentation of the sales network and confirmed the need to build a broker service largely determining its form and functionality.

In 2005, the most important research projects of PZU Życie SA included, in addition to joint projects with the non-life company, the beginning of systematic measurements of customer satisfaction among group customers and a project on riders to group and continued insurance policies. The Company also ran research projects supporting the development of the unit-linked product offering.

Both Companies increased the use of the Internet as a data collection tool making information gathering quicker and less expensive.

Corporate social responsibility

The Group's corporate social responsibility activities were financed from the prevention fund and to an extent also from the sponsorship budget. The PZU Foundation continued to be an important component of the Group's social involvement supporting activities for the common good in the areas of education, culture and arts, social welfare and health care.

PZU for safety

For years, the PZU Group has pursued a preventive agenda including in particular reducing threats to human health and life and protecting people's assets. In 2005, PZU SA and PZU Życie SA spent nearly 61 million zlotys on preventive measures. From 2005 on, the two Companies will conduct activities in this area under the title *PZU z myślą o bezpieczeństwie* (PZU for safety).

In the area of preventive measures, PZU SA focussed, just as in previous years, on the improvement of road user safety, both drivers and pedestrians. The Company spent more than 21 million zlotys on road accident prevention. This area was supported by the 2005 prevention advertising campaign *STOP wariatom drogowym* (STOP traffic madness). The campaign was intended to raise the drivers' awareness of threats caused by speeding, bravado and driving under the influence and make them reflect on their own behaviour.

With the youngest of the road traffic participants in mind PZU SA started in 2005 a comprehensive educational and preventive programme *Bezpieczna szkoła z PZU* (Safe school with PZU), which aimed mainly to reduce the number and mitigate the consequences of road accidents involving children and school-age students. Launched in September, the first edition of the 5.5 million zloty programme attracted more than seven thousand participating schools.

In 2005, just as in previous years, PZU SA co-sponsored new fire rescue vehicles for the professional and voluntary fire departments throughout the country spending 8 million zlotys.

The general *PZU for Safety* agenda also includes activities pursued in 2005 and aimed to improve safety of holiday-makers on the coast and in the mountains. In the summer, PZU SA and PZU Życie SA donated nearly 2 million zlotys' worth of top-grade rescue equipment to 30 municipalities in the Pomorskie and Zachodniopomorskie Voivodships on the Baltic coast. At the same time, both Companies launched a long-term relationship with the Polish Voluntary Mountain Rescue Service (GOPR) and donated 3 million zlotys for the statutory activities of GOPR over three years. This had been the highest donation in the history of GOPR.

In 2005, PZU Życie SA was also involved in preventive activity in health care, education and public safety. The Company continued its traditional involvement in the Let's Kick Smoking Together campaign initiated by the Health Promotion Foundation. PZU Życie SA also supported the Active Rehabilitation Foundation assisting the disabled. Other organisations that received financial assistance included the Polish Association of the Blind and the Regional Blood Donation and Blood Treatment Centre in Warsaw. PZU Życie SA spent ca. 850 thousand zloty on this activity.

PZU for Culture and Arts

After many years, the support for culture and arts still remains a strategic area of PZU Group sponsorship and preventive policies. In 2005, this activity was placed under a long-term programme *PZU dla kultury i sztuki* (PZU for Culture and Arts). In 2005, the activities involved the first step of the programme for the protection of historic wooden sacral buildings conducted together with the Secretariat of the Polish Episcopate and the Centre for the Protection of Public Collections. The programme was financed by the PZU SA's preventive fund and received 800 thousand zlotys in 2005.

In pursuing its sponsorship policy the PZU Group had for many years been active in the organisation of numerous cultural events, such as exhibitions, concerts and festivals. In 2005, PZU SA spent 1.8 million zlotys and PZU Życie SA spent more than 950 thousand zlotys on cultural sponsorship. The Companies supported such high-profile artistic events as: the production of "The Battle of Warsaw: Rising '44" documentary, the Four Culture Dialogue Festival, the International Theatre Contest Festival in Lublin, the Polish Woman exhibition at the Centre for Contemporary Art in Warsaw and the Warsaw Musical Gardens Festival. Just as in previous years, PZU SA as a benefactor of national culture and arts continued to provide insurance for the most valuable facilities of Polish culture including: the Warsaw Royal Castle, the Wawel Royal Castle, the Artus Palace of Gdańsk, the Łańcut Castle and many others.

In recognition of its support for the Polish culture PZU SA received an award from the Minister of Culture in the Benefactor of Culture competition for the best sponsors of Poland's cultural life in 2005.

PZU for Sports

The PZU Group continued to sponsor sports initiatives during 2005. PZU SA spent the combined total of 5.2 million zlotys and PZU Życie SA spent ca. 1 million zlotys. The Companies jointly supported the women basketball team PZU Polfa Pabianice. PZU SA also sponsored the men's volleyball team PZU AZS Olsztyn, tennis tournaments organised by the Polish Tennis Association and the Beach Ball Tour 2005 for the Polish Championship in Men's Beach Volleyball.

PZU Foundation

The PZU Foundation supports activities of non-governmental organisations aimed for the public benefit in areas such as education, culture and arts, social welfare and health care (except for preventive measures).

In 2005, the Foundation granted direct donation and worked through partnership programmes with valued community partners. The Foundation carried out two nationwide donation competitions: "Enhancing educational opportunities in rural areas and small towns" and "Promoting social activity of disabled children and youth".

The PZU Foundation has started the following partnership programmes:

- "Linking through generations" together with the Academy for the Development of Philanthropy in Poland aiming to overcome social isolation of senior people.
- "Day-room - my place" together with the Polish Children & Youth Foundation aiming to provide a harmonious environment for children to spend their time and develop their interests in rural areas and small towns.
- "Website for Periodicals 2005" together with the The Open Source Culture Foundation aiming to open access to information technology for low-circulation cultural periodicals, which should consequently lead to reducing their operating costs and increasing readership.
- "University of the Third Age" together with the Polish-American Freedom Foundation and the Foundation for the Jagiellonian University aiming to improve access of older people to education.
- "Being Entrepreneurial" together with the Youth Entrepreneurship Foundation for the development of entrepreneurial skills and attitudes among school-age youth.
- "National Psychooncology" School with the Polish Psychooncological Association aiming to improve access to psycho-oncological care for oncological patients and their families.

The PZU Foundation spent 2.7 million zlotys on its statutory activity in 2005.

Internal communication

In 2005, the PZU Group's internal communication activities focussed on building a corporate culture based on openness and integration of the Group's employees. The information flow between the employees was improved using an extensive network of internal electronic media and other communication channels such as Opinion Leaders and integration workshops and picnics.

The PZU Group took steps to increase the employee activity, satisfaction and identification with the company. Those steps included second-ever groupwide employee satisfaction survey and the innovation competition for the PZU SA and PZU Życie SA employees.

The crowning achievement in this area was the drafting of the Mission and the Code of Values of the Group employee. Both documents were integrated with the PZU Group Strategy.

Rating

High rating maintained

On 13 July 2005, Standard & Poor's confirmed its "A-" rating for the main insurance companies of the Group (PZU SA and PZU Życie SA) with a stable outlook.

The agency quoted very good operating performance of the two Companies and the PZU Group's strong competitive position on the Polish insurance market.

Adverse factors included the Group's limited international investing capacity, especially in high-rated debt securities. The Group's rating also reflects S&P's analysts' concern about a possible impact on the future operations of the PZU SA's shareholder structure, especially the potentially adverse changes in the management board and consequently halting of the currently pursued strategic projects.

Future rating improvement prospects

Standard & Poor's noted in its report that as soon as the quality of the investment portfolio of the Group members improves and the PZU SA shareholder problems are solved the agency may upgrade the PZU SA and PZU Życie SA ratings. According to S&P's analysts this will only be possible if the following conditions are met at the same time:

- the management boards remain stable and the current PZU SA President remains in office;
- the management boards continue their commitment in the modernisation process of the companies commenced in 2004;
- the very good operating performance is maintained;
- the PZU Group continues with its high capitalisation, which is already at the "AA" level.

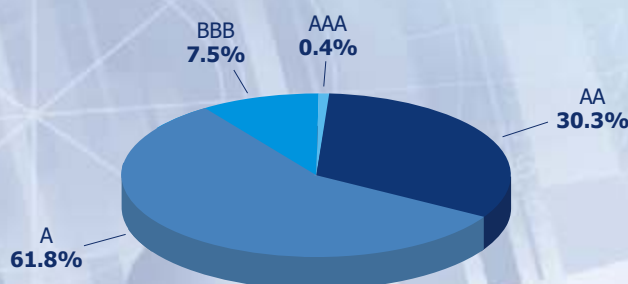
The S&P's analysts will regard a possible change of the outlook from stable to positive as a sign that the companies are very close to meeting all of the stated conditions.

Reinsurance

PZU SA reinsurance policy

PZU SA's 2005 reinsurance programme consisted of 7 obligatory reinsurance treaties, around 100 facultative contracts and a number of service agreements supporting the sales and underwriting processes.

In 2005, the Group continued a reinsurance policy aiming to replace proportional programmes with non-proportional contracts, which are more favourable for insurers with high capitalisation. In the meantime, thanks to its steadfast negotiating position combined with a global stabilisation trend on the reinsurance market PZU SA managed to secure favourable modifications to the technical terms and conditions of the various contracts helping to match the reinsurance cover with the changing portfolio requirements in terms of the scale (e.g. unlimited motor third-party liability for vehicle owners in domestic traffic) and the Company's underwriting needs.



Reinsurers of PZU SA by Standard & Poor's rating in 2005

Catastrophic risks

In 2005, PZU SA continued its project of natural disaster risk accumulation and reviewed the scale of exposure of its insurance portfolio to the risks of floods and hurricanes. The results were used in the renewal process to negotiate better terms and conditions of the catastrophe treaty.

Inward insurance

As in previous years, the Company's inward reinsurance activity involved supporting domestic insurers, mainly by providing facultative cover.

In 2005, PZU SA provided significant support to PZU Lietuva, as regards both obligatory reinsurance (as one of the principal reinsurers) and facultative cover. At the same time, the Company initiated preliminary analytical efforts needed to provide reinsurance support to the newly acquired PZU Ukraine.

Asset management

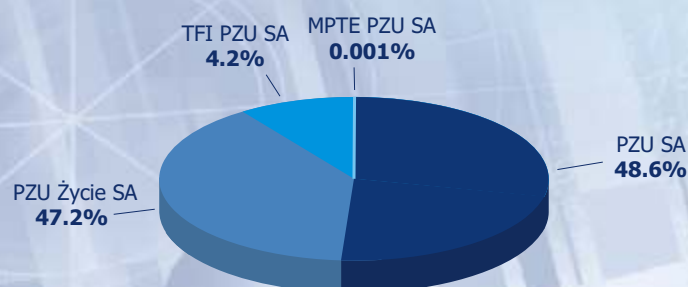
PZU Asset Management SA begins operations

The most significant of changes introduced to the Group's asset management was the launch of active asset management by Asset Management SA for other Group members and funds. The Company took over the activities previously performed by individual asset management units of PZU SA, PZU Życie SA and TFI PZU SA, as well as the human and system resources of those units. The move was aimed to maximise cost synergies (savings in IT and information systems and personnel cost) and revenue synergies (using economies of scale to obtain better market prices) and additionally to meet adopted quality targets (through better investment risk management, improved investment process controls and the supervision of additional regulators).

In the process the PZU Group has built one of the largest Polish asset management firms with an excellent team of specialists for the management of debt securities, shares listed on regulated markets, derivatives and credit risk exposed debt instruments, as well as good management and accounting systems and a logical system of operating and controlling procedures. During the coming years, PZU Asset Management SA will offer its services exclusively to PZU Group members.

Portfolio of PZU Asset Management SA

The process of transferring assets for the management of PZU Asset Management SA was gradual. Assets of PZU SA and PZU Życie SA were transferred on 5 September and assets of TFI PZU SA on 5 December 2005. In December, PZU Asset Management SA also began managing the fund of the Międzyzakładowy Program Towarzystwa Emerytalnego PZU SA (Cross-Company Pension Plan PZU SA). At the end of 2005, PZU Asset Management SA managed assets worth ca. 19,736.7 million zlotys.



Assets managed by PZU Asset Management SA broken down by PZU Group members as of 31 December 2005

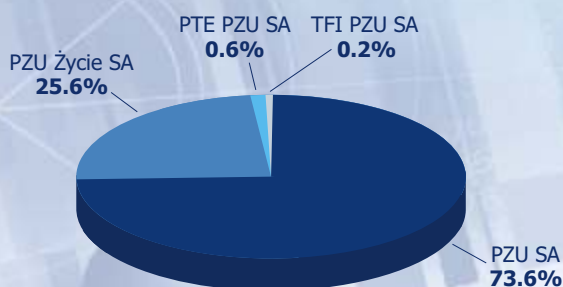
PZU Asset Management SA did not receive strategic exposures or those held to maturity by PZU SA and PZU Życie SA.

In the near future, PZU Asset Management SA is planning to expand its activity by including exposures to alternative assets and on international markets, including particularly in Central and Eastern Europe.

Employees

The PZU Group as an employer

The PZU Group is one of the largest employers of the Polish financial sector. At the end of 2005, the four companies employed between them in excess of 16 thousand people.



Employment structure broken down by PZU Group members as of 31 December 2005.

Functional centralisation and personal union

For the employees the year 2005 meant considerable organisational changes involved in the Group's structural reform. The major activities in this area included a functional centralisation and a personal union.

The functional centralisation involved transferring certain areas of activity from the regional branches up to the Head Quarters level, which helped streamlining the staffing of those areas.

The personal union is a process which began on the September 1st, 2005 and involved the integration of certain offices between the PZU SA and PZU Życie SA Head Offices. At the end of 2005, the personal union covered nine integrated central offices and 300 staff.

Rolling-out Poland's largest recruitment project

In 2005, the Group embarked on the largest recruitment process in Poland. It was a consequence of the reform in the sales structure area. Based on standardised methods, the Companies selected employees who took over new posts in the areas of private customer, corporate customer and in the sales service.

Management by objectives (MBO)

The Group implemented a system of management by objectives for the top management. The system involved cascading of the objectives most important for the organisation from the management board level down to all top management levels with semi-annual progress reviews and annual appraisals. In the first step, 190 managers of PZU SA were included in the system. All of the remaining top managers of PZU SA and PZU Życie SA are scheduled to be covered by the new system by the end of 2006.

Training and professional development system

Implementation of two very important training and development programmes began in 2005. The first was an advanced programme for the sales structure employees facilitating the building of training programmes tailored to the needs of the organisation under its business plans and targets, while meeting individual development needs of individuals at the same time. The programme also facilitated planning of career paths, reserve staff management and succession planning. It also maximised the utilisation of the employee potential in pursuing the organisation's objectives.

The other programme is designed for the higher managerial staff of PZU SA and PZU Życie SA. It envisages a continuous development of the higher managerial staff in terms of their competencies (knowledge, skills and attitudes) supporting the Group's strategy and related business goals.

2005 also saw the first edition of the Group's scholarship system for its best employees. PZU granted its first two MBA scholarships at the French INSEAD, one of the world's best colleges.

Frist edition of the placements and internship programme

In 2005, first edition of the integrated placements and internship programme at PZU SA was launched. Places were available throughout the company, both geographically and functionally.

A placement lasts for 11 months. The first three months are spent in a district branch, which provides an opportunity to find out about specific features of the various business divisions and the Company's overall working principles. After that, the last eight months are spent in a field unit of a selected division. What is important, permanent job opportunities are offered at the end of the placement, as the programme aims essentially to find people with great development potential and to prepare such candidates for efficient operation within the PZU SA structures.

The internship programme is targeted at students of all grades regardless of their academic discipline. The internships last for four weeks and are focussed in the sales, loss adjustment, personnel, IT, marketing, accounting and legal departments.

Satisfaction surveys

In 2005, the second edition of the employee satisfaction survey covered all employees of the PZU Group (PZU SA, PZU Życie SA, PTE PZU SA, TFI PZU SA and CIG PZU SA). The survey was carried out electronically and was anonymous. The main objective was to diagnose the ongoing changes and to find out about the employee assessment of those changes. The survey showed the employee satisfaction to have had improved over than of 2004.

Awards

In 2005, PZU Group members won recognition in numerous competitions for their core operations, marketing activities and corporate citizenship.

Awards with an impact on the market position

- The *Rzeczpospolita* daily gave PZU SA three prestigious titles: 3rd place in their Top 500 largest companies in Poland, 9th place in the ranking of companies with the greatest increase in net earnings and the Best Financial Institution among non-life insurers.
- The editors of *Home&Market* awarded three companies of the PZU Group: PZU SA, PZU Życie SA and PTE PZU SA with their Silver Umbrellas, the most prestigious award of the insurance market.

Major awards for the PZU Group products

- The readers of the *Auto-Moto* magazine gave the PZU SA's *Minicasco* motor insurance their Auto-Moto Lider award.
- The *Miesięcznik Ubezpieczeniowy* magazine acknowledged PZU SA for its *Wojażer* insurance (the most tourist friendly) and the consumer electronics' insurance. The same monthly magazine also pronounced PZU SA the market leader in the third-party liability insurance.
- The PZU Pension company OFE PZU Złota Jesień received the 2005 Financier of the Year award from the *Gazeta Finansowa* magazine in the Pension Fund category. The same fund also ranked 3rd among pension funds in the *Rzeczpospolita*'s ranking and 2nd in the ranking by the *Gazeta Wyborcza* daily.
- The editors of *Forbes* together with the Expander financial advisors named PZU FIO Papierów Dłużnych Polonez as No. 1 debt securities' investment fund.
- The economic magazine *Home&Market* acknowledged PZU call centre in their survey of customer call centres of financial institutions.
- The PZU Group web portal was among the winners of the second edition of the Golden Websites for the best insurer website.

Brand recognition

- For the fifth time in a row, Poles voted PZU SA the most trusted brand of the insurance sector in the *Reader's Digest*'s The European Trusted Brands 2005 consumer survey.
- PZU SA took the second spot in the 2005 Consumer Laurel competition organised by the editors of the economic magazine *Przegląd Gospodarczy*.
- PZU Życie SA won the top award for Student's Security in the fifth edition of the Student Product of the Year competition.

Recognition of the PZU Group's good corporate citizenship

- PZU SA was awarded by the Minister of Culture in the Benefactor of Culture competition for the best sponsors of Poland's cultural life in 2005.
- PZU Życie SA received the White Raven award from the Heath Promotion Foundation for the support of the Let's Kick Smoking Together campaign.
- PZU Życie SA received the Santa Claus 2005 mention for merit from the Polish Association of the Blind.
- Mr. Cezary Stypułkowski, President of PZU SA, received a Medal of the Voluntary Water Rescue Service for his involvement in ensuring water-related safety in Poland.
- Mr. Cezary Stypułkowski, President of PZU SA, received the Knight's Cross of the Order of Merit for Lithuania from Valdas Adamkus, President of the Republic of Lithuania.



*In 2005 we posted record earnings,
unprecedented in the company's
history and the whole insurance sector.*

19:00

P Z U T I M E

Market position and financial results of PZU Group companies

annual report 2005

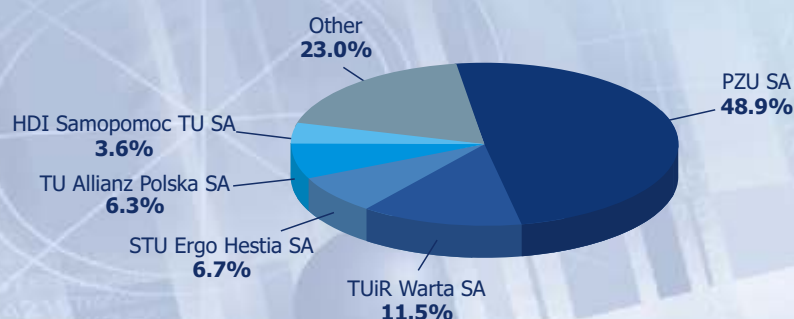
Market position

The PZU Group has for years maintained its position as leader of the Polish insurance market. The market share of the PZU Group in insurance, measured by gross premiums written, stood at 44.4% at the end of 2005, having come down 2.6 points compared to the previous year.

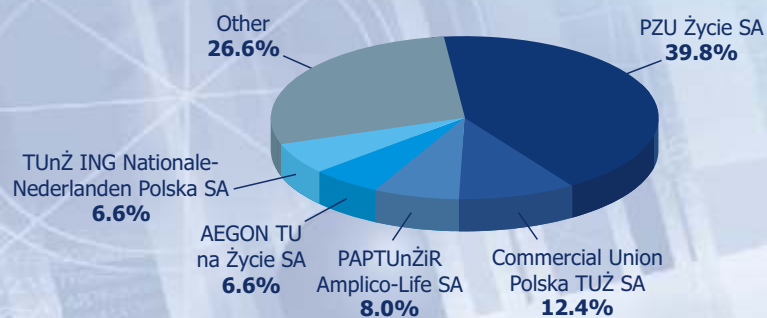
PZU SA is a leader of non-life insurance. The Company's market share at the end of 2005 was 48.9%, a 1.3 point reduction. PZU SA managed to slow down its market share dropping pace, mainly thanks to good sales results, especially in non-motor insurance. PZU SA also maintained high share in motor own damage and theft insurance segment, against stagnation on this market caused by a significant reduction in new vehicle sales in 2005.

PZU Życie SA is the biggest life assurance company in Poland. Its market share in life business stood at 39.8% at the end of 2005, having come down 3.3 points on 2004. PZU Życie SA's share in regular premiums (with the highest profitability) remained practically unchanged, whereas the Company's share in single premiums (low margin) dropped.

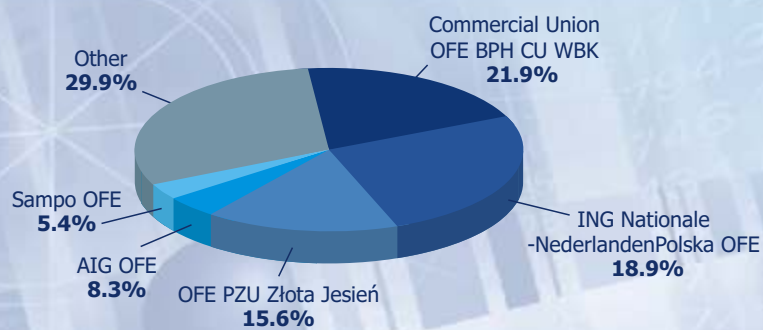
Among open pension funds, the market share of OFE PZU Złota Jesień, measured by fund membership, was 15.6% at the end of 2005, which gave PZU the third position on the Polish market. Also in terms of assets under management, OFE PZU Złota Jesień ranked third, with 13.7% market share at the end of 2005.



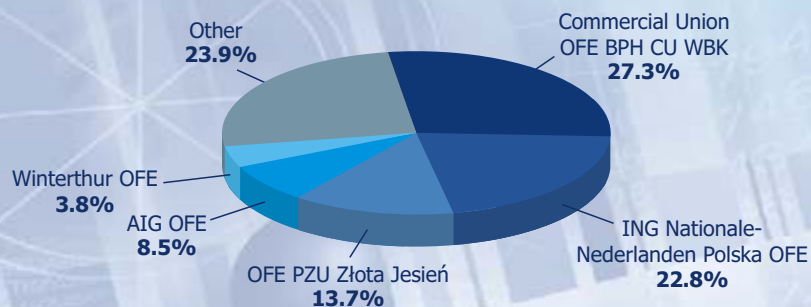
Market share of PZU SA in non-life insurance by gross premiums written
as of 31 December 2005



Market share of PZU SA in life insurance by gross premiums written as of 31 December 2005



Market share of OFE PZU Złota Jesień in open pension funds by fund membership as of 31 December 2005

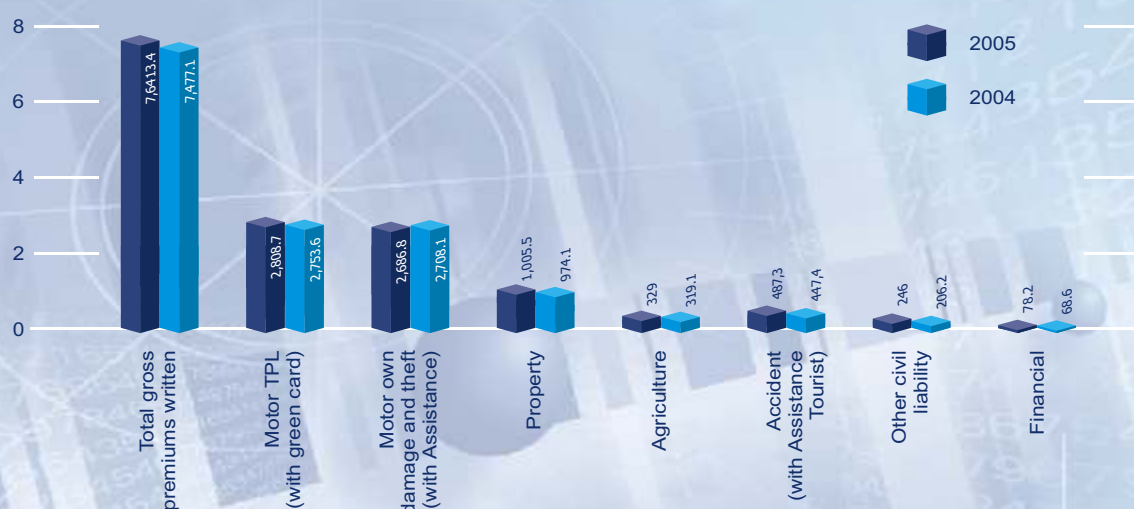


Market share of OFE PZU Złota Jesień in open pension funds by assets under management as of 31 December 2005

Gross premiums written

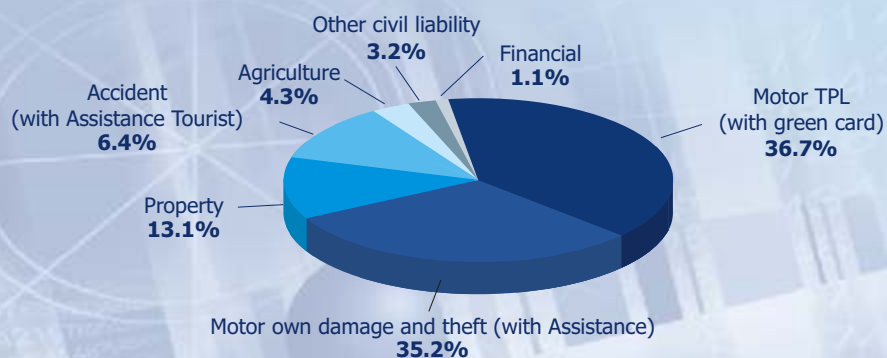
In 2005, the gross premiums written by the PZU Group on life and non-life business, following consolidation adjustments, amounted to 13,747.6 million zloty, and increase of 6.1% on the previous year.

