2007 ANNUAL REPORT OF THE PZU GROUP

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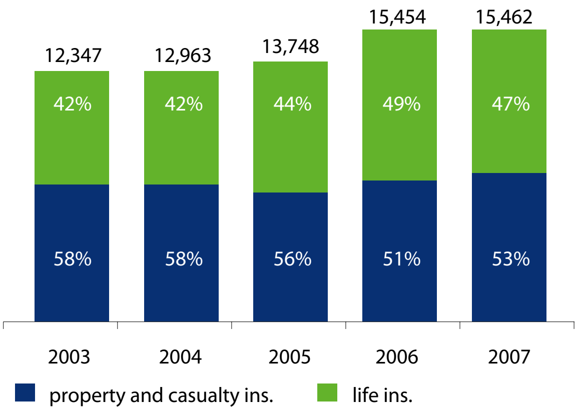
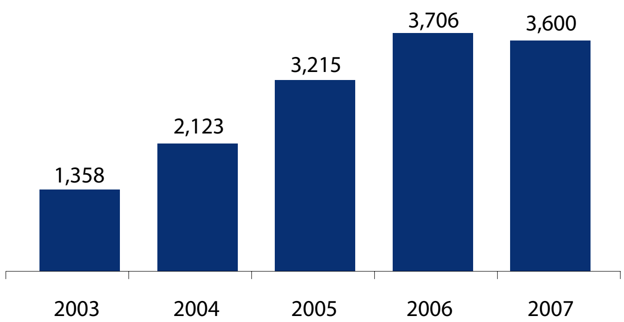
1. BASIC INFORMATION ON THE **PZU GROUP**

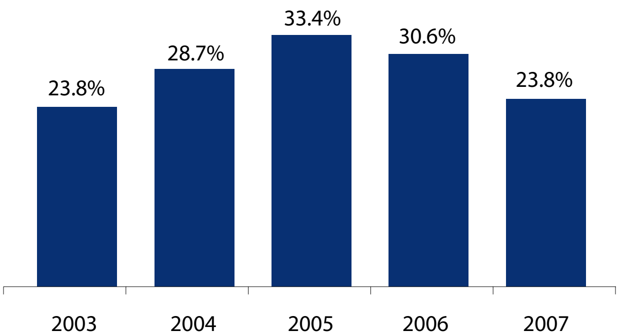
Gross premium written (PLN mln)



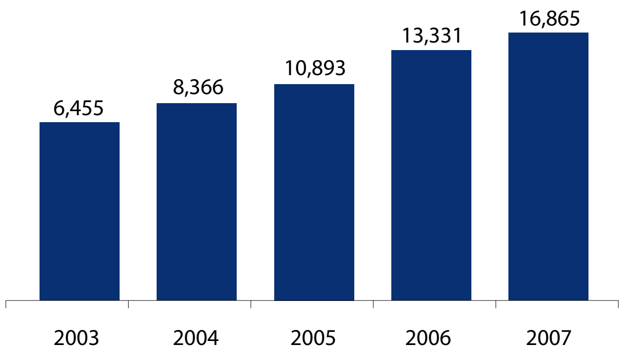
Net financial result (PLN mln)



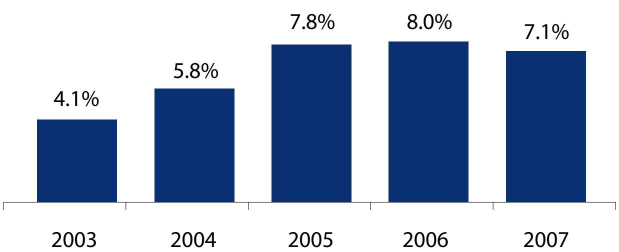
Return on equity – ROE (%)



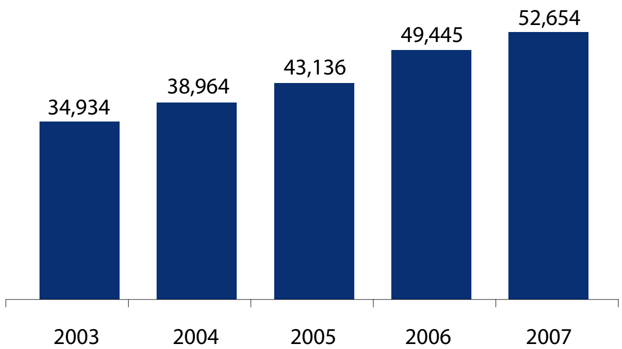
Equity (PLN mln)



Return on assets – ROA (%)



Total assets (PLN mln)



Financial Strength Rating (FSR) and Credit Rating (CR) of the major PZU Group companies (PZU SA and PZU Życie SA)

	Standard & Poor's
Rating	A-
Outlook	negative

Information on the actual rating is available at www.standardandpoors.com.
Ratings do not guarantee financial strength of the insurer and do not constitute the recommendation of the insurance group

2007

Piotr Wiśniewski
Investor Relations Coordinator
Management Board Office

I have been working in PZU for some time now. Last year I decided to undertake a new professional challenge as I joined the team of specialists employed in the Management Board Office. My current job consists in providing the investors with updated, reliable and complete data on the results, operations and future plans of the PZU Group. It is rewarding to be sure that the financial market participants receive the best possible feedback to assess the Group and take well-informed decisions related to it.

Throughout 2007 the Capital Group of Powszechny Zakład Ubezpieczeń SA (the PZU Group) remained in the position of the unquestionable leader in the Polish insurance market. With assets amounting to PLN 52.7 bln (an increase of 6.5% on a yearly basis), it constitutes one of Poland's largest financial institutions and counts as one of the leading insurance groups in Central and Eastern Europe.

PZU in Numbers[1]:

- Net profit amounting to PLN 3.6 billion places the PZU Group in the position of one of the most profitable financial institutions in Poland,
- Gross premium written on property and casualty insurance in the amount of PLN 8.2 billion is the highest result in the company's history,
- Combined ratio of 92.3% on property and casualty insurance is below the mean market value,
- 72.8% of the total underwriting result on life insurance and property and casualty insurance in Poland constitutes the underwriting result of major PZU Group companies,
- Own equity of the PZU Group amounting to PLN 16.9 billion ensures coverage of the statutory capital requirements, with the financial security indicators confirming a financially stable condition of major PZU Group companies,
- ROE value of 23.8% demonstrates high effectiveness in managing capital allocated to the PZU Group,
- ROA value of 7.1% confirms high potential of the assets involved in generating results of all PZU Group assets to generate profit for each equity unit,
- The standard range of insurance services offered by the PZU Group consists of 200 items. The Group is also involved in managing pension funds, investment funds and savings plans,
- Approximately 14 million customers have chosen insurance products offered by the PZU Group, which can be purchased in more than 700 outlets around Poland, with property and casualty insurance distributed by a network of 7200 exclusive agencies and 1800 multi-agencies and life insurance sold by more than 5100 active insurance agents,
- The PZU Group employs approximately 16 thousand staff, owing to which it counts as one of the major employers in the Polish financial services sector,
- The PZU brand is recognized by 98% of Poles, with its logo classified as one of the most widely recognized Polish trademarks. Thus, the PZU brand name remains one of its most significant assets.

[1] Data for 2007

2. FINANCIAL HIGHLIGHTS OF THE **PZU GROUP** IN 2007

Source: The PZU Group, financial statements

Item	PZU Group		PZU SA		PZU Życie SA	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
Gross premium written (`000 PLN)	15,462,027	15,454,108	7,981,990	7,677,355	7,265,830	7,589,821
Premium earned net of reinsurers` share (`000 PLN)	15,034,813	15,098,464	7,590,398	7,383,274	7,258,933	7,579,467
Gross claims paid (`000 PLN)	9,533,388	8,780,838	4,512,263	4,368,448	4,897,365	4,276,050
Claims paid net of reinsurers` share (`000 PLN)	9,333,357	8,488,547	4,329,030	4,102,413	4,897,365	4,276,050
Loss ratio (%)	66.0	57.2	64.6	57.1	67.8	56.7
Costs of insurance activities (`000 PLN)	3,099,397	2,970,294	2,102,083	1,974,327	912,494	919,076
Acquisition expenses (`000 PLN)	1,482,874	1,417,760	1,115,203	1,004,348	328,864	370,759
Administrative expenses (`000 PLN)	1,659,314	1,673,048	1,022,369	1,066,050	583,630	550,863
Reinsurance commission and share in reinsurers' profits (`000 PLN)	38,338	103,679	35,489	96,071	0	2,546
Combined Ratio (%)	x	x	92.3	83.8	x	x
Underwriting result (`000 PLN)	3,383,705	3,526,432	1,036,694	1,362,082	2,349,426	2,265,454
Investment income (`000 PLN)	3,838,480	3,923,911	1,560,495	2,925,492	2,374,746	2,466,297
Gross profit (`000 PLN)	4,469,869	4,617,237	1,785,568	3,737,300	2,663,435	2,367,146
Net profit (`000 PLN)	3,600,445	3,706,456	1,430,088	3,280,883	2,177,253	1,936,329
Assets (`000 PLN)	52,653,897	49,445,091	30,046,996	26,204,195	29,312,911	27,685,531
Equity (`000 PLN)	16,864,989	13,330,887	17,017,442	13,448,705	6,697,157	4,517,269
Investments (`000 PLN)	49,784,115	46,614,710	27,920,595	24,050,156	28,570,968	27,051,278
Gross technical reserves (`000 PLN)	34,040,285	33,602,247	12,217,050	11,955,358	21,675,897	21,458,005
Technical reserves coverage ratio (%)	x	x	180.9	169.0	116.8	121.4
Solvency margin coverage ratio (%)	x	x	1,165.6	1,004.1	424.2	297.1
ROE (%)	23.8	30.6	9.4	26.9	38.8	45.5
ROA (%)	7.1	8.0	5.1	13.3	7.6	7.5

3. LETTER FROM THE PRESIDENT OF **PZU SA**

Dear Sir/Madam

I would like to present you with the Annual Report of the PZU Group for the year 2007, which brought about a number of significant changes to the overall macroeconomic environment, the condition of the entire insurance industry and the PZU Group itself. The reversal of the positive trend at the Warsaw Stock Exchange, introduction of the so-called Religa tax, a highly unstable personal composition of the Management Board and a number of unresolved disputes between the major shareholders count as the most significant factors influencing the operation of the PZU Group in 2007.

Bearing all of those in mind, one ought to assess the net financial result of PLN 3.6 billion achieved by the PZU Group as very good. Such a result allowed us to obtain the return on equity amounting to 23.8%, which places the PZU Group in the leading position among all European financial institutions. It should be emphasized that the most essential factor contributing to the high level of profit consists in the excellent results of the investment activity. However the Group still continued to lose its market share. To my mind, the profit on basic insurance activity could and should have been higher. The commitment of all PZU employees enabled the Group to maintain the high level of written premium, which did not change in relation to the previous year and amounted to PLN 15.5 billion despite escalating competitive activity.

PZU continues to enjoy the trust of millions of Polish citizens, which I would like to thank them for, at the same time assuring you that our customers have every reason to feel secure. To confirm the stable financial condition of the company one may quote the solvency margin coverage ratio, which amounts to 1,165.6% in property and casualty insurance and 424.2% in life insurance. The well established market position of our institution combined with the trust we receive from our customers is reflected in the number of awards the PZU Group was granted in 2007. The strategies the Group has been implementing in order to improve customer service and expand the product range are already marked by visible results. I can assure you that the PZU Group will significantly intensify efforts to be not only the largest but also the best Polish insurance company.

At the end of the year the Polish Treasury Minister introduced some personal changes to the composition of the PZU Management Board. Since mid-December 2007 I have had the honour to lead the Management Board comprising a group of experienced managers who possess profound knowledge of the company and have contributed to its successes. One of the key challenges we are facing at the moment consists in rebuilding the team of professional managers motivated and determined to pursue far-reaching business objectives. I strongly believe that the upcoming years will allow the PZU Group to consolidate its market position and expand in directions until now underestimated, such as direct telephone and Internet sales or close cooperation with banks. I hereby declare that the PZU Group will intensify efforts to improve its position in Central and Eastern Europe.

President of PZU SA

Andrzej Klesyk

4. LETTER FROM THE CHAIRMAN OF THE PZU SA SUPERVISORY BOARD

Dear Sir/Madam

The year 2007 featured in events which strongly influenced both the PZU Group itself and the general condition of the financial markets in Poland and around the world. Faced with escalating competition, PZU SA and PZU Życie managed to maintain their leading position in Poland. The financial results of the PZU Group for the year 2007 are still impressive with the gross profit value of PLN 4.5 billion and net profit value of PLN 3.6 billion. Even though these results show a slight decrease when compared with the profit recorded in 2006, this can be associated with a lower return on investments resulting from fluctuations on the financial markets, which were beyond the control of the Group's companies. It is worth emphasizing that the balance value of the entire capital group continues to grow – from PLN 49.4 billion at the end of 2006 to PLN 52.7 billion at the end of 2007. The Group's own equity increased by 26.5%. All this provides a stable ground for the PZU Group to expand at a safe pace both in favourable conjuncture and in an environment characterized by dynamic changes, which ought to be expected in the near future. The increase of reserves for covering the solvency margin in both PZU SA and PZU Życie SA additionally consolidates the companies' firm financial basis. The return on equity (ROE) value has been maintained and remains at a high level in terms of the scale of the entire Group. The major companies of the Group have sustained an A- financial strength rating, awarded by the reputable organization, Standard and Poor's.

The operation of PZU SA was adversely affected by dynamic reshuffling of the Polish political arena. In 2007 the role of Management Board President was subsequently performed by three different people and the composition of the Management Board and Supervisory Board changed five times. At the same time a destabilizing dispute escalated between major shareholders. In spite of all of these fluctuations the condition of the company remained stable, with the hope of definite improvement appearing at the end of the year. The Management Board headed by Andrzej Klesyk appointed by the Treasury Minister has won the trust of the major shareholders and is respected in the Polish business arena, which allows us to hold optimistic beliefs concerning the future of PZU SA.

After a lengthy break the Supervisory Board of PZU SA can function at full strength led by a chairman appointed with the consent of major shareholders. I have had the honour to perform this function since September 2007, as a person to guarantee independence, which is of major importance in the event of shareholder conflict. The declaration of the Treasury Minister allows us to trust that this dispute is about to be resolved, which, as I firmly believe, will facilitate releasing PZU's greatest potential and asset in the form of its employees.

The year 2008 presents a number of challenging tasks for the PZU Group, namely: defending the decreasing market share, organization of new fields of business (such as medical insurance and direct sales) or the first batch of second pillar pension payments. The deteriorating state of affairs at the Warsaw Stock Exchange, which has continued to show a downward trend since the second quarter of 2007, also constitutes a significant obstacle.

I firmly believe that the commitment of all managers and employees will precipitate favourable news for the PZU Group shareholders, customers and companies in 2008.

Chairman of the PZU SA Supervisory Board

T. Gruszecki

Tomasz Gruszecki, PhD

5. FACTORS AND EVENTS INFLUENCING THE **PZU GROUP** OPERATIONS IN 2007

5.1. Poland's economic situation in 2007

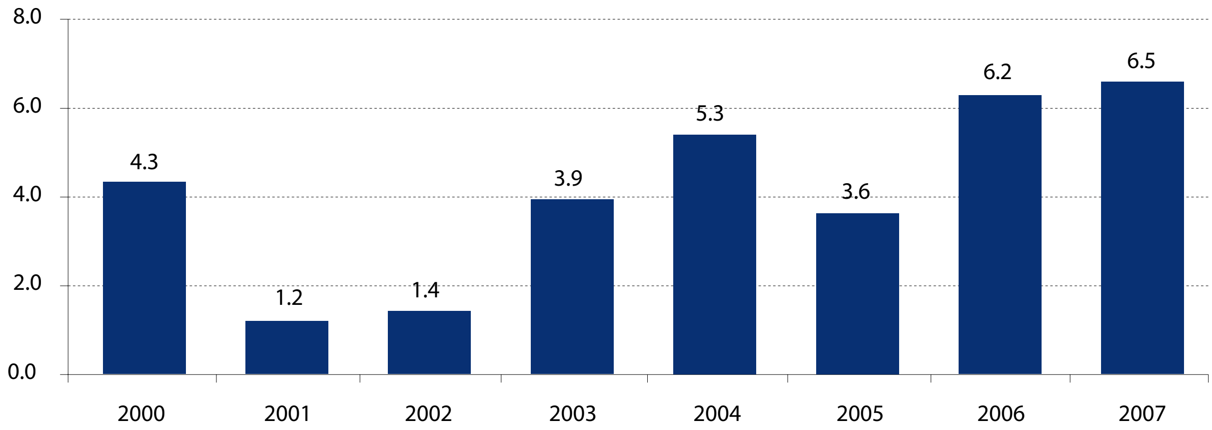
5.1.1. Economic growth

According to our estimations, the year 2007 saw another, much less spectacular, however, increase in the rate of economic growth – up to 6.5%. The highest growth dynamics was recorded in the field of investments (20.4%), which constituted the main driver of GDP growth. The increase of expenditures was based on the growth of company investments (by 26.2%) as the implementation of EU projects slowed down significantly in the second half of 2007. Household consumption also developed dynamically (5.2%) following a rapid increase in income from hired jobs. An increase in the consumption of goods was reflected in the intensified demand for goods of permanent and semi-permanent use (such as vehicles, shoes and clothing, electronic equipment, domestic appliances, cosmetics, pharmaceuticals, and other specialist products). Exports grew more slowly than in 2006 (below 10% in real terms), which could be associated with limited opportunities of intensive expansion to EU markets as well as a decreasing competitive advantage of Polish companies resulting from equalizing salary levels and work efficiency as a consequence of the strong position of the Polish zloty (the rate of growth in the EU did not change in comparison with the previous year). At the same time, the rate of import growth decreased, thus the foreign trade deficit in stable prices grew slightly. The balance of the current saving account demonstrated an increase of deficit to the value of –3.7% GDP.

As far as the aspect of supply is concerned, strong domestic demand was related to a dynamic growth in the building industry (added value increase of 15.6%) as well as the development of market industry and services. Owing to a high share in GDP the latter ones counted as drivers of the economic growth. When compared to the results recorded by other new EU member states, the Polish rate of growth can be defined as moderate – the Baltic States and Slovakia demonstrated a higher growth rate, with that of Slovenia, the Czech Republic, Bulgaria and Romania similar to Poland and Hungary at a significantly lower level.

Gross Domestic Product growth in Poland, 2000-2007 (real terms, %)

Source: GUS



5.1.2. Companies' financial performance

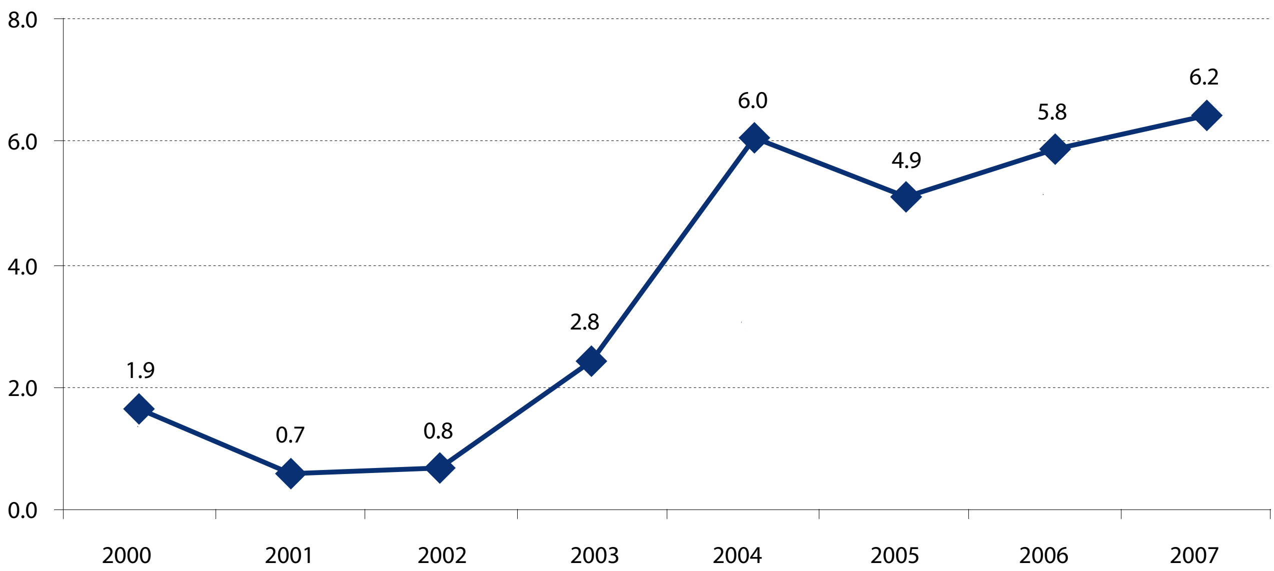
The persisting favourable economic environment was reflected in continuing improvement of the companies' financial performance. In 2007 the rate of revenue increase was slightly higher than in 2006 (14.6% on a yearly basis compared to 13.9% in companies with more than 49 employees), with the net revenues on sale increased by 14.5%. Despite a significant growth in salaries the total cost level indicator dropped to 93.8% (from 94.2% for the corresponding period in the previous year). As a result, the value of gross financial results was higher by 24% and the return value grew to 6.2% (from 5.8% for the corresponding period in the previous year), with the net result amounting to 88.1 bln PLN and net return value of 5.1% (compared to 4.7% in the previous year).

The share of enterprises involved in export increased again (to 50%, from 49% in the previous year) and the share of export in net revenues on sale grew to 20.7%. Export companies turned out to be more reliable as financial indicators than the other types of companies, with 80.6% demonstrating net profit compared to 77.8% in the case of all company types in the same period (upward trend recorded in both cases).

Trends in the economy were reflected in the sales figures of particular business branches and sectors. The most dynamic growth of income on net sales was recorded in the building industry (30%), health care (26%), services for real estate and companies (23%), trade and servicing (16%) and the processing industry, especially in the production of machinery and equipment, wood and metal products and products manufactured from other non-metal raw materials (predominantly building materials) – 24-25%, precision instruments, rubber products, refined oil products, leather products (17-19%). However, in the case of the leather processing industry and manufacturing machinery and equipment the cost of products increased at a comparable pace, therefore the financial results on sales were less impressive.