Total gross premiums written by PZU SA in 2005 stood at 7,653.6 million zloty, representing growth of 2.3%. Total premiums written on direct insurance came to 7,641.4 million zloty. The largest rise in premiums written was seen in financial insurance, accident insurance and other civil liability insurance. In 2005, the Company saw increasing premiums written in all main product categories, apart from a slip in motor own damage and theft insurance (by 0.8%).



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

The dominant items in the PZU SA's portfolio continued to be motor third-party liability insurance and motor own damage and theft insurance, which together accounted for almost 72% of business. Property insurance increased its share by 0.1 bps to 13.1%. At the end of 2005, accident insurance stood at 6.4%, agriculture insurance at 4.3%, other civil liability products at 3.2%, while financial insurance at 1.1% of the total premiums written.



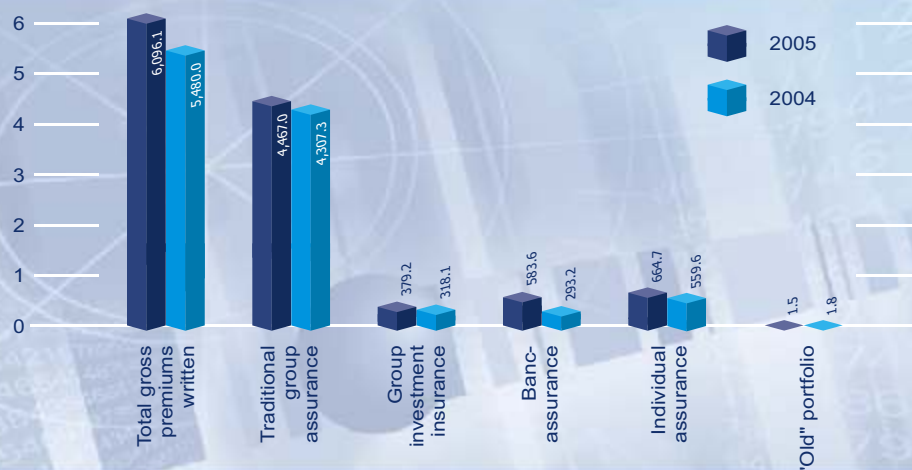
Gross premiums written at PZU SA by main product categories as of 31 December 2005

The gross premiums written by PZU SA on reinsurance in 2005 amounted to 12.2 million zloty.

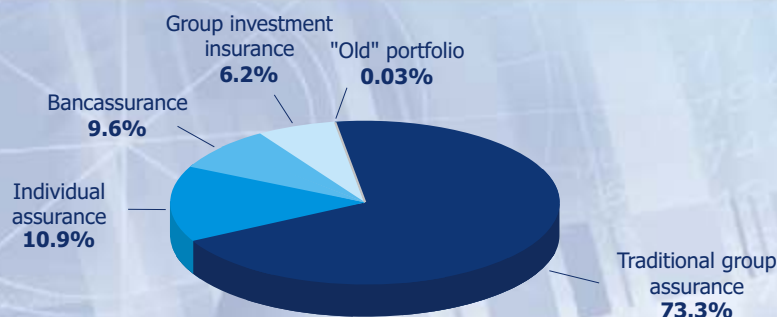
The number of insurance contracts concluded by PZU SA increased by 2.7% to stand at 41,331.6 thousand zloty. The average premiums came to 184.9 zloty, down 0.5% on 2004*.

Total gross premiums written at PZU Życie SA in 2005 totalled 6,096.1 zloty, an increase of 11.2% on 2004. Just like in the previous period, the fastest growth was recorded in bancassurance (up 99%). In traditional group assurance cover, premiums went up by 3.7% and in investment group insurance by 19.2%. Individual policies saw 18.8% growth.

As in previous years, the largest proportion of premiums written at PZU Życie SA were group assurance products, which constituted 79.5% of total gross premiums. Individual policies accounted for 10.9% of the total. Bancassurance business saw 4.2 bps growth on 2004, with share of 9.6% at the end of 2005.



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



Gross premiums written at PZU Życie SA by main product categories as of 31 December 2005

In 2005, the number of assured at PZU Życie SA totalled 13,536.4 thousand, down 149.6 thousand compared to 2004. This reduction is mainly traceable to a decrease in the number of continued "P" type group assurance risks and the so-called "old" assurance portfolio (closed-ended portfolios).

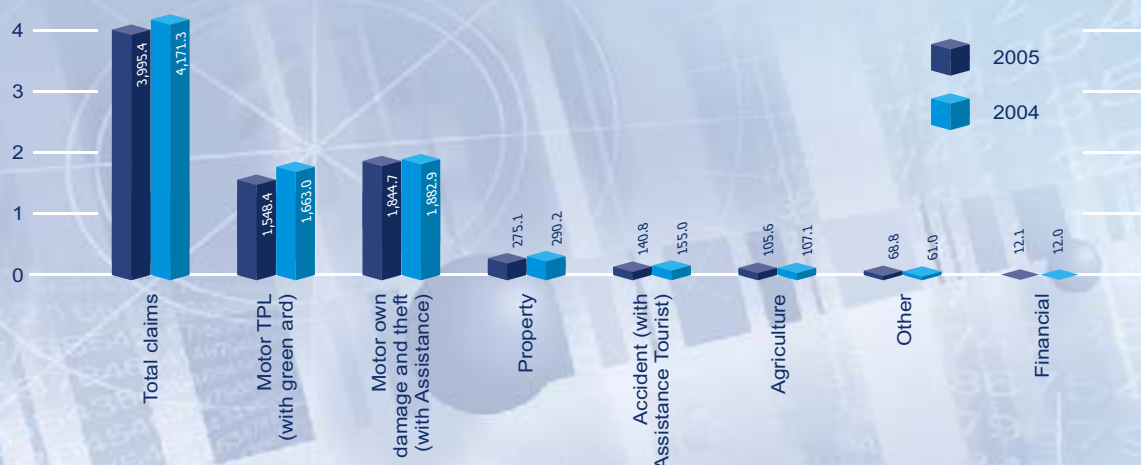
* Maintaining comparability the average premiums and number of contracts concluded have been calculated and adjusted for previous years.

Claims and benefits

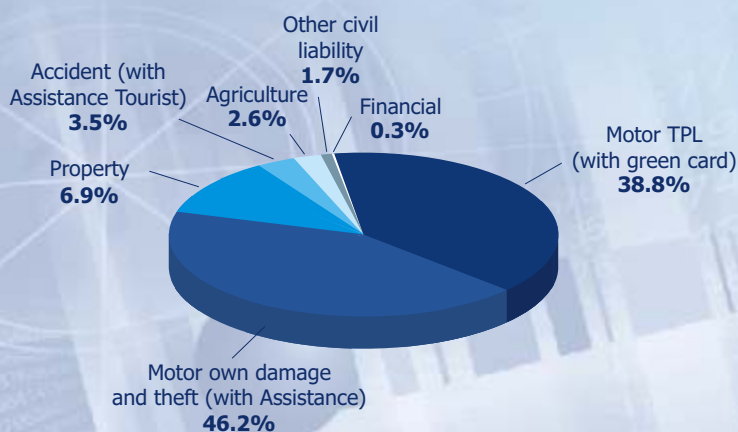
The claims and benefits paid by the PZU Group in 2005, gross, amounted to 8,275.4 million zloty representing an increase on 2004 of 3.4%.

The gross claims and benefits paid by PZU SA in 2005, together with loss adjustment expenses stood at 4,297.3 million zloty, with claims and benefits arising from direct insurance (excluding loss adjustment expenses) alone coming to 3,995.4 million zloty. This constituted a 4.2% drop relative to 2004. Less claims were paid in most of the main insurance product groups, except for financial insurance and other civil liability insurance.

No significant changes were recorded in the structure of claims and benefits paid by PZU SA, as compared to 2004. Motor vehicle cover remained the dominant category, reaching almost 85% of total payments. Property insurance amounted to 6.9%, accident insurance to 3.7% and agriculture insurance to 2.6%.



Gross claims and benefits from direct insurance (excluding loss adjustment expenses and recourse) paid by PZU SA, by main product categories (million zloty)



Gross claims and benefits from direct insurance (excluding loss adjustment expenses and recourse) paid by PZU SA, by main product categories as of 31 December 2005

The number of claims paid by PZU SA in 2005 totalled 1,308.5 thousand, down 6.4% on 2004.

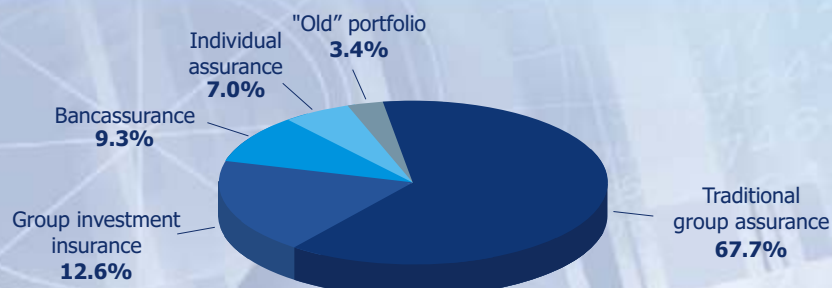
The value of average claim paid out stood at 3,053.5 zloty, thereby coming up 2.3% as compared to 2004. Direct loss adjustment expenses at PZU SA came to 90.4 million zloty in 2005, up 8.8% on the previous year.

PZU Życie SA paid out a total of 3,982.1 million zloty, gross, in claims and benefits in the course of 2005, an increase of 11.7% on the year before. Excluding loss adjustment expenses, the value of claims and benefits paid out in 2005 amounted to 3,852.9 million zloty, gross.



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

As in previous years, the largest portion of gross claims and benefits paid in 2005 were those on traditional group assurance (67.7%) and investment group insurance (12.6%). Bancassurance share went up considerably by 8.8 bps, reaching 9.3% at the end of the year. This is attributable to benefits paid at the end of investment product insurance period.



Gross claims and benefits (excluding loss adjustment expenses) paid by PZU Życie SA, by main product categories as of 31 December 2005

Loss adjustment expenses at PZU Życie SA in 2005 amounted to 129.2 million zloty.

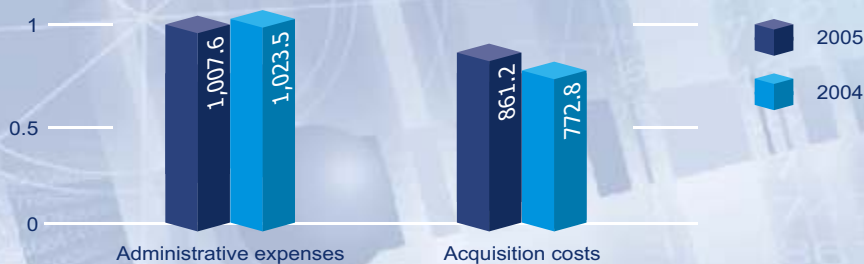
Costs of insurance activities

The costs of the PZU Group's insurance activities, which include acquisition costs and administrative expenses totalled 2,695.5 million zloty in 2005, equivalent to 5% increase compared to 2004*.

The costs of insurance activities in PZU SA during this period came to 1,868.8 million zloty, up 4% on the year before.

For the first time in five years, the non-life Company managed to reduce its administrative expenses. They stood at 1,007.6 million at the end of 2005 and were 1.6% lower than in 2004. This was primarily due to cuts in current administrative expenses, especially IT and material costs. Costs of projects went up significantly, which should be considered positive. In 2005, PZU SA launched its restructuring exercise, aimed at increasing efficiency of the Company's operations and delivering even better financial performance.

Acquisition costs of PZU SA rose 11.5%, mainly due to higher costs of insurance intermediation resulting from increased sales volume and sales organisational changes. However, increase in acquisition costs is currently a general tendency prevailing on the insurance market.



Costs of insurance activities (broken down to administrative expenses and acquisition cost) at PZU SA (million zloty)

The share of insurance activities costs in gross premiums written at PZU SA amounted to 24.4% in 2005.

The costs of insurance activities at PZU Życie SA stood at 894.3 million zloty in 2005, having risen 6.8% as compared to 2004. Administrative costs saw significant growth and came to 582.1 million zloty at the end of the period under review. The main growth factor was high spending on the implementation of GraphTalk, the Company's product IT system. Acquisition costs went down 1.7% on 2004.

* Commission on reinsurance and share in reinsurers' profit we recognised as reduction in acquisition costs.



Costs of insurance activities (broken down to administrative expenses and acquisition cost) at PZU Życie SA
(million zloty)

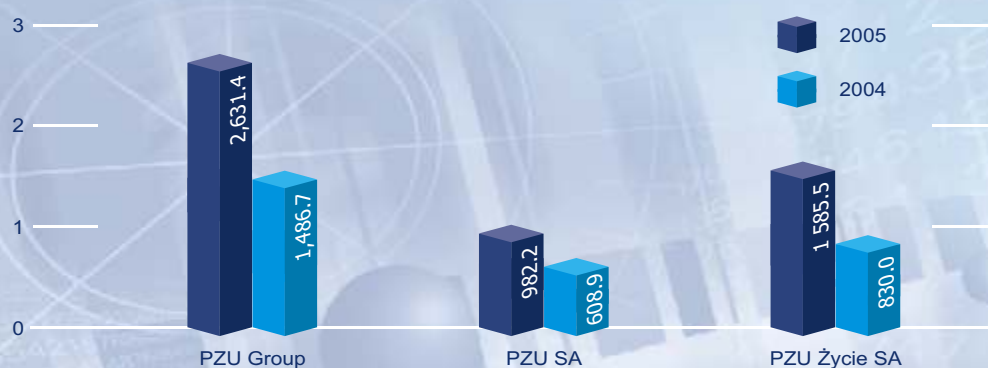
The share of insurance activities costs in gross premiums written at PZU Życie SA went down significantly. At the end of 2005 it stood at 14.7%, or 0.6 bps less than in 2004.

Underwriting result

The total underwriting result of the PZU Group transferred to the consolidated general profit and loss account in 2005 stood at 2,631.4 million zloty.

In 2005, PZU SA recorded an underwriting result of 982.2 million zloty. This constitutes a soaring increase of 61.3%, which can be traced to higher premiums, drop in claims and benefits paid, and lower costs of movements in reserves. A positive underwriting result was recorded on all main product categories, with the exception of other civil liability and financial insurance products.

PZU Życie SA also reported a large rise in its underwriting result (of 91%), taking it to 1,585.5 million zloty. Significant improvement in this result is attributable to higher gross premiums and excellent investment performance.



Underwriting result of the PZU Group, PZU SA and PZU Życie SA
(million zloty)

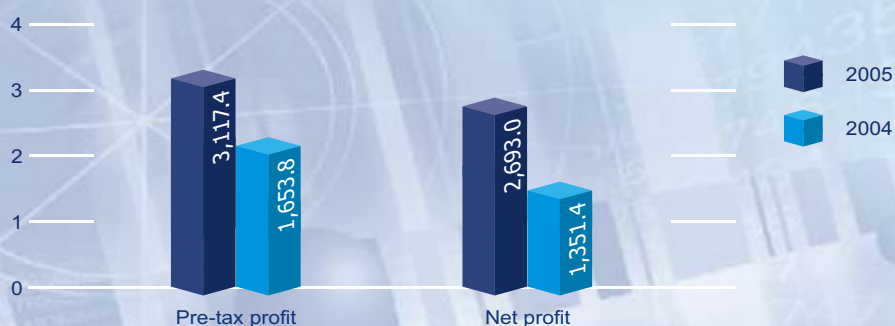
Earnings

The PZU Group posted record earnings in 2005, unprecedented for both the firm itself and the entire insurance industry. It was also the best result among all financial institutions from Central and Eastern Europe. The consolidated pre-tax profit of the Group amounted to 3,991.8 million zloty, a hefty 52% increase compared to 2004. Similar growth was recorded in net profit, which stood at 3,214.8 million zloty at the end of the period under review.

PZU SA recorded earnings of 2,693 million zloty in 2005, 99.3% up on the previous year. Dividends paid from PZU Życie SA 2004 profit constituted a large part of this result (956.1 million zloty). This has been the first ever transfer of net profit from PZU Życie SA to PZU SA. Excluding PZU Życie SA dividends, net profit of PZU SA stood at 1,736.9 million zloty at the end of the period under review, or over 28.5% more than in 2004. Such a significant improvement in the Company's financial performance is mainly attributable to a large increase in underwriting result and an exceptional performance of investments.

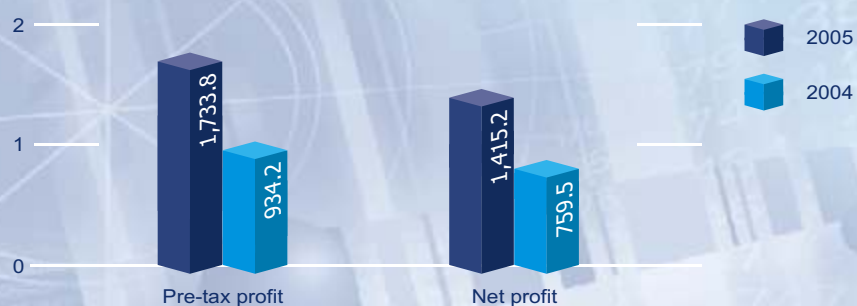


PZU Group earnings, pre-tax / net
(million zloty)



PZU SA earnings, pre-tax / net
(million zloty)

Net profit of PZU Życie SA at the end of 2005 stood at 1,415.2 million zloty, up 86.3% on 2004. Such improvement in the financial result was mainly due to a significant increase in the Company's underwriting result.



PZU Życie SA earnings, pre-tax / net
(million zloty)

Also PTE PZU SA recorded higher earnings. At the end of 2005, the Company's net profit amounted to 66.7 million zloty, up 46.2% as compared to the previous year. Improvement in PTE PZU SA profit is attributable to higher result on operational and other activities.

Investment activity

Similar to previous years, the investment activity of the PZU Group in 2005 was focused on matching assets and liabilities structures, while maintaining required level of security, profitability and liquidity of investments. At the end of 2005, the Group's investments totalled 38,726.5 million zloty, up 9.9% on 2004. The investment income of the PZU Group in 2005 amounted to 3,735 million zloty and was 16.8% higher than in 2004.

The investment income of PZU SA in 2005 totalled 2,311.2 million zloty, signifying an increase on 2004 of 111.1%. This hefty increase in 2005 was heavily influenced by dividends from PZU Życie SA. Excluding dividends from the life business, investment result of PZU SA for 2005 stood at 1,355.1 million zloty, i.e. over 23.8% more than in 2004. Rate of return on investments portfolio at PZU SA (excluding dividends from PZU Życie SA) was 9.5%.

The primary target of investment activity conducted by PZU SA in 2005 were treasury securities, i.e. T-bonds and T-bills, which constituted a significant of the portfolio. The total share of these instruments at the end of the year stood at 59.8% of PZU SA investments portfolio, as compared to 62.1% at the end of 2004.

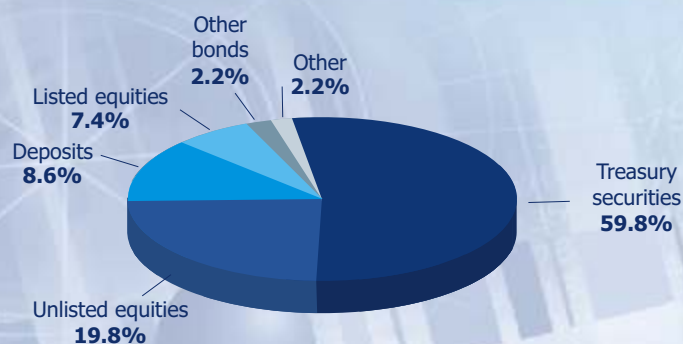
The Company was also active in listed equities, delivering on its investment strategy. The share of listed equities in PZU SA investments portfolio dropped from 8.0% at the end of 2004 to 7.4% at the end of 2005, with a slight increase in nominal exposure.

Exposure in non-treasury debt securities went down as well. Their share shrunk from 3.0% at the end of 2004 to 2.2% at the end of 2005.

2005 saw a slight increase of 0.1 bps in the share of unlisted equities and other ownership interests in the investments portfolio, which came to 19.8%. Such a large proportion of unlisted equities and other ownership interest in PZU SA investments portfolio was mainly due to PZU Życie SA shares within this portfolio, which were valued at 3,992.8 million zloty on 31 December 2005 (accounting for 95.7% of unlisted equities and other ownership interests portfolio at PZU SA).

The value of term deposits (deposits and contingent transactions) at the end of 2005 accounted for 8.6% of the total investments portfolio (in 2004 it stood at 4.9%). Higher share of term deposits in the portfolio resulted from dividends from PZU Życie SA received in December 2005 in the amount of 956.1 million zloty, which were placed in short-term financial instruments on transitional basis.

The share of other types of investments remained relatively unchanged as compared to the end of 2004.



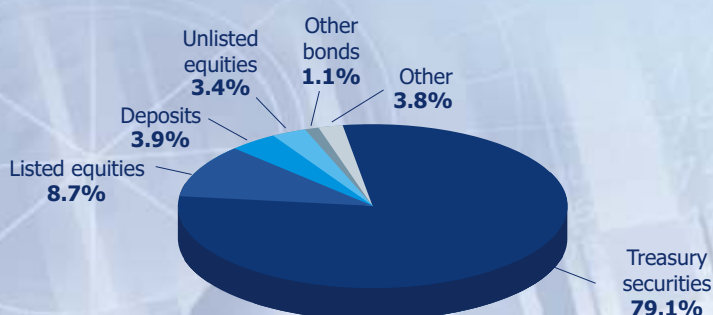
Composition of PZU SA investment portfolio
as of 31 December 2005

The investment income of PZU Życie SA in 2005 grew 14.3% to the level of 2,096.7 million zloty. The rate of return on the Company's investments portfolio in 2005 was 9.8%.

No significant changes were recorded in the composition of PZU Życie SA investments portfolio as the end of 2005 as compared to the previous period. Similar to previous years, the portfolio is dominated by treasury securities. Their share at the end of 2005 stood at 79.1%, down 0.2 point on the end of 2004.

PZU Życie SA exposure to listed equities remained at a level similar to 2004. The share of these financial instruments in the Company's investments portfolio stood at 8.7% at the end of 2005.

Slight increase of 0.2 bps was recorded in unlisted equities and other ownership interests. At the end of the period under review, they constituted 3.4% of the portfolio.



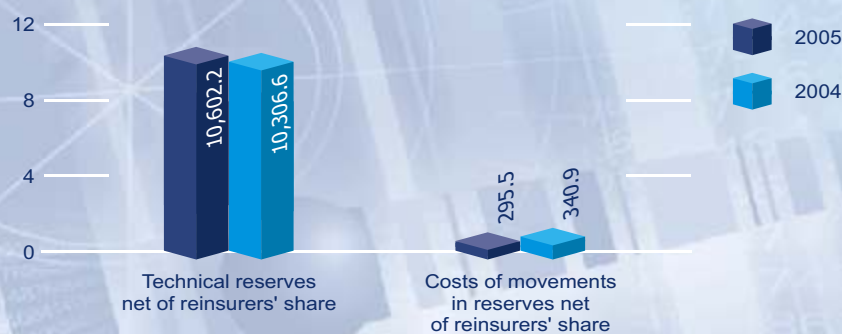
Composition of PZU Życie SA investment portfolio
as of 31 December 2005

Technical reserves

At the end of 2005, the technical reserves of the PZU Group, with estimated recourses and recoveries, totalled 31,315.6 million zloty (29,964.3 million zloty net of reinsurers' share). Compared to 2004, this constitutes an increase of 6.1% in reserves established (6.7% increase net of reinsurers' share).