Gross Return on sales ratio in Poland, 2000-2007 (%)

Source: GUS



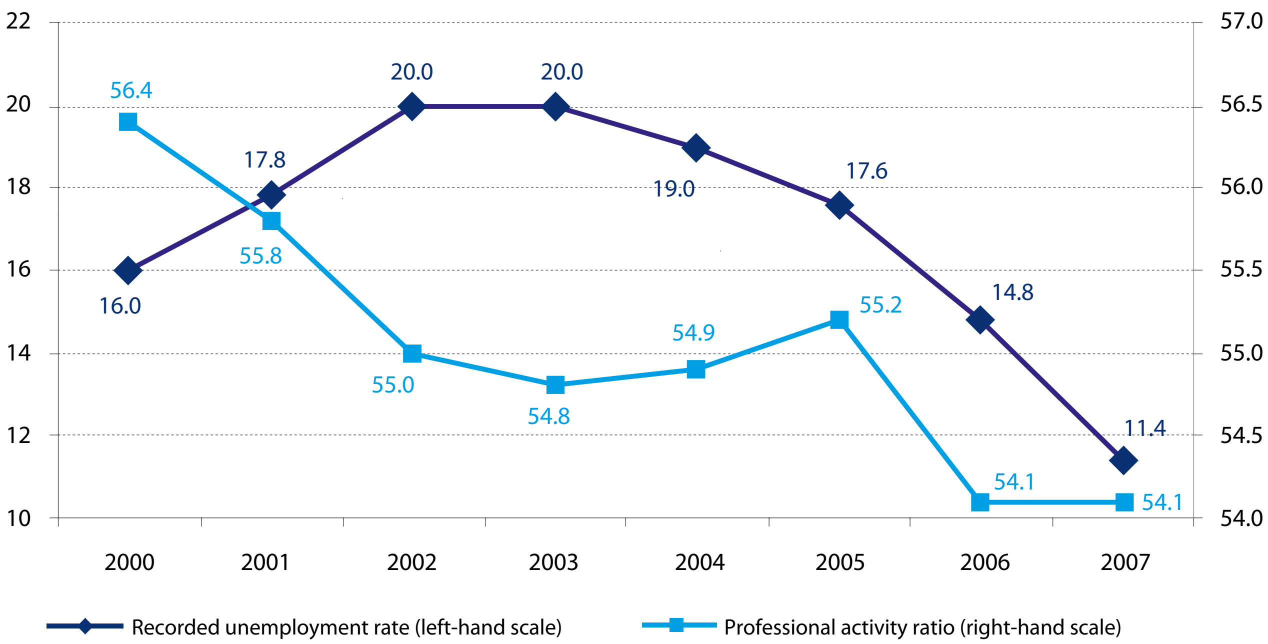
5.1.3. Labour market

The unemployment rate continued to fall throughout 2007, reaching 11.4% at the end of December (3.4% less than in 2006) and the number of unemployed amounted to 1.75 million. One of the related aspects of undoubtedly positive character is the fact that the decrease applied to young and long-term registered persons as well as the general population of unemployed. Unlike in 2006, the decrease in unemployment in 2007 was rather due to the growing number of employed persons than the continuing retirement of the economically active from the labour market (including economic emigration). At the same time, the decrease in the economic activity ratio, which continued in the previous quarters stopped (54.1% at the end of the fourth quarter which corresponds with the last year's value). The number of employed in 2007 grew by approximately 280 thousand, which includes the number of employees in the business sector that rose by 250 thousand (mean growth by 4.7%). The sectors, which demonstrated the highest rate of employment growth, include industry (equipment for radio, TV and telecommunications, automobile, metal products, electric equipment, and rubber products), construction, retail sale, tourism and IT.

Pressure on salary growth resulting from employee deficits in certain sectors and favourable financial results recorded by companies continued throughout 2007 (the mean salary growth in the business sector stood at 9.2%, i.e. 6.7% in real terms). Pay rises occurred in all major branches except for production of equipment for radio, TV and telecommunications and demonstrated little variety. The highest salary growth was recorded in the building industry, retail sale, wood industry, precision instruments, and production of goods from metal and non-metal raw materials.

Unemployment rate and professional activity ratio in Poland, 2000-2007 (%)

Source: GUS



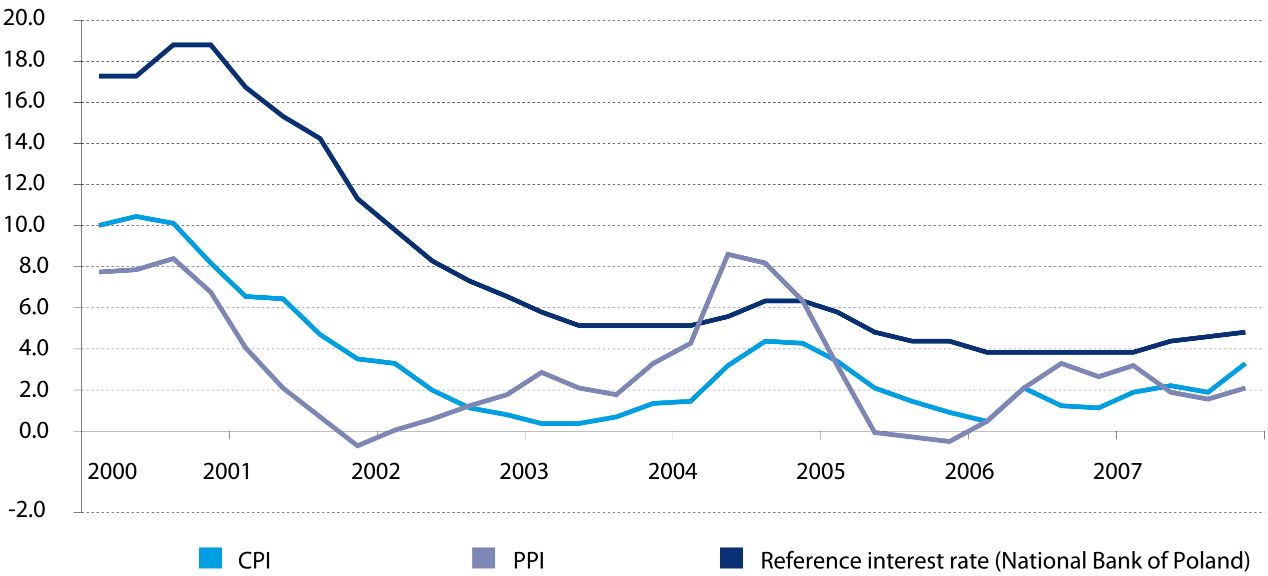
5.1.4. Prices

The Consumer Price Index (CPI) in 2007 demonstrated an average increase of 2.5% (4% on a yearly basis), which translated into a higher inflation rate in comparison with 2006. The major inflation boosting factors were food prices (average growth of 5% and 8.2% on a yearly basis), costs of residential lease (average growth of 5.6% and 6.2% on a yearly basis), as well as the costs of transport, including petrol (average growth of 4.1% and 18.1% on a yearly basis). On the other hand, however, the prices of numerous product groups continued to show deflating trends, these include, among others, prices of shoes and clothing (average decrease of 7.4% and 7.1% on a yearly basis), household equipment (average decrease of 1.4% and 1% on a yearly basis), or audiovisual equipment (average decrease of 11.5% and 12.7% on a yearly basis). Increasing global demand for food and raw materials, including energy-generating ones, resulted in the fact that the impact of globalization on the Consumer Price Index in Poland and around the world in 2007, demonstrated the characteristics of inflation rather than deflation, this tendency being a reversal of the condition in 2005-2006.

An intensive increase in salaries in 2007 (8.7% on average, 9.2% in the business sector), contributed to a growing demand pressure on price growth, which was reflected in the increased ratio of reduced inflation or net inflation (increase by 2.2% and 1.5% in 2007, respectively).

The Producer Price Index (PPI) in 2007 increased by 2.3% on average (the same level in December, on a yearly basis). Even though the increase in PPI was similar to that of 2006, some differences in the price dynamics in particular groups were reported. Prices in the mining industry increased by only 3.1% on average (compared to as much as 15.9% in 2006), in industrial processing they grew by 1.9% on average (0.7% in 2006), with the prices related to generating and providing water, gas and electricity increasing by an average of 4% (6% in 2006). Just as in the case of CPI, the producers' prices were under global pressure – with the growing costs of food and raw materials and decreasing prices of clothing and electronic equipment.
Prices in the Polish sector of construction and installation increased by 7.8% on average (2.9% in 2006) The price dynamics throughout the year standing at a level exceeding 8% in the second half of 2007, indicates a rather limited impact of the US real estate property market crisis and the advantage of fundamental factors over speculation in Poland.

CPI and PPI inflation and the reference interest rate in Poland, 2000-2007 (%)
Source: GUS



Renata Skorża
Chief Specialist Sales
Office, PZU SA

I participate in the implementation of such strategic projects as mass sales reform, implementation of software supporting the work of insurance agents, revitalisation of office network. I represent PZU SA in the Training and Insurance Intermediation Committ'ee established by the Polish Chamber of Insurance (PIU). For my work for the development of Polish insurance market, within PIU structures, I received an award in 2007 for the occasion of the 15th anniversary of the Polish Chamber of Insurance.

5.2. Centralization of financial supervision in Poland

The Polish Financial Supervision Authority (PFSA), established pursuant to the Act on supervision of financial market of 21 July 2006 (Journal of Laws, No. 157, Item 1119), is responsible for capital market supervision, insurance and pension funds supervision and provides supplementary supervision of financial conglomerates which own the supervised entities.

As of 1 January 2008, the financial supervision provided by the Polish Financial Supervision Authority includes banking supervision and supervision of electronic funds institutions, which were formerly performed by the Commission for Banking Supervision.

The Polish Financial Supervision Authority itself reports to the Prime Minister.

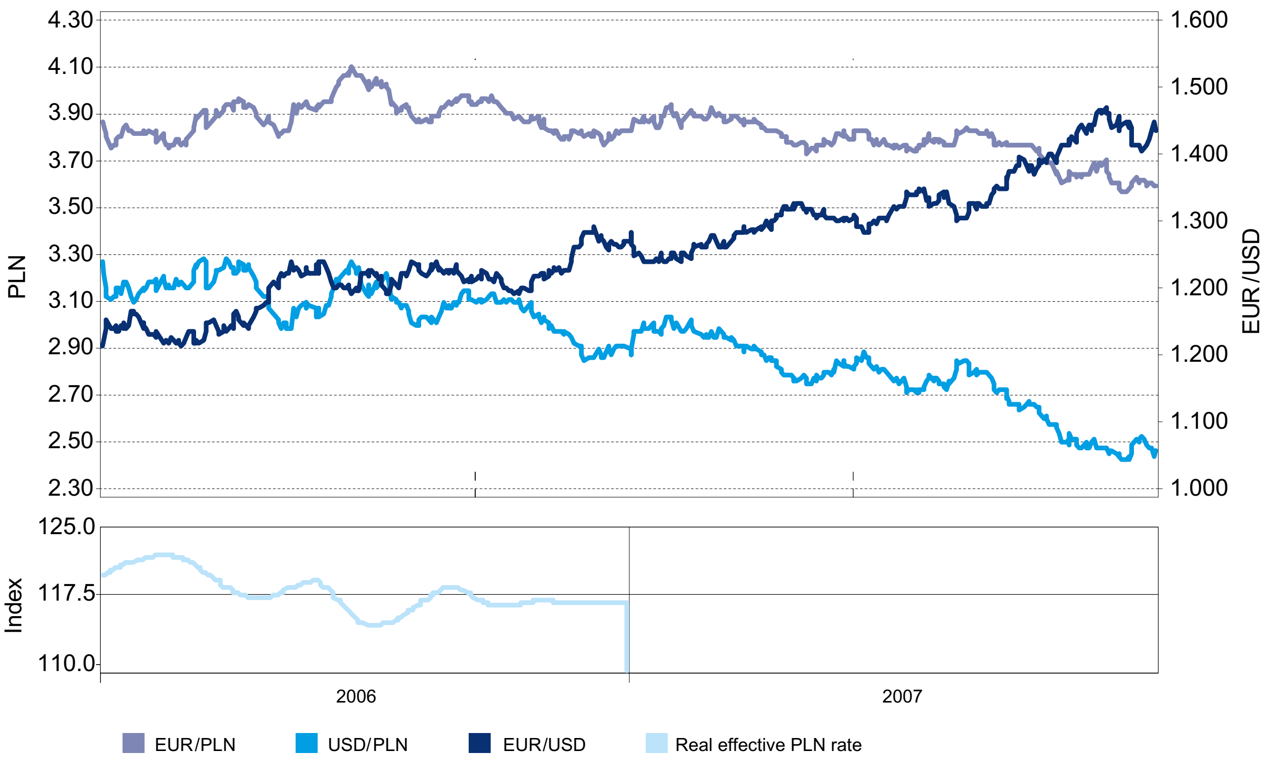
5.3. The Polish financial market in 2007

5.3.1. The currency market

The exchange rate of the zloty against the dollar was a continuation of a 4-year long trend of appreciation. The position of our currency at the end of 2007 strengthened against the euro by about 5.5% to the value of 3.60 and against the US dollar by 14.3% to the value of 2.47. Strong appreciation of the zloty versus the US dollar was a result of depreciation of the latter versus the euro by approximately 6.2% to the value of 1.36 at the end of 2007. The trends concerning the market position of the zloty, the euro and the US dollar remained strong and distinctive throughout all of 2007, and their dynamics was driven by economic mechanisms, which were favourable for the Polish and the European economy as opposed to the American. On the other hand, however, the crisis of the US real estate market and resulting deteriorating position of the dollar encouraged foreign investors to undertake long-term investments in the United States, which helped to slow down the intensity of the depreciation process.

Due to the Polish floating exchange rate regime, the value of the zloty is influenced by the balance of payments, which remained favourable. The structure of the balance of payments shows stabilization of the trends from previous years. In 2007 the current turnover deficit increased to EUR 11.3 billion (from EUR 8.8 billion in 2006), which constituted 3.7% of GDP; within this sum the deficit on trade of goods increased to EUR 8.8 billion (EUR 5.5 billion in 2006), the deficit of income balance growing to EUR 13.4 billion (EUR 11.5 billion in 2006). On the other hand, the surplus in the balance of services increased to EUR 3.6 billion (EUR 1.7 billion in 2006) with the surplus in the balance of current transfers reaching EUR 7.3 billion (EUR 6.5 billion in 2006).
The surplus in the capital and financial balance increased to EUR 25.4 billion (EUR 11.4 billion in 2006), which stemmed from the increase in the balance of direct investments (even though the value of foreign investments decreased to EUR 13.7 billion compared to EUR 15.2 billion in 2006, also the value of Polish investments abroad in 2007 dropped to EUR 2 billion from EUR 7.1 billion in 2006), EU transfers and foreign credits granted to companies located in Poland. Short-term capital continued to reduce its involvement in Polish treasury bonds and stocks to the balance of EUR 4.5 billion (compared to EUR 2.2 billion in 2006).

The spot PLN/USD and PLN/EUR exchange rates, EUR/USD exchange rate and the real effective PLN rate (2004-2007)
Source: Reuters EcoWin

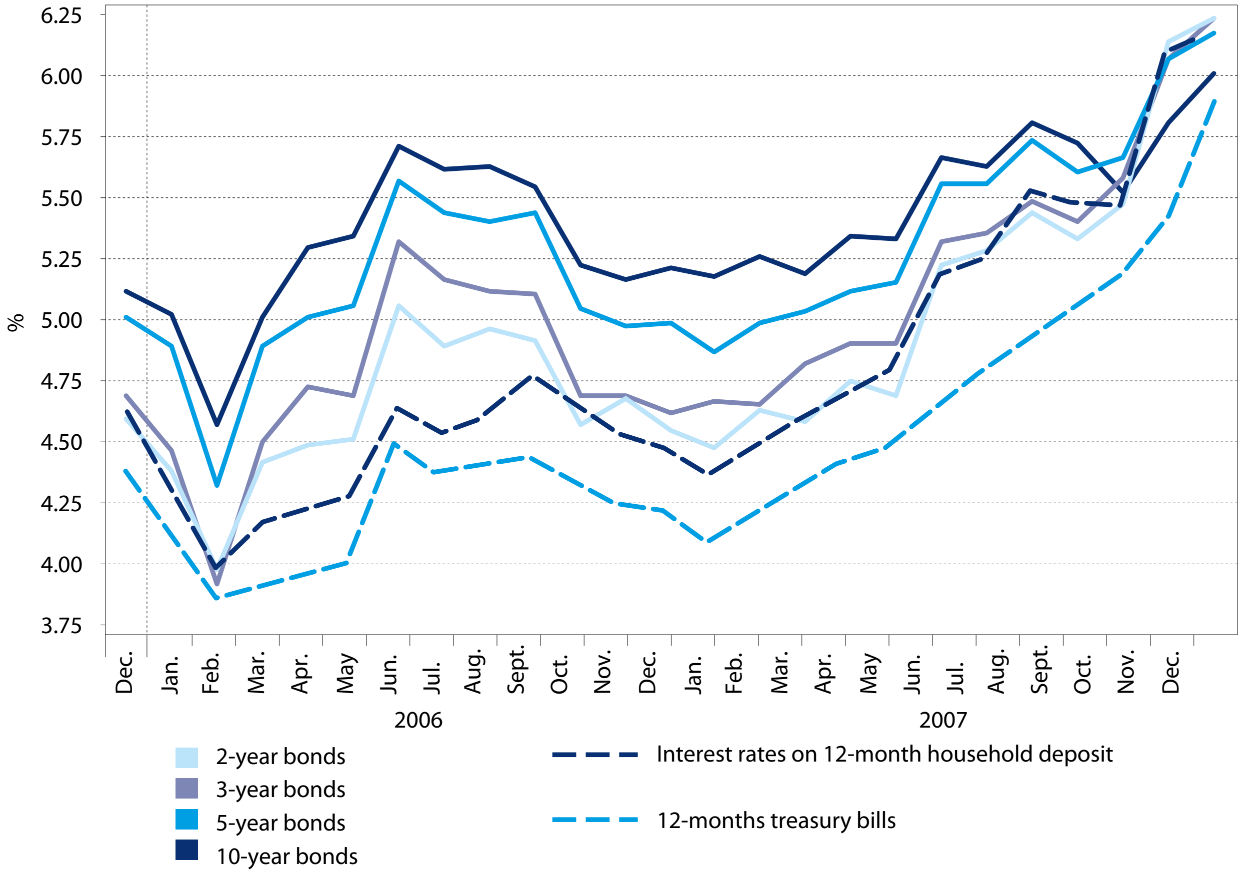


5.3.2. The money market and the treasury bond market

Along with the increasing rate of inflation the Monetary Policy Council tightened their monetary policy by increasing the NBP interest rate fourfold, starting with March 2007 when the price growth rate was halfway towards reaching the level of NBP inflation goal (2.5%). Interest rates were increased gradually, every 2-3 months. As a result, the NBP reference interest rate grew by 100 basis points and stood at 5% with the price increase rate growth of 260 basis points to 4% at the end of 2007.
The pressure on inflation growth visible throughout 2007 combined with the NBP interest rate rise expected at the market (also in 2008) were reflected in the increased market price of money and yields on treasury bonds. The increase of yields on bonds was higher towards the shorter rather than the longer end of the curve. As a result, at the end of 2007, yields on 12-month treasury bonds increased by 161 basis points to 5.85% (interest rate of a 12-month deposit for a natural person increased by 166 basis points to 6.15%), yields on 2-year bonds increased by 163 basis points to 6.19% and that of 3-year bonds by 156 basis points to 6.19%. Yields on 4- and 5-year bonds increased by 128 and 115 basis points to 6.16% and 6.13% respectively, with the yields on 10-year bonds increasing by only 78 basis points to 5.97%.
Spread of yields on Polish and German bonds in 2007 grew in comparison with 2006 – for 2-year bonds from 65 basis points to 219 basis points, and for 10-year bonds from 124 basis points to 165 basis points. The shorter end of the curve was shaped by the policy on interest rates implemented by the central banks, with the longer end of the curve becoming more and more influenced by the convergence process - the nearer Poland is to entering the euro zone.

Yields on treasury bonds and household deposits interest rate, 2006-2007 (%)

Source: Reuters EcoWin



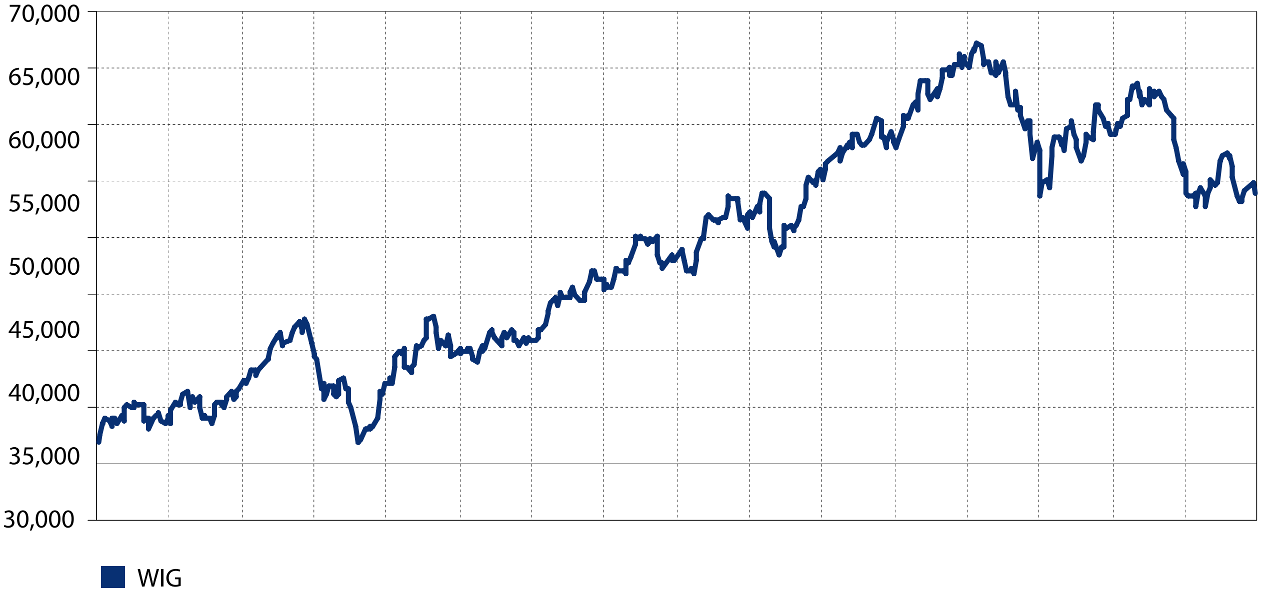
5.3.3. The capital market

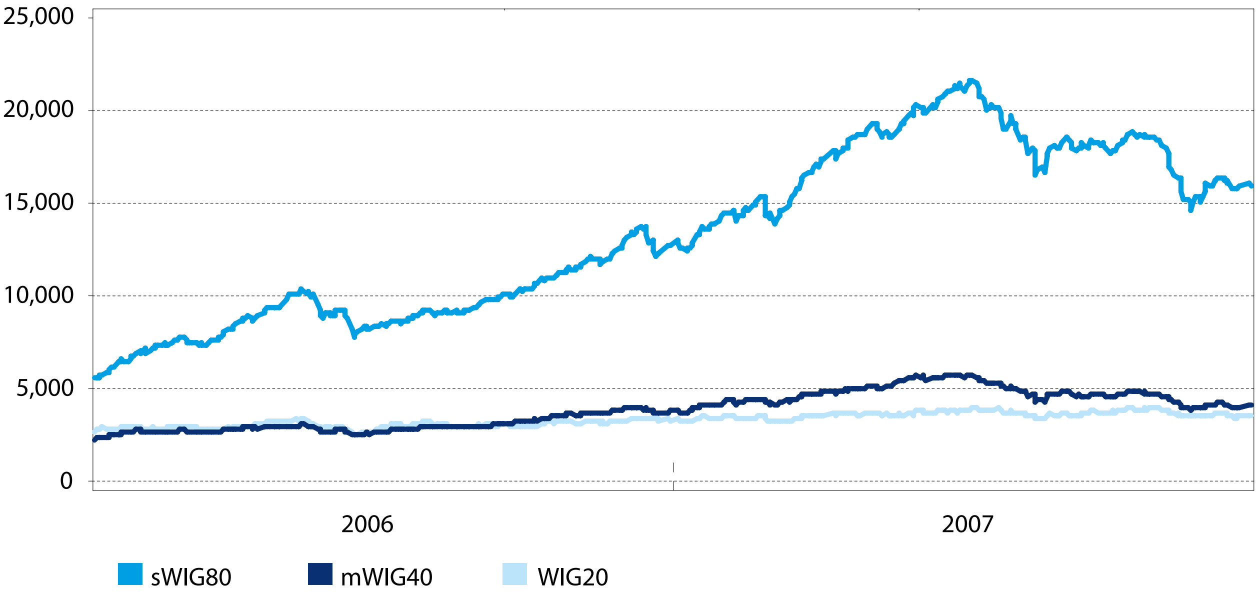
The second half of 2007, saw the end of a six-year long boom at the Warsaw Stock Exchange. The less favourable environment for the stock exchange in Poland and around the world ought to be explained, on the one hand, by a lowered level of investors' trust in financial institutions (which applies to banks in the first place), which incurred losses amounting to billions of dollars in connection with the crisis in the US real estate market and, on the other hand, by distortions of share prices in relation to their real value resulting from a massive inflow of capital to investment funds.