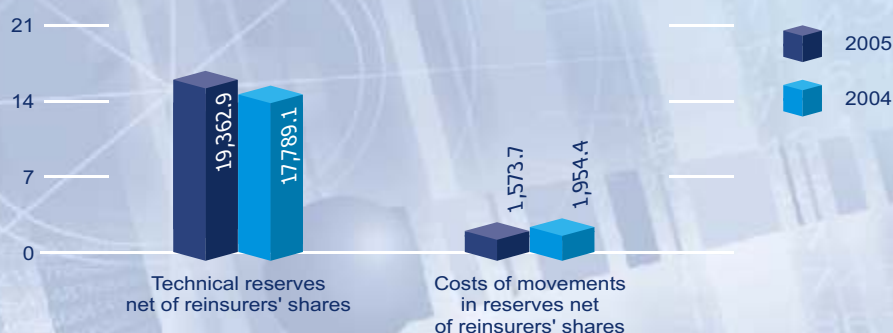
At PZU SA, technical reserves at December 31, 2005, with estimated recourses and recoveries, amounted to 11,953.4 million zloty (10,602.2 million zloty net of reinsurers' share), a sum that ensures full financial security of the Company and its customers. Compared to 2004, gross technical reserves of PZU SA had risen 1.8% (2.9% net of reinsurers' share).

The expense of movements in reserves at PZU SA in 2005 stood at 215.3 million zloty (295.5 million zloty net of reinsurers' share). The gross reserves were equivalent to 156.2% of gross premiums written.



Technical reserves and costs of movements in reserves net of reinsurers' share in PZU SA (million zloty)

As at December 31, 2005, the gross technical reserves held by PZU Życie SA amounted to 19,362.9 million zloty, with the net figure being almost the same. This represents an increase during the year of over 8.8%. The expense of movements in reserves at PZU Życie SA in 2005 came to 1,573.7 million zloty, with the net figure being almost the same.



Technical reserves and costs of movements in reserves net of reinsurers' share in PZU Życie SA (million zloty)

Efficiency ratios

Return on assets and equity

	31.12.2005	31.12.2004
Return on assets (ROA), PZU Group (net earnings / average total assets) x 100%	7.8%	5.7%
Return on equity (ROE), PZU Group (net earnings / average total assets) x 100%	33.4%	28.7%
Return on investment, PZU Group (net investment income / investments at period end)	8.9%	8.3%

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.

The return on equity reported, above average for the insurance industry, indicates a high efficiency of capital utilisation within the PZU Group.

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 investment in bonds and equities.

Solvency and liquidity ratios - measures of financial soundness

	31.12.2005	31.12.2004
Solvency margin, non-life insurance (million zloty)	1,182.2	1,195.5
Solvency margin, life assurance (million zloty)	1,467.9	1,403.5
Own funds covering solvency margin non-life insurance (million zloty)	9,248.4	4,813.4
Own funds covering solvency margin life assurance (million zloty)	3,921.0	3,481.2
Solvency margin cover ratio, non-life insurance	782.3%	402.6%
Solvency margin cover ratio, life assurance	267.1%	248.0%
Guarantee fund, non-life insurance (million zloty)	394.1	398.5
Guarantee fund, life assurance (million zloty)	489.3	467.8
Own funds to guarantee fund cover ratio, non-life insurance	2,767.0%	2,118.0%
Own funds to guarantee fund cover ratio, life assurance	816.1%	757.4%

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 excellent financial soundness of the principal PZU Group companies.

Performance ratios

	31.12.2005	31.12.2004
Gross loss ratio at the PZU Group (simple) (gross claims and benefits paid / gross premiums written)	60.2%	61.8%
Net loss ratio at the PZU Group (composite) (claims and benefits paid / net premiums earned)	62.1%	65.1%
Operating costs ratio at the PZU Group (costs of insurance activities / net premiums earned)	20.4%	21.0%
Combined ratio at the PZU Group PZU (net loss ratio + operating expense ratio)	82.5%	86.1%
Administrative expense ratio at the PZU Group (administrative expenses / net premiums earned)	11.6%	12.2%

Decrease in insurance activity costs ratio stems from the reduction in current administrative expenses accompanied by growth in earned premiums.

Significant drop in the combined ratio reflects improvement in the Group's overall efficiency and is mainly attributable to better loss adjustment ratios (lower costs of change in provisions and claims pay-outs with higher earned and written premiums).



*Our long-term investment
strategy guarantees financial stability
and security for our customers.*

21:30
P Z U TIME

Financial statements and chartered auditors' opinions

annual report 2005

I. Introduction to the consolidated financial statements

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

The Capital Group of Powszechny Zakład Ubezpieczeń SA ("PZU Capital Group", "PZU Group") includes:

- Powszechny Zakład Ubezpieczeń SA ("PZU", "parent company") as the parent company;
- Powszechny Zakład Ubezpieczeń na Życie SA ("PZU Życie SA") as a subsidiary, subject to consolidation under the full method;
- Powszechne Towarzystwo Emerytalne PZU SA ("PTE PZU SA") as a subsidiary, subject to consolidation under the full method;
- PZU Tower Sp. z o.o. ("PZU Tower") as a subsidiary, subject to consolidation under the full method;
- Centrum Informatyki Grupy PZU SA ("CIG PZU SA"), former PZU-CL Agent Transferowy S.A, as a subsidiary, subject to consolidation under the full method from 1 December 2001;
- Other non-consolidated subsidiaries and associates presented in the table in point. 4.

On the basis of legal regulations effective from 1 January 2005, the consolidation of PZU Tower, PTE PZU SA and CIG PZU SA under full method complies with Art. 56 of the Decree of the Minister of Finance dated 8 December 2003 on specific accounting principles for insurance companies (Journal of Laws No. 218/2003, item 2144, hereinafter "Decree on Insurance Accounting").

Other entities have been excluded from consolidation due to the fact that the financial data of these entities is insignificant compared to the financial data of the the PZU Group, as set out in Art. 4 item 1 and 4 of the Accounting Act dated 27 August 2004 (Journal of Laws No. 213/2004, item 2155, hereinafter referred to as the "Accounting Act").

1.1. Powszechny Zakład Ubezpieczeń SA

PZU SA is a joint stock company with its registered office in Warsaw, at Al. Jana Pawła II 24. It was formed through the transformation of a state-owned enterprise Państwowy Zakład Ubezpieczeń into a joint-stock company of the State Treasury on the basis of Art. 97 of the Act dated 28 July 1990 on insurance activities - uniform text: Journal of Laws No. 11/1996, item 62 with subsequent amendments (hereinafter "Insurance Activities Act").

On 30 April 2001, PZU SA was registered in the National Court Register kept by the District Court for the capital city of Warsaw, XIX Economic Department of the National Court Register, Entry No. KRS 0000009831.

According to the European Activity Classification, the main area of the Company's activities is other property and casualty insurance (ACA 66.03).

1.2. Powszechny Zakład Ubezpieczeń na Życie SA

PZU Życie SA is a joint stock company with its registered office in Warsaw, at Al. Jana Pawła II 24, incorporated on 18 December 1991 and entered in the Commercial Register on 20 December 1991 kept by the District Court for the capital city of Warsaw, XVI Commercial - Registry Department, section B, Entry No. RHB 30260.

On 26 July 2001, PZU Życie SA was entered in the Register of Entrepreneurs of the National Court Register, Entry No. KRS 0000030211 on the basis of the decision issued by the District Court in Warsaw, XIX Economic Department.

According to the European Activity Classification, the main area of the PZU Życie SA activities is life insurance (EAC 66.01).

1.3. Powszechne Towarzystwo Emerytalne PZU SA

PTE PZU SA was incorporated on the basis of a notarial deed dated 6 August 1998.

PTE PZU SA is a joint stock company located in Warsaw at Al. Jana Pawła II 24, incorporated on 6 August 1998 and entered in the National Court Register for the capital city of Warsaw, XIX Economic Department of the National Court Register, Entry No. KRS 0000040724.

According to the European Activity Classification, the main area of PTE PZU SA activities are supplementary activities relating to insurance and pension funds (EAC 67.20).

1.4. PZU Tower Sp. z o.o.

PZU Tower with its registered office in Warsaw at ul. Ogrodowa 58, was incorporated on 25 August 1998 and entered in the Register of Entrepreneurs of the National Court Register, kept by the District Court for the capital city of Warsaw, XIX Economic Department, Entry No. KRS 0000021844.

According to the European Activity Classification, of the main business activity of PZU Tower is purchase and sale of real estate, intermediation in the real estate trading as well as administering of real estate (EAC 70.11).

1.5. Centrum Informatyki Grupy PZU SA

CIG PZU SA with its registered office in Warsaw, at ul. Matuszewska 14 was incorporated on 29 June 1998. On 26 September 2001 it was entered in the Register of Entrepreneurs of the National Court Register kept by the District Court for the capital city of Warsaw, XX Economic Department, Entry No. KRS 0000043026.

CIG PZU SA business activities include auxiliary activities relating to insurance and pension funds.

2. Sources of information for the preparation of the consolidated financial statements of the PZU Capital Group

The consolidated financial statements of the PZU Capital Group for 2005 ("consolidated financial statements") were prepared by the parent company based on data derived from consolidation documentation. The consolidation documentation has been prepared in accordance with the Accounting Act and the Decree on Insurance Accounting.

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

The format of the consolidated financial statements of the PZU Capital Group for 2005 included in this document and the scope of information disclosed are in compliance with:

- the Accounting Act;
- the Decree on Insurance Accounting.

The financial year of entities subject to consolidation corresponds with the financial year of the parent company. The financial year covered by the consolidated financial statements covered the period from 1 January 2005 to 31 December 2005.

All figures presented in the consolidated financial statements are in PLN thousands unless stated otherwise.

3. Going concern assumption

The consolidated financial statements have been prepared on the basis that the consolidated PZU Capital Group entities will continue as going concerns in the foreseeable future, i.e. in the period of at least 12 months from the balance sheet date, i.e. 31 December 2005.

As at the date of signing the consolidated financial statements, there are no facts or circumstances that would indicate a threat to the continued activity of PZU Group entities subject to full consolidation method in the period of twelve months following the balance sheet date due to an intended or compulsory withdrawal from or limitation in its existing activities.

3.1. Business combinations

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

4. List of entities of the PZU Capital Group and their basic financial data

The following information was presented below:

- list of entities of the PZU Capital Group as at 31 December 2005 and their basic financial data for 2005;
- the table presenting the percentage of ownership of the share capital as well as the voting rights held by PZU SA directly or indirectly in individual entities of the PZU Capital Group as at 31 December 2005 and 31 December 2004, as well as information on the type of business activities conducted by those entities.

No.	Name of entity	Equity, of which:						Liabilities and provisions for liabilities, of which:			Receivables, of which:			Intangible assets and Property, plant and equipment	Total assets	Revenues	Financial income	Dividends received or receivable for the current year
		Share capital	Unpaid share capital (negative value)	Reserve capital	Other equity items, of which:				Long-term liabilities	Short-term liabilities		Long-term	Short-term					
in thousand zloty						Accumulated profits/(losses) from previous years	Net profit/(loss)											
Subsidiaries not consolidated as at 31 December 2005:		175 201	-	24 815	(57 856)	(41 188)	(33 291)	130 021	19 962	80 518	88 634	350	55 106	30 331	420 411	307 732	28 731	-
1.	SYTA Development Sp. z o.o. in liquidation /3	(6 570)	-	-	-	-	-	22 355	-	12 772	1 416	-	1 416	-	15 786	7 506	10	-
2.	TFI PZU SA	13 000	-	9 858	2 925	-	2 607	3 788	-	2 787	988	-	988	562	29 571	9 441	4 278	-
3.	Sigma Investments Sp. z o.o. /1	50	-	24	(3)	-	(3)	-	-	-	-	-	-	1	72	-	2	-
4.	PZU Asset Management SA	5 000	-	7 000	(6 717)	(6 974)	257	896	-	846	2 140	113	2 027	1 663	6 975	4 888	211	-
5.	CERPO Sp. z o.o. in liquidation /1 /3 /5	(4 682)	-	-	-	-	-	4 682	-	4 682	-	-	-	-	-	-	-	-
6.	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS) /1	192	-	320	(405)	(154)	(405)	19	-	19	31	-	31	1	127	25	1	-
7.	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	500	-	-	-	-	-	85	-	18	10	-	10	146	585	-	11	-
8.	PZU International Sp. z o.o. /1	50	-	-	(15)	-	(15)	3	-	3	-	-	-	-	38	-	-	-
9.	OJSC IC PZU Ukraine /1 /2 /7	50 896	-	1 554	(35 117)	(15 574)	(22 168)	20 059	-	20 059	21 935	221	21 714	8 939	75 301	40 060	3 981	-
10.	OJSC IC PZU Ukraine Life Insurance /1 /2 /7	14 870	-	-	(3 545)	(2 435)	(1 087)	347	-	347	518	16	502	2 129	13 688	2 262	1 389	-
11.	UAB DK PZU Lietuva (formerly: UAB DK Lindra) /1 /2 /6	28 402	-	4 062	(5 403)	(6 456)	(9 702)	16 560	n.a.	n.a.	32 875	n.a.	n.a.	15 223	135 410	128 321	15 842	-
12.	UAB PZU Lietuva Gyvybės Draudimas (formerly: UAB Nord/LB Gyvybės Draudimas) /1 /2 /6	16 493	-	1 097	(3 797)	(1 506)	(5 085)	629	n.a.	n.a.	303	n.a.	n.a.	1 667	30 139	9 541	1 305	-
13.	Krakowska Fabryka Armatur SA (KFA)	57 000	-	900	(5 779)	(8 089)	2 310	60 598	19 962	38 985	28 418	-	28 418	b.d.	112 719	105 688	1 701	-
Associates not consolidated as at 31 December 2005:		87 687	-	11 107	(33 380)	(40 162)	796	213 486	4 000	181 293	55 252	-	6 890	112 718	482 668	243 160	23 217	841
14.	VIS Inwestycje SA (formerly: Fabryka Wyrobów Precyzyjnych VIS SA) /1	42 000	-	397	(36 665)	(25 311)	(11 354)	32 919	-	23 447	3 012	-	3 012	18 646	38 651	6 135	1 704	-
15.	Kolej Gondolowa Jaworzyna Krynicka SA	41 053	-	-	(12 198)	(14 851)	2 647	9 027	4 000	4 689	537	-	537	35 208	37 882	11 189	217	-
16.	ICH Center SA /1	510	-	491	1 042	-	600	623	-	341	811	-	811	170	2 666	3 683	100	130
17.	Nadwiślańska Agencja Ubezpieczeniowa SA /1	1 200	-	1 312	336	-	336	236	-	209	151	-	151	24	3 084	1 692	162	86
18.	Polskie Towarzystwo Reasekuracji SA (PTR) /1	105 180	-	8 907	14 105	-	8 567	16 349	n.a.	n.a.	48 362	n.a.	n.a.	18 161	348 309	218 774	20 699	625
19.	PPW Uniprom SA SA in bankruptcy /1 /3 /4	(102 256)	-	-	-	-	-	154 332	-	152 607	2 379	-	2 379	40 509	52 076	1 687	335	-
TOTAL		262 888	-	35 922	(91 236)	(81 350)	(32 495)	343 507	23 962	261 811	143 886	350	61 996	143 049	903 079	550 892	51 948	841

1/ Unaudited data.

2/ "Revenues" include gross premium written and other technical income, net of reinsurers' share.

3/ Due to liquidation or bankruptcy, the whole amount of equity is presented in the caption "Share capital", according to Art. 36 section 3 of the Accounting Act.

4/ Data as at 30 November 2004.

5/ Data according to the liquidation financial statements as at 15 April 2005 or for the period from 1 January 2005 to 15 April 2005.

6/ Data according to the Lithuanian Accounting Standards it is not materially different from the data prepared in accordance with Polish Accounting Standards.

7/ Data according to IFRS.

No.	Name of entity	Registered office	% of share capital directly or indirectly held by PZU SA		% of voting rights directly or indirectly owned by PZU SA		Scope of activities
			31 December 2005	31 December 2004	31 December 2005	31 December 2004	
Subsidiaries consolidated under the full method as at 31 December 2005:							
1.	PZU Życie SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Life insurance
2.	PTE PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Creation and managing OFE "Złota Jesień"
3.	Centrum Informatyki Grupy PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Supporting activities to insurance and pension funds operations
4.	PZU Tower Sp. z o.o.	Warsaw	100.00%	100.00%	100.00%	100.00%	Real estate purchase, development, lease and disposal
Subsidiaries not consolidated as at 31 December 2005:							
5.	SYTA Development Sp. z o.o. in liquidation	Warsaw	100.00%	100.00%	100.00%	100.00%	Real estate trade, development and administration
6.	TFI PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Creating, representing and managing investments funds
7.	Sigma Investments Sp. z o.o.	Warsaw	100.00%	100.00%	100.00%	100.00%	Investment activities. Purchase and sale of shares, bonds and other securities admitted to public trading.
8.	PZU Asset Management SA	Warsaw	100.00%	100.00%	100.00%	100.00%	Managing of investment portfolio on behalf of other companies
9.	CERPO Sp. z o.o. in liquidation	Gliwice	100.00%	100.00%	100.00%	100.00%	Rendering services in the scope of gathering and processing of information on vehicle registration
10.	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. (BLOS)	Warsaw	100.00%	100.00%	100.00%	100.00%	Loss adjusting services on behalf of other insurers
11.	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	Warsaw	100.00%	100.00%	100.00%	100.00%	III Pillar insurance
12.	PZU International Sp. z o.o.	Warsaw	100.00%	100.00%	100.00%	100.00%	Capital investments
13.	OJSC IC PZU Ukraine	Kiev (Ukraine)	100.00%	0.00%	100.00%	0.00%	Property insurance
14.	OJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	100.00%	0.00%	100.00%	0.00%	Life insurance
15.	UAB DK PZU Lietuva (formerly: UAB DK Lindra)	Vilnius (Lithuania)	99.72%	99.61%	99.72%	99.60%	Property insurance
16.	UAB PZU Lietuva Gyvybės Draudimas (formerly: UAB Nord/LB Gyvybės Draudimas)	Vilnius (Lithuania)	99.34%	100.00%	99.34%	100.00%	Life insurance
17.	Krakowska Fabryka Armatur SA (KFA)	Cracow	90.53%	90.53%	90.53%	90.53%	Manufacturing of bathroom and kitchen fixtures and fittings
18.	Grupa Inwestycyjna Centrum Sp. z o.o. in liquidation	Warsaw	0.00%	100.00%	0.00%	100.00%	Financial and advisory services in the scope of exercising proprietary rights to shares
19.	UAB DK PZU Baltija (formerly: UAB Nord/LB) Draudimas)	Vilnius (Lithuania)	0.00%	100.00%	0.00%	100.00%	Other Property and Casualty Insurance
20.	Grupa Multimedialna SA in liquidation	Warsaw	0.00%	99.28%	0.00%	96.75%	Investment activities in the telecom-media- communication industry
Associates not consolidated as at 31 December 2005:							
21.	VIS Inwestycje SA	Warsaw	45.14%	45.14%	45.14%	45.14%	Manufacturing of tools, equipment and spares
22.	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	37.83%	38.23%	36.85%	37.12%	Operating ski-lifts and tourist cable cars
23.	ICH Center SA	Warsaw	46.00%	26.00%	46.00%	26.00%	Handling of claims from Green Card Insurance
24.	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	30.00%	30.00%	30.00%	30.00%	Insurance agency
25.	Polskie Towarzystwo Reasekuracji SA (PTR)	Warsaw	23.77%	23.77%	23.77%	23.77%	Organizing and executing indirect insurance activities (reinsurance)
26.	PPW Uniprom SA in bankruptcy	Warsaw	21.28%	21.28%	21.28%	21.28%	Publishing and painting related services, manufacturing of cardboard and paper packaging
27.	Vistula SA	Cracow	19.19%	22.19%	19.19%	22.19%	Production of clothing

5. Principal accounting policies

All consolidated entities of the PZU Capital Group apply methods of valuation of assets and liabilities compliant with the Accounting Act and the Decree of the Minister of Finance dated 12 December 2001 on the specific rules for recognition, methods of measurement, scope of disclosure and method of presentation of financial instruments (Journal of Laws No. 149/2001, item 1674 with amendments, "Decree on Financial Instruments") and in addition, in the case of PZU SA and PZU Życie SA, with the Decree on Insurance Accounting.

5.1. Basis of consolidation

In the consolidated financial statements for the year ended 31 December 2005, 4 subsidiary companies have been consolidated under the full method.

In order to choose the entities consolidated under the full method or equity method the criterion of significance has been applied, which considers if the operating result and the net result (in absolute values), as well as the balance sheet total are significant in relation to appropriate figures of the consolidated financial statements of the PZU Group without consolidation adjustments.

The entities performing activities for insurance companies, specified in Art. 3 section 4 point 1-6 and Art. 5 of the Act on Insurance Activities dated 22 May 2003 (Journal of Laws, No 124/2001, item 1151 hereinafter "Insurance Act dated 22 May 2003") are excluded from the significance criterion, as these entities are consolidated under full method in accordance with the Decree on Insurance Accounting.

The consolidated financial statements comprise balances of the parent company and subsidiaries after elimination of inter-company transactions.

To prepare the consolidated financial statements attached, the following consolidation eliminations were applied to the financial data of the companies consolidated under the full method:

- the carrying amount of the parent company's investments in each subsidiary,
- share capital of subsidiaries,
- other equity items of subsidiaries established before 1 January 1995,
- inter-company receivables and liabilities of entities included in consolidation,
- revenues and costs related to operations executed between the entities being subject to consolidation,
- unrealized, from the PZU Capital Group point of view, gains or losses on operations executed between the consolidated entities and included in the consolidated amounts,
- dividends paid between the PZU Group companies consolidated on a full method basis.

In the current and in the prior financial year, gains and costs unrealized from the PZU Group perspective were taken to "Accumulated profits / (losses) from previous years", irrespective of whether such elimination related to companies showing losses or companies transferring gains to reserve capital.

5.2. Intangible assets

Included in intangible assets are in particular computer software, copyrights, and licenses.

Intangible assets are recorded at acquisition cost or cost of production, less accumulated amortization and impairment losses.

Intangible fixed assets are amortized using the straight-line method over predetermined period of their business use, in accordance with the PZU Group amortization plan, which corresponds with their estimated useful lives.

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

Intangible assets with an initial cost not exceeding PLN 3.500 are expensed in full when brought into use.

5.3. Investments

Investments are valued and presented in the consolidated financial statements as follows:

5.3.1. Real estate investments

Included in real estate investments are land, perpetual usufruct, buildings and constructions, cooperative freehold right to dwelling or business premises and cooperative right to a non-residential unit, investments in constructions and prepayments for those investments.

Freehold land is valued at cost or re-valued amount less any impairment losses. In accordance with the provisions of the Accounting Act, freehold land is not depreciated.

Buildings and constructions are valued at acquisition cost, cost of production less accumulated depreciation and impairment losses, if any.

Perpetual usufruct of land, cooperative freehold right to a residential unit and cooperative right to a non-residential unit as an investment are recorded in the books of account at acquisition cost or cost of production less accumulated depreciation and impairment losses.

Investments in constructions and prepayments for those investments are shown at acquisition cost, cost of production less impairment losses.

Real estate investments, except for freehold land, investments in constructions and advance payments for investments, are depreciated over their estimated useful lives.

The PZU Group companies apply the following annual depreciation rates for real estate investments, which are depreciated:

Perpetual usufruct of land

Cooperative freehold right to dwelling or business premises

Buildings and constructions

Determined in proportion to the period of time over which the right is held by the Group companies

2.5%

2.5 - 4.5%

According to Polish regulations, land, buildings and constructions are re-valued in accordance with rates published by the President of the Central Statistical Office (CSO). The last revaluation took place on 1 January 1995.

5.3.2. Shares in subordinated entities

Shares in subordinated entities, which are not consolidated (except for insurance companies), are valued using the equity method as long as they comply with the significance criterion defined in accounting policies of the PZU Group.

Shares in not consolidated subordinated entities that are not valued under the equity method are recorded at cost less write-downs resulting from a permanent diminution of value.

5.3.3. Financial instruments

Upon purchase, 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.

5.3.3.1. Financial assets held-for-trading

Included under financial assets held-for-trading are assets acquired to obtain economic benefits resulting from short-term fluctuation of prices, fluctuation of other market factors or from the short term of the life of the asset itself, as well as financial derivative instruments, provided they are not considered to be hedging instruments under the Decree on Financial Instruments.

Debt securities, shares and derivatives included in the portfolio of assets held for trading are valued at fair value, or where the fair value cannot be determined in a reliable manner at purchase cost less any write-downs due to permanent diminution of value.

The fair value of derivative instruments (forward rate agreements, "FRAs" and interest rate swaps, "IRSs") is determined using the cost-to-close method, i.e. at closing cost of the given item on the market on the balance sheet date.

The derivative instruments are recorded in the balance sheet under item C.III.7 "Other investments" on the assets' side or under item J.V.2 "Other liabilities" on the equity and liabilities' side.

5.3.3.2. Financial assets held-to-maturity

Included in Financial assets held-to-maturity are financial assets which have not been included under Loans and receivables and whose contracts determine nominal value maturity and the right to obtain on predefined dates economic benefits, such as interests, fixed or determinable, which financial assets the company has the positive intention and ability to hold until maturity. Financial assets held-to-maturity include in particular debt securities that the company has positive intention and ability to hold until maturity.

At the balance sheet date, financial assets held-to-maturity are valued at amortized cost, determined using the effective interest rate in accordance with the provisions of the Decree on Financial Instruments, less any write-downs due to permanent diminution of value.

5.3.3.3. Available-for-sale financial assets

Included in Available-for-sale financial assets are assets which have not been classified as Financial assets held-for-trading or as Financial assets held-to-maturity, or as loans from or term deposits held in financial institutions.

Available-for-sale financial assets are valued at fair value, or where the fair value cannot be determined in a reliable manner at purchase cost less any write-downs due to permanent diminution of value.

5.3.3.4. Loans and receivables

Included in Loans and receivables, irrespective of the maturity (payment date), financial assets resulting from direct issuance of cash to the counterparty.

Included in this category are also bonds and other debt financial instruments purchased in exchange for cash issued to the transaction counterparty, if it is clear from the transaction contract that the seller did not lose its control over financial instruments issued. This item includes in particular "buy-sell-back" transactions with banks.

Loans are stated at the amount due less any impairment losses.

Term deposits held in financial institutions are stated at nominal value. As at the balance sheet date, term deposits held in financial institutions expressed in foreign currencies are translated into Polish zloty at the average National Bank of Poland rate prevailing for the given currency on that day.

Deposits with cedants include claims and premium deposits retained by insurers, for which the Company provides reinsurance coverage. They represent a part of the premium payable to PZU SA, but retained as security for future claims.

Deposits with cedants are valued at the amount due determined in accordance with the provisions of reinsurance contracts, which - in case a deposit is a financial instrument - call for instrument valuation and accounting for impairment write-downs, if any.

5.3.3.5. Net investments of life insurance fund at the risk of policyholders

"Net investments of life insurance fund at the risk of policyholders" includes net assets of insurance capital funds. Capital funds' net assets include investments of life insurance funds, cash, receivables and liabilities resulting from the mentioned investments.

Investments of the life insurance fund at the risk of policyholders are stated at the fair value.

5.4. Receivables

Receivables are recorded at the amount determined at the time they arose. As at the balance sheet date, receivables are stated at the amount due determined using the prudence principle. The value of receivables is adjusted by an appropriate write-down reflecting their recoverability. The companies of the PZU Group create provisions for bad or doubtful debts on the basis of the analysis of debtors' financial standing, receivables ageing analysis, and work-out history, thus evaluating the likelihood of payment.

5.4.1. Direct insurance receivables

Direct insurance receivables comprise accounts receivable from the policyholders arising from premiums paid in instalments and from outstanding premiums, as well as receivables due from insurance intermediaries, i.e. insurance brokers and insurance agents. Write-downs against direct insurance receivables are included in other technical expenses.

5.4.2. Reinsurance related receivables

Reinsurance related receivables include balances receivable in respect of settlements with cedants, reinsurers and reinsurance brokers arising from reinsurance inwards and outwards and retrocession. These receivables refer in particular to reinsurers' share in any claims and benefits paid by the insurer, reinsurance commission and shares in reinsurers' profits. Write-downs against receivables from reinsurers are included in "Other technical expense, net of reinsurers' share".

5.4.3. Other non-insurance receivables

Other non-insurance receivables include in particular receivables from the State Budget and receivables from loss adjusting services rendered.

Write-downs against other non-insurance receivables are recorded under other operating expenses.

5.5. Property, plant and equipment

Property, plant and equipment include tangible fixed assets and their equivalents with the expected useful lives of more than one year, which are completed and ready for the use of the PZU Group companies.

Tangible fixed assets are stated at acquisition cost, cost of production or re-valued amount (from appraisal), less accumulated depreciation and revaluation losses. Assets are re-valued in accordance with separate regulations. The last revaluation took place on 1 January 1995. The effects of the revaluation are taken to the revaluation reserve. After the asset is sold or liquidated, the amount remaining in the revaluation reserve is transferred to reserve capital.

Tangible fixed assets are depreciated using the straight-line method over their expected useful lives.

The examples of annual depreciation rates used by companies of the PZU Group are as follows:

Plant and machinery	8.5% - 40%
Motor vehicles	17% - 20%
Other tangible fixed assets	5% - 20%

Tangible fixed assets with a low initial cost i.e. less than PLN 3.500 are expensed in full when brought into use.

Included in Property, plant and equipment is construction in progress. Construction in progress is stated at the amount of aggregate costs directly attributable to the acquisition or production of such assets less any revaluation losses. Construction in progress also includes investment materials purchased for construction. 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 dated 15 February 1992 (Journal of Laws No. 54/2000, item 654 with subsequent amendments; hereinafter "Corporate Income Tax Act"). The rates applied to any fixed assets acquired and entered in the books of account before 1 January 2000 are those set out in the Decree of the Minister of Finance of 17 January 1997 on the depreciation of fixed assets and intangible assets.

5.6. Cash and cash equivalents

Cash and cash equivalents showed in the consolidated financial statements 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 average National Bank of Poland rate prevailing for the given currency on that day.

5.7. Prepaid and accrued expenses and deferred income

The PZU Group companies account for prepaid and accrued expenses to ensure that they are allocated to appropriate reporting period. The Company recognizes prepayments if the costs incurred relate to future reporting periods. Among others, prepayments include deferred acquisition costs.

In the case of non-life insurance, direct and indirect costs of acquisition are deferred. In the case of full employment, direct and indirect costs of acquisition are deferred together with marked-ups (ZUS).

As far as life insurance (insurance from Group 1 and 2 of Section I) are concerned, acquisition costs relating directly or indirectly to the sale of insurance policies as well as commission expenses paid on the due annualized premium income for individual insurance and unit-linked insurance are subject to deferral.

Additionally, the PZU Group recognizes accruals and deferred income to ensure that it is allocated to appropriate accounting period. Accrued income includes among others receivables from accrued revenues from fixed term deposits and rental charges.

Deferred income includes among others deferred reinsurance commission and premiums paid in respect of insurance policies with insurance coverage period starting after the balance sheet date.

At the level of the PZU Capital Group, the commission paid to sales agents for the acquisition carried on for OFE PZU is spread over a two-year period beginning in the month, in which the contract with OFE PZU member was signed. Deferred acquisition costs are presented under "other prepayments" caption. For the deferred acquisition costs related to agreements which are predicted not to generate income in the future, the PZU Group creates an impairment write-off as at the balance sheet date.

Accruals comprise costs of current reporting period which will be incurred in the subsequent period, and in particular the costs of reinsurance outwards.

5.8. Equity

Equity is stated at nominal value by type, in accordance with binding legal regulations and the parent company's articles of association.

Equity captions of subsidiaries other than share capital were added to respective captions of the equity of the parent company proportionally to the percentage of the parent company's ownership in the subsidiary.

The effects of the revaluation of available-for-sale financial assets, buildings and constructions and fixed assets are recognized in the revaluation reserve under separate regulations.

5.9. Goodwill on consolidation

The goodwill as of 31 December 2005 relates to PZU Życie SA and CIG PZU SA. The goodwill was calculated by the parent company as at 30 November 2001 on the basis of the net book value of the assets of CIG PZU and as at 12 November 2002 of the assets of PZU Życie SA proportionally to the Group's share in the share capital of CIG PZU SA and PZU Życie SA, respectively on that day.

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

5.10. Minority interests' equity

Minority interests' equity is the part of the net assets of subsidiaries consolidated using the full method that represents the interests of the shareholders outside the Capital Group.

The result of subsidiaries consolidated using the full method proportional to the interests of the shareholders outside the Capital Group constitutes the result (profit or loss) of minority shareholders.

5.11. Technical reserves

Technical reserves are created to cover any current and future claims and costs, which may arise under active insurance contracts. Technical reserves are created using prudence principle, in accordance with Art. 7 of the Accounting Act.

Technical reserves have been created in compliance with articles of association of insurance companies included in the Capital Group, the Insurance Activities Act, the Accounting Act, Decree on Insurance Accounting and internal regulations concerning technical reserves.

5.11.1. Unearned Premium Reserve

Property and Casualty Insurance

The unearned premium reserve is created in the amount of premiums written allocated to future reporting periods, in proportion to the insurance coverage 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 created according to the projected risk in future reporting periods.

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

For insurance policies with an unequal spread of risk over the insurance term, the Company is allowed to create unearned premium reserve in the amount which depends on the spread of the risk in the insurance coverage period.

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

Life insurance

Unearned premium reserve is created in the amount representing a 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 insurance - reserve

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

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

For the portfolio of individual insurance policies and annuities taken over from PZU SA, the life insurance reserve also includes the effects of valorization of policies performed by PZU Życie SA.

5.11.3. Outstanding claims reserve

Property and Casualty 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, loss adjustment expenses reserve and the annuities reserve.

Reserve for claims incurred and reported

Reserve for claims incurred and reported and not adjusted and for claims adjusted but not paid (hereinafter "reserve I") is determined as the amount of average losses, for losses not assessed by the loss adjuster, or as the amount determined by a loss adjusting unit. The reserve balance takes into account the own share of the insured and expected increase in prices of goods and repair services, and may not exceed the amount of the sum insured or guaranteed.

The reserve balance is updated immediately after the information that may affect its balance has been obtained, using the individual method of claims assessment.

Reserve for claims incurred but not reported

The reserve for claims incurred but not reported ("IBNR" or "reserve II") is created for claims that have been incurred and have not been reported to the date of creation of the reserve using the triangulation methods such as Chain-Ladder, Cape Cod and Bornhuetter-Ferguson method, by the accident year.

Loss adjustment expenses reserve

The value of 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. The reserves I, II and loss adjustment expenses reserve are recognized at nominal value i.e. without discounting.

Recourses and recoveries assessment included in technical reserves

In determining the balance of future claim payments, PZU SA makes assessments of the anticipated reimbursements of costs as a result of assuming claims towards third parties (recourse) and taking over ownership rights to the assets (recoveries). The assessed balance of recourses and recoveries includes the costs of their collection.

Reinsurers' share in technical reserves

The reinsurers' share in the balance of outstanding claims reserve is calculated in accordance with terms and conditions of the applicable reinsurance contracts.

5.11.3.2. Annuities reserve

The reserve for capitalized value of annuities (also "annuities reserve") is calculated individually for each beneficiary as the present value of annuity (lifelong or periodical), payable in advance.

At the end of each reporting period, an annuities reserve is also created for the losses that occurred after 31 December 1990 and were not recorded as annuities until the balance sheet date ("annuity IBNR reserve").

At the end of each reporting period, an additional reserve is created to cover liabilities arising from the increase in the value of annuities included in the "old portfolio". The additional reserve applies to the annuitants, for which a similar reserve was calculated at the end of 1997 but the annuity value did not reach the satisfactory level at the end of the reporting period. The satisfactory level of annuity is determined as a percentage of the present value of the average salary from the years 1960 - 1990. The annuities reserve is calculated for the difference between the satisfactory and the actual annuity level, in accordance with binding regulations.

Life insurance

5.11.3.3. Outstanding claims reserve, including annuities reserve

The outstanding claims reserve is created independently to cover claims that:

- have been reported but not paid,
- have been incurred but not reported.

Reserve for claims reported but not paid is created for claims reported and not paid at the balance sheet date. Reserve for claims reported but not paid is created individually or for high volume of claims, if 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.

Reserve for claims incurred but not reported up to the balance sheet date is created for each type of benefits, as a percentage of claims and benefits paid during the last twelve months.

Outstanding claims reserve includes also loss adjustment expenses reserve.

5.11.4. Other technical reserves in Property and Casualty Insurance

5.11.4.1. Unexpired risk reserve

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

The unexpired risk reserve is created for all groups (types) of insurance with the loss ratio for a given financial year exceeding 100%, as the difference between the product of the unearned premium reserve and the loss ratio for a given financial year (quotient of the liabilities arising from events that occurred in a given financial year and the premium earned) and the unearned premium reserve, both relating to the same term of the insurance.

The reinsurers' share in the unexpired risk reserve is calculated in accordance with the terms and conditions set forth in the applicable reinsurance contracts.

5.11.4.2. Risk equalization reserve

The risk equalization reserve is created in the amount that is expected to ensure equalization of any future fluctuations in the loss ratio, net of the reinsurers' share, in accordance with the Decree on Insurance Accounting.

5.11.4.3. Catastrophe and exceptional risk reserve

The catastrophe and exceptional risks reserve is created using the lump sum method. The reserve is to cover any losses incurred as a result of catastrophe or large-scale events, and exceptional risks losses. Until 30 June 2004, at the end of each reporting period for selected groups of insurance the balance of the reserve used to be increased by a fixed percentage amount of the premium earned on own share in these groups.

As of 1 July 2004, PZU SA ceased to increase the level of catastrophe and exceptional risk reserve.

If claims are paid for losses arising from a catastrophe or exceptional risk events, the reserve is decreased by such payments, net of the reinsurers' share.

5.11.5. Other technical reserves in Life Insurance

5.11.5.1. Life insurance reserve, where the investment risk is borne by policyholders

Life insurance reserve, where the investment risk borne by policyholders is created to the value of the insurers' participation units in the investment fund, valued at fair value at the balance sheet date.

5.11.5.2. Other technical reserves defined in the Articles of Association of PZU Życie SA

Other technical reserves defined in the Articles of Association of PZU Życie SA include:

- reserve for the valorization of benefits under individual life policies and annuities taken over from Państwowy Zakład Ubezpieczeń (the so-called "old portfolio"),
- reserve for litigations and benefits related to court decisions and court settlements (on the basis of Art. 358 § 3 of the Act dated 23 April 1964- the Civil Code (Journal of Laws No. 16/1964, item 93 with further amendments "the Civil Code") regarding changes to the amount or the manner of realization of a cash benefit,

The reserve for litigations is created in the amount of expected additional benefits payable resulting from the litigations, and is based on the information held by PZU Życie SA on the trends of settlements and completed court cases,

- reserve for low interest rates relating to revenue from insurance investment fund for policies with a guaranteed rate of return

Low interest reserve relating to expected decrease in the insurance fund investment returns in case of individual life insurance, insurance with increasing sum insured and insurance premium, "The Firm" group insurance and annuity insurance is created using the actuarial method individually for each insurance policy in the amount corresponding to the difference between:

- the balance of mathematical reserves created using appropriate mathematical formulas and modified technical rates to reflect the potential decrease in the future rates, and
- the balance of mathematical reserves created in accordance with binding regulations of reserve creation with the original technical rate, which was used during the assignment of tariffs for these products.

5.11.5.3. Reserve for bonuses and rebates for the insured

This reserve corresponds to the anticipated share in the profit of the insurer posted at the balance sheet date, which will be awarded after the conclusion of the settlement period.

5.12. Other reserves and Special Funds

Included in Other reserves are provisions for certain or very likely future liabilities arising from past events, the date of payment and the amount of which, although not certain, can be determined in a reliable manner. Other reserves include in particular: provision for jubilee bonuses and retirement benefits, provision for unused leave, provision for losses from business transactions in progress, for guarantees granted and for losses from unfavourable court decisions and third party claims.

Deferred tax liability is also included in this caption.

The costs of creation of provisions are included in other operating expenses, net of reinsurers' share, other financial expenses or administration costs, depending on the type of future liability.

5.12.1. Provision for jubilee bonuses and retirement benefits

In accordance with the PZU Group Remuneration Regulations, employees are entitled to jubilee bonuses after a specified number of years in service and to retirement benefits upon retirement. The amount of the bonus or retirement benefit depends on the number of years in service and on the amount of average monthly remuneration.

The Company's liabilities and expenses in respect of jubilee bonuses and retirement benefits are recognized on an accrual basis and calculated using the projected unit credit method.

Actuarial gains and losses are recognized in full in the period in which they occurred.

In the case of jubilee bonuses, the costs of past service in accordance with IAS 19 are immediately recognized in the profit and loss account.

Provision for retirement benefits are valued at the fair value of future benefits, which may be allocated to the current service, after adjusting for the costs of past service not recognized.

5.12.2. Provision for unused annual leave

The value of provision for unused annual leave is calculated as the difference between the number of holiday days actually taken and the number of annual leave days that would be used, if the annual leave was used in proportion to the number of working days in the period, for which the employees are entitled to annual leave, in accordance with binding regulations.

5.12.3. Provision for posthumous and post-employment benefits

In accordance with the provisions of the Labour Code in the case of the employee demise during the course of the employment or during the period for which a sickness benefit is being collected due to the sick leave, the family of a deceased employee is entitled to receive a posthumous benefit, the amount of which depends on the period of service with the employer and amounts to the equivalent of 1-6 month salary / wages.

Based on the provisions of the Social Fund Act dated 4 March 1994 (Journal of Laws No. 43, item 163 with subsequent amendments) and the Regulations of the PZU SA Social Fund, entitled to the benefits and financial services from the PZU SA Social Fund are, among others, the retired employees and pensioners of PZU SA (former

employees) and their families. In accordance with the assumptions made at the PZU Group companies, the annual amount of such benefits is 6.25% of the average monthly remuneration per each retiree or pensioner.

Provisions for posthumous and post-employment benefits are valued at the fair value of future benefits, which may be allocated to the employee's period of service to date.

5.12.4. Special Funds

Included in Special Funds are the Social and Prevention Funds. The Social Fund is created in accordance with appropriate regulations concerning company social fund and it is charged against costs and the net profit based on the resolutions of the Annual General Meeting. The Prevention Fund is charged against costs in accordance with the provisions of the Insurance Activities Act. The balance of Special Funds is increased by gains from investments made by those Funds.

5.13. Liabilities

Liabilities are stated at the amount due.

5.14. Revenue and costs from investment activities

5.14.1. Revenue from interest on deposits with financial institutions

Income from interest on deposits with financial institutions of the PZU Group is recognized on an accrual basis, whereby the total amount of interest due to the PZU Group for a given reporting period are recorded in the books of account irrespective of the date of its receipt.

If the deposit matures after the balance sheet date, interest is accrued proportionally to passage of time from the date of deposit placement to the balance sheet date inclusive.

5.14.2. Debt securities income and expenses

The results of valuation of debt securities at amortized cost are taken to income from debt securities.

Any difference between the fair value as at the balance sheet date and amortized costs is recognized as follows:

- For debt securities included in the available-for-sale portfolio (not included in the calculation of technical reserves and bonuses and 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 "Unrealized gains or Unrealized losses on investments".

Realized revenue from the sale / redemption of debt securities are recognized under "Gains / losses on the realization of investments".

Income from investments covering reserves is included in the Non-life Technical Account as well as in Life Insurance Technical Account, net of any related costs.

The above rules are not applicable to investments, where the investment risk is borne by policyholders for which income and costs are shown in the Life Technical Account.

5.14.3. Revenue from real estate and cost of real estate maintenance

Income from real estate includes rental fees received, lease rentals and other charges relating to real estate management.

Income from real estate qualifying as investments is shown under "Income from investment in real estate" in General Profit and Loss Account (in case of non-life insurance) or in Life Technical Account (in case of life insurance).

Costs of maintenance of real estate earmarked for investment purposes are shown under item V.1. of the General Profit and Loss Account - "Costs of real estate maintenance", as well as under item IX.1 of Life Insurance Technical Account "Costs of real estate maintenance".

The costs of the maintenance of real estate used for own purposes of the PZU Capital Group companies are included in the Non-Life Technical Account and in the consolidated Life Technical Account under "Administration costs".

The costs of the maintenance of PZU SA's headquarter real estate, which among others include operating expenses of PZU Tower, and in particular depreciation of building, external services, materials and energy, are recorded in the consolidated Non-Life Technical Account, Life Technical Account and in the consolidated General Profit and Loss account in the proportions relating to the space occupied by the given PZU Group company.

5.14.4. Share-related gains and losses

Included in "Unrealized gains / losses on investments" are gains and losses on valuation of shares classified as held-for-trading in the amount of the difference between the fair value and acquisition cost, and in the case of the shares acquired in previous years between the fair value and the carrying amount as at the previous balance sheet date.

Gains and losses arising from the revaluation of shares classified as available-for-sale and equity accounted shares in subordinated entities (not included in determining technical reserves) are recognized in the revaluation reserve, in accordance with policies described in I.5.8.

Gains and losses arising from the sale of shares are recognized under "Gains -/ Losses on realization of investments".

Included in "Loss on revaluation of investments" are investment write-downs due to permanent diminution of value for the reporting period, and gains from the reversal of write-downs made in previous reporting periods are included under "Gain on revaluation of investments".

Share-related gains are increased by the dividend received in a period. Income from dividends is recorded in the gross amount and recorded in the General Profit and Loss Account.

Gains on investments covering life insurance reserves is shown in the Life Technical Account and then allocated to the technical and general parts. The method of allocation was presented in point I.5.14.5. of the consolidated financial statements.

5.14.5. Presentation of investment income in Life Insurance

PZU Życie SA presents both realized and unrealized investment gains and losses (excluding gains and losses taken to revaluation reserve) and costs of investing activities in the Life Technical Account. Gains on investments of own funds are reduced by investment costs and are transferred from the Life Technical Account to the General Profit and Loss Account and included under "Net investment income allocated from the Life Technical Account less costs".

5.15. Revenue from the sale of insurance services in Property and Casualty Insurance and Life Insurance

Revenue from premiums written is recorded by premium maturity. For direct insurance, premium maturity date is the first day covered by insurance policy, not earlier however than premium payment date, if under the insurance contract the acceptance of liability by the insurer depends on whether or not the insurance premium was paid. Premium paid in the period to the last day, inclusive, of the reporting period which relates to policies with insurance coverage from the first or subsequent day of the next month is recorded under deferred income as at the balance sheet date.

The reinsurers' share in the premium written was calculated for the groups of insurance with reinsurance coverage in the amount equal to the amount assignable to reinsurers, as stipulated in reinsurance contracts of the current insurance period.

5.16. Net investment income allocated from the General Profit and Loss Account to the Non-life Technical Account

Property insurance

The value of annuities reserve from the third party liabilities was increased by the amount of income from investments which represents the coverage of the above reserve. Due to the fact that the Company's own funds and the funds from the Insurance Fund are invested jointly and that no separation of the investments resulting from those funds is made, the amount of the investment income allocated from the General Profit and Loss Account to the Non-Life Technical Account in the reporting period is calculated as the product of the amount of the annuities reserve at the beginning of the month and the profitability for that month of State Treasury bonds, which are held by PZU SA until maturity, inclusive of appropriate investment activity costs.

5.17. Costs of claims

5.17.1. Property and Casualty Insurance

Included in the costs of the reporting period are all costs of paid out claims, which result from insurance contracts, as well as indirect and direct costs of loss adjusting activities and movements in the OCR reserve. The cost of claims reduce the balance of all recourses and recoveries made and the balance of movements in recourse and recovery estimates.

The value of claims represents all payments and charges made in the reporting period in connection with claims for losses and accidents that occurred in the current and previous reporting periods, and includes all costs of loss adjusting and recourse-collection activities, less any returns, recourses and recoveries.

The reinsurers' share in the claims paid out was calculated for the insurance groups with reinsurance coverage as the amount equal to the amount due to reinsurers under reinsurance treaties binding in a given insurance period.

5.17.2. Life Insurance

Claims paid out include all payments and charges (compensated with receivables) 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 surrenders), together with all direct and indirect, internal and external loss adjusting costs. Loss adjusting costs include also the costs of disputes.

Claims and benefits paid out are recognized at the amounts actually paid less refunds (except for refunds from reinsurance outwards) adjusted by the movements in the OCR reserve, net of reinsurers' share, at the end and beginning of the reporting period, and less reinsurers' share in claims paid and in reserves.

Loss adjusting costs comprise direct and indirect costs relating to activities aimed at examining and adjusting losses reported or to activities supporting the above.

5.18. Costs of insurance activities

5.18.1. Property and Casualty Insurance

Acquisition expenses include the costs of taking out or renewing insurance policy contracts. Direct acquisition costs include, among others, insurance agent commission, payroll costs of employees engaged in policy writing, costs of attest and expertise services and costs of research relating to the risk insured. Indirect acquisition costs include the costs of advertising and promotion of insurance products as well as general costs of insurance application assessment and insurance policy issuance.

In order to match the income (from the premiums written) and the PZU SA acquisition costs, the commission on the current period premiums written, which has been accrued but is not payable, is taken to the acquisition costs, the commission referred to above, but relating to the prior period is settled and the incurred costs of acquisition relating to future reporting periods are deferred.

Administration costs comprise the costs of insurance activities, not classified as acquisition expenses or the costs of claims or the costs of investing activities, relating to premiums collection, managing the portfolio of insurance and reinsurance contracts and general administration costs.

Insurance activity costs are adjusted by the value of reinsurance commissions received or receivable from insurance brokers and reinsurers and the share in the profits of reinsurers and retrocessionaries. The value of reinsurance commission received or receivable is adjusted by the amount of deferred reinsurance commission, which relates to future reporting periods.

5.18.2. Life Insurance

Acquisition costs include direct and indirect costs relating to taking out insurance policies, in particular the costs of activities which:

- are aimed at signing and acquiring into the portfolio new insurance agreements, which relates to writing new premiums, or
- are aimed at changing the scope of insurance coverage or renewing insurance contracts and including those changes into the insurance portfolio, thus giving rise to writing new premiums.

Commission costs are recognized in the same period in which the corresponding premium written is due. Acquisition costs are adjusted by movements in deferred acquisition costs.

Administration costs include costs of insurance activities, not included in the costs of acquisition or claims, or investing activities costs, relating to premium collection, insurance agreements portfolio management, reinsurance agreements and the management of the insurance company in general.

In particular, PZU Życie SA recognizes as administration costs all costs of services rendered by third parties servicing the group employee insurance.

5.19. Recognition of revenues and costs relating to the activities of pension fund management company

Costs incurred in relation to the acquisition of members of OFE PZU are amortized over the period of two years from the date on which the contract was signed and are presented in the caption "Other operating expenses" in the consolidated General Profit and Loss Account of the Capital Group. Deferred acquisition costs are presented in the consolidated balance sheet of the Capital Group under "Other prepayments". All other expenses and revenues relating to the PTE PZU SA activities are presented in the Capital Group's consolidated General Profit and Loss Account under "Other operating expenses" or "Other operating income", as appropriate.

5.19.1. OFE PZU Management fee

The Company receives a management fee from OFE PZU in the amount stated in the Articles of Association of OFE PZU, taking into account limits set forth in the Act date 28 August 1997 on the organization and functioning of pension funds (Journal of Laws No 159/2004, item 1667 with subsequent amendments "the Pension Funds Act").