In 2007, the market-wide WIG Index grew by 10.4% in relation to 2006. It reached the maximum value of 67 thousand in July 2007 before decreasing to 55.7 thousand in December. A similar trend was shown by other stock exchange indices. The blue-chip WIG 20 recorded the increase of 5.2% (3.5 thousand at the end of the year), with the bid-cap and small enterprise mWIG40 rising by 7.9% in 2007 (4 thousand at the end of the year). Stock exchange indices continued to drop in the first months of 2008 and the already distorted market stability was additionally affected by the bad condition of the US economy and expected domestic interest rate rises.

The year 2007, was successful from the point of view of newcomers – 81 companies (including 4 foreign) had their IPOs at the stock exchange, which is more than a twofold increase against the previous year (38 newcomers in 2006) and constitutes the second highest result among the EU member states ("only" 92 had their stock exchange debut in London). As a result, there were 351 companies at the Warsaw Stock Exchange, including 23 foreign ones. The trading levels of shares amounted to PLN 479.5 billion, which was a 46% increase against 2006. A significant rate of increase was also observed in relation to the volume of contract trading – from 6.4 million in 2006 to 9.5 million in 2007 (growth of 33%). The total capitalization of companies offering their stock at the Warsaw Stock Exchange stood at PLN 510 billion in December 2007, which accounted for 49% of GDP (against 41% in 2006).

The Warsaw Stock Exchange Indices WIG, WIG20, mWIG40 and sWIG80, 2006-2007.
Source: Reuters EcoWin





5.4. The Polish market for insurance and for pension and investment funds in 2007

5.4.1. The insurance market

Insurance companies

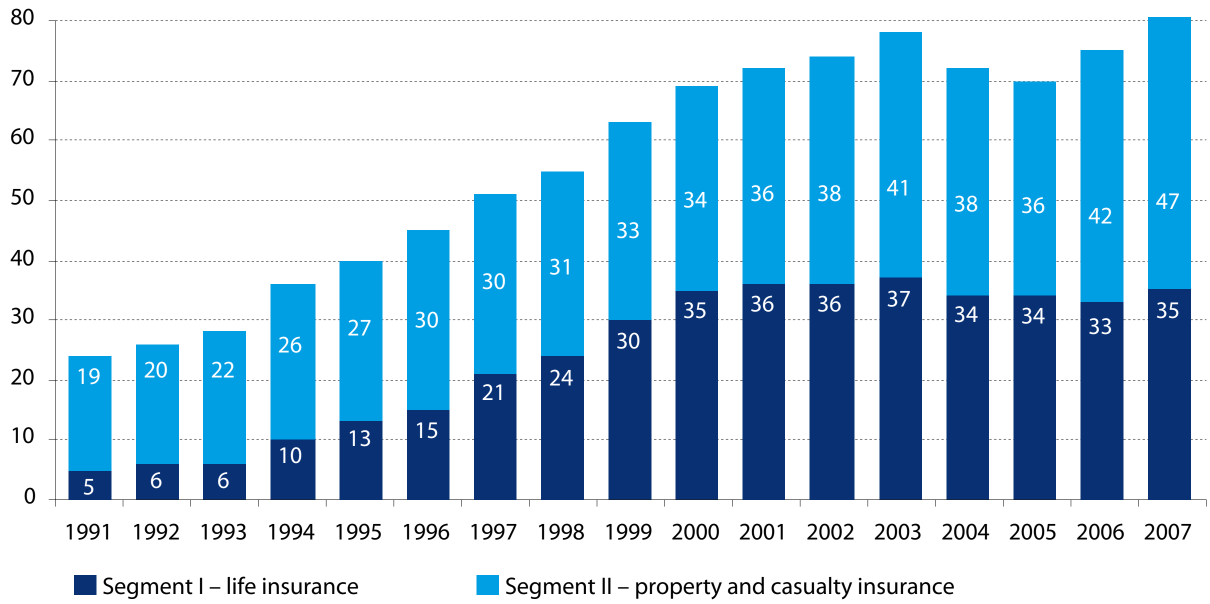
At the end of 2007, there were 82 companies – 68 domestic and 14 international – holding licences for insurance operation in Poland. This number included 35 life-insurers (Segment I) and 47 non-life insurers (Segment II).

Insurance companies based in Poland and Polish branches of insurers from EU member states and EFTA member states – parties to the EEA agreement (the end of 2007)
Source: PFSA

Activity	Insurance companies based in Poland			Branches of foreign insurers			Total Polish and international enterprises
	Public listed	**Mutual**	**Total**	**EU /EFTA based**	**Other countries based**	**Total**	
Segment I	31	2	33	2	0	2	**35**
Segment II	28	7	35	11	1	12	**47**
Total	**59**	**9**	**68**	**13**	**1**	**14**	**82**

The number of notified insurance companies from European Union member states and EFTA countries grew significantly, with the total of 434 companies expressing their intent to provide services in Poland pursuant to the principle of freedom in rendering services at the end of 2007. At the same time, 17 Polish companies declared a willingness to start offering their insurance services in other EU member states. .

Licensed insurance companies in Poland, 1991-2007.
Source: PFSA



Market share

A total of 17 life insurers (Segment I) and 20 non-life insurers (Segment II) operating in Poland increased their market shares in the course of 2007. The PZU Group managed to maintain the leading position, with the share of 28.5% in Segment I and 43.8% in Segment II.

Analogically to the previous years, the year 2007 also saw intensive competition in both segments of the insurance market. The gross premium written of the five major insurance companies in 2007 accounted for 66% of the premium in life insurance segment and 74% of the premium in property and casualty insurance segment.

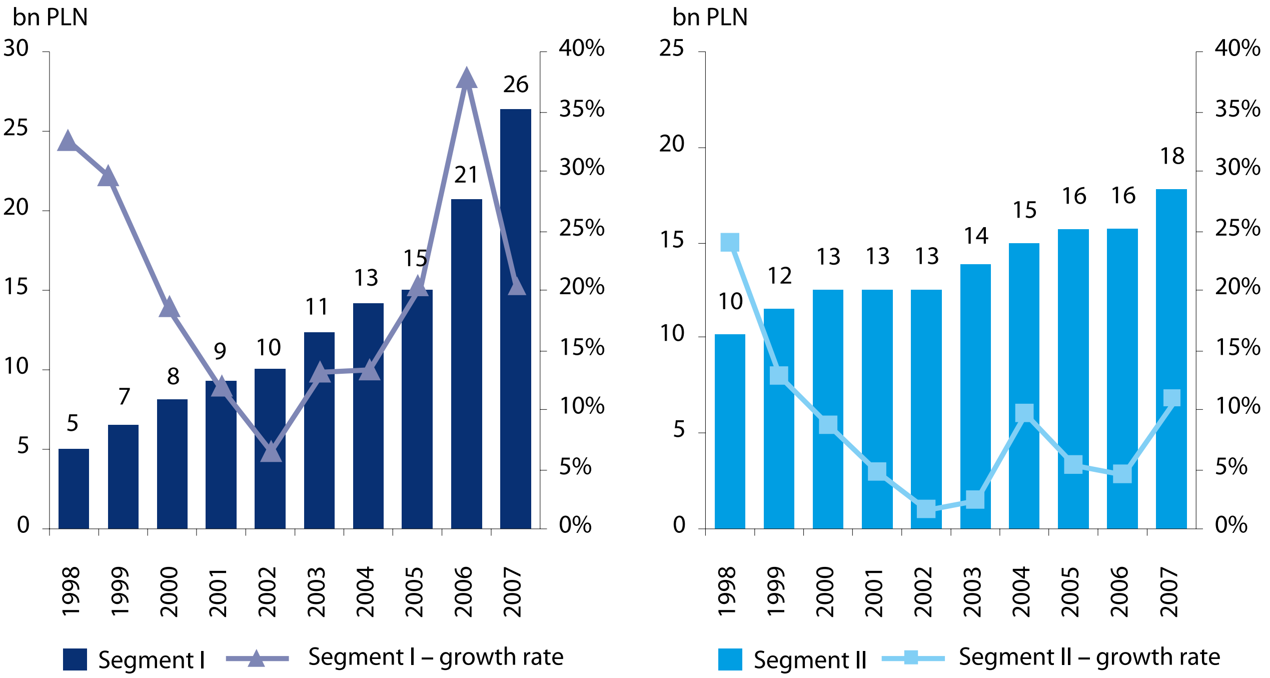
Sector performance

The total value of gross premium written in the Polish insurance sector in 2007 amounted to approximately PLN 44 billion, which demonstrates an increase of nearly 17% in relation to 2006.

Segment I (life insurance) recorded the value of gross premium written in the amount of approx. PLN 26 billion, which constitutes an increase of 21% when compared with 2006. Similarly, as in the case of the trends visible in the course of previous years, the rate of growth of smaller companies was higher than that demonstrated by the top five. The structure of the premium in Segment I underwent minor changes – 45% of the value of collected premiums came from group insurance with 55% originating from individual insurance premiums. Regular premiums constituted 54% of the overall value, with 46% obtained from single premiums.

Segment II (property and casualty insurance) showed a value of gross premium written of approx. PLN 18 billion, which constitutes an increase of 11% against the previous year. Also in this sector, it was a number of smaller companies, rather than any of the top five players, which reported the highest rate of growth.

The Polish insurance market growth measured by gross premiums written, 1998-2007.
Source: PFSA



[1] Market share in gross premium written of respective segment

As in 2006, the structure of the total gross premium written in the insurance sector in 2007 demonstrated a higher proportion of the collected life insurance premiums (58%) than the premiums for property and casualty insurance (42%).

Insurance companies paid out approx. PLN 19.6 billion in gross claims and benefits, which is a 17% increase against 2006. The gross value of benefits paid out in the life insurance segment stood at PLN 10.4 billion, an increase of 23% against 2006. The segment of property and casualty insurance issued payments amounting to PLN 9.2 billion, which constitutes a 10% increase in comparison to the preceding year.

The underwriting results of the entire insurance sector in 2007 stood at PLN 4.6 billion, which is 3% lower than the results recorded in 2006. The life insurance segment reported underwriting results of PLN 3.4% (increase of 6% in relation to 2006); with the segment of property and casualty insurance showing a profit level of PLN 1.2 billion (decrease of 22% against 2006).

The aggregate net financial result of insurance companies in 2007 amounted to PLN 5.3 billion, which is equivalent to a decrease of 20% in relation to the previous year.

The total assets of all insurance companies registered in PFSA in 2007 amounted to PLN 126.9 billion, 64% of which consisted in investments. The total technical reserves of the sector amounted to PLN 90 billion.

5.4.2. The pension funds market

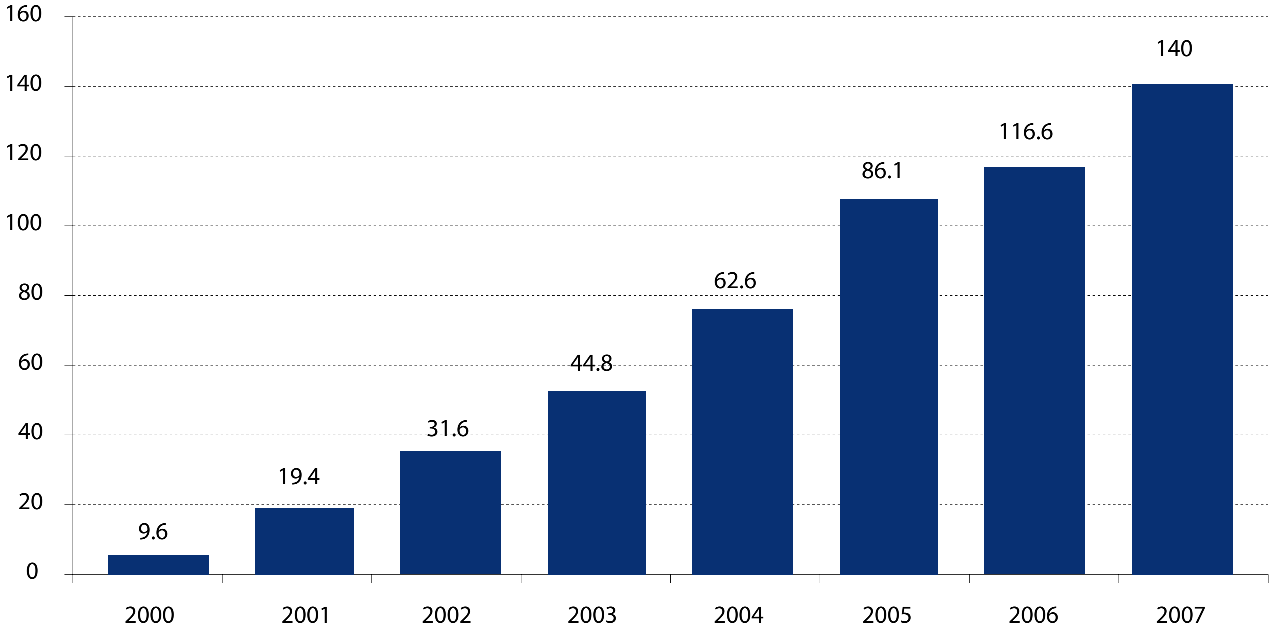
Companies on the open pension funds market
There were 15 general pension fund companies (PTEs) on the Polish market at the end of 2007.

The open pension fund (OFE) market in Poland, 2001-2007.
Source: PFSA

OFE	2000	2001	2002	2003	2004	2005	2006	2007
Number of OFE	21	17	17	16	15	15	15	15
OFE members (millions)	10.4	10.6	11.0	11.5	12.0	11.7	12.4	13.1

Net assets
At the end of 2007, the open pension funds managed a total of PLN 140 billion in net assets, which was PLN 23.4 billion or 20% more than in 2006.

Net assets of the open pension funds market in Poland between 2000 and 2007 (PLN billion)
Source: PFSA



Fund members and transfers

At the end of 2007, OFEs operating in Poland had 13.1 million members, which is approx. 700 thousand (6%) more than in 2006.

The total transfer of pension fund members in 2007 amounted to 383 thousand – 16% more than in the preceding year, which means that since the end of 2006, 3% of fund members changed their funds by the end of 2007.

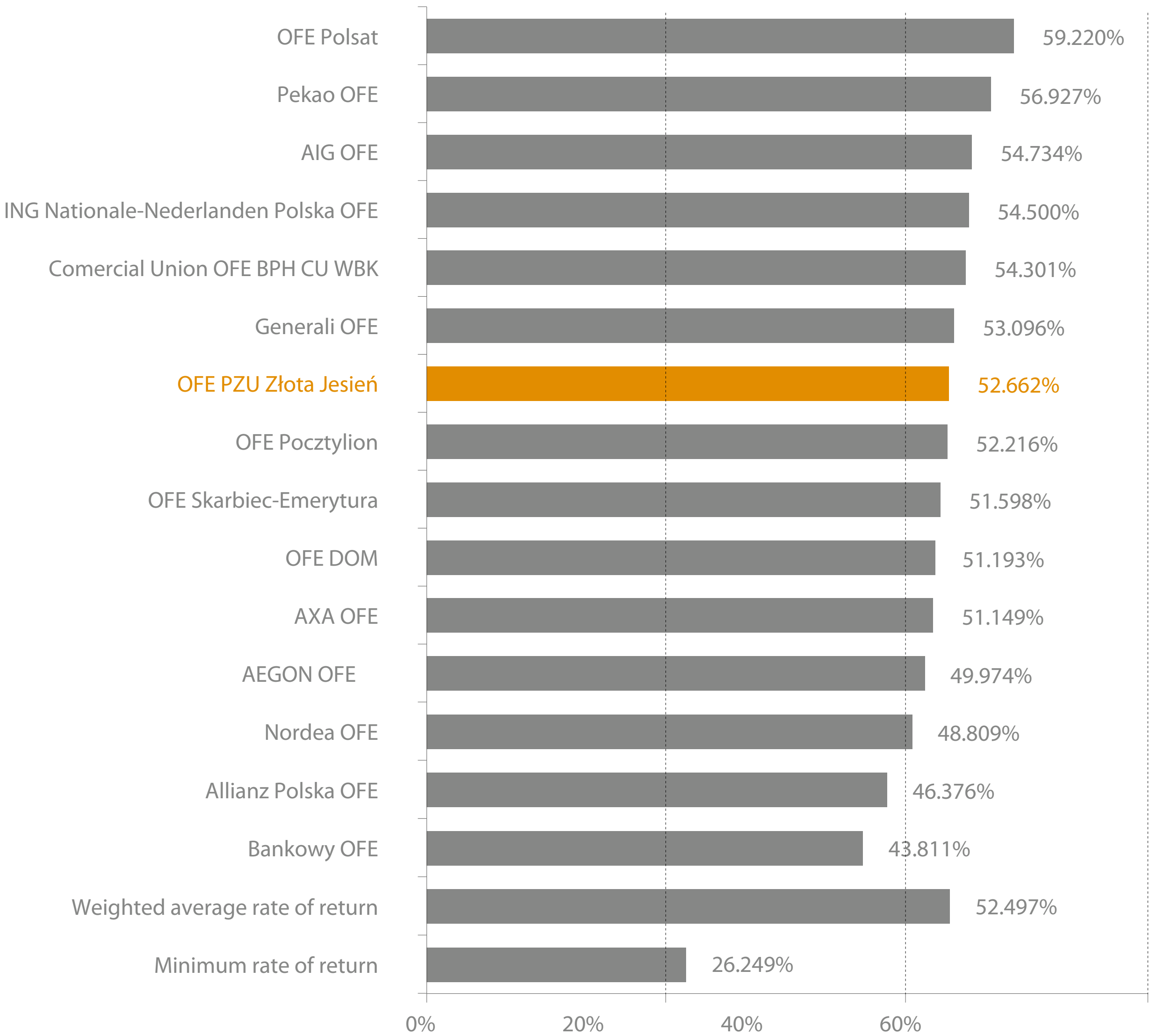
Efficiency of investment activity and rate of return

At the end of the year, the weighted average of OFE accounting units was worth PLN 28.55, i.e. nearly 2% more than in 2006.

In 2007, PFSA again calculated the three-year rate of return for all OFEs. The weighted average rate of return for the period of 36 months announced in September 2007 was 52.497%, which was approximately 7 percentage points higher than the corresponding figure the year before. All funds exceeded the required minimum rate of return (26.249%) and the spread between the most and least efficient fund was about 15%.

Top OFEs in terms of the three-year rate of return within the period between 30 September 2004 to 28 September 2007 (%)

Source: PFSA



2007

Krzysztof Kipert
Product Management Office,
PZU SA

I work in the Product Management Office where I am responsible for motor insurance products. I can easily say that the unit I work for deals with almost all aspects related to the functioning of an insurance product, therefore this job is really interesting and one can learn new things practically all the time..

Financial results

The total net profit of all open pension funds amounted to PLN 688.1 billion, which is PLN 97.7 billion (17%) more than in the preceding year. All companies in the sector recorded profits at the end of the year 2007.

5.4.3. The investment fund market

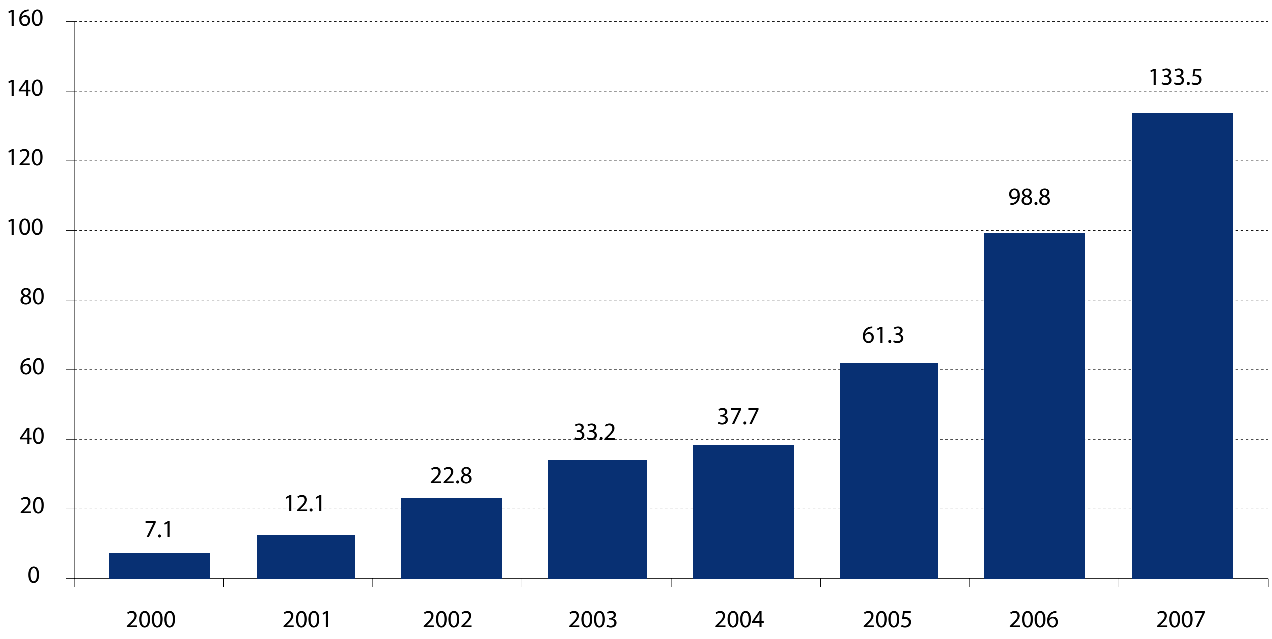
Investment fund companies and their assets

At the end of 2007, 34 investment fund companies were active in the Polish market managing a total of several hundred investment funds and sub-funds.