5.19.2. Handling fees

PTE PZU SA charges handling fees on contributions transferred from the Social Security Board ("ZUS") to OFE PZU in the amount stated in the OFE PZU Articles of Association, taking into account limits set forth in the amended Pension Funds Act.

The handling fee is recognized as revenue of PTE PZU SA in the month the appropriate contribution is transferred to OFE PZU.

5.19.3. Transfer- out fees in PTE PZU SA

Transfer-out fees are charged in accordance with the Articles of Association of OFE PZU and are recognized in the period the transfers out fees are to be settled.

5.19.4. Payments to the primary part of the Guarantee Fund

PTE PZU SA is obliged to make payments to the primary part of the Guarantee Fund. The amount of payments made to the primary part of the Guarantee Fund is 0.1% of the value of net assets of OFE PZU. Payments due are calculated taking into account all earlier payments and income on earlier deposits less remuneration owed to the National Depository for Securities ("KDPW") being administration fee for managing the primary part of the Guarantee Fund.

In case of deficiency payments to pension fund, payments are made from the primary part of the Guarantee Fund in the amount of shortage; the Guarantee Fund is also required to cover payments for claims for which the management company of OFE does not take legal responsibility

5.19.5. Payments to the additional part of the Guarantee Fund

According to the Pension Funds Act, PTE PZU SA is obliged to make payments to the additional part of the Guarantee Fund, which is treated as part of the OFE PZU assets. The additional funds of the Guarantee Fund should amount from 0.3% to 0.4% of the net assets of OFE PZU. Those payments to the additional part of the Guarantee Fund are treated as costs in full amount.

Payments to pension funds are made from the additional part of the Guarantee fund in case of deficiency if the reserve account of the Guarantee Fund is not sufficient to cover that deficiency. A deficiency of funds in open-end pension fund occurs if the rate of return on pension fund assets for the period of 36 months falls below the minimum required rate of return.

5.19.6. Payments to Premium account / New reserve account

According to the Pension Funds Act, the funds on the premium account, to which PTE PZU SA has become entitled, should be immediately transferred to the new reserve account. The funds on the reserve account constitute a part of the Fund's assets and are translated to settlement units. PTE PZU SA may withdraw these funds on the last working day of April or October on the condition of obtaining the rate of return on the funds managed set forth in the Pension Funds Act.

5.19.7. KDPW charges

PTE PZU SA is obliged to make payments to the National Depository for Securities in lieu of all expenses incurred in connection with processing of transfers-out.

The fee for every transfer-out payable by PTE PZU SA amounts to 1% of the minimum remuneration, defined by separate regulations.

5.19.8. ZUS charges

PTE PZU SA is obliged to pay a fee to ZUS as a recharge of costs of premium collection and recovery. The amount of the fee is specified annually in the State Budget Law. In 2004 and 2005, the amount of fee charged by ZUS amounted to 0.8% of all contributions transferred from ZUS.

PTE PZU SA is also obliged to pay a fee to ZUS as a recharge of costs of activities performed when a person becomes member of an open-ended pension fund, amounting to 1% of the minimum remuneration and payable on each registered OFE PZU membership agreement.

5.20. Foreign currency transactions

As at the balance sheet date, foreign currency assets and liabilities are translated into Polish zloty at the average NBP rate prevailing for the given currency as at that date.

Foreign currency purchase or sale transactions as well as collection of receivables and discharging liabilities denominated in foreign currencies are recorded in the books of account at the purchase or selling rate of the bank used by the given company of the PZU Group.

For all other operations, the PZU Group companies apply the average NBP rate for the given currency prevailing at the date of the transaction, unless customs declaration or another binding document sets another rate.

5.21. Taxation

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

Corporate income tax showed in the General Profit and Loss Account consists of current tax liability and deferred tax.

Current tax liability

During the year, PZU SA and PZU Życie SA have taken advantage of a simplified form of payment of corporate income based on Art. 25 paragraph 7, point 1 on the basis of Art. 25, paragraph 6 of Corporate Income Tax Act.

In the consolidated financial statements, a liability was recognized towards the Tax Office and a charge to the gross profit in the amount calculated using general tax calculation policies.

Deferred tax

Due to the temporary differences between the carrying amount of assets and liabilities and their tax bases and due to tax losses to be deducted in future, the PZU Group companies recognize deferred tax assets and deferred tax liabilities.

The tax base of an asset is the amount that will be deductible for tax purposes against any taxable direct and indirect economic benefits that will flow to an entity. If those economic benefits are not taxable, the tax base of the asset is equal to its carrying amount. The tax base of a liability is its carrying amount, less any amount that will be deductible for tax purposes in respect of that liability in future periods.

Deferred tax assets of the PZU Group are recognized for all deductible temporary difference to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, using the assumptions of prudence principle.

Deferred tax liabilities of the PZU Group are recognized for all taxable temporary differences which will result in the obligation to pay the resulting income taxes in future periods i.e. will result in the increase in taxable base in future.

Deferred tax assets and deferred tax liabilities are measured using the tax rates that result from the tax laws that have been enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities resulting from business transactions with the use of equity items are settled against equity.

6. Changes in accounting policies and rules of developing consolidated financial statements as compared to previous financial year

Changes in the accounting policies made in 2005 as compared to the accounting policies binding as at the end of 2004 result from changes in the accounting policies of insurance companies introduced by the amended Decree on Insurance Accounting and the amended Accounting Act. The purpose of the presentation changes is to make the information included in the financial statements on the effect of transactions and economic events on the financial position, financial result and cash flows clearer and more useful.

In order to ensure the comparability of the data for the year ended on 31 December 2004 included in the financial statements, the PZU Group restated its 2004 closing balance into 2005 opening balance while observing changes in the accounting policies.

6.1. Unrealized gains / losses on revaluation of available-for-sale financial assets

As of 1 January 2005, in accordance with Art. 22 of the Decree on Insurance accounting, both currency gains and losses on revaluation of investments classified as available-for-sale financial assets are included directly in equity. Prior to that, only exchange gains on asset revaluation were included in equity. This adjustment had an effect on the 2004 financial result, profits from previous years and Revaluation reserve.

6.2. Presentation of buy-sell-back transactions

In connection with the guidelines of KNUiFE (Komisja Nadzoru Ubezpieczeń i Funduszy Emerytalnych - Commission for the Supervision of Insurance and Pension Funds) included in a letter Ref. No. DN2/4052/3/1/05/BB dated 15 April 2005, the PZU Group changed the method of presentation of REPO transactions. In accordance with the guidelines, the buy-sell-back REPO transactions were presented under item C.III.5 of the balance sheet "Other loans". In the consolidated financial statements for the year ended 31 December 2004, those transactions were presented in item C.III.6 "Term deposits with financial institutions".

6.3. Presentation of settlements relating to loss adjustment

Settlements of loss adjusting services and intermediary loss adjustment services rendered in the name of PZU SA by external entities are presented in items E.I.3 "Receivables from direct insurance - other receivables" and J.I.3 "Direct insurance liabilities - Other insurance liabilities". At the end of 2004, those settlements were reported under Receivables from and Liabilities towards insurance intermediaries.

6.4. Presentation of recoveries

Recoveries are currently presented in item F.I "Property, plant and equipment". Prior to that they were presented in Item F.III "Other assets".

6.5. Presentation of estimated recourses and recoveries

Due to the amendments to the Accounting Act and the binding format of balance sheet and cash flow statement, insurance companies are required to present separately gross recourses and recoveries and recourses and recoveries due to reinsurers, as well as costs of loss adjusting and recourse enforcement. Estimated recourses and recoveries are presented in item G of the balance sheet.

6.6. Presentation of annual bonus for employees

Accrued annual bonus for employees is currently presented in the Equity and Liabilities section of the balance sheet in item K.I- "Accrued expenses". Prior to that, they were presented in item J.VI "Special Funds".

6.7. Presentation of payroll costs of persons servicing group insurance at companies (life insurance)

PZU Życie SA decided to reclassify payroll costs of persons servicing group insurance at companies from acquisition costs to administration costs, as in accordance with the provisions of the Act dated 22 May 2003 on insurance intermediary service (Journal of Laws No. 124/2003, item 1154 with subsequent amendments), persons writing group insurance policies at companies do not meet the definition criteria of insurance intermediary and are not entered in the Register of Insurance Intermediaries. The above reclassification of costs affected the manner of conducting consolidation eliminations relating to administration costs in Life Insurance due to the fact that PZU Życie SA performs such allocation in accordance with the ABC cost accounting.

6.8. Cash flows from term deposits of the Social and Prevention Funds

Cash inflows and outflows due to creation and withdrawal of term deposits of the Social and Prevention Funds are currently presented in cash flows from operating activities, while in previous years they affected cash flows from investing activities.

7. Significant events of the current year influencing the structure of balance sheet and financial result

In the course of 2005, no significant events with considerable impact on balance sheet or financial result occurred.

8. Significant prior year events reflected in the current year consolidated financial statements

Up to the date of the preparation of the consolidated financial statements, there were no significant prior year events that were not, but should have been included in the 2005 consolidated financial statements.

In 2004 and in previous years, no fundamental errors that would require adjustments in the 2005 book of accounts were made in the PZU Group.

9. Significant post-balance sheet events not reflected in the current year consolidated financial statements

Up to the date of the preparation of the consolidated financial statements, there were no significant post-balance sheet events that were not but should have been included in the current year book of accounts.

10. Discontinued operations

During 2005, the PZU Group companies included in the financial statements did not discontinue any type of activities.

11. Comparability of the 2005 opening and 2004 closing balances

In order to ensure the comparability of the financial data showed in the 2005 consolidated financial statements, the 2004 closing balance was restated into 2005 opening balance taking into account changes in accounting policies and changes in the preparation of the consolidated financial statements, as described in points I.6, of the consolidated financial statements. This data was restated compared to the approved consolidated financial statements for the year ended 31 December 2004 in the manner ensuring the comparability thanks to the application of uniform accounting policies applied by the PZU Group during the preparation of the consolidated financial statements.

The list of changes in the financial data as at 31 December 2004 showed in the consolidated financial statements compared to the financial data presented in the 2004 consolidated financial statements approved by the General Shareholders' Meeting is as follows:

Consolidated balance sheet

ASSETS in thousand zloty	31.12.2004 (Historical data)	Adjustment	Note	31.12.2004 (Comparable data)
C. Investments				
III. Other financial investments				
5. Other loans	-	1 113 483	6.2	1 113 483
6. Term deposits with financial institutions	1 726 753	(1 113 483)	6.2	613 270
E. Receivables				
I. Receivables from direct insurance				
2. Receivables from insurance intermediaries	12 117	(492)	6.3	11 625
3. Other receivables	360	492	6.3	852
F. Other assets				
I. Property, plant and equipment	239 435	4 908	6.4	244 343
III. Other	5 846	(4 908)	6.4	938
Total Assets	38 964 417	-		38 964 417

EQUITY AND LIABILITIES in thousand zloty	31.12.2004 (Historical data)	Adjustment	Note	31.12.2004 (Comparable data)
A. Equity	8 365 504	-		8 365 504
V. Revaluation reserve	149 982	(7 406)	6.1	142 576
VIII. Accumulated profits / (losses) from previous years	130 419	72 151	6.1	202 570
IX. Net profit / (loss) for the year	2 188 099	(64 745)	6.1	2 123 354
E. Technical reserves				
III. Outstanding claims reserve	7 675 220	51 871	6.5	7 727 091
G. Estimated recourses and recoveries (negative value)				
I. Estimated recourses and recoveries, gross	-	(51 871)	6.5	(51 871)
J. Other liabilities and Special Funds				
I. Direct insurance liabilities				
2. Liabilities towards insurance intermediaries	148 298	(92 550)	6.3	55 748
3. Other insurance liabilities	5 588	92 550	6.3	98 138
VI. Special Funds	218 509	(65 150)	6.6	153 359
K. Accruals and deferred income				
I. Accrued expenses	418 298	65 150	6.6	483 448
Total liabilities	38 964 417	-		38 964 417

Life insurance technical account and underwriting result

in thousand zloty	01.01.2004 - - 31.12.2004 (historical data)	Adjustment	Note	01.01.2004 - - 31.12.2004 (comparable data)
V. Claims and benefits (1+/-2)				
1. Claims and benefits paid out, net of reinsurers' share				
1.1. Claims and benefits paid out, gross	3 562 733	661	6.7	3 563 394
VIII. Costs of insurance activities				
1. Acquisition costs	490 700	(175 767)	6.7	314 933
2. Administration costs	329 020	175 040	6.7	504 060
IX. Costs of investing activities				
2. Other costs of investing activities	13 111	66	6.7	13 177
Life underwriting result	834 711	-		834 711

Consolidated general profit and loss account

in thousand zloty	01.01.2004 - - 31.12.2004 (historical data)	Adjustment	Note	01.01.2004 - - 31.12.2004 (comparable data)
II. Investment income				
3. Income from other financial investments				
3.3. From term deposits with financial institutions	34 224	(23 884)	6.2	10 340
3.4. From other investments	-	23 884	6.2	23 884
5. Gain on revaluation of investments	291 970	(49 693)	6.1	242 277
III. Unrealized gains on investments	311 523	(30 239)	6.1	281 284
XV. Gross profit/ (loss)				
XVI. Corporate income tax				
a) deferred tax	165 881	(15 187)	6.1	150 694
Net profit / (loss)	2 188 099	(64 745)		2 123 354

Consolidated cash flow statement

in thousand zloty	01.01.2004 - - 31.12.2004 (historical data)	Adjustment	Note	01.01.2004 - - 31.12.2004 (comparable data)
A. Cash flows from operating activities				
I. Inflows	14 116 300	658 648	6.8	14 774 948
II. Outflows	12 570 627	687 022	6.8	13 257 649
III. Net cash flows from operating activities (I-II)	1 545 673	(28 374)	6.8	1 517 299
B. Cash flows from investing activities				
I. Inflows	214 358 369	(12 132 537)	6.8	202 225 832
II. Outflows	215 611 318	(12 160 911)	6.8	203 450 407
III. Net cash flows from investing activities (I-II)	(1 252 949)	28 374	6.8	(1 224 575)
Net cash inflow, total	36 653	-		36 653

II. Consolidated financial statements - the PZU Group



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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 April 13, 2006 on the consolidated financial statements for the year ended December 31, 2005 as presented below:

"INDEPENDENT AUDITORS' OPINION"

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

1. We have audited the attached consolidated financial statements of the Capital Group of Powszechny Zakład Ubezpieczeń S.A. ('the Group'), for which the holding company is Powszechny Zakład Ubezpieczeń S.A. ('the Company') located in Warsaw at Al. Jana Pawła II 24, for the year ended December 31, 2005 containing:
 - the introduction to the financial statements,
 - the consolidated balance sheet as at December 31, 2005 with total assets amounting to 43,041,678 thousand zlotys,
 - the consolidated revenue account for life insurance for the period from January 1, 2005 to December 31, 2005, showing an underwriting profit on life insurance to be carried forward to the profit and loss account of 1,610,741 thousand zlotys,
 - the consolidated revenue account for property and casualty insurance for the period from January 1, 2005 to December 31, 2005, showing an underwriting profit on property and casualty insurance to be carried forward to the profit and loss account of 1,020,654 thousand zlotys,
 - the consolidated profit and loss account for the period from January 1, 2005 to December 31, 2005 with a net profit amounting to 3,214,792 thousand zlotys,
 - the consolidated cash flow statement for the period from January 1, 2005 to December 31, 2005 with a net cash inflow amounting to 39,130 thousand zlotys and
 - the consolidated statement of changes in shareholders' equity for the period from January 1, 2005 to December 31, 2005 with a net increase in shareholders' equity amounting to 2,527,434 thousand zlotys,
 - the additional notes and explanations
 ('the attached consolidated financial statements').



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

2. The truth and fairness¹ of the attached consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the attached consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair².
3. We conducted our audit of the attached 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 whether these 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 attached consolidated financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by the Group, as well as evaluating the overall presentation of the attached consolidated financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached consolidated financial statements treated as a whole.
4. In our opinion, the attached financial statements, in all material respects:
 - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from January 1, 2005 to December 31, 2005, as well as its financial position³ as at December 31, 2005;
 - have been prepared in accordance with the accounting principles specified in the Accounting Act and regulations issued based on that Act;
 - are in accordance with the Accounting Act and regulations issued based on that Act.
5. We have read the Directors' Report for the period from January 1, 2005 to December 31, 2005 ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 point 2 of the Accounting Act and the Appendix 5 to the Decree of the Minister of Finance of December 8, 2003 on specific accounting principles for insurance companies."

¹ Translation of the following expression in Polish: 'prawidłowość, rzetelność i jasność'

² Translation of the following expression in Polish: 'prawidłowe, rzetelne i jasne'

³ 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 on pages 73 to 118 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, 2005 and the results of its operations for the period from January 1, 2005 to December 31, 2005, the reader must review the full financial statements in their entirety including 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.
Rondo ONZ 1
00-124 Warszawa

Marcin Dymek
Certified Auditor Nr 9899/7370

Jacek Hryniuk
Certified Auditor Nr 9262/6958

Warsaw, May 15, 2006

Consolidated balance sheet

Assets

	in thousand zloty	31.12.2005	31.12.2004
A. Intangible assets		92 822	83 333
1. Goodwill		-	-
2. Other intangible assets and prepayments for intangible assets		92 822	83 333
B. Goodwill of subordinated entities		1 733	3 604
C. Investments		38 726 522	35 232 659
I. Real estate		1 114 205	1 103 071
1. Freehold land, including perpetual usufruct		156 636	158 099
2. Buildings and constructions, and cooperative freehold right		920 351	907 277
3. Construction in progress and prepayments for construction in progress		37 218	37 695
II. Investments in subordinated entities, of which:		313 779	202 727
1. Shares		297 384	192 218
2. Loans granted to subordinated entities and debt securities issued by those entities		16 295	5 509
3. Other		100	5 000
III. Other financial investments		37 290 862	33 920 055
1. Shares and other variable income securities, participation units and investment certificates in trust funds		3 891 843	3 562 814
2. Debt securities and other securities with fixed income		30 637 913	28 624 798
3. Shares in investments by joint ventures		-	-
4. Mortgage loans		-	4 867
5. Other loans		1 919 366	1 113 483
6. Term deposits with financial institutions		841 740	613 270
7. Other deposits		-	823
IV. Deposits due from cedants		7 676	6 806
D. Investments of life insurance funds, where the investment risk is borne by policyholders		1 778 839	1 297 450
E. Receivables		1 377 908	1 343 051
I. Receivables from direct insurance		1 075 509	1 011 236
1. Receivables from policyholders, of which:		1 055 650	998 759
1.1. From subordinated entities		43	71
1.2. From other entities		1 055 607	998 688
2. Receivables from insurance intermediaries, of which:		19 177	11 625
2.1. From subordinated entities		761	3 699
2.2. From other entities		18 416	7 926
3. Other receivables, of which:		682	852
3.1. From subordinated entities		110	149
3.2. From other entities		572	703

Assets

	in thousand zloty	31.12.2005	31.12.2004
II. Receivables from reinsurance, of which:		60 014	107 271
1. From subordinated entities		2 522	-
2. From other entities		57 492	107 271
III. Other receivables, of which:		242 385	224 544
1. Receivables from the State Budget		101 502	71 732
2. Other receivables, of which:		140 883	152 812
2.1. From subordinated entities		13 580	18 713
2.2. From other entities		127 303	134 099
F. Other assets		619 418	523 975
I. Property, plant and equipment		300 151	244 343
II. Cash and cash equivalents		317 824	278 694
III. Other		1 443	938
G. Prepayments and deferred costs		444 436	480 345
I. Deferred tax assets		9 421	37 614
II. Deferred acquisition costs		388 278	411 109
III. Accrued interest and rental charges		4 048	145
IV. Other prepayments and deferred costs		42 689	31 477
Assets, total		43 041 678	38 964 417

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
A. Equity		10 892 938	8 365 504
I. Share capital		86 352	86 352
II. Unpaid share capital (negative value)		-	-
III. Treasury shares (negative value)		-	-
IV. Reserve capital		6 536 323	5 810 652
V. Revaluation reserve		192 650	142 576
VI. Other reserves		-	-
VII. Foreign exchange differences on valuation of subordinates		-	-
1. Foreign exchange gains		-	-
2. Foreign exchange losses		-	-
VIII. Accumulated profits / (losses) from previous years		862 821	202 570
IX. Net profit / (loss) for the year		3 214 792	2 123 354
X. Deductions from net profit (loss) for the financial year (negative value)		-	-
B. Negative goodwill of subordinated entities		-	-
C. Minority capital		-	-
D. Subordinated liabilities		-	-
E. Technical reserves		31 379 811	29 577 735
I. Unearned premium reserve and unexpired risk reserve		3 590 531	3 474 553
II. Life insurance reserves		16 102 416	15 056 428
III. Outstanding claims reserve		7 830 358	7 727 091
IV. Reserve for bonuses and rebates for the insured		1 729	3 548
V. Risk equalization reserve		560 955	558 908
VI. Other technical reserves, as provided in Articles of Association		1 516 508	1 459 862
VII. Life technical reserves, where the investment risk is borne by policyholders		1 777 314	1 297 345
F. Reinsurers' share in technical reserves (negative value)		(1 351 297)	(1 430 869)
I. Reinsurers' share in unearned premium reserve and unexpired risk reserve		(160 341)	(173 928)
II. Reinsurers' share in life insurance reserve		(39)	(122)
III. Reinsurers' share in outstanding claims reserve		(1 190 917)	(1 256 819)
IV. Reinsurers' share in reserve for bonuses and rebates for the insured		-	-
V. Reinsurers' share in other technical reserves		-	-
VI. Reinsurers' share in life technical reserves where the investment risk is borne by policyholders		-	-
G. Estimated recourses and recoveries (negative value)		(64 210)	(51 871)
I. Estimated recourses and recoveries, gross		(64 895)	(51 871)
II. Reinsurers' share in estimated recourses and recoveries		685	-
H. Other provisions		674 111	660 013
I. Provision for retirement benefits and similar obligations		270 988	284 269
II. Deferred tax liability		380 438	343 583
III. Other provisions		22 685	32 161
I. Liabilities from reinsurance deposits		66	78

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
J. Other liabilities and Special Funds		843 823	1 158 207
I. Direct insurance liabilities		253 368	281 226
1. Liabilities to the policyholders, of which:		155 763	127 340
1.1. To subordinated entities		-	1
1.2. To other entities		155 763	127 339
2. Liabilities to insurance intermediaries, of which:		60 310	55 748
2.1. To subordinated entities		30	1 450
2.2. To other entities		60 280	54 298
3. Other insurance liabilities, of which:		37 295	98 138
3.1. To subordinated entities		798	-
3.2. To other entities		36 497	98 138
II. Reinsurance liabilities:		63 917	137 864
1. To subordinated entities		4 534	-
2. To other entities		59 383	137 864
III. Liabilities from the issuance of own debt securities and loans taken out, of which:		-	-
1. Liabilities convertible to PZU shares		-	-
2. Other		-	-
IV. Liabilities to financial institutions		10	12
V. Other liabilities		333 036	585 746
1. Liabilities to the State Budget		106 620	339 855
2. Other, of which:		226 416	245 891
2.1. To subordinated entities		16 083	19 636
2.2. To other entities		210 333	226 255
VI. Special funds		193 492	153 359
K. Accruals and deferred income		666 436	685 620
I. Accrued expenses		509 492	483 448
II. Negative goodwill		-	-
III. Deferred income		156 944	202 172
Total equity and liabilities		43 041 678	38 964 417

	in thousand zloty	31.12.2005	31.12.2004
Book value		10 892 938	8 365 504
Number of shares		86 352 300	86 352 300
Book value per share (in PLN)		126.15	96.88
Diluted number of shares		86 352 300	86 352 300
Diluted book value per share (in PLN)		126.15	96.88

Off-balance sheet items

	in thousand zloty	31.12.2005	31.12.2004
1. Contingent receivables, of which:		2 320 197	1 817 646
1.1. Guarantees and suretyships received		2 776	1 163
1.2. Other		2 317 421	1 816 483
2. Contingent liabilities, of which:		2 097 417	1 678 914
2.1. Guarantees and suretyships issued		10 390	13 784
2.2. Bills of exchange accepted and endorsed		-	-
2.3. Buy and sell back assets		1 919 366	1 113 483
2.4. Other liabilities secured on assets or income		64 567	68 548
3. Reinsurance guarantees made to the insurer		-	-
4. Reinsurance guarantees made by the insurer on behalf of cedants		-	-
5. External assets not included in the assets		119 351	102 456
6. Other off-balance sheet items, by type		-	-
Off-balance sheet items, total		4 536 965	3 599 016
Own funds in Other Property and Casualty Insurance		9 248 377	4 813 421
Solvency Margin in Other Property and Casualty Insurance		1 182 191	1 195 527
Surplus (shortage) of own funds to cover solvency margin in Other Property and Casualty Insurance		8 066 186	3 617 894
Technical reserves in Other Property and Casualty Insurance		11 952 737	11 737 396
Assets used to cover Technical reserves in Other Property and Casualty Insurance		17 606 334	15 475 277
Surplus (shortage) of assets used to cover Technical reserves in Other Property and Casualty Insurance		5 653 597	3 737 881
Own funds in Life Insurance		3 921 017	3 481 173
Solvency Margin in Life Insurance		1 467 852	1 403 529
Surplus (shortage) of own funds to cover solvency margin in Life Insurance		2 453 165	2 077 644
Technical reserves in Life Insurance		19 362 912	17 789 259
Assets used to cover Technical reserves in Life Insurance		22 458 689	20 851 024
Surplus (shortage) of assets used to cover Technical reserves in Life Insurance		3 095 777	3 061 765