The year 2007, constituted yet another year throughout which investment funds continued to develop rapidly, with their net assets in 2007 amounting to approximately PLN 133.5 billion, a 35% increase on the previous year.

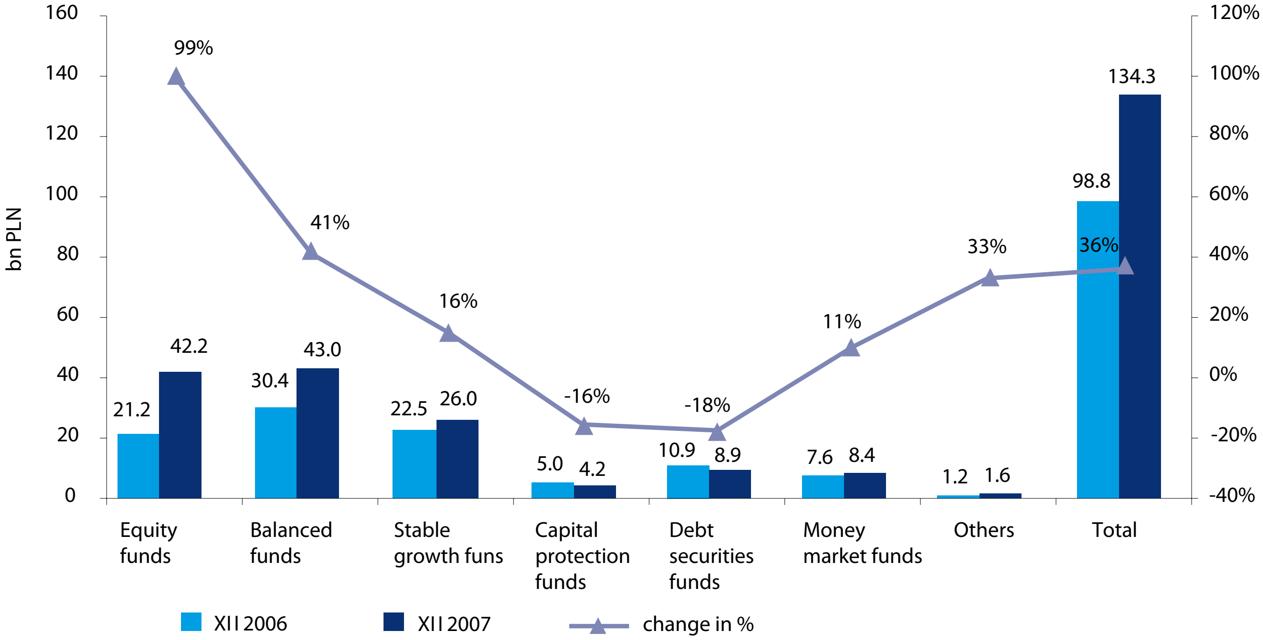
Net assets managed by investment funds in Poland between 2000 and 2007 (PLN billion)

Source: PFSA



Different segments of the investment fund market developed with various degrees of intensity in 2007. The analysis of dynamics of assets value growth in particular groups of investment fund companies representing uniform management policies shows that the most profitable in 2007 were those investing funds in shares, as their assets practically doubled, amounting to more than PLN 42 billion at the end of December. Within those, foreign equity funds ought to receive special attention since, even though the value of their assets grew fourfold within one year, they still continue to be one of the smallest group of funds in Poland. The year 2007 was also favourable for the development of the mixed funds segment with their assets increasing by 41%, reaching the value of approx. PLN 43 billion at the end of December.

Net assets of Polish investment funds in particular segments at the end of 2007 (PLN billion)
Source: PFSA



5.5. Major events with an impact on the PZU Group's operation and performance in 2007

The following factors affected the operation and performance of the PZU Group companies in 2007:

- the development of the domestic insurance market, whose dynamics significantly exceeded the pace of GDP growth, which, in turn, was reflected in the sales rate of PZU SA – this dynamics was, however, remarkably lower than the dynamics of the market (owing to which our market share continued to drop),

- in the segment of property and casualty insurance there was a significant increase in the claims ratio related to phenomena associated with natural disasters, which may continue due to progressing climate changes; also the amount of damage connected with motor vehicle grew within the EU territory; moreover, the motor third party liability (OC) premiums were encumbered with the so-called "Religa tax", which will undoubtedly have a massively negative influence on financial results in 2008,

- in the segment of unit-linked life insurance there was a distinct absence of business connections with banks, which was additionally visible against the background of strong competitive activity of other capital groups combining insurance and banking services,

- change in economic situation on the stock exchange and the increase of interest rates, which were reflected in the results on investment activity of the PZU Group in the last months of 2007 and the attitudes of customers towards investment products,

- multiple reshufflings in the personnel composition of the Management Board, which adversely affected the consistency of company management,

- a high rate of management rotation (nearly 50% of all management staff members worked in their positions for less than a year),

- significant delays and reorganization of priorities in projects aimed at development; expenses on such projects decreased by more than 44% when compared with the previous year.

A number of projects from the previous years, continued in 2007. Two major companies in the Group undertook to revitalize their distribution networks by intensifying recruitment, training and motivation programmes for insurance agents as well as managing their levels of activity and introducing career development schemes from the moment of recruitment up to a fully professional level.

PZU SA initiated the process of introducing a model of customer service provided by special office-type agencies and started work on software that would provide support for the agents in concluding insurance contracts, designed to accelerate premium calculation and filling forms so as to facilitate consumer service in general.

With respect to claims handling, efforts were continued to reduce the average claims handling time (decrease from 25 to 20 days) by using the assistance of mobile experts not only in the case of motor claims services but also for property claims.

Liquidation of property damage was extended by the “Telepomoc” (“TeleAssistance”) service, which is available round the clock and enables customers to report damage and arrange an appointment with the liquidator via telephone.

In 2007, the PZU SA Management Board made attempts to boost sales of motor vehicle insurance by employing innovative sales campaigns (continuation of initiatives started in previous years) targeting both new customers (imported cars and insured by other insurance companies) and up-selling (motor accident insurance [NW], transfer of discounts from motor third-party liability insurance [OC] to motor own damage insurance [AC]), development of banking insurance and participation in corporate insurance market. Moreover, PZU SA decided that the premiums for the motor third party liability insurance will not be increased despite the compulsory National Health Fund contribution imposed by the law and using this fact in marketing campaigns. The assumption underlying this decision was that the lower premium level might help to slow down the company’s decreasing market share. The financial results from the last quarter of the year, did not, however, confirm the assumed dynamics, which could compensate the additional expenses incurred by PZU SA. The Management Board did not manage to reduce the rate of market share loss.

On 31 December 2007, the National Court Register recorded amendments in the PZU SA Bylaws passed by the Annual General Meeting on 30 June 2007. The company’s scope of activity was adjusted to the amended Insurance activity Act by introducing provisions enabling the following:

1) agency on behalf of or for entities providing banking services specified in Article 5 items 1 and 2 of the banking law act of 29 August 1997 in the course of concluding contracts related to these services and pursuant to the principles specified in the banking law act,
2) agency in sales and purchasing investment fund units or foreign investment fund titles, open investment funds located in any of the EU member states or open investment funds located in any of OECD member states other than EU member states pursuant to the principles specified in the Investment funds act of 27 May 2004.

In 2007, the PZU Życie SA Management Board focused predominantly on activity aimed at maintaining its share in the market of protection group insurance, which constitute the most significant and most profitable field of the company’s activity. The dynamic increase in the market of individual insurance products, which was initiated in the previous year, continued with a number of new insurance products introduced.

The number and complexity of documents required to conclude an insurance agreement and enter the insurance scheme was reduced according to the suggestions of the distribution network employees and customers, as a result of which rendering services ought to become easier and faster. The project “Znamy się” (“We know each other”), initiated in 2006 and designed to develop new channels of communication, i.e. a call centre and a website, which make it easier for the insurance programme participants to easily acquire information related to contract management, was also continued. The ultimate insurance service model assumes that group insurance will be handled with the assistance of an Electronic Insurance Registry System, which allows one to conclude group insurance contracts online with the support of a Telecentre and could reduce the amount of paper documents involved in the whole process.

On 1 May 2007 PZU Życie SA began to conduct the sales of TFI PZU SA investment fund units. In the first place, the TFI PZU SA products were included in the portfolio of the agencies’ network and as of 1 September 2007 the employees of corporate sales department and network management department became involved in the distribution of TFI PZU SA investment fund units. All TFI PZU SA investment funds became included in the PZU Życie SA offer.

5.6. Factors with the potential influence on the PZU Group's operation in 2008.

The following factors are most likely to influence the operation and performance in 2008:

- fluctuations in the rate of growth of the Polish economy, especially the forecasts of reducing the GDP growth rate from 6.5% in 2007 to 5.5% in 2008,
- growing inflation, which may lead to Monetary Policy Council increasing basic rate level which will translate into higher interest rate on treasury bonds; inflation itself may affect the costs of companies' operations,
- trends at the capital market – a remarkable portion of the profits of investment activity depends on the stock exchange,
- lower income on investment activity due to a drop in the prices of shares and treasury bonds evaluated on the basis of market prices – the prices of assets are dependent predominantly on the Polish economic condition; less favourable economic environment may result in decreasing prices of shares and treasury bonds,
- decrease in the profitability of treasury bonds which may adversely affect the profitability of investments and thus enforce the increase of technical rates applied by PZU Życie SA,
- intensified competitive activity in the insurance sector (reduced growth of premium written as a result of competitive prices, new insurance companies, freedom with respect to the choice of insuring company as provided by the EU) and changes in the market structure may result in the growth of PZU SA written premium may appear to be much slower than the increase of the entire insurance market,
- strong product competition in the investment sector, especially among companies offering alternative investment solutions in relation to the trends dominant in 2007 (investing in products based on investment funds),
- extra time needed to restore the management team and revive strategic projects,
- lack of capital connections with the banking sector, owing to which the position of PZU Group in the bancassurance sector is impaired and the opportunities for negotiating insurance conditions less favourable,
- growing popularity of independent financial advisory services, hence the necessity to introduce agents offering the widest possible product range,
- potential legislative amendments, particularly in the field of insurance activity and regulations concerning compulsory insurance schemes and subsidies to voluntary agricultural insurance, which may significantly modify the property and casualty insurance system,
- judicial decisions, which tend to be favourable towards the insurance policy holder in the scope of damage and extended scope of insurance companies' liability, owing to which the value of claim coverage in personal insurance tends to be higher.

6. THE **PZU GROUP** ON THE POLISH INSURANCE MARKET

6.1. Structure of the PZU Group

As of 31 December 2007, the PZU Group consisted of 24 entities incorporated as either joint stock or private limited liability companies.

Entities fully consolidated in the financial statement of the PZU Group for the year closed on 31 December 2007 included:

- Powszechny Zakład Ubezpieczeń SA (PZU SA) – the parent company,
- Powszechny Zakład Ubezpieczeń na Życie SA (PZU Życie SA) – subsidiary,
- Powszechne Towarzystwo Emerytalne PZU SA (PTE PZU SA) – subsidiary,
- PZU Tower Sp. z o.o. – subsidiary,
- Centrum Informatyki Grupy PZU SA (CIG PZU SA) – subsidiary,
- OJSC IC PZU Ukraine – subsidiary,
- UAB DK PZU Lietuva – subsidiary.

Other PZU Group units were not included into consolidation due to the fact that their financial data is insignificant from the point of view of the overall financial results of the PZU Group pursuant to the criteria specified in Article 4 items 1 and 4 of the Accounting Act of 29 September 1994 (Journal of Laws No. 76/2002, item 694 with further amendments). These companies are recognized in the consolidated financial statements as cost less impairment allowances.

The method outlined was applied in reporting:

- Other subsidiaries valuated at cost less impairment allowances:
- Towarzystwo Funduszy Inwestycyjnych PZU SA (TFI PZU SA),
- UAB PZU Lietuva Gyvybës Draudimas,
- OJSC IC PZU Ukraine Life Insurance,
- LLC SOS Services Ukraine,
- Company with Additional Liability Inter-Risk Ukraine,
- Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA (MPTE PZU SA),
- PZU Asset Management SA,
- PZU International Sp. z o.o.,
- SYTA Development Sp. z o.o w likwidacji,
- Sigma Investments Sp. z o.o.,
- Biuro Likwidacji i Obsługi Szkód Sp. z o.o.,
- Krakowska Fabryka Armatur SA,
- ICH Center SA.

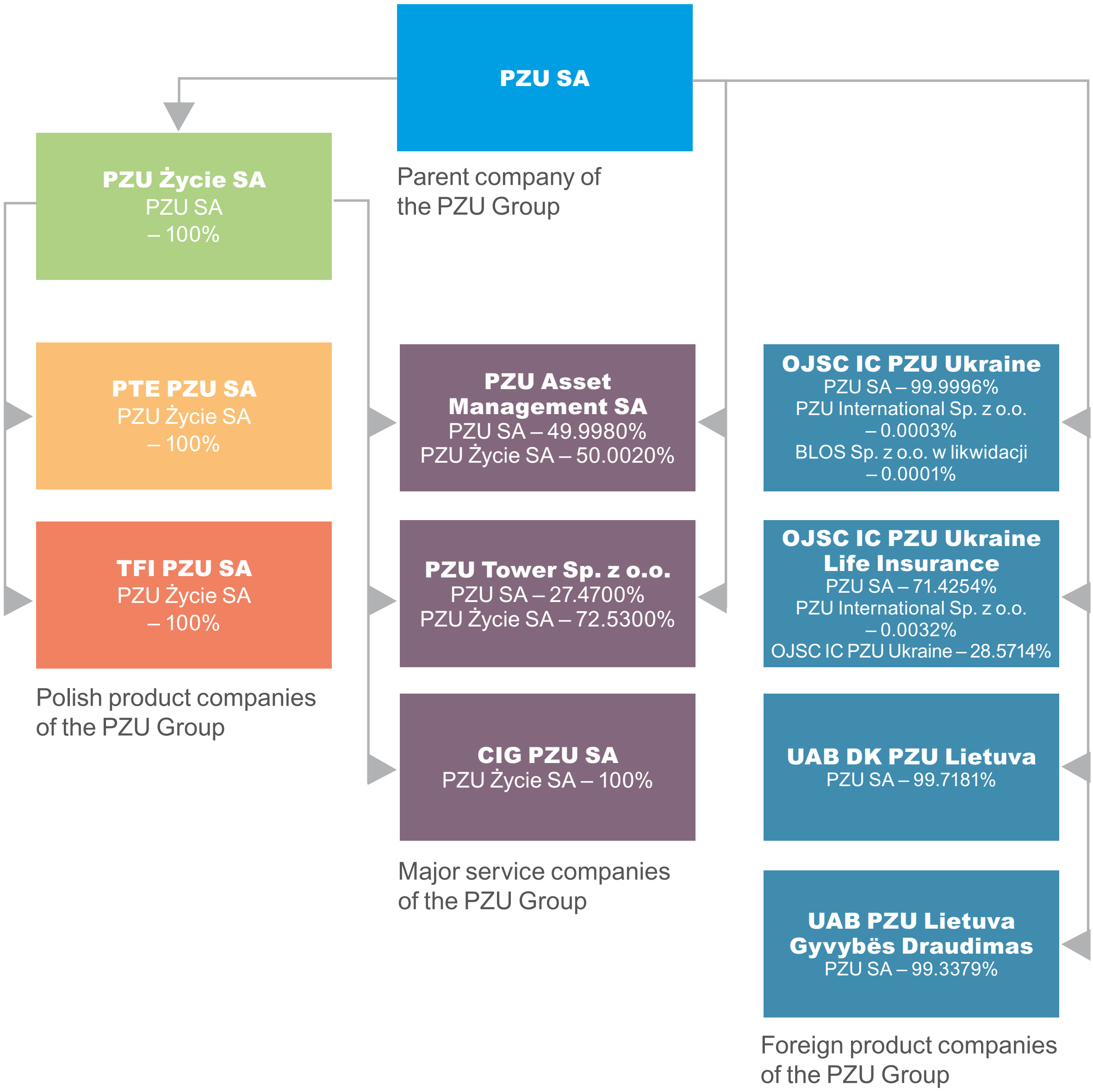
- Other associates evaluated at cost less impairment allowances:

- Kolej Gondolowa Jaworzyna Krynicka SA,
- Nadwiślańska Agencja Ubezpieczeniowa SA,
- Polskie Towarzystwo Reasekuracji SA,
- PPW Uniprom SA w upadłości,
- VIS-Inwestycje SA.

2007

The PZU Group structure as of 31 December 2007

Source: the PZU Group



The data on the particular PZU SA companies comes from their individual financial statements. The PZU Group's results come from the consolidated financial statement of the PZU Group.

The present report details the performance and operation of the major product companies of the PZU Group.

6.2. Major business entities – scope of activity

The PZU Group offers comprehensive insurance services with its companies providing life insurance, property and casualty insurance and managing their customers' assets in the form of an open pension fund or investment funds.

Powszechny Zakład Ubezpieczeń SA
PZU SA is the parent company of the PZU Group with its core business in property and casualty insurance. It was established as a public company on 23 December 1991 when its predecessor, the state-owned enterprise Państwowy Zakład Ubezpieczeń was transformed into a commercial company (pursuant to the Insurance activity act of 28 July 1990, uniform text, Journal of Laws No. 11 item 62 with further amendments).

Powszechny Zakład Ubezpieczeń na Życie SA
The core business of PZU Życie SA is life insurance. The company also offers dowry insurance, annuity insurance, accident insurance and unit-linked insurance policies both for individuals and for groups. PZU Życie SA is a subsidiary of PZU SA, which started operating in 1991 after its life-insurance portfolio was spun off from Państwowy Zakład Ubezpieczeń, still state owned at the time.

Powszechne Towarzystwo Emerytalne PZU SA
PTE PZU SA manages Otwarty Fundusz Emerytalny PZU "Złota Jesień" ("Golden Autumn" open pension fund) operating within the framework of the 2nd pillar of the Polish pension system. PTE PZU SA was established in 1998 as a subsidiary of PZU Życie SA.

Towarzystwo Funduszy Inwestycyjnych PZU SA
TFI PZU SA manages a group of 11 investment funds representing various investment strategies. TFI PZU SA offers products and services to individual customers and institutions as well as supplementary savings plans within the framework of the 3rd pillar of the Polish pension system. PTE PZU SA was established in 1999 as a subsidiary of PZU Życie SA.

PZU Asset Management SA
PZU Asset Management SA was incorporated into the PZU Group in 2001. Its core business consists in managing the portfolio of their customers' securities. In 2005 PZU Asset Management SA took over the management of selected asset and fund portfolios of the PZU Group.

Centrum Informatyki Grupy PZU SA
CIG PZU SA was established to provide auxiliary services in the handling of insurance and pension schemes. The company keeps registers, accounts and settlements of investment and pension funds and offers IT services (such as advice on hardware, software, data analysis, building and processing databases), call-centre services, mass printing, document processing and storing and mailing services. The company joined the PZU Group in June 1998 as a subsidiary of PZU Życie SA.

PZU Tower Sp. z o.o.
PZU Tower Sp. z o.o. is the Group's SPV established in August 1998 to operate on the real estate property market, develop and manage real estate property and rent office space.

UAB DK PZU Lietuva i UAB PZU Lietuva Gyvybës Draudimas
In the Lithuanian market, the PZU Group offers life insurance and property and casualty insurance services under the PZU Lietuva brand name. The PZU 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 Insurance
Since 2005, the PZU Group has also been operating in the Ukrainian market with its companies offering life insurance and property and casualty insurance services. The Ukrainian companies are subsidiaries of PZU SA.

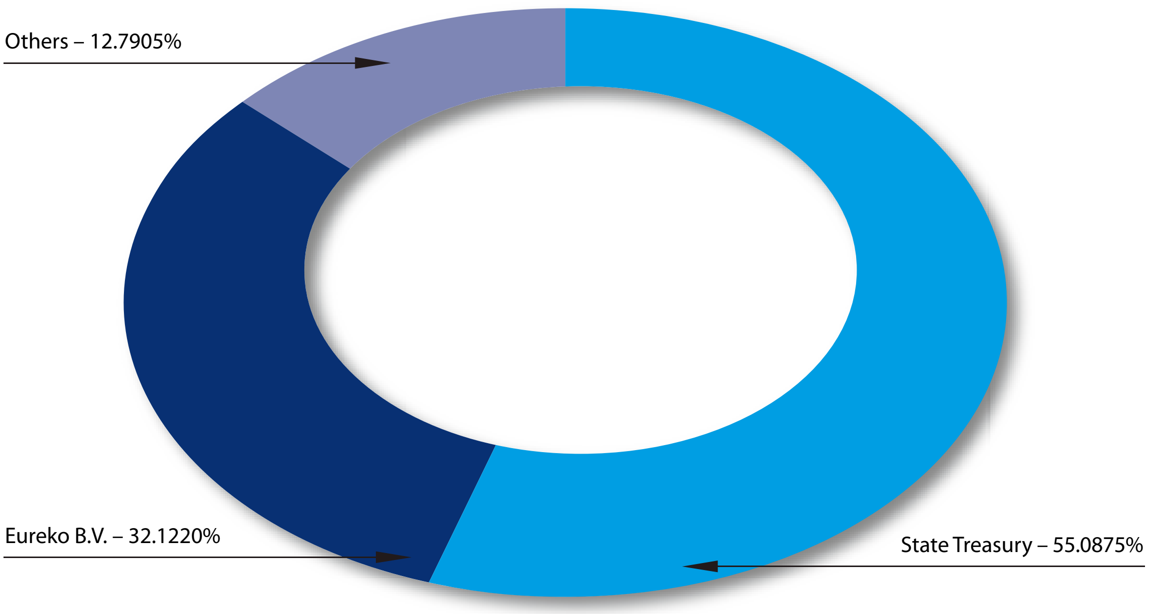
6.3. Shareholders

Ownership structure

The share capital of PZU SA amounts to PLN 86,352,300 divided into 86,352,300 registered shares of A and B series with the nominal value of PLN 1 each.

PZU SA ownership structure as of 31 December 2007

Source: PZU SA Book of Shareholders



2007

Elwira Ostrowska-Graczyk
Financial Insurance Office Director, PZU SA

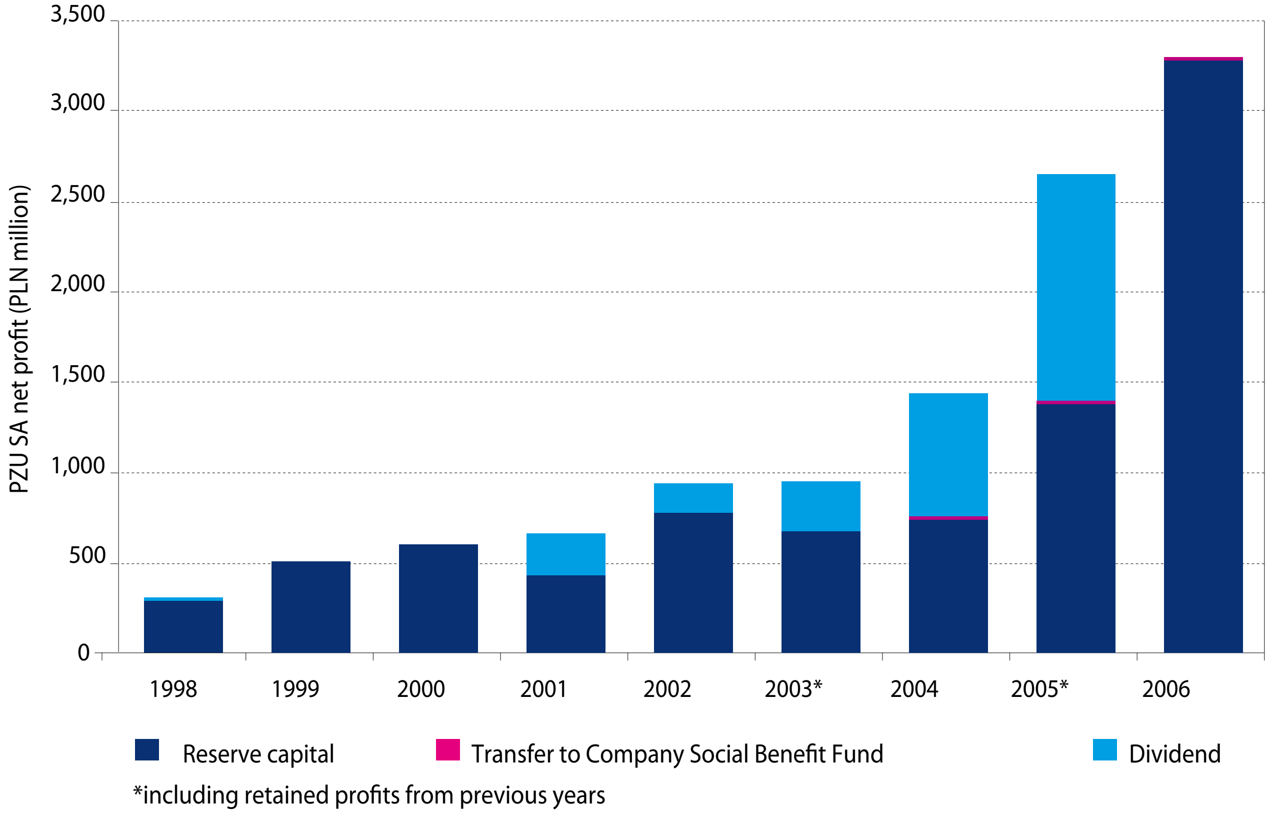
Experience in developing new products for customers from the insurance and banking sector combined with the knowledge of methods to implement, monitor and manage these products enable me to effectively perform tasks strategic for the financial insurance business. It is very rewarding to work with the awareness that these particular insurance products have such a high potential of generating new fields of operation for PZU, at the same time being so sensitive to the influence of the economic environment

Appropriation of profit

On 30 June 2007, the PZU SA Annual General Meeting adopted a resolution dividing the net profit for the financial year closing 31 December 2006 in the amount of PLN 3,280,882,554.90 in the following manner:
- the amount of PLN 3,260,882 554.90 was allocated to the reserve capital,
- the amount of PLN 20,000,000.00 was transferred to the Company Social Benefit Fund

PZU SA net profit appropriation between 1998 and 2006 (PLN million)

Source: PZU SA



Investor relations

The priority of the present PZU SA Management Board consists in defining the principle of corporate governance particularly in the sphere of good practice, which includes designing the concept of uniform principles as well as introducing uniformization of procedures applied to information policy. Maintaining lasting relations with investors and analysts activated in 2004 is an absolute necessity and constitutes good practice implemented by PZU SA – the largest financial institution in Central and Eastern Europe.

Feeling responsible for the increasing demand for information expressed by participants of capital markets, the PZU Management Board is willing to maintain active cooperation with them. By regularly providing reliable and updated information concerning our operation, performance and plans, the PZU Group wishes to supply all participants of the capital market, shareholders and analysts with material allowing them to assess the standing of the company and facilitate making decisions related to it. The Management Board of PZU SA will head for maintaining the relationship of dialogue concerning commenting on the Group's results by organizing regular meetings and conferences to present the company's operation and its results.

PZU SA informs the general public about the quarterly and annual financial data of the PZU Group companies. The PZU SA website features a section devoted to investor relations, where information can be found concerning the shareholders, the structure of the Group, operations of the major companies and their financial results, the company rating, supplemented with a variety of presentations and other types of information potentially useful for investors, analysts and shareholders.

6.4. The directing bodies of major companies of the PZU Group

The following persons were members of the directing bodies of major companies of the PZU Group in 2007:

PZU SA Management Board

Andrzej Klesyk	President (since 14.12.2007)
Witold Jaworski	Board Member (since 14.12.2007)
Rafał Stankiewicz	Board Member (since 14.12.2007)

Agata Rowińska	President (from 4.09.2007 until 13.12.2007)
Jaromir Netzel	President (until 30.08.2007)
Beata Kozłowska-Chyła	Board Member (from 2.07.2007 until 13.12.2007)
Mirosław Panek	Board Member (until 2.07.2007)
Jolanta Strzelecka	Board Member (until 28.06.2007)
Piotr Kowalczewski	Vice-President (suspended from his responsibilities since 1.11.2006, dismissed 15.01.2007)
Joyce Deriga	Board Member (suspended from her responsibilities since 1.11.2006, dismissed 15.01.2007)

PZU SA Supervisory Board

Tomasz Gruszecki	Chairperson (since 25.09.2007)
Marcin Majeranowski	Deputy Chairperson (since 11.09.2007, previously Supervisory Board Member)
Ernst Jansen	Deputy Chairperson
Joanna Karman	Secretary (since 11.12.2007, Supervisory Board Member since 25.09.2007)
Maciej Bednarkiewicz	Supervisory Board Member (Since 2.07.2007, Secretary until 30.06.2007)
Adam Kwiatkowski	Supervisory Board Member (since 4.07.2007)
Eryk Zbigniew Pyra	Supervisory Board Member
Gerard van Olphen	Supervisory Board Member
Michał Nastula	Supervisory Board Member

Beata Kozłowska-Chyła	Supervisory Board Member (until 1.07.2007)
Agata Rowińska	Deputy Chairperson (until 3.09.2007)

PZU Życie SA Management Board

Dariusz Krzewina	President (since 10.08.2007, Vice-President since 1.03.2007)
Mirosław Kozłowski	Vice-President (since 10.08.2007)
Piotr Kuszewski	Vice-President (since 1.03.2007)

Henryka Rupik	President (since 1.03.2007 until 7.08.2007, previously Vice-President)
Jerzy Kochański	President (until 28.02.2007)
Wojciech Grzybowski	Vice-President (until 28.02.2007)

PZU Życie SA Supervisory Board

Eugeniusz Kowalewski	Chairperson
Joyce Deriga	Deputy Chairperson
Krystyna Gawlikowska-Hueckel	Supervisory Board Member
Janusz Olędzki	Supervisory Board Member
Ane Ate Sijsma	Supervisory Board Member
Frederik Hoogerburg	Supervisory Board Member (since 21.01.2007)
Józef Okolski	Supervisory Board Member (since 20.07.2007)

Jolanta Strzelecka	Secretary (since 19.07.2007)

PTE PZU SA Management Board

Jerzy Kochański	President (since 8.03.2007)
Sebastian Bogusławski	Vice-President (since 17.08.2007)
Stanisław Rataj	Vice-President
Andrzej Sołdek	Vice-President

Piotr Rzeźniczak	President (since 29.01.2007)

PTE PZU SA Supervisory Board

Ludwik Florek	Chairperson
Beata Kozłowska-Chyła	Deputy Chairperson (since 9.11.2007, Supervisory Board Member (since 11.07.2007)
Jerzy Lipski	Secretary
Piotr Kowalczewski	Supervisory Board Member
Krystyna Dziworska	Supervisory Board Member
Marek Kalinowski	Supervisory Board Member
Dariusz Krzewina	Supervisory Board Member (since 7.03.2007)
Mirosław Kozłowski	Supervisory Board Member (since 21.08.2007)

Jerzy Kochański	Deputy Chairperson (until 7.03.2007)
Henryka Rupik	Deputy Chairperson (since 8.03.2007 until 7.08.2007, since 7.11.2006 Supervisory Board Member)

TFI PZU SA Management Board

Dariusz Jesiotr	President
Piotr Góralewski	Vice-President (since 30.05.2007)
Maciej Rapkiewicz	Board Member

Cezary Burzyński	Vice-President (until 25.05.2007)

TFI PZU SA Supervisory Board

Dariusz Krzewina	Chairperson (since 31.08.2007)
Beata Kozłowska-Chyła	Deputy Chairperson (since 21.11.2007, Supervisory Board Member since 31.10.2007)
Mirosław Kozłowski	Supervisory Board Member (since 21.08.2007)
Jacek Dmowski	Supervisory Board Member
Jerzy Glanc	Supervisory Board Member

Henryka Rupik	Chairperson (until 10.08.2007)
Tomasz Rynarzewski	Chairperson (since 21.08.2007 until 30.10.2007, previously Supervisory Board Member)
Aldona Wojtczak	Deputy Chairperson (until 31.10.2007)

6.5. The PZU Group portfolio of products and services

The PZU Group offers the broadest product range on the Polish insurance market, which consists of nearly 200 insurance products for individual customers, small and medium enterprises (SME) and corporate customers. Alongside property and casualty insurance and life insurance, the PZU Group offers a number of attractive pension and investment products.

6.5.1. Property and casualty insurance – PZU SA

The insurance market saw a number of changes in 2007, including the significant amendments in the Civil Code of 10 August 2007 introducing a modified formula of concluding insurance agreements, owing to which all PZU SA products had to be adjusted to new legal requirements. Moreover, as of 1 October 2007, insurance companies are obliged to cover the costs of medical treatment of road accident victims in the form of the so-called Religa tax.

In 2007, PZU SA continued efforts to develop clear customer segmentation and developing a range of products for each group. For the time being, the company offers its products to three major market segments: the individual customer segment, SMEs and the corporate customer. PZU SA provides products spanning all of the 18 statutory insurance classes including: motor, property, agricultural, general third party liability, accident and health, tourist and financial insurance.

The individual customer offer

In 2007, PZU SA offered more than 80 products to this segment but still continued working to expand and update the range of services and solutions.

The core products offered by PZU SA to individual customers consist in motor insurance (including compulsory motor third party liability [OC] and motor own damage [AC]), homeowners/householders insurance and agriculture insurance.

In 2007, PZU SA continued to expand the range of motor insurance products with particular emphasis on upgrading those intended for new vehicles. In relation to the implementation of the so-called 5th motor directive, a set of regulations was introduced into Polish law concerning insurance contracts concluded with owners of cars purchased abroad and to be registered in Poland.

In the field of agriculture insurance products the year 2007 saw a number of product-related and sales-related activities connected with the introduction of subsidized insurance of crops and farm animals.

Moreover, also in 2007, PZU SA expanded the range of general third party liability insurance by compulsory third party liability insurance for the administrators of Polish Medical Rescue units and compulsory third party liability insurance of persons appointed as bankruptcy administrators, insolvency administrators or receivers.

In the field of personal insurance, the most remarkable achievement consisted in designing a tourist insurance product for citizens of foreign countries applying for a visa to enter any of the Schengen group member states, including Poland. The basic products from the accident insurance range (general, individual, “Bezpieczny Turysta” [Safe Tourist]), including assistance services, were largely modified and will be offered in 2008.

SME offer

In 2007, PZU SA continued to develop the product range aimed at small and medium enterprises, which was initiated in 2004. With the intention of further development, having already launched *PZU Hotel*, our company designed a new sector-specific product, *PZU Apteka* (PZU Pharmacy), which is intended to provide comprehensive protection to the most demanding customers representing this type of business activity. Another group identified by PZU SA as offering promising development prospects is law firms. The insurance covering potential damage caused by interruptions of the law firm's activity (Przerwy w działalności kancelarii prawnych) constitutes an elaborate protective measure, which perfectly complements the property and casualty insurance policy for this customer group.

The second direction in which PZU SA develops the products addressed to the SME sector consists in the modification of available products to match specific customer expectations. The PZU Doradca (PZU Advisor) insurance package was modified by extending the insurance protection scope and risk assessment criteria. Every modification is implemented after an in-depth analysis of the market structure and SME customers' expectations.
Due to its rapid development also in the financial insurance sector (credit and bonding), the SME segment is winning an increasing share of the total premium written. Therefore, in order to satisfy the expectations of our customers PZU SA introduced a new product offering insurance of commercial loans for the SME sector. In 2007 a remarkable amount of effort was invested into raising awareness of the existence of these products in PZU SA and demonstrating advantages of receiving this type of protection.

The corporate customer offer

In the segment of motor insurance new analytical apparatus was introduced enabling more effective monitoring of the profitability of particular fleet contracts. Moreover, the company continued the conference and training series initiated in 2006 under the programme entitled Fleet Safety – bezpieczne auto firmowe (Fleet Safety – Safe Company Car), which is aimed at promoting safe driving among owners of various vehicles. The programme was well received by corporate customers.

The PZU Group non-motor insurance products for corporate customers consist of more than 30 products including, among others: property insurance, loss of profit insurance, third party liability insurance, engineering insurance, cargo and casco insurance and financial insurance.

In 2007, new general terms and conditions of property insurance in domestic transport (cargo) were introduced accompanied by general terms and conditions of yacht insurance. Efforts were undertaken to modify insurance products for construction and instalment-related risk.

Particular attention should be drawn to the dynamic growth of financial insurance products, which was recorded in 2007 with the most powerful influence on the growth of premium written exercised by the bank credit insurance. By virtue of general insurance contracts concluded with banks, PZU SA insured almost 72 thousand bank-granted credits. Throughout the year, our staff continued to work on adjusting these contracts to the changing requirements of the banks cooperating with PZU SA and to market conditions.

A significant increase in the dynamics of insurance guarantee sales was seen in 2007. The demand for insurance guarantees, which constitute one of the elements indispensable for obtaining EU subsidies supporting implementation of various investment projects, has been growing alongside general improvement of economic environment and the anticipated inflow of EU funds of approx. EUR 67 billion between 2007 and 2013.

With the aim of developing the trade credit insurance offer, a new product was introduced in January 2007 – namely, export and domestic trade credit insurance intended for corporate customers.

By the end of 2007, another new insurance of debt product appeared – the insurance of due factoring receivables for full factoring with a bank or a factoring institution as an insuring party. The introduction of this type of insurance stems from the need of PZU SA to improve its market position in the field of financial insurance and maintaining a competitive level of the product range, which requires gradual extension of financial insurance services offered.

6.5.2. Life insurance – PZU Życie SA

PZU Życie SA offers more than 60 life insurance products and packages, both covering insurance products and unit-linked products (including main-covers and riders). The company offers products from all statutory insurance classes intended for both individual and group customers.

Insurance products offered by PZU Życie SA are designed on the basis of continual analysis of the insurance market in Poland and around the world and are created to match the real needs of customers and their families (they take into account both the current and anticipated economic and legal condition as well as evolving lifestyles, social trends, etc.).

The innovative product range and its correspondence with the needs actually present in the market constitute the main guidelines in the process of creating new life insurance products. Simultaneously, work is in progress to constantly expand the existing offer by additional risk factors and options.

In 2007, the company undertook measures aimed predominantly at improving its position in the corporate segment, which, owing to its profitability, counts as the key one. In the course of implementing the project of the Central Database of Institutional Customers (CBKI) potential customers were carefully identified, owing to which clear segmentation could be conducted.

The year 2007 was also devoted to adjusting the general terms and conditions of insurance agreements into the requirements arising from the amendments in the Civil Code. This process was applied to all items in the product range.

Group insurance

The core activity of PZU Życie SA consists in group insurance products with a regular premium. This type of insurance is intended primarily for customers who value a broad range of coverage, such as life insurance supplemented by accident, disease and family riders. These products, known as the *"P" group products (Group life insurance "P" and Group Employee Insurance "P Plus")* and their individual continuations constitute the best selling products of PZU Życie SA.

The range of these core products is further extended by rider products, which guarantee benefit payment in the case of various life and health events.

PZU Życie SA also offers group unit-linked insurance products, with the most popular being the group life insurance with a capital fund known as *Pogodna Przyszłość (Bright Future)*, which takes the form of an employee pension programme.

In the field of group insurance, the year 2007 mainly focused on activities aimed at intensifying the sales of riders, both in the form of cover insurance and health insurance. This applied mainly to services, which were introduced in 2006, such as *Dodatkowe grupowe ubezpieczenie na wypadek leczenia szpitalnego* Plus (Group rider in case of hospitalization Plus) and *Dodatkowe grupowe ubezpieczenie na wypadek specjalistycznego leczenia* (Group rider in case of specialist treatment). These products are an extension of a popular group insurance portfolio against hospitalization and severe diseases.

Individually continued insurance

Individually continued insurance are intended for those customers who may no longer be included in group cover insurance schemes, caused most frequently by termination of employment in a given company. A broad array of individually continued insurance provides financial coverage in the case of events in the life of the policyholder or their family.

The activities of PZU Życie SA in the group of customers individually continuing the insurance programme are meant to match the insurance conditions with changing customer expectations in the best possible way. To achieve this new riders are being designed – in 2007 the sales of a rider in case of death of the policyholder as a result of an accident *(Dodatkowe ubezpieczenie na wypadek śmierci ubezpieczonego spowodowanej nieszczęśliwym wypadkiem NW Plus)*. Another type of rider in case of hospitalization as a result of an accident *(Ubezpieczenie dodatkowe leczenia szpitalnego następstw nieszczęśliwego wypadku)* was also introduced, with both products distributed via e-mail as well as in traditional ways i.e. in PZU Życie SA agencies.

Individual insurance

As a result of the Civil Code amendment and modifications of other legislative acts concerning the conclusion of an insurance agreement, all insurance products had to be adjusted to new requirements; therefore in 2007 PZU Życie SA introduced a number of alterations in all general terms and conditions of insurance contracts.

At the same time, the existing product range of cover insurance was updated, i.e. new names were assigned to products, the selection of marketing products was expanded (new posters, leaflets, etc.).

The range of products concerning cover insurance in 2007 included endowment insurance Twoje Marzenia *(Your dreams,* until July under the name Optima*)*, the so-called dowry insurance – Uśmiech Dziecka *(A Child's Smile,* until

July under the name Futura*)*, whole life insurance *Spokój Najbliższych* (Peace for Your Family, until July under the name Maximum) and periodic insurance *Pewnym Krokiem* (Sure Footed until July under the name Bezpieczny Czas – Safe Time).

Individual customers may also decide to purchase one of the really attractive investment insurance products, namely *Indywidualny Program Inwestycyjny Strefa Zysku* (Individual Investment Programme Profit Zone) and *Fundusz Gotówka* (Cash Fund).

Indywidualny Program Strefa Zysku is an innovative unit-linked product, which allows a lot of flexibility and gives the participants the chance to manage their investments dynamically and obtain investment bonuses. This product provides a comprehensive investment offer based on 35 investment funds from the best investment fund companies (TFIs) operating in the Polish market (their offer is consequently being developed) and the PZU Guaranteed Fund, which allows obtaining unlimited profit while securing the investment at the same time (the customers can be sure that they will receive at least 90% of the highest historical value of the Fund's unit). Another important feature of the Guaranteed Fund consists in regular adjustment of the portfolio composition to market conditions, which is particularly important at a time of financial market fluctuation and means that at the time of stock exchange boom the Fund increases the allocation of the assets into shares up to 75% (significant profits are much more likely to be generated), while in the case of a negative trend at the stock exchange most operations of the Fund are based on safe investment instruments. Consequently, regardless of the situation in the financial market, the customers who invest in the Fund can derive significant profits from their investments.

Fundusz Gotówka (Cash) is the only insurance in the Polish market dedicated to persons who receive benefits from other insurance contracts, which enables investing in, e.g., safe treasury bonds by means of FIO Gotówkowy managed by TFI PZU SA.

Riders

In the first quarter of 2007, three new types of riders included in the *Strefa Zdrowia (Health Zone)* package were introduced:

- Dodatkowe indywidualne ubezpieczenie na wypadek ciężkiej choroby (Individual rider in case of severe disease), which constitutes the most extensive coverage in case of severe diseases, with the guarantee of a 5-year long insurance coverage at an unaltered premium amount and no grace period as well as coverage dependent upon sex, which involves sex-related diseases (in 2007 there was an extensive social campaign run by the media and a number of NGOs aimed at raising women's awareness concerning the dangers of ignoring prophylaxis of uterine cervix cancer – PZU Życie SA was at the time one of few insurance companies offering coverage for this cancer type)
- Dodatkowe indywidualne ubezpieczenie na wypadek operacji chirurgicznej (Individual rider in case of surgery) – the scope of coverage includes 390 most essential surgical procedures with the benefit paid out to the customer regardless of the surgery's outcome (i.e. for the pure fact of undergoing a surgical procedure) and the guarantee of a 5-year long insurance coverage at an unaltered premium amount and no risk assessment;
- Dodatkowe indywidualne ubezpieczenie na wypadek leczenia szpitalnego (Individual rider in case of hospitalization) which includes a very wide scope of coverage (including chemotherapy, radiotherapy and recovery benefit) and allows the participant to choose among 4 insurance variants of a different scope of coverage, guarantee of a 5-year long insurance coverage at an unaltered premium amount and no risk assessment.

Health insurance

In 2007, advancements in health insurance products focused on the following areas: products, cooperation with health care providers, customer service and monitoring the quality of services, support of sales and marketing.

In the field of products, efforts were concentrated on hospital insurance under the Gamma Project, modification of out-patient health insurance according to the amendments in the Civil Code and analysis of coverage rate in the Opieka Medyczna (Health Care) system in order to modify the system of calculations and create a more flexible product range.

In the field of cooperation with health care providers we have managed to extend the offer by 23 new units and prolong contracts with our 22 present partners. The first stage of hospital purchase procedure was conducted (queries were forwarded to nine hospitals, terms and conditions of cooperation were agreed on with four units). The final formula of the contract of cooperation with hospitals was established along with drawing up guidelines concerning services and reporting as related to health care providers.

In the field of customer service and monitoring the quality of services actions were undertaken to implement, among other things, a reliable system of reporting the activity of the Health Care Info line, which would include opinions concerning the quality of services provided.

Activities in the field of sales and marketing support were intended to develop and intensify sales services rendered through the channels of distribution dedicated to individual and group insurance, particularly with respect to employing Health Care Coordinators to deal with sales.

In 2007 the Zdrowie (Health) project was initiated with the intention of identifying strategic options of PZU operation in the health insurance market.

6.5.3. Bancassurance – PZU SA, PZU Życie SA

The year 2007, was directed towards consolidation and development of current cooperation with the leading Polish banks as well as establishing relations with new business partners from the banking sector.