Consolidated life insurance technical account and underwriting result

Consolidated life insurance technical account and underwriting result

	in thousand zloty	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
I. Premiums (1-2-3+4)		6 085 888	5 465 239
1. Gross premium written		6 096 054	5 480 036
2. Reinsurers' share in gross premium written		8 645	7 826
3. Movements in unearned premium reserve and unexpired risk reserve, gross		1 521	6 971
4. Reinsurers' share in movements in unearned premium reserve		-	-
II. Investment income		1 689 929	1 389 551
1. Income from investments in real estate		490	1 141
2. Income from investments in subordinated entities, of which:		2 376	14 256
2.1. From shares		134	14 256
2.2. From loans and debt securities		2 242	-
2.3. From other investments		-	-
3. Income from other financial investments		1 270 192	1 103 165
3.1. Shares and other variable income securities, participation units and investment certificates in investment funds		49 437	20 842
3.2. Debt securities and other fixed income securities		1 199 728	1 068 100
3.3. Term deposits with financial institutions		21 027	14 201
3.4. Other deposits		-	22
4. Gain on revaluation of investments		20 343	5 347
5. Gain on realization of investments		396 528	265 642
III. Unrealized gains on investments		487 934	511 474
IV. Other technical income, net of reinsurers' share		27 785	7 182
V. Claims and benefits (1+/-2)		3 909 135	3 601 861
1. Claims and benefits paid out, net of reinsurers' share		3 978 236	3 561 184
1.1. Claims and benefits paid out, gross		3 979 592	3 563 394
1.2. Reinsurers' share in claims and benefits paid out		1 356	2 210
2. Movements in outstanding claims reserve, net of reinsurers' share		(69 101)	40 677
2.1. Movements in outstanding claims reserve, gross		(69 101)	40 677
2.2. Reinsurers' share in movements in outstanding claims reserve		-	-
VI. Movements in other technical reserves, net of reinsurers' share		1 643 135	1 907 138
1. Movements in other non-life technical reserves, net of reinsurers' share, of which:		1 046 071	1 878 569
1.1. Gross reserves		1 045 989	1 878 538
1.2. Reinsurers's share		(82)	(31)
2. Movements in life insurance reserves, net of reinsurers' share where the investment risk is borne by policyholders		479 968	(101 061)
2.1. Gross reserves		479 968	(101 061)
2.2. Reinsurers's share		-	-
3. Movements in other reserves defined in the Articles of Association, net of reinsurers' share		117 096	129 630
3.1. Gross reserves		117 096	129 630
3.2. Reinsurers's share		-	-

Consolidated life insurance technical account and underwriting result

	in thousand zloty	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
VII. Bonuses and rebates for the insured net of reinsurers' share		1 830	3 277
VIII. Costs of insurance activities		865 786	816 645
1. Acquisition costs, of which:		313 294	314 933
1.1. Movements in deferred acquisition costs		17 125	16 018
2. Administration costs		553 947	504 060
3. Reinsurance commission and share in reinsurers' profits		1 455	2 348
IX. Cost of investing activities		136 885	31 179
1. Costs of real estate maintenance		1 389	1 623
2. Other costs of investing activities		21 460	13 177
3. Loss on revaluation of investments		10 275	7 826
4. Loss on realization of investments		103 761	8 553
X. Unrealized losses on investments		56 422	107 374
XI. Other technical costs, net of reinsurers' share		44 090	29 410
XII. Net investment income allocated to the General Profit and Loss Account		23 512	41 851
XIII. Life underwriting result, of which:		1 610 741	834 711
- Life underwriting result of subordinated entities		1 610 741	834 711

Consolidated non-life technical account and underwriting result account

Consolidated non-life technical account and underwriting result

	in thousand zloty	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
I. Premiums (1-2+/-3+/-4)		7 124 261	6 772 167
1. Gross premium written		7 651 536	7 482 646
2. Reinsurers' share in gross premium written		399 231	537 553
3. Movements in unearned premium reserve and unexpired risk reserve, gross		114 457	188 971
4. Reinsurers' share in movements in unearned premium reserve		(13 587)	16 045
II. Net investment income allocated from the General Profit and Loss Account		205 224	161 519
III. Other technical income, net of reinsurers' share		91 435	55 356
IV. Claims and benefits (1+/-2)		4 297 999	4 368 390
1. Claims and benefits paid out, net of reinsurers' share		4 072 068	4 158 426
1.1. Claims and benefits paid out, gross		4 295 776	4 442 769
1.2. Reinsurers' share in claims and benefits paid out		223 708	284 343
2. Movements in outstanding claims and benefits reserve, net of reinsurers' share		225 931	209 964
2.1. Movements in outstanding claims and benefits reserve, gross		159 344	(63 301)
2.2. Reinsurers' share in movements in outstanding claims and benefits reserve		(66 587)	(273 265)
V. Movements in other technical reserves, net of reinsurers' share		(60 448)	(19 768)
1. Movements in other technical reserves, gross		(60 448)	(19 768)
2. Reinsurers' share in movements in other technical reserves		-	-
VI. Bonuses and rebates for the insured, net of reinsurers' share, including changes in reserves		-	1 106
VII. Costs of insurance activities		1 829 758	1 751 066
1. Acquisition costs, of which:		941 780	860 167
- Movements in deferred acquisition costs		5 706	(16 442)
2. Administration costs		976 832	985 605
3. Reinsurance commissions and share in reinsurers' profits		88 854	94 706
VIII. Other technical expenses, net of reinsurers' share		330 910	258 930
IX. Movements in risk equalization reserve		2 047	(22 707)
X. Non-life underwriting result, of which:		1 020 654	652 025
- non-life underwriting result of subordinated entities		-	-

Consolidated general profit and loss account

Consolidated general profit and loss account		
	in thousand zloty	
	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
I. Non-life and Life underwriting result	2 631 395	1 486 736
II. Investment income, of which:	1 276 382	1 014 101
1. From real estate	20 703	18 007
2. From investments in subordinated entities, of which:	793	15 123
2.1. From shares	542	14 649
2.2. From loans and debt securities	251	474
2.3. From other investments	-	-
3. Income from other financial investments, of which:	1 003 218	697 001
3.1. Shares, other variable income securities, participation units and certificates in investment funds	99 025	26 558
3.2. Debt securities and other fixed income securities	870 566	636 219
3.3. Term deposits with financial institutions	14 336	10 340
3.4. Other deposits	19 291	23 884
4. Gain on revaluation of investments	30 642	41 693
5. Gain on realization of investments	221 026	242 277
III. Unrealized gains on investments	280 721	281 284
IV. Net investment income allocated from the Life Technical Account - less costs	23 512	41 851
V. Cost of investing activities	74 653	156 122
1. Costs of real estate maintenance	13 333	15 207
2. Other costs of investing activities	13 753	20 236
3. Loss on revaluation of investments	7 341	104 335
4. Loss on realization of investments	40 226	16 344
VI. Unrealized losses on investments	34 522	28 217
VII. Net investment income allocated to the Non-Life Technical Account - less costs	205 224	161 519
VIII. Other operating income	274 488	367 142
IX. Other operating expenses	178 400	217 607
X. Operating profit/ (loss)	3 993 699	2 627 649
XI. Extraordinary gains	64	107
XII. Extraordinary losses	45	75
XIII. Amortization of goodwill of subordinated entities	1 871	1 871
XIV. Amortization of negative goodwill of subordinated entities	-	-
XV. Gross profit / (loss)	3 991 847	2 625 810
XVI. Corporate income tax	777 055	502 456
a) current tax	723 876	351 762
b) deferred tax	53 179	150 694

Consolidated general profit and loss account

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
in thousand zloty		
XVII. Taxes and other obligatory charges (increasing losses)	-	-
XVIII. Share in net profits / (losses) of subordinated entities valued using the equity method	-	-
XIX. (Profit) loss of minority shareholders	-	-
XX. Net profit / (loss) for the year	3 214 792	2 123 354
Net profit / (loss) (annualised)	3 214 792	2 123 354
Weighted average of ordinary share	86 352 300	86 352 300
Profit / (loss) per ordinary share (in PLN)	37.23	24.59
Diluted weighted average of ordinary shares	86 352 300	86 352 300
Diluted profit / loss per ordinary share (in PLN)	37.23	24.59

Consolidated cash flow statement

Consolidated cash flow statement		01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
in thousand zloty			
A. Cash flow from operating activities			
I. Inflows		16 879 356	14 774 948
1. Inflows from direct insurance and reinsurance inwards, of which:		13 883 038	13 138 520
1.1. Cash inflows from gross premium written		13 715 054	12 979 465
1.2. Cash inflows from recourses and recoveries, gross		130 628	120 899
1.3. Other cash inflows from direct insurance		37 356	38 156
2. Cash inflows from reinsurance outwards		437 653	379 366
2.1. Cash inflows to reinsurers due to share in claims paid		291 009	278 567
2.2. Cash inflows from reinsurer's commission and share in reinsurers' profits		137 844	95 760
2.3. Other cash inflows from reinsurance outwards		8 800	5 039
3. Cash inflows from other operating activities		2 558 665	1 257 062
3.1. Cash inflows from loss adjusting services rendered		43 639	24 587
3.2. Sale of intangible assets and tangible fixed assets other than investments		3 775	3 024
3.3. Other inflows		2 511 251	1 229 451
II. Outflows		15 506 191	13 257 649
1. Cash outflows from direct insurance and reinsurance inwards		11 171 514	10 655 888
1.1. Gross premium returns		129 946	162 733
1.2. Claims and benefits paid out, gross		8 003 707	7 649 753
1.3. Acquisition costs		985 581	977 849
1.4. Administration costs		1 797 950	1 661 972
1.5. Costs of loss adjusting and recourse enforcement		190 651	160 816
1.6. Commissions paid out and shares in profits from reinsurance inwards		1 899	1 291
1.7. Other direct insurance and reinsurance inwards expenses		61 780	41 474
2. Cash outflows from reinsurance outwards		581 811	571 759
2.1. Premiums paid in respect of reinsurance outwards		543 818	518 941
2.2. Other reinsurance outwards expenses		37 993	52 818
3. Other operating expenses		3 752 866	2 030 002
3.1. Expenses relating to loss adjusting services on behalf of other insurers		41 425	15 691
3.2. Purchase of intangible assets and tangible fixed assets, other than investments		220 112	165 416
3.3. Other operating expenses		3 491 329	1 848 895
III. Net cash flows from operating activities (I-II)		1 373 165	1 517 299
B. Cash flow from investing activities			
I. Inflows		275 120 860	202 225 832
1. Sale of real estate		894	882
2. Sale of shares in subordinated entities		48	29 000
3. Sale of shares in other entities, participation units and investment certificates in investment funds		2 249 747	1 117 552
4. Sale of debt securities issued by subordinated entities and loans repaid by those entities		36 792	6 221
5. Sale of debt securities issued by other entities		18 194 598	11 063 187

Consolidated cash flow statement

	in thousand zloty	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
6. Withdrawal of term deposits with financial institutions		144 905 178	113 494 271
7. Withdrawal of other deposits		107 755 218	75 412 190
8. Inflows from real estate		25 570	19 065
9. Interest received		1 054 397	1 022 129
10. Dividends received		894 998	61 305
11. Other investment inflows		3 420	30
II. Outflows		274 973 253	203 450 407
1. Purchase of real estate		4 711	11 892
2. Purchase of shares in subordinated entities		116 865	76 265
3. Purchase of shares in other entities, participation units and investment certificates in investment funds		2 101 406	1 372 483
4. Purchase of debt securities issued by subordinated entities and loans granted to those entities		2 241	755
5. Purchase of debt securities issued by other entities		18 813 454	13 444 451
6. Term deposits placed with financial institutions		145 191 376	113 779 958
7. Other deposits placed		108 641 482	74 686 758
8. Outflows for real estate maintenance		62 467	49 565
9. Dividends paid to minority interest		-	-
10. Other investments and deposits		39 251	28 280
III. Net cash flows from investing activities (I-II)		147 607	(1 224 575)
C. Cash flow from financing activities			
I. Inflows		-	-
1. Net inflow from issue of shares and additional payments to share capital		-	-
2. Loans and credits and issue of debt securities		-	-
3. Other		-	-
II. Outflows		1 481 579	256 071
1. Dividends		1 481 579	256 071
2. Outflows due to appropriation of profit other than dividends		-	-
3. Re-acquisition of own shares		-	-
4. Repayment of loans and credits and redemption of own debt securities		-	-
5. Interest on loans and credits and debt securities issued		-	-
6. Other outflows from financing activities		-	-
III. Net cash flows from financing activities (I-II)		(1 481 579)	(256 071)
D. Total net cash flows (A.III+/-B.III+/-C.III)		39 193	36 653
E. Balance sheet change in cash and cash equivalents, of which:		39 130	36 631
- change in cash and cash equivalents due to foreign exchange differences		(63)	(22)
F. Cash and cash equivalents at the beginning of the period		278 694	242 063
G. Cash and cash equivalents at the end of the period (F+/-D), of which:		317 824	278 694
- of restricted use		163 128	110 476

Consolidated statement of changes in equity

Consolidated statement of changes in equity		
	in thousand zloty	
	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
I. Shareholders' equity at the beginning of the period	8 365 504	6 041 103
a) changes in accounting policies	-	107 794
b) adjustments due to fundamental errors	-	306 002
I. a. Shareholders' equity at the beginning of the period, after reconciliation with comparative data	8 365 504	6 454 899
1. Share capital at the beginning of the period	86 352	86 352
1.1. Changes in share capital	-	-
a) increases	-	-
b) decreases	-	-
1.2. Share capital at the end of the period	86 352	86 352
2. Unpaid share capital at the beginning of the period	-	-
2.1. Changes in unpaid share capital	-	-
a) increases	-	-
b) decreases	-	-
2.2. Unpaid share capital at the end of the period	-	-
3. Own shares at the beginning of the period	-	-
3.1. Changes in own shares	-	-
a) increases	-	-
b) decreases	-	-
3.2. Own shares at the end of the period	-	-
4. Reserve capital at the beginning of the period	5 810 652	4 546 849
a) changes in accounting policies	-	-
b) adjustments due to fundamental errors	-	-
4.1. Reserve capital at the beginning of the period, after reconciliation with comparative data	5 810 652	4 546 849
4.2. Changes in reserve capital	725 671	1 263 803
a) increases (due to):	725 678	1 263 803
- profit appropriation (in excess of legal requirements)	725 158	1 263 639
- from revaluation reserve	520	164
b) decreases (due to):	7	-
- other	7	-
4.3. Reserve capital at the end of the period	6 536 323	5 810 652
5. Revaluation reserve at the beginning of the period	149 982	163 510
a) changes in accounting policies	(7 406)	(67 228)
b) adjustments due to fundamental errors	-	-

Consolidated statement of changes in equity

	in thousand zloty	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
5.1. Revaluation reserve at the beginning of the period, after reconciliation with comparative data		142 576	96 282
5.2. Changes in revaluation reserve		50 074	46 294
a) increases (due to):		119 455	104 178
- revaluation		119 455	104 178
b) decreases (due to):		69 381	57 884
- realization of fixed assets (sales and liquidation)		520	164
- impairment		68 861	57 720
5.3. Revaluation reserve at the end of the period		192 650	142 576
6. Other reserves at the beginning of the period		-	-
6.1. Changes in other reserves		-	-
a) increases		-	-
b) decreases		-	-
6.2. Other reserves at the end of the period		-	-
7. Translation allowance on revaluation of subordinate entities		-	-
8. Accumulated profits / (losses) from previous years at the beginning of the period		2 318 518	1 244 392
8.1. Accumulated profits / (losses) from previous years at the beginning of the period		2 318 518	1 244 392
a) changes in accounting policies		7 406	175 022
b) adjustments due to fundamental errors		-	306 002
8.2. Accumulated profits / (losses) from previous years at the beginning of the period, after reconciliation with comparative data		2 325 924	1 725 416
a) increases		-	-
b) decreases, of which:		1 463 103	1 522 846
- dividends paid		708 088	259 057
- transfer to reserve capital		725 158	1 263 639
- transfer to Social Fund		29 857	150
8.3 Accumulated profits / (losses) from previous years at the end of the period		862 821	202 570
9. Net result		3 214 792	2 123 354
a) net profit		3 214 792	2 123 354
b) net loss		-	-
c) deductions from net profit		-	-
II. Shareholders' equity at the end of the period		10 892 938	8 365 504
III. Shareholders' equity, after proposed appropriation of profits/ (absorption of losses)		9 525 842	7 637 415

III. Financial statements - PZU SA



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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 April 13, 2006 on the financial statements for the year ended December 31, 2005 as presented below:

"INDEPENDENT AUDITORS' OPINION"

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

1. We have audited the attached financial statements for the year ended December 31, 2005 of Powszechny Zakład Ubezpieczeń S.A. ('the Company') located in Warsaw at Al. Jana Pawła II 24, containing:
 - the introduction to the financial statements,
 - the balance sheet as at December 31, 2005 with total assets amounting to 23,019,969 thousand zlotys,
 - the revenue account for property and casualty insurance for the period from January 1, 2005 to December 31, 2005, showing an underwriting profit on property and casualty insurance to be carried forward to the profit and loss account of 982,162 thousand zlotys,
 - the profit and loss account for the period from January 1, 2005 to December 31, 2005 with a net profit amounting to 2,692,976 thousand zlotys,
 - the statement of changes in shareholders' equity for the period from January 1, 2005 to December 31, 2005 with a net increase in shareholders' equity amounting to 2,463,483 thousand zlotys,
 - the cash flow statement for the period from January 1, 2005 to December 31, 2005 with a net cash inflow amounting to 23,240 thousand zlotys,
 - the additional notes and explanations ("attached financial statements").
2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

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

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



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Translation of auditors' report originally issued in Polish.

3. We conducted our audit of the attached 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 these 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 attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates made by Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached 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, 2005 to December 31, 2005, as well as its financial position³ as at December 31, 2005;
- have been prepared in accordance with the accounting principles specified in the Accounting Act and regulations issued based on that Act and based on properly maintained accounting records;
- are in accordance with the Accounting Act and regulations issued based on that Act and the provisions of the Company's statute that affect their content.

5. We have read the Directors' Report for the period from 1 January 2005 to 31 December 2005 ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 point 2 of the Accounting Act and the Appendix 5 to the Decree of the Minister of Finance of December 8, 2003 on specific accounting principles for insurance companies.

6. The financial statements are accompanied by the actuary's opinion on creation of technical reserves, calculated using methods applied in insurance mathematics."

³ 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 on pages 122 to 132 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, 2005 and the results of its operations for the period from January 1, 2005 to December 31, 2005, the reader must review the full financial statements in their entirety including 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.
Rondo ONZ 1
00-124 Warszawa

Marcin Dymek
Certified Auditor Nr 9899/7370

Jacek Hryniuk
Certified Auditor Nr 9262/6958

Warsaw, May 15, 2006

Balance sheet of PZU SA

Assets

	in thousand zloty	31.12.2005	31.12.2004
A. Intangible assets		18 203	17 835
1. Goodwill		-	-
2. Other intangible assets and prepayments for intangible assets		18 203	17 835
B. Investments		21 042 659	18 607 191
I. Real estate		352 181	343 740
1. Land, including perpetual usufruct		41 027	42 444
2. Buildings and constructions, and cooperative freehold right		283 356	273 230
3. Construction in progress and prepayments for construction in progress		27 798	28 066
II. Investments in subordinated entities		4 237 063	3 743 135
1. Shares in subordinated entities		4 173 286	3 668 849
2. Loans granted to subordinated entities and debt securities issued by subordinated entities		63 677	71 786
3. Other		100	2 500
III. Other financial investments		16 445 739	14 513 510
1. Shares and other variable income securities, participation units and investment certificates in trust funds		1 598 659	1 483 127
2. Debt securities and other fixed income securities		13 036 325	12 115 678
3. Shares in joint venture investments		-	-
4. Mortgage loans		-	-
5. Other loans		1 565 523	663 010
6. Term deposits with financial institutions		245 232	250 872
7. Other investments		-	823
IV. Deposits due from cedants		7 676	6 806
C. Net assets of life insurance funds where the investment risk is borne by policyholders		-	-
D. Receivables		1 228 506	1 190 160
I. Receivables from direct insurance		987 512	945 913
1. Receivables from policyholders		968 613	933 581
1.1. From subordinated entities		43	71
1.2. From other entities		968 570	933 510
2. Receivables from insurance intermediaries		18 221	11 481
2.1. From subordinated entities		761	3 699
2.2. From other entities		17 460	7 782
3. Other receivables		678	851
3.1. From subordinated entities		110	149
3.2. From other entities		568	702

Assets

	in thousand zloty	31.12.2005	31.12.2004
II. Receivables from reinsurance		60 014	107 271
1. From subordinated entities		2 522	-
2. From other entities		57 492	107 271
III. Other receivables		180 980	136 976
1. Receivables from the State Budget		101 061	71 251
2. Other receivables		79 919	65 725
2.1. From subordinated entities		21 941	22 270
2.2. From other entities		57 978	43 455
E. Other assets		431 304	337 200
I. Property, plant and equipment		231 631	160 767
II. Cash and cash equivalents		199 673	176 433
III. Other		-	-
F. Prepayments and deferred costs		299 297	300 332
I. Deferred tax assets		-	-
II. Deferred acquisition costs		270 812	276 518
III. Accrued interest and rentals		177	49
IV. Other prepayments and deferred costs		28 308	23 765
Assets, total		23 019 969	20 452 718

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
A. Equity		10 903 857	8 440 374
I. Share capital		86 352	86 352
II. Unpaid share capital (negative value)		-	-
III. Treasury shares (negative value)		-	-
IV. Reserve capital		4 231 167	3 510 902
V. Revaluation reserve		3 885 956	3 387 817
VI. Other reserves		-	-
VII. Accumulated profits / (losses) from previous years		7 406	103 867
VIII. Net profit /(loss) for the year		2 692 976	1 351 436
B. Subordinated liabilities		-	-
C. Technical reserves		12 017 632	11 789 267
I. Unearned premium reserve and unexpired risk reserve		3 519 196	3 404 798
II. Life insurance reserves		-	-
III. Outstanding claims and benefits reserve		7 404 779	7 232 411
IV. Reserve for bonuses and rebates for the insured		-	-
V. Risk equalization reserve		560 955	558 908
VI. Reserve for premium returns for policyholders		-	-
VII. Other technical reserves defined in the Articles of Association		532 702	593 150
VIII. Life technical reserves, where the investment risk is borne by policyholder		-	-
D. Reinsurers' share in Technical reserves (negative value)		(1 351 258)	(1 430 747)
I. Reinsurers' share in unearned premium reserve and unexpired risk reserve		(160 341)	(173 928)
II. Reinsurers' share in life insurance reserve		-	-
III. Reinsurers' share in outstanding claims and benefits reserve		(1 190 917)	(1 256 819)
IV. Reinsurers' share in reserve for bonuses and rebates for the insured		-	-
V. Reinsurers' share in other technical reserves, allowed under Articles of Associations		-	-
VI. Reinsurers' share in life technical reserves where the investment risk is borne by policyholders		-	-
E. Estimated recourses and recoveries (negative value)		(64 210)	(51 871)
1. Estimated recourses and recoveries, gross		(64 895)	(51 871)
2. Reinsurers' share in estimated recourses and recoveries		685	-
F. Other provisions		384 410	378 015
I. Provision for retirement benefits and similar obligations		220 355	237 074
II. Deferred tax liability		142 850	109 111
III. Other		21 205	31 830
G. Liabilities from reinsurance deposits		66	78

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
H. Other liabilities and Special Funds		526 549	682 477
I. Direct insurance liabilities		112 558	156 301
1. Liabilities to the policyholders		20 648	11 737
1.1. To subordinated entities		-	1
1.2. To other entities		20 648	11 736
2. Liabilities to insurance intermediaries, of which:		60 138	51 831
2.1. To subordinated entities		30	1 450
2.2. To other entities		60 108	50 381
3. Other insurance liabilities:		31 772	92 733
3.1. To subordinated entities		798	-
3.2. To other entities		30 974	92 733
II. Reinsurance liabilities:		59 842	135 276
1. To subordinated entities		4 534	-
2. To other entities		55 308	135 276
III. Liabilities from the issuance of own debt securities and loans taken out:		-	-
1. Liabilities convertible to Company's shares		-	-
2. Other		-	-
IV. Liabilities to financial institutions		10	12
V. Other liabilities		214 972	284 648
1. Liabilities to the State Budget		21 512	82 738
2. Other, of which:		193 460	201 910
2.1. To subordinated entities		27 473	26 727
2.2. To other entities		165 987	175 183
VI. Special Funds		139 167	106 240
I. Accruals and deferred income		602 923	645 125
1. Accrued expenses		448 756	448 721
2. Negative goodwill		-	-
3. Deferred income		154 167	196 404
Total equity and liabilities		23 019 969	20 452 718

Off-balance sheet items

	in thousand zloty	31.12.2005	31.12.2004
1. Contingent receivables, of which:		2 320 197	1 817 646
1.1. Guarantees and suretyships received		2 776	1 163
1.2. Other		2 317 421	1 816 483
2. Contingent liabilities, of which:		1 696 084	1 185 328
2.1. Guarantees and suretyships issued		10 390	13 784
2.2. Bills of exchange accepted and endorsed		-	-
2.3. Buy and sell back assets		1 565 523	663 010
2.4. Other liabilities		120 171	508 534
3. Reinsurance guarantees made to the Company		-	-
4. Reinsurance guarantees made by the Company to cedants		-	-
5. Third party assets not included in the Company's assets		584 986	547 320
Own funds		9 248 377	4 813 421
Solvency margin		1 182 191	1 195 527
Surplus (shortage) of own funds to cover solvency margin		8 066 186	3 617 894
Technical reserves, gross		11 952 737	11 737 396
Assets used to cover technical reserves		17 606 334	15 475 277
Surplus (shortage) of assets used to cover technical reserves		5 653 597	3 737 881

Non-life technical account and underwriting result of PZU SA

Non-life technical account and underwriting result

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Premiums (1-2+/-3+/-4)		7 126 391	6 774 654
1. Gross premium written for the year		7 653 607	7 485 101
2. Reinsurers' share in gross premium written		399 231	537 018
3. Movements in unearned premium reserve and unexpired risk reserve, gross		114 398	189 474
4. Reinsurers' share in movements in unearned premium reserve		(13 587)	16 045
II. Net Investment income, allocated from the General Profit and Loss Account		205 224	161 519
III. Other technical income, net of reinsurers' share		91 435	55 356
IV. Claims and benefits (1+/-2)		4 299 534	4 368 828
1. Claims paid out, net of reinsurers' share		4 073 603	4 158 864
1.1. Claims and benefits paid out, gross		4 297 311	4 443 207
1.2. Reinsurers' share in claims and benefits paid out		223 708	284 343
2. Movements in outstanding claims and benefits reserve, net of reinsurers' share		225 931	209 964
2.1. Movements in outstanding claims and benefits reserve, gross		159 344	(63 301)
2.2. Reinsurers' share in movements in outstanding claims and benefits reserve		(66 587)	(273 265)
V. Movements in other technical reserves, net of reinsurers' share		(60 448)	(19 768)
1. Movements in other technical reserves, gross		(60 448)	(19 768)
2. Reinsurers' share in movements in other technical reserves		-	-
VI. Bonuses and rebates for the insured, net of reinsurers' share, including changes in reserve for bonuses and rebates		-	1 106
VII. Costs of insurance activities (1+2-3)		1 868 845	1 796 214
1. Acquisition costs, of which:		950 108	867 466
1.1. movements in deferred acquisition costs		5 706	(16 442)
2. Administration costs		1 007 591	1 023 454
3. Reinsurance commissions and the share in reinsurers' profits		88 854	94 706
VIII. Other technical expenses, net of reinsurers' share		330 910	258 930
IX. Movements in risk equalization reserve		2 047	(22 707)
X. Non-life underwriting result		982 162	608 926

General profit and loss account of PZU SA

General profit and loss account

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Non-life underwriting result		982 162	608 926
II. Investment income (1+2+3+4+5), of which:		2 193 085	961 544
1. From real estate		8 307	8 864
2. From investments in subordinated entities, of which:		961 524	20 377
2.1. Shares		956 665	14 649
2.2. Loans and debt securities		4 859	5 728
2.3. Other investments		-	-
3. Income from other financial investments, of which:		994 469	690 026
3.1. Shares, other variable income securities, participation units and certificates in investment funds		98 866	26 558
3.2. Debt securities and other fixed income securities		866 781	633 598
3.3. Term deposits with financial institutions		9 531	5 986
3.4. Other investments		19 291	23 884
4. Gains on revaluation of investments		7 759	-
5. Gains on realization of investments		221 026	242 277
III. Unrealized gains on investments		285 484	278 015
IV. Net Investment income allocated from the Life Technical Account - less costs		-	-
V. Cost of investing activities (1+2+3+4)		63 422	93 031
1. Costs of real estate maintenance		2 102	2 362
2. Other costs of investing activities		13 753	20 236
3. Losses on revaluation of investments		7 341	54 089
4. Losses on realization of investments		40 226	16 344
VI. Unrealized losses on investments		103 947	51 912
VII. Net Investment income allocated from the Non-Life Technical Account - less costs		205 224	161 519
VIII. Other operating income		71 081	187 630
IX. Other operating expenses		41 867	75 908
X. Operating profit/ (loss)		3 117 352	1 653 745
XI. Extraordinary gains		79	57
XII. Extraordinary losses		32	30
XIII. Gross profit/ (loss)		3 117 399	1 653 772
XIV. Corporate income tax		424 423	302 336
XV. Other tax charges (increasing losses)		-	-
XVI. Net profit / (loss)		2 692 976	1 351 436

Cash flow statement of PZU SA

Cash flow statement

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
A. Net Cash flow from operating activities		595 923	494 462
I. Inflows		10 538 292	9 047 723
1. Inflows from direct insurance and reinsurance inwards, of which:		7 743 549	7 646 332
1.1. From gross premium written		7 604 098	7 494 435
1.2. From recourses and recoveries, gross		130 628	120 899
1.3. Other inflows from direct insurance		8 823	30 998
2. Cash inflows from reinsurance outwards		434 842	374 808
2.1. Cash inflows from reinsurers' share in claims paid		289 653	276 357
2.2. Cash inflows from reinsurers' commission and the share in reinsurers' profits		136 389	93 412
2.3. Other inflows from reinsurance outwards		8 800	5 039
3. Cash inflows from other operating activities		2 359 901	1 026 583
3.1. Proceeds from loss adjusting services rendered		43 639	24 587
3.2. Sale of intangible assets and tangible fixed assets other than investments		2 260	701
3.3. Other operational inflows		2 314 002	1 001 295
II. Outflows		9 942 369	8 553 261
1. Cash outflows from direct insurance and reinsurance inwards		6 459 955	6 456 858
1.1. Gross premium returns		129 946	162 733
1.2. Claims and benefits paid out, gross		4 096 645	4 154 484
1.3. Acquisition costs		665 559	657 979
1.4. Administration costs		1 416 832	1 356 602
1.5. Costs of loss adjusting services and recourse enforcement		115 616	90 623
1.6. Commissions paid out and the share in profits from reinsurance inwards		1 899	1 291
1.7. Other outflows from direct insurance and reinsurance inwards		33 458	33 146
2. Cash outflows from reinsurance outwards		573 166	563 933
2.1. Premiums paid in respect of reinsurance outwards		535 173	511 115
2.2. Other outwards reinsurance expenses		37 993	52 818
3. Other operating expenses		2 909 248	1 532 470
3.1. Expenses relating to loss adjusting services rendered		41 425	15 691
3.2. Purchase of intangible assets and tangible fixed assets other than investments		170 708	83 563
3.3. Other operating expenses		2 697 115	1 433 216
B. Cash flow from investing activities		134 436	(212 454)
I. Inflows		117 410 609	87 452 367
1. Sale of real estate		894	882
2. Sale of shares in subordinated entities		-	14 500
3. Sale of shares in other entities, participation units and investment certificates in investment funds		569 864	279 989
4. Sale of debt securities issued by subordinated entities and loans repaid by those entities		17 104	7 107

Cash flow statement

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
5. Sale of debt securities issued by other entities		8 874 260	7 239 442
6. Withdrawal of term deposits with financial institutions		45 916 177	28 594 668
7. Sale of other investments		61 149 499	51 253 058
8. Inflows from real estate		9 876	6 802
9. Interest received		15 166	22 511
10. Dividends received		854 900	33 378
11. Other inflows		2 869	30
II. Outflows		117 276 173	87 664 821
1. Purchase of real estate		61	10 262
2. Purchase of shares in subordinated entities		116 865	60 763
3. Purchase of shares in other entities, participation units and investment certificates in investment funds		340 560	331 245
4. Purchase of debt securities issued by subordinated entities and loans granted to those entities		2 241	755
5. Purchase of debt securities issued by other entities and loans granted to those entities		8 780 710	8 519 574
6. Creation of term deposits with financial institutions		45 908 544	28 400 791
7. Acquisition of other investments		62 082 559	50 312 646
8. Outflows for real estate maintenance		27 430	13 888
9. Other expenses and investments		17 203	14 897
C. Cash flow from financing activities		(707 119)	(256 071)
I. Inflows		-	-
1. Net inflow from issue of shares and additional payments to share capital		-	-
2. Loans and credits and issue of debt securities		-	-
3. Other		-	-
II. Outflows		707 119	256 071
1. Dividends		707 119	256 071
2. Outflows due to appropriation of profit other than dividends		-	-
3. Re-acquisition of own shares		-	-
4. Repayment of loans and credits and redemption of debt securities		-	-
5. Interest on loans and credits and debt securities issued		-	-
6. Other outflows from financing activities		-	-
D. Total net cash flow		23 240	25 937
E. Balance sheet change in cash and cash equivalents, of which:		23 240	25 937
1. change in cash and cash equivalents due to foreign exchange differences		(63)	(22)
F. Cash and cash equivalents at the beginning of the period		176 433	150 496
G. Cash and cash equivalents at the end of the period, of which:		199 673	176 433
1. of restricted use		112 464	68 584

Statement of changes in equity of PZU SA

Statement of changes in equity

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Shareholders' equity at the beginning of the period		8 440 374	4 016 607
a) changes in accounting policies		-	2 526 291
b) adjustments due to fundamental errors		-	-
I. a. Shareholders' equity at the beginning of the period, after adjustments		8 440 374	6 542 898
1. Share capital at the beginning of the period		86 352	86 352
1.1. Changes in share capital		-	-
a) increases (due to):		-	-
b) decreases (due to):		-	-
1.2. Share capital at the end of the period		86 352	86 352
2. Unpaid share capital at the beginning of the period		-	-
2.1. Changes in unpaid share capital		-	-
a) increases		-	-
b) decreases		-	-
2.2. Unpaid share capital at the end of the period		-	-
3. Own shares at the beginning of the period		-	-
3.1. Changes in own shares		-	-
a) increases		-	-
b) decreases		-	-
3.2. Own shares at the end of the period		-	-
4. Reserve capital at the beginning of the period		3 510 902	2 835 319
4.1. Changes in reserve capital		720 265	675 583
a) increases (due to):		720 272	675 583
- share premium		-	-
- profit appropriation (statutory)		-	-
- profit appropriation (in excess of statutory amounts)		719 809	675 473
- from revaluation reserve disposal of fixed assets		463	110
b) decreases (due to):		7	-
- absorption of losses		-	-
- other decreases		7	-
4.2. Reserve capital at the end of the period		4 231 167	3 510 902
5. Revaluation reserve at the beginning of the period		3 395 223	160 407
a) changes in accounting policies		(7 406)	2 422 423
b) adjustments due to fundamental errors		-	-
5a. Revaluation reserve at the beginning of the period, after adjustments		3 387 817	2 582 830

Statement of changes in equity

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
5.1. Changes in revaluation reserve		498 139	804 987
a) increases (due to):		567 463	862 680
- valuation of long-term financial investments		567 463	862 680
b) decreases (due to):		69 324	57 693
- valuation of long-term financial investments		68 861	56 248
- valuation of real estate		-	1 335
- disposal and liquidation of fixed assets		463	110
5.2. Revaluation reserve at the end of the period		3 885 956	3 387 817
6. Other reserves at the beginning of the period		-	-
6.1. Changes to other reserves		-	-
6.2. Other reserves at the end of the period		-	-
7. Accumulated profits / (losses) from previous years at the beginning of the period		1 447 897	934 529
7.1. Accumulated profits / (losses) from previous years at the beginning of the period		1 447 897	934 529
a) changes in accounting policies		7 406	103 868
b) adjustments due to fundamental errors		-	-
7.2. Accumulated profits / (losses) from previous years at the beginning of the period, after adjustments		1 455 303	1 038 397
a) increases		-	-
b) decreases (due to):		1 447 897	934 530
- dividends paid out		708 088	259 057
- transfer to reserve capital		719 809	675 473
- contribution to Social Fund		20 000	-
7.3. Accumulated profits from previous years at the end of the period		7 406	103 867
7.4. Accumulated losses from previous years at the beginning of the period		-	-
a) changes in accounting policies		-	-
7.5. Accumulated losses from previous years at the beginning of the period, after adjustments		-	-
7.6. Accumulated losses from previous years at the end of the period		-	-
7.7. Accumulated profits / (losses) from previous years at the end of the period		7 406	103 867
8. Net result		2 692 976	1 351 436
a) net profit		2 692 976	1 351 436
b) net loss		-	-
II. Shareholders' equity at the end of the period		10 903 857	8 440 374
III. Shareholders' equity after proposed appropriation of profits (absorption of losses)		9 536 761	7 712 285

IV. Financial statements - PZU Życie SA



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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 April 13, 2006 on the financial statements for the year ended December 31, 2005 as presented below:

"INDEPENDENT AUDITORS' OPINION"

To the Supervisory Board of Powszechny Zakład Ubezpieczeń na Życie SA

1. We have audited the attached financial statements for the year ended December 31, 2005 of Powszechny Zakład Ubezpieczeń na Życie SA ('the Company') located in Warsaw, Al. Jana Pawła II 24, containing:

- the introduction to the financial statements,
- the balance sheet as at December 31, 2005 with total assets amounting to 24,015,363,481.65 zlotys,
- the revenue account for life insurance for the period from January 1, 2005 to December 31, 2005, showing an underwriting profit to be carried forward to the profit and loss account of 1,585,481,363.47 zlotys,
- the profit and loss account for the period from January 1, 2005 to December 31, 2005 with a net profit amounting to 1,415,208,202.05 zlotys,
- the statement of changes in shareholders' equity for the period from January 1, 2005 to December 31, 2005 with a net increase in shareholders' equity amounting to 449,445,294.07 zlotys,
- the cash flow statement for the period from January 1, 2005 to December 31, 2005 with a net cash inflow amounting to 15,966,137.21 zlotys and
- the additional notes and explanations ('the attached financial statements').

2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² 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 attached financial statements in accordance with the following regulations being in force in Poland:

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

in order to obtain reasonable assurance whether these 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 attached financial statements. The audit also included assessing the accounting principles adopted and used and significant estimates

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

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



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

made by Management Board, as well as evaluating the overall presentation of the attached financial statements. We believe our audit has provided a reasonable basis to express our opinion on the attached financial statements treated as a whole.

4. In our opinion, the attached 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, 2005 to December 31, 2005, as well as its financial position³ as at December 31, 2005;
 - have been prepared in accordance with the accounting principles specified in the Accounting Act and regulations issued based on that Act and based on properly maintained accounting records;
 - are in accordance with the Accounting Act and regulations issued based on that Act and the provisions of the Company's statute that affect their content.
5. We have read the Directors' Report for the period from January 1, 2005 to December 31, 2005 ('the Directors' Report') and concluded that the information derived from the attached financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 of the Accounting Act and the Appendix 5 to the Decree of the Minister of Finance of December 8, 2003 on specific accounting principles for insurance companies."

In our opinion the information presented in the published, condensed financial statements on pages 135 to 146 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, 2005 and the results of its operations for the period from January 1, 2005 to December 31, 2005, the reader must review the full financial statements in their entirety including 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.
Rondo ONZ 1, 00-113 Warsaw
Reg. No. 130

Jakub Wysoczański
Certified Auditor No. 10317/7582

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, May 15, 2006

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

Balance sheet of PZU Życie SA

Assets

	in thousand zloty	31.12.2005	31.12.2004
A. Intangible assets		71 761	62 160
1. Goodwill		-	-
2. Other intangible assets and prepayments for intangible assets		71 761	62 160
B. Investments		21 661 663	20 233 568
I. Real estate		217 037	214 914
1. Land, including perpetual usufruct		70 838	70 884
2. Buildings and constructions, and cooperative freehold right		136 779	134 401
3. Construction in progress and prepayments for construction in progress		9 420	9 629
II. Investments in subordinated entities		920 446	836 807
1. Shares in subordinated entities		730 986	626 284
2. Loans granted to subordinated entities and debt securities issued by subordinated entities		189 460	210 523
3. Other		-	-
III. Other financial investments		20 524 180	19 181 847
1. Shares and other variable income securities, participation units and investment certificates in investment funds		2 295 834	2 105 849
2. Debt securities and other fixed income securities		17 375 854	16 373 250
3. Shares in joint venture investments		-	-
4. Mortgage loans		-	4 867
5. Other loans		353 843	450 473
6. Term deposits with financial institutions		498 649	247 408
7. Other investments		-	-
IV. Deposits due from cedants		-	-
C. Investments of life insurance funds where the investment risk is borne by policyholders		1 778 839	1 297 450
D. Receivables		157 508	156 164
I. Receivables from direct insurance		87 997	65 323
1. Receivables from policyholders		87 037	65 178
1.1. From subordinated entities		-	-
1.2. From other entities		87 037	65 178
2. Receivables from insurance intermediaries		956	143
2.1. From subordinated entities		-	-
2.2. From other entities		956	143
3. Other receivables		4	2
3.1. From subordinated entities		-	-
3.2. From other entities		4	2

Assets

	in thousand zloty	31.12.2005	31.12.2004
II. Receivables from reinsurance		-	-
1. From subordinated entities		-	-
2. From other entities		-	-
III. Other receivables		69 511	90 841
1. Receivables from the State Budget		40	264
2. Other receivables		69 471	90 577
2.1. From subordinated entities		4 786	5 996
2.2. From other entities		64 685	84 581
E. Other assets		172 165	173 350
I. Property, plant and equipment		54 900	70 515
II. Cash and cash equivalents		116 783	100 817
III. Other		482	2 018
F. Prepayments and deferred costs		173 427	199 007
I. Deferred tax assets		-	-
II. Deferred acquisition costs		117 466	134 591
III. Accrued interest and rentals		3 871	96
IV. Other prepayments and deferred costs		52 090	64 320
Assets, total		24 015 363	22 121 699

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
A. Equity		3 992 778	3 543 333
I. Share capital		295 000	295 000
II. Unpaid share capital (negative value)		-	-
III. Own shares (negative value)		-	-
IV. Reserve capital		2 279 485	2 279 428
V. Revaluation reserve		3 085	3 124
VI. Other reserves		-	-
VII. Accumulated profits / (losses) from previous years		-	206 281
VIII. Net profit / (loss) for the year		1 415 208	759 500
B. Subordinated liabilities		-	-
C. Technical reserves		19 362 912	17 789 260
I. Unearned premium reserve and unexpired risk reserve		72 068	70 547
II. Life insurance reserves		16 102 416	15 056 427
III. Outstanding claims and benefits reserve		425 579	494 680
IV. Reserve for bonuses and rebates for the insured		1 728	3 549
V. Risk equalization reserve		-	-
VI. Reserve for premium returns for policyholders		-	-
VII. Other technical reserves defined in the Articles of Association		983 807	866 711
VIII. Life technical reserves, where the investment risk is borne by policyholder		1 777 314	1 297 346
D. Reinsurers' share in Technical reserves (negative value)		39	122
I. Reinsurers' share in unearned premium reserve and unexpired risk reserve		-	-
II. Reinsurers' share in life insurance reserve		39	122
III. Reinsurers' share in outstanding claims and benefits reserve		-	-
IV. Reinsurers' share in reserve for bonuses and rebates for the insured		-	-
V. Reinsurer's share in other technical reserves, allowed under Articles of Associations		-	-
VI. Reinsurers' share in life technical reserves where the investment risk is borne by policyholders		-	-
E. Estimated recourses and recoveries (negative value)		-	-
1. Estimated recourses and recoveries, gross		-	-
2. Reinsurers' share in estimated recourses and recoveries		-	-
F. Other provisions		283 502	278 346
I. Provision for retirement benefits and similar obligations		48 370	45 287
II. Deferred tax liability		233 984	233 059
III. Other		1 148	-
G. Liabilities from reinsurance deposits		-	-

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
H. Other liabilities and Special Funds		319 210	475 492
I. Direct insurance liabilities		140 810	124 925
1. Liabilities to the policyholders		135 115	115 603
1.1. To subordinated entities		-	-
1.2. To other entities		135 115	115 603
2. Liabilities to insurance intermediaries, of which:		172	3 917
2.1. To subordinated entities		-	-
2.2. To other entities		172	3 917
3. Other insurance liabilities:		5 523	5 405
3.1. To subordinated entities		-	-
3.2. To other entities		5 523	5 405
II. Reinsurance liabilities:		4 075	2 587
1. To subordinated entities		-	-
2. To other entities		4 075	2 587
III. Liabilities from the issuance of own debt securities and loans taken out:		-	-
1. Liabilities convertible to Company's shares		-	-
2. Other		-	-
IV. Liabilities to financial institutions		14 741	13 047
V. Other liabilities		106 059	288 463
1. Liabilities to the State Budget		83 210	254 904
2. Other, of which:		22 849	33 559
2.1. To subordinated entities		201	233
2.2. To other entities		22 648	33 326
VI. Special Funds		53 525	46 470
I. Accruals and deferred income		57 000	35 390
1. Accrued expenses		54 214	29 622
2. Negative goodwill		-	-
3. Deferred income		2 786	5 768
Total equity and liabilities		24 015 363	22 121 699

Off-balance sheet items

	in thousand zloty	31.12.2005	31.12.2004
1. Contingent receivables, of which:		-	-
1.1. Guarantees and suretyships received		-	-
1.2. Other		-	-
2. Contingent liabilities, of which:		401 333	493 586
2.1. Guarantees and suretyships issued		-	-
2.2. Bills of exchange accepted and endorsed		-	-
2.3. Buy and sell back assets		353 843	450 473
2.4. Other liabilities secured with assets or income		-	-
3. Reinsurance guarantees made to the Company		-	-
4. Reinsurance guarantees made by the Company to cedants		-	-
5. Third party assets not included in the Company's assets		-	-
Off-balance sheet items, total		401 333	493 586
Own funds		3 921 017	3 481 173
Solvency margin		1 467 852	1 403 529
Surplus (shortage) of own funds to cover solvency margin		2 453 165	2 077 644
Technical reserves, gross		19 362 912	17 789 259
Assets used to cover technical reserves		22 458 689	20 851 024
Surplus (shortage) of assets used to cover technical reserves		3 095 777	3 061 765

Life insurance technical account and underwriting result of PZU Życie SA

Life insurance technical account and underwriting result

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Premiums		6 085 888	5 465 247
1. Gross premium written		6 096 054	5 480 044
2. Reinsurers' share in gross premium written		8 645	7 826
3. Movements in unearned premium reserve and unexpired risk reserve, gross		1 521	6 971
4. Reinsurers' share in movements in unearned premium reserve		-	-
II. Investment income		1 694 035	1 390 265
1. Income from investments in real estate		490	1 141
2. Income from investments in subordinated entities, of which:		13 439	19 681
2.1. From shares		134	14 256
2.2. From loans and debt securities		13 305	5 425
2.3. From other investments		-	-
3. Income from other financial investments		1 270 193	1 103 165
3.1. Shares and other variable income securities, participation units and investment certificates in investment funds		49 437	20 842
3.2. Debt securities and other fixed income securities		1 199 728	1 068 100
3.3. Term deposits with financial institutions		21 028	14 201
3.4. Other deposits		-	22
4. Gain on revaluation of investments		13 385	636
5. Gain on realization of investments		396 528	265 642
III. Unrealized gains on investments		596 584	582 377
IV. Other technical income, net of reinsurers' share		27 784	7 182
V. Claims and benefits (1+/-2)		3 911 599	3 603 929
1. Claims and benefits paid out, net of reinsurers' share		3 980 700	3 563 252
1.1. Claims and benefits paid out, gross		3 982 056	3 565 462
1.2. Reinsurers' share in claims and benefits paid out		1 356	2 210
2. Movements in outstanding claims and benefits reserve, net of reinsurers' share		(69 101)	40 677
2.1. Movements in outstanding claims and benefits reserve, gross		(69 101)	40 677
2.2. Reinsurers' share in movements in outstanding claims and benefits reserve		-	-
VI. Movements in other technical reserves, net of reinsurers' share		1 643 135	1 907 138
1. Movements in life insurance technical reserves, net of reinsurers' share		1 046 071	1 878 569
1.1. Gross reserves		1 045 989	1 878 538
1.2. Reinsurers's share		(82)	(31)
2. Movements in life insurance technical reserves, net of reinsurers' share where the investment risk is borne by policyholders		479 968	(101 061)
2.1. Gross reserves		479 968	(101 061)
2.2. Reinsurers's share		-	-

Life insurance technical account and underwriting result

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
3. Movements in other reserves defined in the Articles of Association, net of reinsurers' share		117 096	129 630
3.1. Gross reserves		117 096	129 630
3.2. Reinsurers's share		-	-
VII. Bonuses and rebates for the insured net of reinsurers' share		1 830	3 277
VIII. Costs of insurance activities		894 308	837 642
1. Acquisition costs		313 641	319 870
1.1. movements in deferred acquisition costs		-	-
2. Administration costs		582 122	520 120
3. Reinsurance commission and share in reinsurers' profits		1 455	2 348
IX. Cost of investing activities		128 408	28 200
1. Costs of real estate maintenance		1 389	1 623
2. Other costs of investing activities		22 044	13 383
3. Loss on revaluation of investments		1 214	4 641
4. Loss on realization of investments		103 761	8 553
X. Unrealized losses on investments		65 482	110 559
XI. Other technical costs, net of reinsurers' share		44 091	29 410
XII. Net investment income allocated to the General Profit and Loss Account - less costs		129 957	94 929
XIII. Life underwriting result		1 585 481	829 987