The PZU Group offer included both products tightly related to banking services such as credits, loans or bank cards, but also investment insurance (unit-linked products, endowments, structured products), which received a lot of customer attention despite the unstable situation in the financial markets. Bancassurance products are tailored to individual needs of a particular bank and offered to the customers of banks the PZU Group cooperates with as available exclusively within its distribution network.

In 2007, PZU Życie SA developed cooperation with past partners, predominantly PKO BP SA, Millennium Bank SA and Deutsche Bank PBC SA. A number of contacts with new business partners was also concluded e.g. Bank Pocztowy SA, which is now offering life insurance with investment funds known as Super Lokata (unit-linked insurance).

One of the significant undertakings in 2007 consisted in implementing, in cooperation with PKO BP SA, the package of cover insurance for debtors combining life and property and casualty insurance, which secures credit payment in the case of unpredictable events (property- and life-related) and became very popular among customers.

In 2007 a new modification of the investment unit-linked insurance product known as db Invest Plus was introduced in cooperation with Deutsche Bank PBC SA. This product constitutes the most competitive offer of this type available on the Polish market giving the customer the opportunity to invest in more than 80 funds in three currencies (PLN, USD, EUR) with a wide range of insurance coverage.

In the field of cooperation with Millennium Bank SA, 2007 saw the continued popularity of the investment products implemented in 2006, with *MilleInwestycja* as the most successful product.

6.5.4. Pension insurance and products – PZU Życie SA, PTE PZU SA, TFI PZU SA

Among its products, the PZU Group also offers pension-related plans and products. Just as in the preceding years, in 2007 PZU Życie SA managed to maintain the leading position in the Individual Pension Accounts (IKE) market

Last year Indywidualne Konto Emerytalne PZU Życie SA (PZU Życie SA Individual Pension Account) was made even more attractive to its customers by offering the possibility of transferring funds from the additional account to the main IKE account and enabling partial withdrawal of funds from the additional account. Moreover, the product range of investment funds in which the IKE funds can be allocated to was extended by three new units of TFI PZU SA: *FIO Gotówkowy, FIO Akcji Nowa Europa and FIO Zrównoważony.* An Individual Pension Account (IKE) is also offered by TFI PZU SA, with its product range of three investment funds managed by TFI PZU SA.

IKE with investment funds offers two investment programmes – the individual programme and the recommended one. The recommended programme allocates the invested premiums according to the algorithm of the percentage share of the invested funds in particular units of TFI PZU SA funds. The proportion depends on the customer's age. In the individual programme, it is the customer who decides about the allocation of the premium.

Individual customers should also consider the products of PTE PZU SA, which manages *OFE PZU Złota Jesień* (Golden Autumn PZU Open Pension Fund). This fund is offered under the 2nd pillar of the Polish pension system, which is compulsory for persons born after 1968. Participation in OFE PZU Złota Jesień may be initiated by persons who start their first job (primary market) as well as persons who gave up their previous Open Pension Fund (secondary market).

The PZU Group's offer includes pension schemes, such as Pogodna Jesień (Bright Autumn) and group life insurance with an insurance investment fund *Pogodna Przyszłość* (Bright Future), which is a form of Private Pension Plan (PPE). These insurance types have for many years enjoyed a stable position on the market of products enabling accumulation of funds and obtaining significant profit. The PZU Group offers the possibility of joining a Private Pension Plan by contributing premiums to investment funds managed by TFI PZU SA. At present TFI PZU SA manages 72 PPEs for about 65 thousand customers.

6.5.5. Investment products – TFI PZU SA

Individual and corporate customers of the PZU Group may choose from a wide range of investment products offered by TFI PZU SA. For the time being, this includes 10 open investment funds of various investment profiles including an umbrella fund, which comprises four sub-funds opening the customers' way to foreign capital markets.

In 2007, TFI introduced one new product in the form of an open fund known as *PZU FIO Optymalnej Alokacji* (Optimum Allocation PZU FIO), which implements a strategy of active allocation on the basis of which involvement in particular categories of investments changes, especially with reference to investments, which include instruments of a debt- or share-related nature. The fund is intended to acquire positive rates of return throughout the year regardless of the current economic situation. Active use of derivative instruments enables increasing the rate of return both in the case of a positive and negative situation on the stock market.

In addition, in 2007, one closed fund was created known as FIZ Aktywów Niepublicznych RE I ("RE I Closed Investment Fund for Private Assets").

Apart from investment funds TFI PZU SA offers a specialized investment programme known as Plan Inwestycyjny Prestiż (Prestige Investment Plan) and Company Investment Programmes.

6.6. The share of PZU Group companies in the Polish insurance market in 2007 – market position

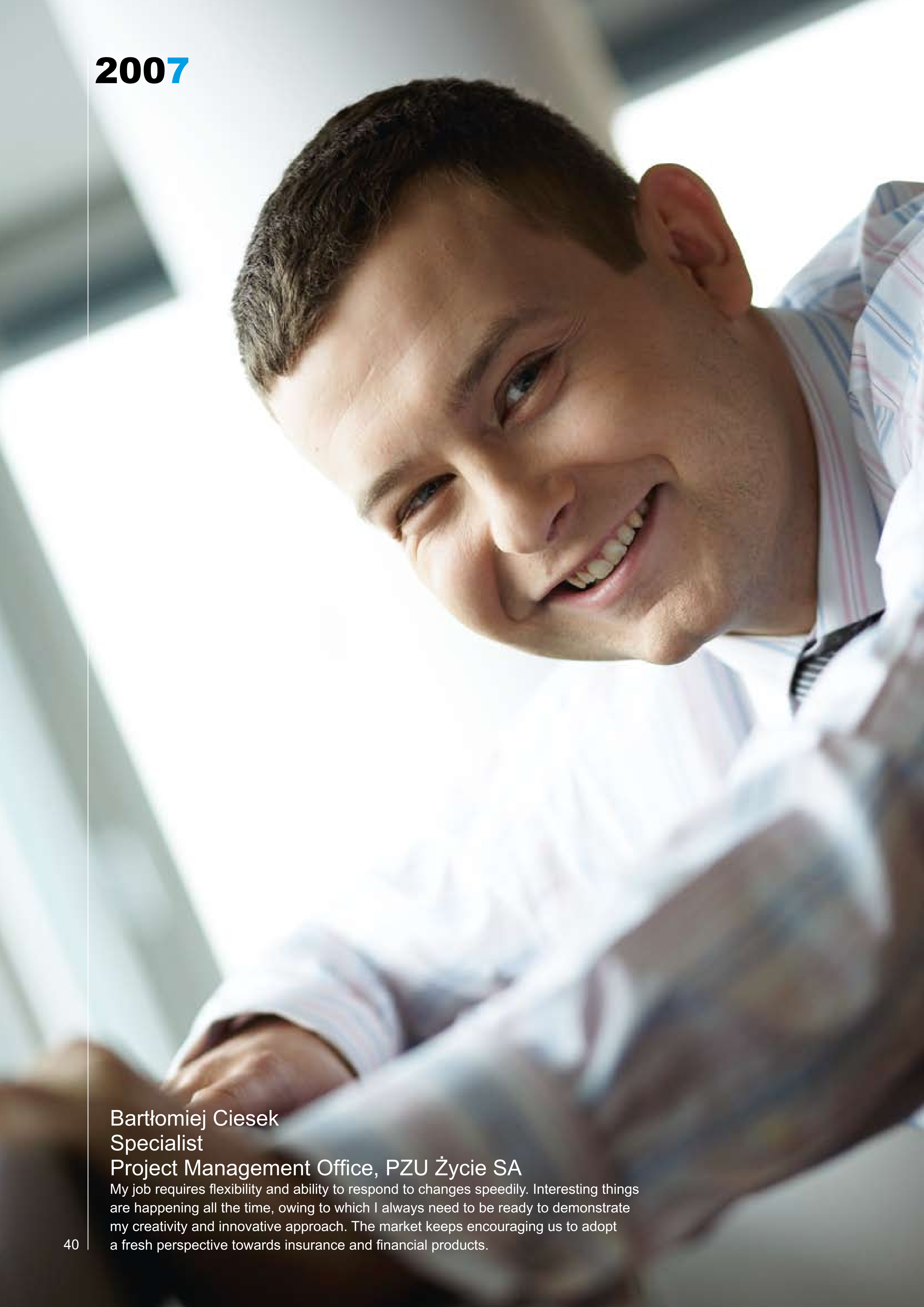
The PZU Group has for years been a leader in the Polish insurance market with its share in the market of property and casualty insurance and life insurance assessed on the basis of gross premium written amounting to 34.9% at the end of 2007.

The growth of the market of property and casualty insurance in 2007 translated into improved dynamics of gross premium written increase in PZU SA – intensive dynamics in the field of non-motor insurance (10.5%), increase of the premium written in motor own damage insurance of 4.8%. Motor third party liability insurance demonstrated a continuing decrease of premium written (more than 3% in relation to 2006).

The share of PZU SA in underwriting results recorded in the property and casualty insurance segment (direct operation) remains at a very high level. At the end of 2007, it amounted to 85.3% compared with 86.6% in 2006. In the field of non-motor insurance, the share of PZU SA in underwriting results of direct operation increased to 70.9% (against 69.9% the previous year). In 2007, as in the year before, PZU SA recorded a positive underwriting result on compulsory motor third party liability insurance (OC) as opposed to rival companies (on the chart defined as Others) which have been reporting a loss in this field for the last two years. With respect to the motor own damage insurance (AC) sector PZU SA showed an increase in the share of underwriting result from 37.1% in 2006 to 58.9% in 2007.

Asignificant decrease in the market share PZU Życie was seen in 2007, even though the company maintained its leading position in life insurance market and a continued to be a dominant figure in group insurance products. The market share of PZU Życie SA assessed on the basis of gross premium written at the end of 2007 was 28.5%. The share of PZU Życie SA in underwriting results recorded by the life insurance market at the end of 2007 was 67.8% in comparison to just over 70% in 2006.

The share of OFE PZU Złota Jesień in the market of open pension funds measured by the number of members amounted to 14.9% at the end of 2007, owing to which it maintained third position, which applied also to the net value of assets held by *OFE PZU Złota Jesień*, which stood at 13.8%.

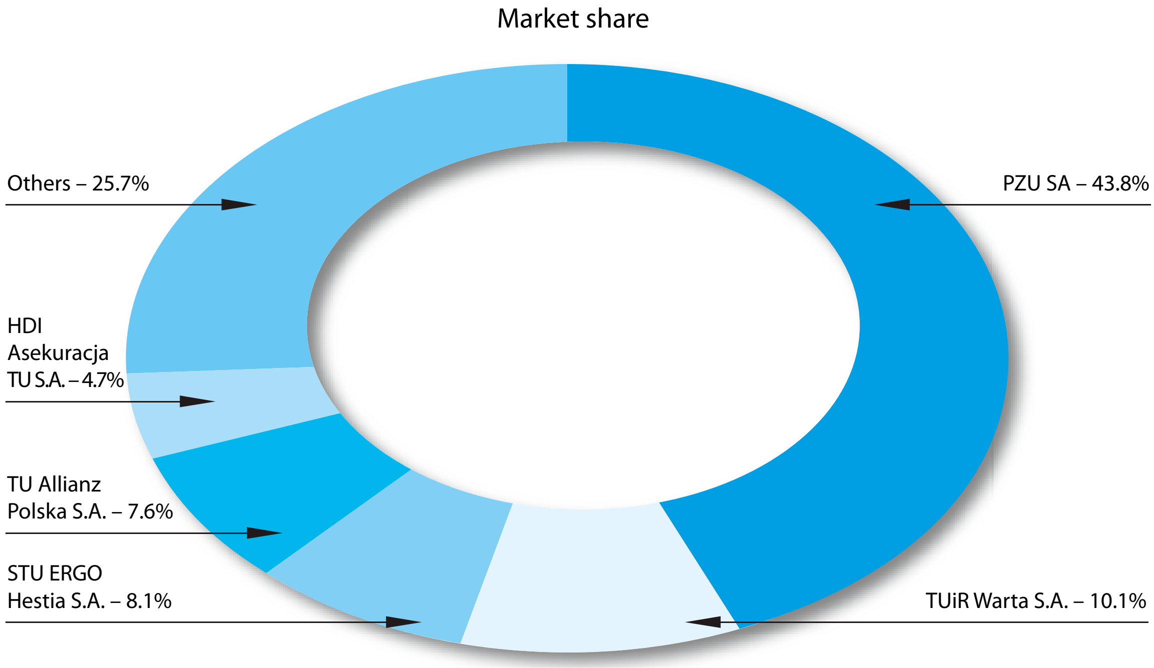


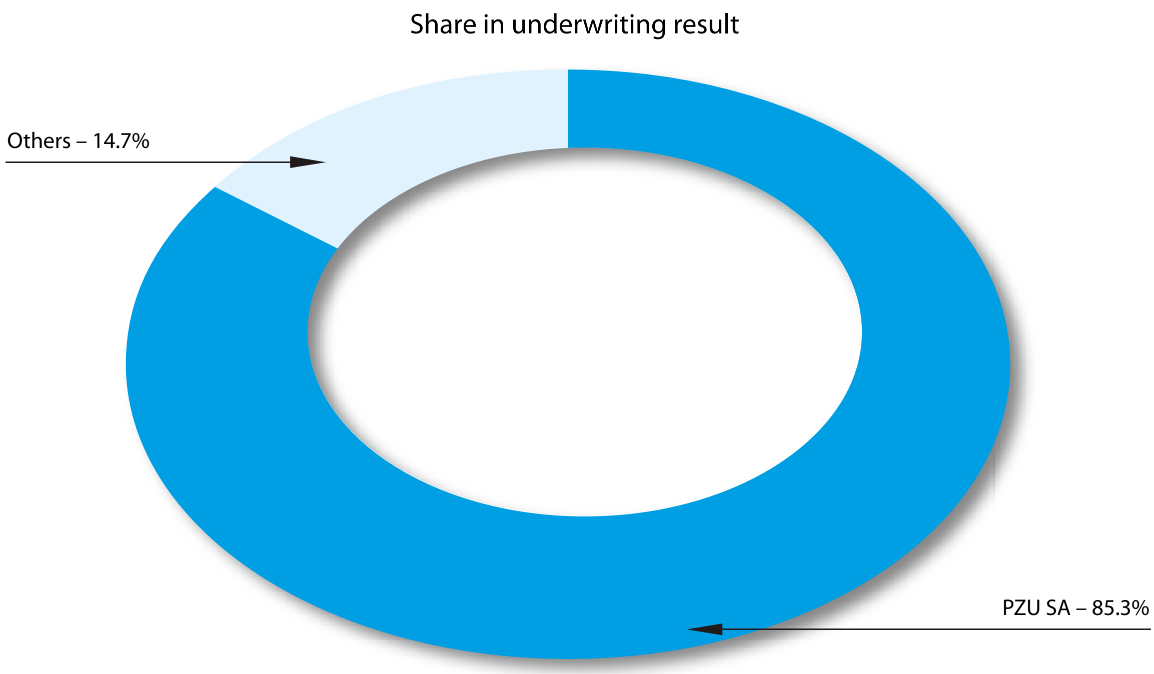
2007

Bartłomiej Ciesek
Specialist
Project Management Office, PZU Życie SA

My job requires flexibility and ability to respond to changes speedily. Interesting things are happening all the time, owing to which I always need to be ready to demonstrate my creativity and innovative approach. The market keeps encouraging us to adopt a fresh perspective towards insurance and financial products.

Market share of PZU SA in segment II insurance (direct activity) assessed by gross premium written and share in underwriting result (as of 31 December 2007)
Source: PFSA

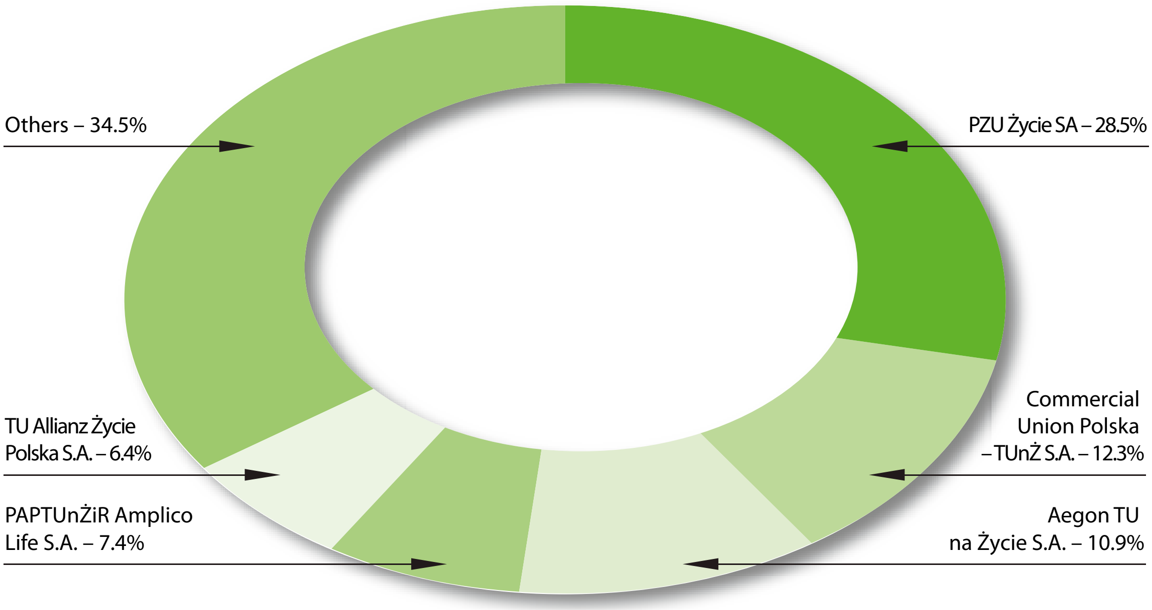




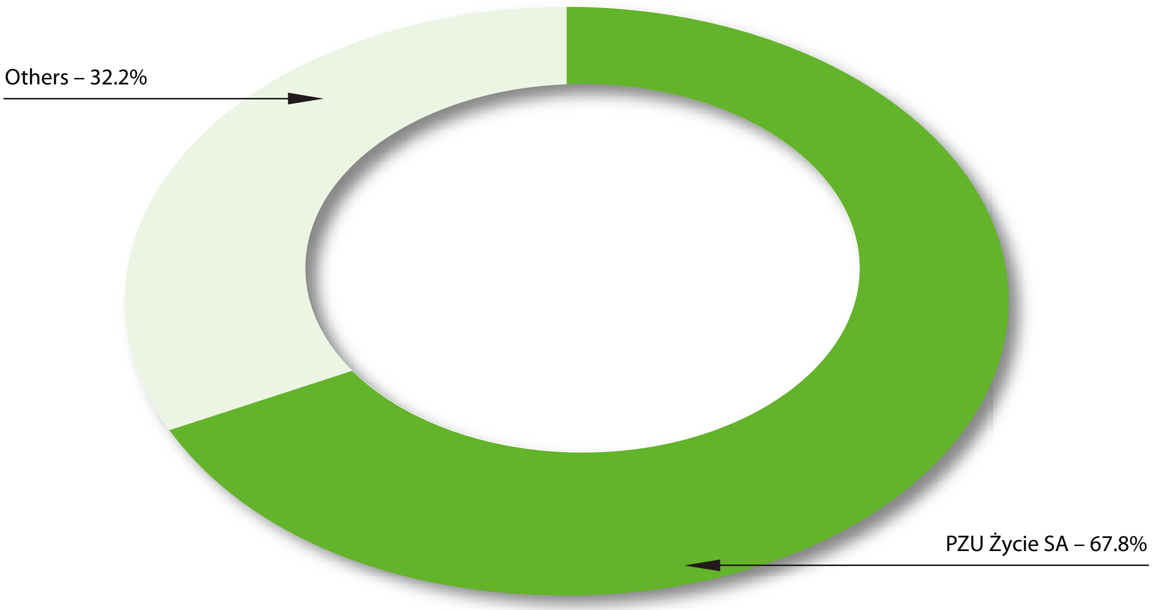
2007

Market share of PZU Życie SA in segment I insurance assessed by gross premium written and share in underwriting result (as of 31 December 2007).
Source: PFSA

Market share



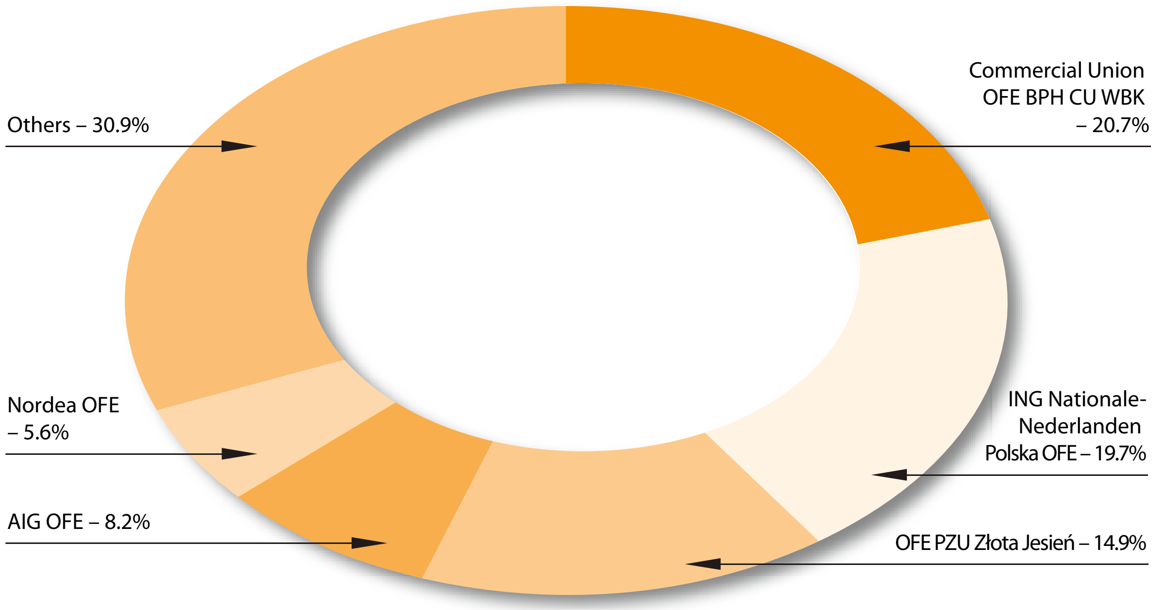
Share in underwriting result



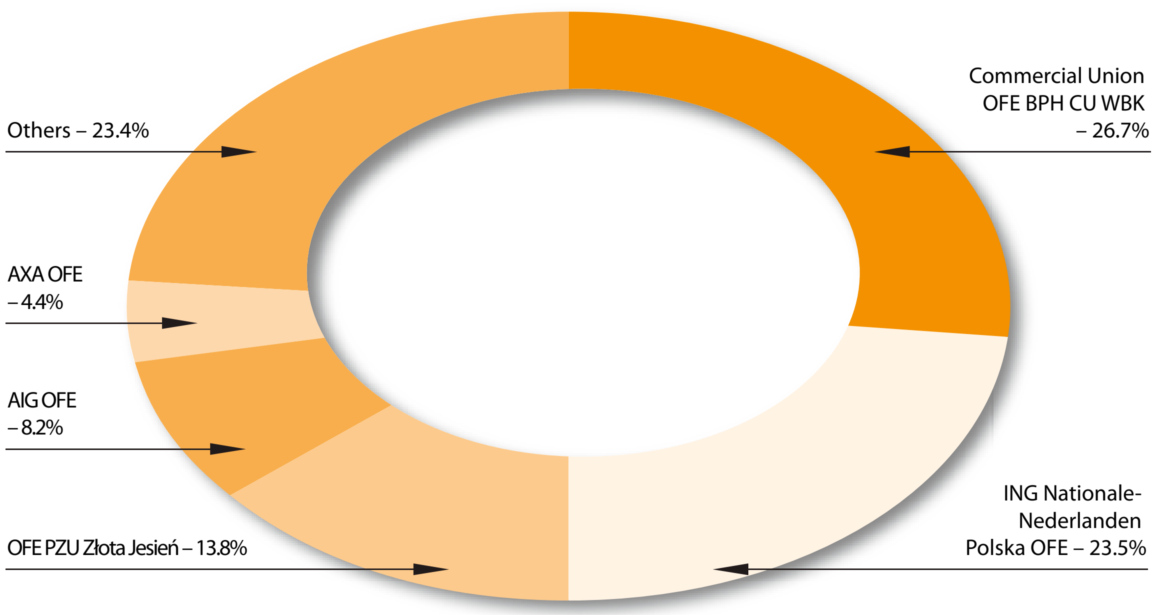
Market share of OFE PZU Złota Jesień in open pension funds assessed by number of members and value of net assets under management (as of 31 December 2007).