General profit and loss account of PZU Życie SA

General profit and loss account

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Non-life and life underwriting result		1 585 481	829 987
II. Investment income:		-	-
1. From real estate		-	-
2. From investments in subordinated entities, of which:		-	-
2.1. From shares		-	-
2.2. From loans and debt securities		-	-
2.3. From other investments		-	-
3. Income from other financial investments, of which:		-	-
3.1. Shares, other variable income securities, participation units and certificates in investment funds		-	-
3.2. Debt securities and other fixed income securities		-	-
3.3. Term deposits with financial institutions		-	-
3.4. Other deposits		-	-
4. Gain on revaluation of investments		-	-
5. Gain on realization of investments		-	-
III. Unrealized gains on investments		-	-
IV. Net investment income allocated from the Life Technical Account - less costs		129 957	94 929
V. Cost of investing activities		-	-
1. Costs of real estate maintenance		-	-
2. Other costs of investing activities		-	-
3. Loss on revaluation of investments		-	-
4. Loss on realization of investments		-	-
VI. Unrealized losses on investments		-	-
VII. Net investment income allocated to the Non-Life Technical Account - less costs		-	-
VIII. Other operating income		55 180	66 319
IX. Other operating expenses		36 768	57 092
X. Operating profit / (loss)		1 733 850	934 143
XI. Extraordinary gains		1	50
XII. Extraordinary losses		2	24
XIII. Gross profit / (loss)		1 733 849	934 169
XIV. Corporate income tax		318 641	174 669
XV. Other tax charges (increasing losses)		-	-
XVI. Net profit / (loss)		1 415 208	759 500

Cash flow statement of PZU Życie SA

Cash flow statement

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
A. Cash flow from operating activities			
I. Inflows		6 190 514	5 525 215
1. Inflows from direct insurance and reinsurance inwards, of which:		6 141 560	5 494 781
1.1. Cash inflows from gross premium written		6 113 027	5 487 623
1.2. Cash inflows from recourses and recoveries, gross		-	-
1.3. Other cash inflows from direct insurance		28 533	7 158
2. Cash inflows from reinsurance outwards		2 811	4 558
2.1. Cash inflows to reinsurers due to share in claims paid		1 356	2 210
2.2. Cash inflows from reinsurer's commission and share in reinsurers' profits		1 455	2 348
2.3. Other cash inflows from reinsurance outwards		-	-
3. Cash inflows from other operating activities		46 143	25 876
3.1. Cash inflows from loss adjusting services rendered		-	-
3.2. Sale of intangible assets and tangible fixed assets other than investments		1 343	1 847
3.3. Other inflows		44 800	24 029
II. Outflows		5 557 219	4 713 385
1. Cash outflows from direct insurance and reinsurance inwards		4 831 528	4 322 079
1.1. Gross premium returns		-	-
1.2. Claims and benefits paid out, gross		3 907 062	3 495 269
1.3. Acquisition costs		320 022	319 870
1.4. Administration costs		501 087	428 419
1.5. Costs of loss adjusting and recourse enforcement		75 035	70 193
1.6. Commissions paid out and shares in profits from reinsurance inwards		-	-
1.7. Other direct insurance and reinsurance inwards expenses		28 322	8 328
2. Cash outflows from reinsurance outwards		8 645	7 826
2.1. Premiums paid in respect of reinsurance outwards		8 645	7 826
2.2. Other reinsurance outwards expenses		-	-
3. Other operating expenses		717 046	383 480
3.1. Expenses relating to loss adjusting services rendered		-	-
3.2. Purchase of intangible assets and tangible fixed assets, other than investments		43 394	70 390
3.3. Other operating expenses		673 652	313 090
III. Net cash flows from operating activities (I-II)		633 295	811 830
B. Cash flow from investing activities			
I. Inflows		137 371 868	98 849 970
1. Sale of real estate		-	-
2. Sale of shares in subordinated entities		48	14 500
3. Sale of shares in other entities, participation units and investment certificates in investment funds		1 679 883	837 563
4. Sale of debt securities issued by subordinated entities and loans repaid by those entities		45 416	14 973
5. Sale of debt securities issued by other entities		9 218 268	3 700 123

Cash flow statement

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
6. Withdrawal of term deposits with financial institutions		78 716 836	69 078 036
7. Withdrawal of other deposits		46 605 720	24 159 132
8. Inflows from real estate		490	1 141
9. Interest received		1 065 109	1 016 575
10. Dividends received		40 098	27 927
11. Other investment inflows		-	-
II. Outflows		137 214 737	99 650 279
1. Purchase of real estate		-	-
2. Purchase of shares in subordinated entities		-	15 502
3. Purchase of shares in other entities, participation units and investment certificates in investment funds		1 760 846	1 041 238
4. Purchase of debt securities issued by subordinated entities and loans granted to those entities		-	-
5. Purchase of debt securities issued by other entities		9 853 685	4 714 497
6. Term deposits placed with financial institutions		79 027 850	69 489 925
7. Other deposits placed		46 548 923	24 374 111
8. Outflows for real estate maintenance		1 389	1 623
9. Other investment outflows		22 044	13 383
III. Net cash flows from investment activities (I-II)		157 131	(800 309)
C. Cash flow from financing activities			
I. Inflows		-	-
1. Net inflow from issue of shares and additional payments to share capital		-	-
2. Loans and credits and issue of debt securities		-	-
3. Other financial inflows		-	-
II. Outflows		774 460	-
1. Dividends		774 460	-
2. Outflows due to appropriation of profit other than dividends		-	-
3. Re-acquisition of own shares		-	-
4. Repayment of loans and credits and redemption of own debt securities		-	-
5. Interest on loans and credits and debt securities issued		-	-
6. Other outflows from financing activities		-	-
III. Net cash flows from financing activities (I-II)		(774 460)	-
D. Total net cash flows (A.III+/-B.III+/-C.III)		15 966	11 521
E. Balance sheet change in cash and cash equivalents, of which:		15 966	11 521
1. Change in cash and cash equivalents due to foreign exchange differences		-	-
F. Cash and cash equivalents at the beginning of the period		100 817	89 296
G. Cash and cash equivalents at the end of the period (F+/-D), of which:		116 783	100 817
1. of restricted use		50 523	41 803

Statement of changes in equity of PZU Życie SA

Statement of changes in equity

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Shareholders' equity at the beginning of the period		3 543 333	2 577 448
a) changes in accounting policies		-	(99 481)
b) adjustments due to fundamental errors		-	306 003
I. a. Shareholders' equity at the beginning of the period, after reconciliation of comparable data		3 543 333	2 783 970
1. Share capital at the beginning of the period		295 000	295 000
1.1. Changes in share capital		-	-
a) increases		-	-
b) decreases		-	-
1.2. Share capital at the end of the period		295 000	295 000
2. Unpaid share capital at the beginning of the period		-	-
2.1. Changes in unpaid share capital		-	-
a) increases		-	-
b) decreases		-	-
2.2. Unpaid share capital at the end of the period		-	-
3. Own shares at the beginning of the period		-	-
3.1. Changes in own shares		-	-
a) increases		-	-
b) decreases		-	-
3.2. Own shares at the end of the period		-	-
4. Reserve capital at the beginning of the period		2 279 428	1 699 055
4.1. Changes in reserve capital		57	580 373
a) increases (due to):		57	580 373
- profit appropriation (in excess of statutory amounts)		-	580 319
- from revaluation reserve		57	54
b) decreases		-	-
4.2. Reserve capital at the end of the period		2 279 485	2 279 428
5. Revaluation reserve at the beginning of the period		3 124	3 074
a) changes in accounting policies		-	241
b) adjustments due to fundamental errors		-	-
5a. Revaluation reserve at the beginning of the period, after reconciliation of comparable data		3 124	3 315
5.1. Changes in revaluation reserve		(39)	(191)
a) increases (due to):		18	-
- revaluation		18	-
b) decreases (due to):		57	191
- realization of fixed assets (sales and liquidation)		57	54
- impairment		-	137
5.2. Revaluation reserve at the end of the period		3 085	3 124

Statement of changes in equity

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
6. Other reserves at the beginning of the period		-	-
6.1. Changes to other reserves		-	-
a) increases		-	-
b) decreases		-	-
6.2. Other reserves at the end of the period		-	-
6.3. Translation allowance on revaluation of subordinate entities		-	-
7. Accumulated profits / (losses) from previous years at the beginning of the period		965 781	580 319
7.1. Accumulated profits from previous years at the beginning of the period		965 781	580 319
a) changes in accounting policies		-	(99 722)
b) adjustments due to fundamental errors		-	306 003
7.2. Accumulated profits / (losses) from previous years at the beginning of the period, after reconciliation of comparable data		965 781	786 600
a) increases		-	-
b) decreases (due to):		965 781	580 319
- dividends paid out		956 123	-
- transfer to reserve capital		-	580 319
- contribution to Social Fund		9 658	-
7.3. Accumulated profits from previous years at the end of the period		-	206 281
8. Net result		1 415 208	759 500
a) net profit		1 415 208	759 500
b) net loss		-	-
c) deductions from net profit		-	-
II. Shareholders' equity at the end of the period		3 992 778	3 543 333
III. Shareholders' equity, after proposed appropriation of profits (absorption of losses)		3 992 778	3 543 333

V. Financial statements - PTE PZU SA



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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 dated February 20, 2006 on the financial statements for the year ended December 31, 2005 without qualifications with an emphasis of matter concerning the delays in transfers of contributions by Zakład Ubezpieczeń Społecznych, as presented below:

"INDEPENDENT AUDITORS' OPINION"

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

1. We have audited the attached financial statements for the year ended 31 December 2005 of Powszechne Towarzystwo Emerytalne PZU S.A. (the "Company") located at Al. Jana Pawła 24, Warsaw, containing:

- the introduction to the financial statements,
- the balance sheet as at December 31, 2005 with total assets amounting to 290,485,375.04 zlotys,
- the profit and loss account for the period from January 1, 2005 to December 31, 2005 with a net profit amounting to 66,681,849.72 zlotys,
- the statement of changes in shareholders' equity for the period from January 1, 2005 to December 31, 2005 with a net increase in shareholders' equity amounting to 67,671,906.91 zlotys,
- the cash flow statement for the period from January 1, 2005 to December 31, 2005 with a net cash outflow amounting to 7,636,942.75 zlotys and
- the additional notes and explanations.

2. The truth and fairness¹ of the attached financial statements and the proper maintenance of the accounting records are the responsibility of the Management Board. Our responsibility was to audit the attached financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair² 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

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

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



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included assessing the accounting principles adopted and used and significant estimates made by the Management, as well as evaluating the overall presentation of financial statement. We believe our audit has provided a reasonable basis to express our opinion on the financial statements treated as a whole.

4. The financial statements for the prior financial year ended December 31, 2004 were subject to our audit and we issued an opinion including an emphasis of matter on these financial statements, dated February 25, 2005. We draw your attention to this emphasis of matter also in this opinion.
5. In our opinion, the attached 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, 2005 to December 31, 2005, as well as its financial position³ as at December 31, 2005;
 - have been prepared in accordance with the accounting principles specified in the Accounting Act referred to above and regulations issued based on that Act and based on properly maintained accounting records;
 - are in accordance with the Accounting Act referred to above and regulations issued based on that Act and the Company's articles of association that affect their content.
6. Without qualifying our opinion to the attached financial statements, we draw your attention to the issue described in point 19 of the additional notes and explanations to the financial statements. Based on the statute of PZU "Złota Jesień" Otwarty Fundusz Emerytalny ("the Fund"), the Company is entitled to receive the manipulation fee as a certain percentage of the members' contribution paid to the Fund and the management fee as a percentage of the Fund's net assets. In accordance with the respective regulations, setting out the accounting principles to be followed by pension funds, the Fund discloses Fund's members' capital as the amount of members' contributions actually received either in a form of cash or treasury bonds. Data from the Fund's transfer agent and generally available information relating to the whole market of pension funds indicate the fact that for a certain number of the Fund's members the contributions have not been transferred at all or are transferred by Social Security Agency (Zakład Ubezpieczeń Społecznych, "ZUS") irregularly. In line with 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, with further amendments), the State Treasury started in 2003 and continued in 2004 and 2005 to transfer overdue contributions to pension funds in a form of treasury bonds. However, according to the estimations of the Management Board, the contributions received by the Fund by the end of 2005 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, 2005 include only the manipulation fee income due from the contributions received by the Fund until December 31, 2005 and the management fee income calculated as a percentage of the net assets presented in the Fund's financial statements.

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



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7. We have read the Directors' Report for the period from January 1, 2005 to December 31, 2005 ("Directors' Report") and conclude that the information derived from the attached financial statements reconciles with the financial statements. The information included in the Directors' Report corresponds with art. 49 clause 2 of the Act."

In our opinion the information presented in the published, condensed financial statements on pages 150 to 159 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, 2005 and the results of its operations for the period from January 1, 2005 to December 31, 2005, the reader must review the full financial statements in their entirety including 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.
Rondo ONZ 1
00-124 Warszawa

Jakub Wysoczański
Certified Auditor No. 10317/7582

Jacek Hryniuk
Certified Auditor No. 9262/6958

Warsaw, May 15, 2006

Balance sheet of PTE PZU SA

Assets

	in thousand zloty	31.12.2005	31.12.2004
A. Non-current assets		175 780	64 565
I. Intangible assets		63	203
1. Costs of completed development work		-	-
2. Goodwill		-	-
3. Other intangible assets		63	203
4. Advance payments towards intangible assets		-	-
II. Property, plant and equipment		1 358	1 786
1. Fixed assets		1 358	1 786
a) land (including the right of usufruct to land)		-	-
b) buildings, premises and civil and marine engineering facilities		-	-
c) technical plant and machinery		263	280
d) means of transportation		958	1 208
e) other fixed assets		137	298
2. Fixed assets under construction		-	-
3. Advance payments for fixed assets under construction		-	-
III. Long-term receivables		185	293
1. From affiliated entities		185	293
2. From other entities		-	-
IV. Long-term investments		172 736	49 341
1. Real estate		-	-
2. Intangible assets		-	-
3. Long-term financial assets		172 736	49 341
a) in affiliated entities		-	-
- ownership interests or shares		-	-
- other securities		-	-
- granted loans		-	-
- other long-term financial assets		-	-
b) in other entities		172 736	49 341
- ownership interests or shares		-	-
- other securities		172 736	49 341
- granted loans		-	-
- other long-term financial assets		-	-
4. Other long-term investments		-	-
V. Long-term prepayments and accruals		1 438	12 942
1. Deferred income tax assets		1 438	12 942
2. Other accruals		-	-

Assets

	in thousand zloty	31.12.2005	31.12.2004
B. Current assets		114 705	153 314
I. Inventory		-	-
1. Materials		-	-
2. Semi-finished products and products in progress		-	-
3. Finished products		-	-
4. Merchandise		-	-
5. Advance payments towards trade payables		-	-
II. Short-term receivables		7 422	5 873
1. Receivables from affiliated entities		2 616	-
a) for goods and services with a term of payment:		2 616	-
- up to 12 months		2 616	-
- above 12 months		-	-
b) others		-	-
2. Receivables from other entities		4 806	5 873
a) for goods and services with a term of payment:		4 579	5 857
- up to 12 months		4 579	5 857
- above 12 months		-	-
b) on taxes, subsidies, customs duties, social security and health insurance or other services		215	-
c) others		12	16
d) under litigation		-	-
III. Short-term investments		106 476	147 292
1. Short-term financial assets		105 356	146 516
a) in affiliated entities		-	-
- ownership interests or shares		-	-
- other securities		-	-
- granted loans		-	-
- other short-term financial assets		-	-
b) in other entities		52 997	86 520
- ownership interests or shares		-	-
- other securities		52 997	86 520
- granted loans		-	-
- other short-term financial assets		-	-
c) cash and other cash assets		52 359	59 996
- cash on hand and on accounts		52 359	59 996
- other cash		-	-
- other cash assets		-	-
2. Other short-term investments		1 120	776
IV. Short-term prepayments and accruals		807	149
Assets, total		290 485	217 879

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
A. Equity		271 505	203 833
I. Share capital		32 000	32 000
II. Unpaid share capital (negative value)		-	-
III. Own shares (negative value)		-	-
IV. Reserve capital		288 000	288 000
V. Revaluation reserve		1 633	643
VI. Other reserve capital		-	-
VII. Profit (loss) from previous years		(116 810)	(162 420)
VIII. Net profit (loss)		66 682	45 610
IX. Charges to net profit during the financial year (negative value)		-	-
B. Liabilities and reserves for liabilities		18 980	14 046
I. Reserves for liabilities		3 678	1 410
1. Deferred income tax reserve		3 322	1 160
2. Reserve for pension and similar benefits		356	250
- long-term		352	246
- short-term		4	4
3. Other reserves		-	-
- long-term		-	-
- short-term		-	-
II. Long-term liabilities		-	-
1. To affiliated entities		-	-
2. To other entities		-	-
a) credits and loans		-	-
b) by issuing debt securities		-	-
c) other financial liabilities		-	-
d) others		-	-
III. Short-term liabilities		7 175	2 404
1. To affiliated entities		3 521	312
a) For goods and services with a maturity of:		3 521	312
- up to 12 months		3 521	312
- above 12 months		-	-
b) others		-	-
2. To other entities		3 615	2 025
a) credits and loans		-	-
b) by issuing debt securities		-	-
c) other financial liabilities		-	-
d) for goods and services with a maturity of:		1 546	838
- up to 12 months		1 546	838
- above 12 months		-	-

Equity and liabilities

	in thousand zloty	31.12.2005	31.12.2004
e) advances received towards deliveries		-	-
f) bill of exchange liabilities		-	-
g) on taxes, customs, insurance and other benefits		908	417
h) on compensation		-	-
i) others		1 161	770
3. Special purpose funds		39	67
IV. Accruals and deferred income		8 127	10 232
1. Negative goodwill		-	-
2. Other accruals		8 127	10 232
- long-term		-	-
- short-term		8 127	10 232
Total equity and liabilities		290 485	217 879

General profit and loss account of PTE PZU SA

General profit and loss account (comparable version)

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
A. Net sales revenues and equivalents, including:		187 978	151 680
- from affiliated entities		-	-
I. Net revenues on the sales of products		187 978	151 680
II. Change in the balance of products (increase positive value, decrease negative value)		-	-
III. Cost of manufacturing products for the entity's proprietary needs		-	-
IV. Net revenues on the sale of merchandise and materials		-	-
B. Operating expense		117 690	111 860
I. Depreciation		859	767
II. Consumption of materials and energy		1 124	1 076
III. Third party services		75 972	70 459
IV. Taxes and fees, including:		249	224
- excise tax		-	-
V. Payroll		12 182	10 798
VI. Payroll-related expenses		1 918	1 986
VII. Other types of costs		25 386	26 550
VIII. Cost of merchandise and materials sold		-	-
C. Profit (loss) on sales (A-B)		70 288	39 820
D. Other operating income		585	8 691
I. Profit on the sale of non-financial non-current assets		17	68
II. Subsidies		-	-
III. Other operating income		568	8 623
E. Other operating expenses		1 593	366
I. Loss on the sale of non-financial non-current assets		-	-
II. Revaluation of non-financial assets		-	-
III. Other operating expenses		1 593	366
F. Operating profit (loss) (C+D-E)		69 280	48 145
G. Financial income		13 955	8 611
I. Dividends and profit-sharing, including:		-	-
- from affiliated entities		-	-
II. Interest, including:		2 294	2 282
- from affiliated entities		-	-
III. Profit on the sale of investments		3 785	2 621
IV. Revaluation of investments		7 876	3 707
V. Others		-	1

General profit and loss account (comparable version)

	in thousand zloty	31.12.2005	31.12.2004
H. Financial expenses		127	41
I. Interest, including:		-	-
- to affiliated entities		-	-
II. Loss on the sale of investments		-	-
III. Revaluation of investments		-	-
IV. Others		127	41
I. Profit (loss) on economic activity (F+G-H)		83 108	56 715
J. Result on extraordinary events (J.I.-J.II.)		-	-
I. Extraordinary gains		-	-
II. Extraordinary losses		-	-
K. Gross profit (loss) (I±J)		83 108	56 715
L. Income tax		16 426	11 105
M. Other tax charges (increasing losses)		-	-
N. Net profit (loss) (K-L-M)		66 682	45 610

Cash flow statement of PTE PZU SA

Cash flow statement (indirect method)

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
A. Cash flow on operating activity			
I. Net profit (loss)		66 682	45 610
II. Total adjustments		696	74 967
1. Depreciation		859	767
2. FX gains (losses)		-	-
3. Interests and profit sharing (dividends)		(14 208)	(8 750)
4. Profit (loss) on investing activity		50	(68)
5. Change in the balance of reserves		2 268	(12 871)
6. Change in the balance of inventory		-	-
7. Change in the balance of receivables		(1 441)	3 047
8. Change in the balance of current liabilities, except for credits and loans		4 771	(24)
9. Change in the balance of prepayments, deferred income and accruals		8 741	26 295
10. Other adjustments		(344)	66 571
III. Net cash flow on operating activity (I+II)		67 378	120 577
B. Cash flow on investing activity			
I. Inflows		104 500	126 127
1. Sale of intangible assets and tangible assets		116	233
2. Sale of investments in real estate and intangible assets		-	-
3. From financial assets, including:		104 384	125 894
a) in affiliated entities		17	-
b) in other entities		104 367	125 894
- sale of financial assets		102 070	123 622
- dividends and profit-sharing		-	-
- repayment of granted long-term loans		-	-
- interest		2 297	2 272
- other inflows from financial assets		-	-
4. Other investment inflows		-	-
II. Outflows		179 515	211 557
1. Purchase of intangible assets and tangible assets		455	1 177
2. Investments in real estate and intangible assets		-	-
3. In financial assets, including:		179 060	210 380
a) in affiliated entities		-	-
b) in other entities		179 060	210 380
- purchase of financial assets		179 060	210 380
- granted long-term loans		-	-
4. Other investment outflows		-	-
III. Net cash flow on investing activity (I-II)		(75 015)	(85 430)

Cash flow statement (indirect method)

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
C. Cash flow on financing activity			
I. Inflows		-	-
1. Net inflows on issuing ownership interests (issuing shares) and other capital instruments and payments to share capital		-	-
2. Credits and loans		-	-
3. Issue of debt securities		-	-
4. Other financial inflows		-	-
II. Outflows		-	-
1. Re-acquisition of own shares		-	-
2. Dividends and other disbursements to owners		-	-
3. Outflows due to appropriation of profits other than disbursements to owners		-	-
4. Repayment of credits and loans		-	-
5. Redemption of debt securities		-	-
6. On other financial liabilities		-	-
7. Liability payments for financial lease agreements		-	-
8. Interest		-	-
9. Other financial expenditures		-	-
D. Total net cash flow (A.III±B.III±C.III)		(7 637)	35 147
E. Balance sheet change in cash balance, including:		(7 637)	35 147
- change in the cash balance on account of FX gains		-	-
F. Cash and cash equivalents at the beginning of the period		59 996	24 849
G. Cash and cash equivalents at the end of the period (F±D), including		52 359	59 996
- of restricted use (Social Fund)		40	67

Statement of changes in equity of PTE PZU SA

Statement of changes in equity

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
I. Equity at the beginning of the period (OB)		203 833	157 580
- adjustments due to fundamental errors		-	-
- changes to the accounting principles		-	-
I.a. Equity at the beginning of the period (OB), adjusted		203 833	157 580
1. Share capital at the beginning of the period		32 000	32 000
1.1. Changes to share capital		-	-
a) increases		-	-
b) decreases		-	-
1.2. Share capital at the end of the period		32 000	32 000
2. Contributions due to share capital at the beginning of the period		-	-
2.1. Change in the contributions due to share capital		-	-
a) increases		-	-
b) decreases		-	-
2.2. Contributions due to share capital at the end of the period		-	-
3. Own shares at the beginning of the period		-	-
a) increases		-	-
b) decreases		-	-
3.1. Own shares at the end of the period		-	-
4. Reserve capital at the beginning of the period		288 000	288 000
4.1. Changes to reserve capital		-	-
a) increases		-	-
b) decreases		-	-
4.2. Balance of reserve capital at the end of the period		288 000	288 000
5. Revaluation reserve at the beginning of the period		643	-
5.1. Changes in the revaluation reserve		990	643
a) increases		990	643
- valuation of investments		990	643
b) decreases		-	-
5.2 Revaluation reserve at the end of the period		1 633	643
6. Other reserve capital at the beginning of the period		-	-
6.1. Change in other reserve capital		-	-
a) increases		-	-
b) decreases		-	-
6.2. Other reserve capital at the end of the period		-	-

Statement of changes in equity

	in thousand zloty	01.01 - 31.12 2005	01.01 - 31.12 2004
7. Profits (loss) from previous years at the beginning of the period		(116 810)	(162 420)
7.1. Profits brought forward at the beginning of the period		45 610	66 627
- adjustments due to fundamental errors		-	-
7.2. Profits from previous years at the beginning of the period, adjusted		45 610	66 627
a) increases (due to):		-	-
- appropriation profits from previous years		-	-
b) decreases (due to):		45 610	66 627
- coverage of losses from previous years		45 610	66 627
7.3. Profits from previous years at the end of the period		-	-
7.4. Losses from previous years at the beginning of the period		(162 420)	(229 047)
- adjustments due to fundamental errors		-	-
- adjustments resulting from changes in accounting rules		-	-
7.5. Losses from previous years at the beginning of the period, adjusted		(162 420)	(229 047)
a) increases		-	-
- transfer of losses from previous years to be covered		-	-
b) decreases		45 610	66 627
- coverage with profits from previous years		45 610	66 627
7.6. Losses from previous years at the end of the period		(116 810)	(162 420)
7.7. Profits (losses) from previous years at the end of the period		(116 810)	(162 420)
8. Net result		66 682	45 610
a) Net profit		66 682	45 610
b) Net loss		-	-
c) Charges to profits		-	-
II. Equity at the end of the period (CB)		271 505	203 833
III. Equity after considering the proposed distribution of profits (coverage of losses)		271 505	203 833

*Our hotline is available
24 hours per day
and 365 days per year.*

24:00
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