Source: PFSA

Market share by number of members



Market share by assets under management



6.7. Marketing and advertising

In 2007, the PZU Group was involved predominantly in marketing campaigns directly supporting the sale of products with the exception of the image-building December campaign, which was a good opportunity to convey Christmas and New Year's greetings to the customers.

Promotion of property and casualty insurance

The year 2007 focused on the promotion of property and casualty insurance products, with particular emphasis on the advertising projects concerning the motor insurance segment. The following three major advertising campaigns were conducted:

- the first one known as "OC w PZU oswaja emocje" (Compulsory motor third party liability insurance in PZU SA cools down your emotions), which was designed as a continuation of a campaign initiated in 2006 and lasted until the end of February 2007, associated with a popular internet contest. The campaign was aimed at convincing potential customers of the superior quality of PZU SA products compared to other insurance products available on the market;
- the second one had a tactical purpose of drawing the attention of current and potential customers to the fact that PZU SA decided not to increase the prices of compulsory motor third party liability insurance;
- the third one aimed at promoting compulsory motor third party liability insurance in relation to the 10% discount for new customers and 20% discount for the owners of imported vehicles.

The last two campaigns were conducted simultaneously on TV, radio and on the Internet.

In marketing activities promoting property and casualty insurance products a lot of emphasis was put on the campaign concerning subsidized agriculture insurance, aimed at raising awareness of their existence and appeal among potential PZU SA customers. Because of the specific nature of the product, it was important for the target group to come into direct contact with the promotional activities. The campaign involved press advertisements, articles in agricultural magazines, advertising spots on the radio as well as participation in trade fairs and sector-specific events. For the purposes of the campaign PZU SA in cooperation with Polskie Wydawnictwo Rolnicze published a "Praktyczny przewodnik po dotowanych ubezpieczeniach rolnych" (Practical guidebook of subsidized agriculture insurance) which was an accessible and practical source of information concerning this type of insurance.

In 2007, PZU SA conducted a number of multidimensional promotional campaigns to support the sale of products intended for the small and medium enterprises sector. Among other activities, a series of 20 "Jak sprzedawać lepiej" (How to sell better) sales conferences was organized, featuring Professor Andrzej Szromnik, the Head of the Chair of Commerce and Market Institutions of the Cracow University of Economics. Participants of those conferences consisted of present and potential PZU customers as well as PZU SA and PZU Życie SA salespeople.

The promotion of PZU SA financial insurance initiated last year was also continued with two advertising campaigns in the general and specialist press, launched in spring and autumn to promote Ubezpieczenie kredytu kupieckiego (trade credit insurance). Moreover, regular press promotional campaigns were run throughout the year concerning Gwarancje ubezpieczeniowe (Insurance guarantees).

The Internet counted as a significant communication channel to reach potential customers of financial insurance, hence, advertisements of PZU products appeared there on a regular basis.

Apart from campaigns on nationwide scale numerous locally focused advertising and promotional activities were introduced along with regional sales promotion campaigns based on the network of agencies. All of them were intended to provide support in the sales of particular products.

Promotion of life insurance and other products

At the end of March and beginning of April 2007, an advertising campaign entitled Strefa Zysku (Profit Zone) was conducted in order to raise awareness of attractive unit-linked investment products in the PZU product range. This campaign included activities shown on TV, in the press and on the Internet. In the course of the year the campaign of Strefa Zysku was accompanied by strong BTL support. Investment products were also promoted in the course of nine conferences devoted to the foreign investment funds of *PZU SFIO Fundusze Zagraniczne*, which were organized for customers and salespeople in June 2007 by PZU Życie SA, TFI PZU SA and Vontobel Asset Management AG.

In spring 2007, a direct marketing campaign was launched to boost the sale of group life insurance, with its mechanism enabling the PZU Życie SA salespeople to reach key persons in selected companies. From October, a promotional campaign was also run to advertise riders for group employee insurance of the P Plus type, which offered additional insurance for specialist treatment, hospitalization and surgical procedures, as well as the programme for spouses and children (over 18).

There was an intensive promotional activity of health and health-related insurance products. The increased sales of *Opieka Medyczna* (Health Care) packages was a result of motivational competitions for agents and full-time staff and an additional press campaign in the spring and autumn periods intended predominantly for women. An advert tailored to specific expectations of this target group appeared in selected women's magazines and on the Internet, with the latter particularly emphasizing the option of online purchase of health insurance.

In autumn, a direct mailing campaign with MGM (Member-Gets-Member) elements was conducted targeted at individual customers of *Opieka Medyczna* (Health Care) with the aim of boosting their loyalty and winning new customers through recommending the *Opieka Medyczna* (Health Care) brand by present customers. The introduction of a rider insurance package known as Strefa Zdrowia (Health Zone) was accompanied by a promotional campaign in the electronic media and strong BTL support.

At the end of the year, a nationwide advertising campaign in the press and Internet combined with a set of direct marketing activities was launched to promote Individual Pension Accounts (IKE).

In 2007, marketing support was used in business processes ranging from sales and service to claims handling. The activities were aimed at not only present and potential customers but also employees involved in the sales and services related to these products as well as external partners of PZU Życie, i.e. agents, persons responsible for the management of group insurance in employing establishments (factories, companies, offices), brokers and banks.

Marketing research and analyses

Marketing research and analyses conducted in 2007 by PZU SA and PZU Życie SA were focused primarily on the study of consumers' expectations and preferences and assessment of the quality of services and customer satisfaction. Data obtained in the course of the research was used to improve the current operation of the company and design long-term strategies.

The most significant projects were related to the analysis of customer service quality and included a variety of customer service multilateral aspects. They were conducted with the assistance of diverse methodological models and research techniques such as mystery shopping, mystery call, CATI, CAPI and online surveys.

In addition, the customer satisfaction assessment programme designed and implemented the previous year was continued in 2007. It comprises five assessment criteria: range of products, customer service during the sales process, customer service in the course of claims handling, regular customer service, image and the level of trust, all of which tend to influence the level of customer satisfaction to a large extent.

Research concerning the improvement of marketing activities focused on the assessment of concepts, advertisement creation, and audience response to advertising campaigns; it also diagnosed market sensitivity to the character and direction of sponsoring and preventive activity.

Analyses of the insurance market including the analysis of the market position of major PZU companies were conducted regularly.

Internet presence

In compliance with dynamic market trends, online operation was important to the advertising strategy adopted by the PZU Group in 2007. A series of sales campaigns was conducted on the Internet, in the course of which databases of potential customers were built and support provided for other advertising campaigns. Assistance was also given to the activity of sales representatives and persons managing group insurance.

In 2007:

- functionality of the corporate internet portal of the PZU Group (www.pzu.pl) was improved,
- extended version of the first assistance centre for sales representatives of PZU Życie SA in companies throughout Poland was created,
- online sale of health insurance (application form, online payment) at www.opiekamedyczna.pl was introduced and promoted.

Internet advertising became an integral part of promotional campaigns in the media launched by the PZU Group.

6.8. Major awards for the PZU Group and its products and services in 2007

The well-established presence of the PZU Group in the financial markets and in the social, economic, and cultural life of Poland has been recognized in numerous awards for the Group's companies, which were awarded for their ongoing activity, marketing activity and corporate social responsibility.

Awards related to market position

The PZU Group as the most valuable insurance company in Poland

As one of Poland's 100 most valuable companies, the PZU Group was ranked third in the general classification of the survey prepared by A.T. Kearney for Newsweek, occupying the leading position in the "insurance company" category.

The PZU Group as the largest insurance institution in Central and Eastern Europe

The PZU Group was the leader of the Top 50 major insurance companies' survey prepared by "Rzeczpospolita" and Deloitte, thus remaining in the position of largest insurance company in Central and Eastern Europe.

The PZU Group as one of the leading major Polish companies

The PZU Group was ranked sixth in the survey of Top 500 – major Polish companies published by "Rzeczpospolita" in 2008.

Particular PZU Group companies also achieved high market positions in rankings.

In the survey of 100 major financial institutions in Poland prepared by the Centre for Socio-Financial Research (CBFS) for "Gazeta Finansowa", PZU SA was ranked first, maintaining its position from the previous year, followed by PZU Życie SA OFE PZU was ranked 53rd.

Moreover, the PZU Group companies occupied leading positions in the ranking of major companies prepared by the monthly magazine Home & Market. PZU SA was ranked third and PZU Życie SA fourth in their survey of 500 major commercial companies.

Awards for the PZU Group products

OFE PZU "Złota Jesień" – The Best Business Partner

Otwarty Fundusz Emerytalny PZU "Złota Jesień" (PZU "Golden Autumn" Open Pension Fund) received the award for The Best Business Partner granted by Home & Market economic magazine. The criteria used by the juries included assessment of operation and performance within a given business sector as well as assessment by other companies. *OFE PZU "Złota Jesień*" (Golden Autumn) was particularly appreciated for its stable market position, high customer service standards and the management system that conforms to ISO 9001 standards.

OFE PZU "Złota Jesień" in TOP 1000

Otwarty Fundusz Emerytalny PZU "Złota Jesień" (Golden Autumn Open Pension Fund) received position no. 184 among all European investment and pension funds in the TOP 1000 survey prepared by renowned Investment & Pension Europe publishing house. Such high position of OFE PZU confirms the strategy and investment policy represented by the Fund, which has been systematically maintaining the position of a market leader ever since it began its operation.

European Medal for *"Krakowiak"* Investment Fund

This is the third BCC Medal for a TFI PZU SA investment fund. This time the European Medal, which counts as a recommendation of the Office of the Committee for European Integration and Business Centre Club for products meeting the highest European standards, was awarded to PZU FIO Akcji "*Krakowiak*" (Shares Fund).

In previous years the BCC Medal was awarded to PZU FIO Stabilnego Wzrostu "Mazurek" (stable growth fund) and *PZU FIO Papierów Dłużnych "Polonez" (Debt Securities Fund).*

Brand recognition

PZU as one of the most valuable brands
Companies of the PZU Group were again classified as most valuable brands in the "Marqa 2007" study – a survey of the most valuable brands published by "Rzeczpospolita".

The survey of brand value ranked PZU SA third, PZU Życie SA twenty-first and *PZU "Złota Jesień"* ninety-third. Brand value was assessed from the perspective of financial indices related to the value of the company. In this way, the PZU SA brand value was estimated as PLN 1,803.1 million, PZU Życie SA as PLN 443.8 million, and *PZU "Złota Jesień"* as PLN 87.1 million.

The ranking of "leading brands from the financial perspective" featured PZU SA also in third position, followed directly by *OFE PZU "Złota Jesień"* (fourth) and PZU Życie SA (fifth). The results of these three companies combined would place The PZU Group in the position of ranking leader. Ranking was assessed according to "power", defined as the relationship between brand value and annual income on sales.

PZU as a trusted brand
The European Trusted Brands 2007 ranking published by Reader's Digest magazine, which is the largest European consumer survey aimed at evaluating how much trust Europeans have in values, institutions and product brands, and awarded PZU SA with a golden Trusted Brand in the insurance companies category.

PZU as a brand with a high reputation
PZU SA was awarded the title of Brand with a High Reputation 2007 in the financial institutions category in an independent survey of Polish brands' reputation prepared by PremiumBrand, which assesses brand trust, recommendations, media image, the company as an employer, social involvement and the company as a business partner.

PZU as the most recognized and trusted brand
The surveys of Most Recognized Brand and Most Trusted Brand published by "Gazeta Finansowa" ranked PZU SA first and PZU Życie SA fifth.

PZU in the eyes of students

PZU SA took 10th position in the nationwide Career with an Employer 2006/2007 ranking, thus becoming classified as one of the best employers in Poland. The winners were selected by students from 125 colleges and universities and their career advice offices. The assessment criteria included, among others: company's active attitude and popularity, available career paths, type of business represented by the company, salary and prestige related with being employed by the company.

PZU Życie SA was awarded the Studencki Produkt Roku 2007 title (Student Product of the Year) in the 7th Studencki Produkt Roku contest in the category of students' security. This survey is based on identifying products and brands most popular among students and is intended to recognize the most student-friendly brands at the same time drawing the attention of companies to students as a customer group.

7. THE DEVELOPMENT OF THE **PZU GROUP** ORGANIZATION AND INFRASTRUCTURE

7.1. Distribution network, distribution channels and customer service

The PZU Group has the most extensive sales network in the Polish insurance market. At the end of 2007 there were nine regional branches of PZU SA and nine regional branches of PZU Życie SA with overlapping geographical reach. Branch unit borders were coordinated with the administrative division of the country and their operating areas were assigned to individual voivodeships. Branch centres are located in the following cities: Gdańsk, Katowice, Kraków, Lublin, Łódź, Poznań, Szczecin, Warszawa and Wrocław. The distribution network of the PZU Group in 2007 consisted of 354 local branch units for PZU SA (Inspectorates, Customer Service Centres, Customer Service Points) and 373 Customer Service Points of PZU Życie SA spread around the entire country.

In 2007 property and casualty insurance was distributed in the network of 7200 tied agencies and more than 1800 multi-tied agencies. In the field of motor insurance distribution PZU SA collaborated with 1070 car dealers and second-hand car outlets. The sale of products for corporate clients was vested predominantly in brokers. In 2007 PZU SA collaborated with 784 insurance brokers. Over 5100 insurance agents were actively selling life insurance in 2007 (including 1665 IKE agents selling individual pension plans). In the case of PZU Życie SA products, the role of persons managing group insurance in particular companies is important in relation to service and sales processes.

The PZU Group bancassurance products and financial insurance products are offered via banking delivery channels. In 2007, the PZU Group companies collaborated with nine banks, including: PKO BP SA, Bank Millennium SA, Deutsche Bank PBC SA, Bank Ochrony Środowiska SA and Bank Gospodarki Żywnościowej SA. A cooperation agreement was also established with Bank Pocztowy. Bancassurance products and financial insurance products are tailored to the needs of particular banks. They are offered to the customers of the bank collaborating with the PZU Group and can only be purchased through its distribution network. In 2007, saw the development of a team supporting the sale of bank insurance products appointed under the PZU Group Bancassurance Office. The team is obliged to actively support the distribution of insurance in bank branches of particular regions and organize product training with its coordinators offering day-to-day product-related assistance to bank employees. Also in 2007 a series of sales- and product-related, training was offered to the employees responsible for the distribution of financial insurance in local branches. Moreover, intensive training on financial insurance products was organized for 1400 selected agents.

Sales of *OFE PZU "Złota Jesień"* pension fund units are based on the PZU Group distribution network. Agreements may be concluded in every branch of the Group, while over 9700 sales representatives work on new acquisitions. It is also possible to conclude "Złota Jesień" fund agreements online via the PZU Group Internet site.

TFI PZU SA investment funds worked mainly through the group's distribution channels. In 2007, TFI PZU SA products were also available in the PZU Życie SA distribution network, BRE Group Internet banks, in the networks of Elite Finance & Consulting and Expander financial advisors, as well as on the Internet platform of Dom Maklerski AmerBrokers, Dom Maklerski POLONIA NET S.A., Beskidzki Dom Maklerski, Krakowski Bank Spółdzielczy, International Risk & Corporate Advisory (IRCA), Secus Asset Management S.A. and Karlik Group.

Additionally, a number of activities aimed at improving the efficiency of distribution channels were conducted in 2007, such as continued work on the final model of agency network operation and implementation of a management model for Office-Agencies. Activities aimed at improving the attractiveness of the PZU SA offer in the dealer's channel and consolidating the company's position in this market segment were also initiated. The project of software designed to facilitate work performed by insurance agents and partially automate handling insurance policies was completed and is now being prepared for nationwide implementation.

Agata Książek
Chief Specialist
Product Management Office, PZU SA

I have been designing insurance products for many years. For two years now I have been working in agricultural insurance. My job consists in developing internal regulations concerning insurance management. I also cooperate with our product specialists from various regional units, prepare market and business analyses from the field of agriculture insurance and handle calculations for the Ministry of Agriculture concerning the sale of subsidized agriculture insurances.

The year 2007 saw the completion of an extremely significant qualitative modification related to the sale of products intended for individual customers in local PZU SA branches. This modification consists in the implementation of a new management model in the form of Office-Agency in more than 350 PZU SA local branches – Inspectorates and organizational local structures within Inspectorate. The most significant results associated with the implementation of the Office-Agency model in PZU SA include:

- sales increase though intensified up-selling and cross-selling,
- sales increase though intensified up-selling and cross-selling,
- improvement of the quality of individual customer service in local branches of PZU SA units,
- development of local branch agents' sales skills through implementation of the programme of soft skills sales training,
- uniform terms and conditions of cooperation with PZU SA Office-Agency
- implementation of an effective, motivational financial model of PZU SA Office-Agency, which includes the costs of agent's operation.

The PZU Group uses traditional channels of distribution at the same time entering the market of modern communication alternatives to get close to its customers. PZU Życie SA introduced an application which allows handling group insurance via the internet, which enables communication between the insurance company and the policy holder and facilitates the processes which take place in the course of insurance agreement duration since its conclusion until the moment of paying out the benefits. In 2007 there was a significant growth in the sale of individually continued insurance, which could be obtained owing to external channels of distribution (mailing). Moreover, a remarkable improvement in the quality of customer service was recorded.

7.2. Claims and benefits

With respect to loss adjustment the priorities in 2007 consisted in providing a high standard of customer service and reducing the average time needed for loss adjustment.

2007 saw continued efforts focused on further improvement of procedural and systemic solutions concerning adjustment of motor insurance losses (e.g. by implementing a new version of the CSI – SLS system and approval of procedures). Much emphasis was placed on formulating assumptions and, subsequently, introducing modifications in the divison of property loss adjustment, e.g. a set of assumptions was formulated concerning the course of the property loss adjustments process with the assistance of the New Loss Adjustment Organization Project (NOLS Project), such as:

- Mobile Expert (new principles of adjusters' work organization),
- TeleAssistance (Telepomoc) (possibility of reporting losses by telephone),
- CSI – SLS system (IT system supporting loss adjustment process).

It is now also possible to report all property losses by telephone through a specialized central unit – a Telecentre, which can be accessed on 0 801 102 102 round the clock, which undoubtedly constitutes a major convenience to PZU SA customers. Additionally, at the time of reporting property loss, the PZU SA customer is provided with exhaustive and clear information concerning the time of loss examination, forms and documents necessary for loss adjustment or activities necessary to protect the loss from developing or reducing the scope of an existing loss. As a result, the PZU SA customers receive comprehensive and professional customer service and develop a positive image of the company.

As in the case of motor insurance losses, the process of technical management of property loss adjustment was vested in the group of Mobile Experts (231 of them), who form a team of experts selected through an internal recruitment process. Property Mobile Experts investigate the loss at a time agreed upon with the customer, handle the documents necessary in the loss adjustment process and offer advice and explanations to the customer. The knowledge and experience of Property Mobile Experts combined with the highest quality equipment, professional approach to customers and willingness to meet their expectations represent what PZU stands for.

Additional support and improvement of the whole process of property loss adjustment (both the technical and the substantive side) is provided by a uniform CSI – SLS IT system (which also manages motor insurance losses).
The system enables the following:

- Monitoring property losses reported and managed within the scope of the entire company, which is an effective tool for preventing insurance fraud;

- Generating correspondence templates for customers and other entities involved in the property loss adjustment process;
- Reminding adjusters of overdue losses.

A significant element of implementing modifications in the division of property loss adjustment consisted in designing procedures which would produce a uniform and systematized course of loss adjustment clearly defined for the entire company.

Implementation of the above-mentioned solutions in the division of property loss adjustment will be beneficial through:
- reduced time needed for property loss adjustment,
- uniformization of the property loss adjustment process within the entire company,
- clear definition of tasks and scope of activity associated with property loss adjusters,
- reduced costs of property loss adjustment,
- reduced amounts of loss adjustment payments resulting from frauds
- improved quality of customer service and more satisfaction for the PZU SA customers, especially if the number of concluded insurance agreement continues to grow steadily.

The next stage of the NOLS Project consists in putting forward assumptions related to the personal loss adjustment process, i.e. both third liability insurance and accident insurance by:
- specifying assumptions concerning the organization of this process,
- designing projects of uniform procedures,
- determining functional requirements for the CSI – SLS System with consideration of the specific character of personal loss.

Further plans related to the development of the NOLS Project are aimed at implementing the internet system of reporting loss.

2007 saw the completion of the analytical phase of a project aimed at centralizing and optimizing the processes of benefits adjustment in PZU Życie SA. The main idea behind the project was to develop the best possible processes and organization of benefit adjustments to achieve the following objectives:
- reduce costs through more efficient and simplified processes of managing benefit-related claims and elimination of unnecessary actions,
- maintain or improve the customer satisfaction level by reducing the time needed for benefit adjustment (this includes simplification of the processes and more convenience for customers),
- increase control over the process and uniformization of benefit adjustment procedures.

Developments in the Polish insurance market increase the role of good organization of the processes of adjusting benefits related to life insurance as:
- life insurance market counts as one of the most dynamically developing segments of the Polish insurance market, owing to which the number and value of payments to be made increases,
- the product structure evolves (growing proportion of more complex insurance packages, presence of medical insurance), due to which the character of tasks delegated to staff during the benefit adjustment process changes,
- high degree of centralization and automation of service allow staff to be better prepared for responding to an increasing number and complexity of claims reported by more demanding customers.

Centralization and optimization of benefits adjustment is particularly important in the case of PZU Życie SA because the volume of benefits this company manages enables obtaining economies of scale with a high degree of centralization introducing significant improvements without adversely affecting the quality of customer service thereby:
- allowing one to achieve maximum levels of personal expenses due to the economies of scale and improved effectiveness of staff dealing with benefits adjustment,
- reducing the number of staff required to be qualified and certified as adjusters and improving the monitoring of adjustment decisions which will curb insurance fraud.

An ultimate model of adjustment in PZU Życie SA is intended to incorporate channels of remote communication to receive reported claims. This would imply the key role of customer authorization procedure, which could replace the necessity of proving one's identity with a document, which is presently the practice in Customer Service Points.

Activities aimed at centralizing and facilitating the processes of benefit adjustment in PZU Życie SA will continue in 2008 in the direction towards:
- preparing a more detailed model of benefit processes,
- establishing a central IT system to support service-related processes.

7.3. IT solutions for the PZU Group processes and other business initiatives

The year 2007 saw the continuation of strategic projects initiated in the previous years. The portfolio of strategic projects became more clearly formulated with the visible distinction between the activities aimed at developing organization and those designed to modernize the infrastructure and internal processes.

The condition necessary to automate the PZU Group processes is the efficiency of the information and communication technology (ICT) infrastructure of PZU SA and PZU Życie SA, therefore efforts were continued to proceed with the modernization of the broad network for the PZU Group.

The year 2007 brought stabilization of the Insurer and SLS central systems. The latter was approved for use, extended by property loss adjustment service and implemented nationwide. The largest internally established PZU system not only became stable but was consequently developed. The Insurer system, which underwent the centralization process last year, was equipped with the modified process of automatic renewal, which constitutes an example of how centralization of the system followed by the centralization of business processes can enhance the efficiency of PZU SA operation.

Also in 2007 the solution used to transfer the motor insurance data to the Insurance Guarantee Fund (UFG) was replaced, which included both the introduction of a new supplying system and, by the so-called initial supply, enabled catching up on the backlog.

The development of the Service Desk was also continued through extending the scope of services by new applications. In 2007 the level of customer satisfaction related to the Service Desk was higher than 90%, which is a ratio encountered only in very well-developed organizations.

With respect to further large-scale plans concerning IT modifications in PZU SA (after centralization of the Insurer and implementation of SLS), the final and ultimate version of the system's structure was developed. In addition, the concept of modernizing the present system with respect to mass products was developed.

In the field of further actions concerning product systems, the year 2007 was significant for completing the migration of products from the Registers (Rejestry) system to the Insurer system, so that the former could be withdrawn. Work was continued in order to implement the new system for corporate customers insurance (Corpo). The IT solution for financial insurance products (SOUF) was selected and collaboration with its provider was established.

The initiative related to implementation of the IT system supporting the work of PZU SA insurance agents was also continued in 2007 with the pilot tests performed and preparations made to conduct nationwide implementation. The financial benefits in the form of reduced costs of managing insurance policies are expected in 2009.

The operation of Committee for Business and Technology (Komitet Biznesowo-Technologiczny) developed throughout 2007, owing to which co-responsibility of the business-related layer for the company's technological image can be promoted. High attendance of representatives of many business groups at the committee meetings shows that it forms an appropriate arena for establishing business priorities.

Following the erection of the Financial and Accounting Centre (Centrum Finansowo-Księgowe, CFK), which overtook the majority of tasks related to the accounting of non-insurance costs, the concept was introduced to extend the Centre's scope of activity by dealing with human resources and remunerations of particular company branches.

Analogically, works were conducted in PZU Życie SA under the name of Reorganizacja Struktur Księgowości (Reorganization of Accounting Structures), aimed at establishing a centre managing accounting of non-insurance costs for the entire company.

Other significant projects were also being developed by PZU SA, such as standardization of customer data collection and automation of the Bonus – Malus rate calculation. Additionally, 2007 saw the beginning of the joint project of PZU SA and PZU Życie SA aimed at standardizing the opinion forming process and supporting the work of expert physicians (Central Register of Physicians Opinions and Verdicts).

In 2007 PZU Życie SA developed the ultimate business processes model, which is a starting point for their technological transformation.

The major development-oriented objective for PZU Życie SA in 2007 consisted in continued implementation of an ultimate structure of the integrated IT system.

The portfolio of key business initiatives, with their elements in the form of IT systems, for 2007 – 2008 was approved. The plan was based predominantly on the completion of strategic projects such as: GraphTalk A.I.A. (Central Product System, currently the Model Scentralizowanej Obsługi Ubezpieczeń program [Model of Centralized Insurance Management] used for unit-linked products), the project of Wdrożenie Rejestratora Ubezpieczeń Grupowych (Implementation of Group Insurance Registry Engine) – the eRU system has been completed and is ready to be implemented for a trial period, Centralny System Prowizyjny (Central Commission System) and the Info Bus project.

In 2007 the CROM system (Centralny Rejestr Opinii Medycznych – Central Register of Medical Opinions) was introduced as well as banking systems for managing bancassurance products. The Invest system for new products with investment funds was upgraded.

The workflow tool was activated for the electronic archive of contracts, dealing with correspondence and issues directed to Centrum Obsługi Ubezpieczeń (the Centre of Insurance Management) as well as circulation of cost-related documents within the company.

Moreover, under the IT Governance project, 2007 saw the completion of the second stage which comprised a more detailed outline of the medium-term plan of implementing all IT solutions for PZU Życie SA and a plan for implementing all project products.

8. RISK MANAGEMENT AND CAPITAL MANAGEMENT IN THE **PZU GROUP**

The risk and capital management system in the PZU Group enables control over risk and an adequate level of capitalization associated with financial flexibility, which allows the company to derive benefits from favourable business opportunities.

8.1. Risk management

For the risk to be undertaken in a controlled manner the company needs reliable structure and comprehensive risk management procedures, which enable identification, measurement and monitoring the extent to which the PZU Group is exposed to risk.

8.1.1. Principles of risk management

Risk management in the PZU Group rests upon three main principles:

- Taking controlled risks: financial strength and permanent growth of value constitute an integral part of the PZU Group business strategy. In order to achieve these goals the PZU Group operates under clearly defined risk policy and risk control limits;
- Clearly defined scope of responsibility: the PZU Group operates on the basis of task, competence and responsibility delegation with the delegated employees responsible for the risks they take and their motivational stimuli tuned with the company's business targets;
- Flexibility in approaching risk: transparency and responsiveness to changing conditions of the business environment. The PZU Group popularized the process of sharing knowledge at particular organizational levels.

8.1.2. Risk management structure

Risk management processes in the PZU Group are managed by the following bodies, committees and organizational units:

- Supervisory Boards,
- Management Boards,
- Assets Liabilities Committee of the PZU Group,
- Committee for Financial Insurance and Guarantee Risk PZU SA,
- Treasurer's Office (PZU SA/PZU Życie SA),
- Financial Insurance Office PZU SA,
- Reinsurance Office PZU SA,
- Reinsurance Team PZU Życie SA,
- Actuarial Office PZU SA,
- Actuarial Office PZU Życie SA,
- Product Management Office PZU SA,
- Product Management Office PZU Życie SA,
- Internal Audit Office PZU SA,
- Internal Audit Office Biuro PZU Życie.

The Supervisory Boards define the principles and policy of risk management and approve the level of risk tolerance for the PZU Group.

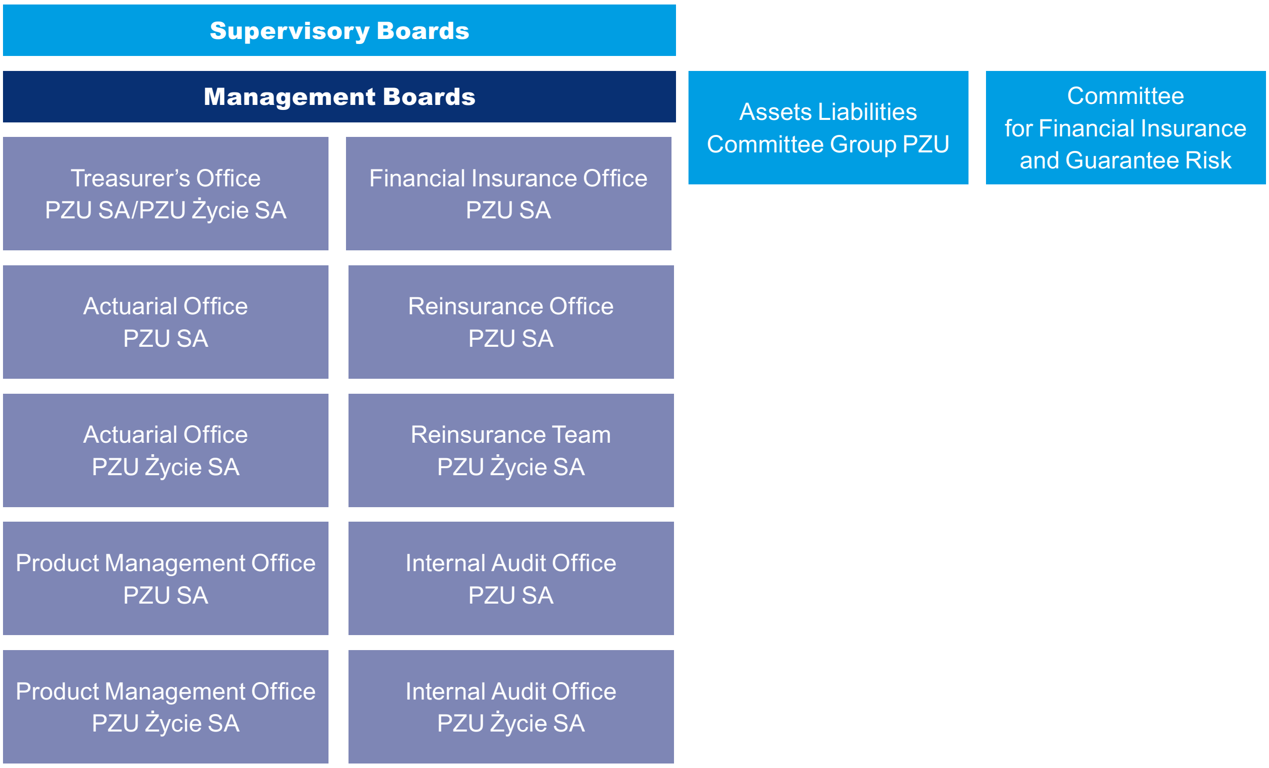
Management Boards are responsible for implementing the risk management system on the basis of recommendations expressed by the following committees:

- Assets Liabilities Committee of the PZU Group, which delineates recommendations related to the management of balance structure in order to provide the PZU Group and its particular companies with an appropriate level of security, solvency and profitability and establishes recommendations concerning acceptable financial risk levels and guidelines for units and entities managing assets in the PZU Group companies,
- Committee for Financial Insurance and Guarantee Risk, which delineates the strategy of PZU SA in relation to products from the financial insurance and insurance guarantees segment, grants limits of credit involvement and monitors the operation of PZU SA in the field of "major" financial risk related to these insurance products.

The following offices are in charge of identification, estimation and control of the risks that they assigned with:

- market risk – Treasurer's Office (PZU SA/PZU Życie SA)
- credit risk – Treasurer's Office (PZU SA/PZU Życie SA), Financial Insurance Office PZU SA, Reinsurance Office PZU SA and Reinsurance Team Życie SA,
- risk in property and casualty insurance – Actuarial Office PZU SA, Product Management Office PZU SA, Reinsurance Office PZU SA,
- risk in life and health insurance– Actuarial Office PZU Życie SA, Product Management Office PZU Życie SA, Reinsurance Office PZU Życie SA,
- operational risk – specific units of the Internal Audit Office of PZU SA and PZU Życie SA.

Risk management in the PZU Group



8.1.3. Risk areas in the PZU Group

Risk management, imprinted within the overall Group management system, is indispensable for strategic planning in the PZU Group. Apart from strategic risk, there are three risk categories in the PZU Group: basic risks (related to the conducted insurance activity), operational risks and other risks.

Basic risks are subdivided in the following categories:

- Insurance risk consists of the risk of incurring financial loss or unfavourable change in the value of insurance liabilities in connection with inadequate premium rating, inadequate assumptions related to the evaluation and formation of reserves as well as possible force majeure events (natural disasters).
- Market risk arises as a result of negative influence of changing prices in the financial markets on the value of assets and/or liabilities, such as changing prices of shares, interest rates, credit spreads, currency exchange ratios or real property.
- Credit risk consists in the risk of incurring financial loss as a result of decreased credit reliability (drop in credit rating) and/or failure to fulfil a commitment by the PZU Group business partners and/or the business partners of beneficiaries of guaranties issued by the PZU Group.

Risk classification in the PZU Group

Basic risks	Operational risks	Other risks
Insurance risk	Human resources	Risk of financing and solvency
Property and casualty insurance Life and health insurance	Processes Systems	Risk of reputation
Market risk	Force majeure events	
Shares Interest rates Currency exchange rates Credit spread Real property		
Credit risk		
Credit rating migration Bankruptcy		

Risks classified as operating risks and other risks are of secondary importance and arise in the course of conducting business activity.

Operational risk includes potential loss resulting from inadequate or unreliable internal processes, actions performed by people, systems, force majeure or non-compliance with the provisions of law, which causes sanctions on the supervisor's side as well as inability to act in an appropriate manner. Managing operational risk is aimed at downsizing it to reach an acceptable level, as additional operating risk is not directly related to the opportunity of acquiring additional profit.
The other risks category comprises the risks of financing and solvency as well as the risk of reputation.

The risk of financing and solvency stems from the inability of the PZU Group to cover short-term liabilities or increased costs of acquiring funds to finance such liabilities. The risk of financing and solvency may also arise when the inflow of cash is higher or lower than expected or in the case of limited ability to obtain a significant increase on funds in a short period of time.

The risk of reputation is related to any events or actions, which may damage the reputation of the PZU Group among its customers and business partners at the same time impeding the company's effectiveness in operation. As maintaining a positive reputation is a key factor for a company operating in the insurance and financial sector, the PZU Group has defined the principles and values, adherence to which limits the risk of losing a good reputation and which is facilitated by procedures enabling early identification of potential problems.

Management of basic risks

Risk appetite and tolerance of taking risks in the PZU Group has been defined in the form of limits approved by Supervisory Boards and Management Boards on the basis of the recommendations of the PZU Group Assets Liabilities Committee and the Committee for Financial Insurance and Guarantees Risks PZU SA. Appropriate bodies within the Group ascribe risk limits to lower organizational levels.

Insurance risk management

Insurance risk in the PZU Group comprises three types of risks:
- risk of premiums is based on inadequate estimations of premium rates and possible discrepancies between the expected level of premiums and their actual value;
- risk of reserves results from inadequate estimations of the technical reserves' level combined with possible fluctuations of factual loss around their mean value because of the stochastic nature of future insurance payments;
- risk of catastrophe is related to the occurrence of force majeure events, such as the natural disasters, pandemics or terrorist attacks.

The Product Management Office PZU SA and Product Management Office PZU Życie SA are responsible for the product structure and premium rating based on the actuarial and market risk assessment. Along with establishing premium ratings, simulations are performed to estimate the insurance results for the coming years. Moreover, the PZU Group conducts regular analyses of premium adequacy and portfolio profitability for particular insurance types on the basis of various rankings and analyses, including assessments of underwriting results on a particular product for a given reporting period, assessments of product profitability on the basis of the estimated value of insurance portfolios within the Embedded Value model of calculation. The frequency of conducting such analyses depends on the dimension of the product and possible fluctuation of the result. In the case of an unfavourable course of insurance, actions are undertaken to restore a particular level of profitability, which include modifications of premium rating or even changing the entire profile of the insured risk by means of modifying particular provisions of general terms and conditions of insurance.

The Actuarial Office of PZU SA and Actuarial Office of PZU Życie SA manage the risk of technical reserves adequacy by improving the methodology of their calculation as well as monitoring processes connected with establishing reserve limits. The policy of creating reserves in the PZU Group is based on the following factors:
- conservative approach to estimating the amount of technical reserves;
- the continuation principle, according to which the methodology of creating technical reserves ought not to be modified unless special circumstances arise.

2007

Andrzej Daniluk
Deputy Treasurer
Treasurer's Office

My career in PZU SA started in 2003 in the Financial Investments Office where I was involved in setting up and managing the Derivatives Department. In a relatively short period of time we acquire all the necessary competencies and become an important participant in the market of structured products and derivatives by making many successful investments. Last year I was offered an opportunity to face another fascinating challenge as a PZU Group Deputy Treasurer. Treasurer's Office connects asset liability management. This process, called ALM, is particularly important and complex in an insurance company.

In the PZU Group the process of estimating technical reserves is conducted under the supervision of the Chief Actuary. Moreover, every year there is an inspection of reserves conducted by an external expert in order to examine the correctness of calculation. The expert may also conduct the appraisal of insurance portfolios according to the Embedded Value calculation model.

The possibility of loss arising as a result of natural disasters or other force majeure events poses one of the greatest threats to the operation of the PZU Group. In order to provide protection against financial loss resulting from natural disasters, the PZU Group monitors areas threatened by their occurrence and then takes relevant decisions, such as limiting the policy portfolio for a given geographical region or introducing amendments to policies (limits, franchises, exclusion of liability) or a limited scope of coverage for a given product. A significant role in catastrophe-related risk management is played by the optimization of the reinsurance programme through specifying the level of priority as well as reinsurance limits (capacity of the reinsurance agreement), on the basis of results of catastrophic scenarios. The PZU Group developed its own model of catastrophic loss development and introduced procedures, which allow recording payments resulting from catastrophe-related loss in special domains of the system. This model enables monitoring catastrophic risk on a regular basis and calculating the probability of a similar type of loss occurring in future.

Market risk management

Market risk in the PZU Group comes from two major sources:
- investment activity of PZU Asset Management SA,
- sensitivity of the present value of liabilities to changing interest rates.

Principles and standards of market risk management were defined in the Statutes of investment activity *(Regulaminy działalności lokacyjnej)* and Investment objectives and guidelines *(Cele i wytyczne inwestycyjne)*. Acceptable scope of market risk is defined by the PZU Group Assets Liabilities Committee in the form of general limits pertaining to involvement in financial instruments. A significant role in the process of market risk management is played by the Treasurer's Office (PZU SA/ PZU Życie SA), which manages the strategic portfolios of debt securities in order to monitor the dates on which they are due and the amount of liabilities at the same time exercising day-to-day control over the risk of investment activity and specifies the amounts of security limits pertaining to assets for PZU Asset Management SA. On the basis of these limits PZU Asset Management SA defines the structure of risk limits for its investment activity together with the stop loss mechanism referring to the portfolios whose benchmark is based on absolute rate of return.

The unit that manages the PZU Group assets is responsible for measuring the market risk it generates. On a daily basis the Treasurer's Office prepares a Report on incurred risk and investment results *(Raport o ponoszonym ryzyku i wynikach inwestycyjnych)*, which is then passed forward to the Management Boards PZU SA i PZU Życie SA. The Management Boards of particular companies assess the risk of investment activity on the basis of financial models recommended by the PZU Group Assets Liabilities Committee, which are designed to determine the optimum structure of assets on the basis of the analysis of liabilities with the recognition of acceptable inadequacy gaps and risk of solvency as well as ratios of investment risk for particular types of investments.

Credit risk management

Exposure of the PZU Group to credit risk is directly related to its investment activity, operation in the segment of financial insurance and guarantees and reinsurance contracts. The PZU Group distinguishes between three types of exposure to credit risk:
- the risk of bankruptcy on the side of the issuer of financial instruments, which the PZU Group invests in or trades with, e.g. corporate securities;
- the risk of default in performing a commitment by the PZU Group's business partner, e.g. reinsurer or over-the-counter derivative financial instruments;
- the risk of default in performing a commitment by the PZU Group's customer towards a third party, e.g. insurance of a trade credit, financial guarantee.

The principles of managing credit risk which stems from investment activity are specified in the Statutes of investment activity *(Regulaminy działalności lokacyjnej)* and Investment objectives and guidelines (Cele i wytyczne inwestycyjne). The PZU Group Assets and Liabilities Committee specifies the limits of involvement and the limits of credit risk for the portfolios of credit risk and defines entities with or through which the PZU Group may make transactions together with the involvement limits they were ascribed with.

Prior to be being approved by the PZU Group Assets Liabilities Committee, credit limits for particular entities are thoroughly analyzed by the Treasurer's Office with respect to the entity's financial strength, market position and selected qualitative aspects. Moreover, the Treasurer's Office regularly, and no less often than once every three months, examines and assesses the financial condition of the issuers of financial instruments within credit risk portfolios.

The members of Management Boards of PZU SA and PZU Życie SA are updated on a daily basis by means of the Report on incurred risk and investment results *(Raport o ponoszonym ryzyku i wynikach inwestycyjnych)* prepared by the Treasurer's Office, which includes information concerning the allocation of specified limits to particular credit risk portfolios.

Credit risk related to operation in the segment of financial insurance and guarantees consists primarily in the danger of default by the PZU SA customer in performing commitments towards third parties. This danger is generally a result of enterprise failure or unfavourable influence of the economic environment. An acceptable scope of credit risk related to the operation of the Financial Insurance Office is specified by the Committee for Financial Insurance and Guarantee Risk in the form of credit involvement limits divided into exposure, product lines and regional PZU SA units. The task of the Financial Insurance Office consists of measurement and control of the incurred credit risk through comprehensive assessment of entity's risk level at the stage of reviewing the application form on the basis of the analysis of quantitative and qualitative factors and transaction risk as well as in monitoring the financial standing of the customers who were awarded a guarantee or insurance of liabilities. Moreover, the Financial Insurance Office regularly monitors the portfolio of financial insurance and guarantees, with respect to exposure to risk, territorial concentration or involvement in a single entity and capital group.

Operational risk management

Operational risk management constitutes an integral part of risk management structure in the PZU Group. A significant role in the process of operation risk management is performed by Internal Audit Offices, which identify and assess operational risk factors.

8.2. Capital management

The Treasurer's Office is responsible for optimum use of the Group's financial resources by implementing an appropriate capital management policy. The priority of the PZU Group is to possess the level of capital which allows it to maintain financial strength even after incurring huge loss and responding to the capital requirements of particular companies of the PZU Group. The Treasurer's Office heads for maintaining the optimum structure of capital within the PZU Group, which enables maintaining financial flexibility along with optimum financing costs.

Capital adequacy

In order to assess capital adequacy the PZU Group estimates the amount of economic capital, i.e. the capital necessary to cover unexpected loss, and then calculates the amount of available capital according to QIS 3 methodology. As of 31 December 2006 the capital adequacy coefficient, which is a quotient of available capital and estimated economic capital amounted to 603% for the PZU Group, with 495% and 482% for the Group's major companies PZU SA and PZU Życie SA, respectively.

Financial strength rating and credit rating

The major PZU Group companies have been assessed with the financial strength rating (FSR) and credit rating (CR) by the Standard & Poor's agency, which has been working with the PZU Group since 2004. In 2007 the agency confirmed its "A-/Negative/" financial strength and credit rating of insurance companies for PZU SA and PZU Życie SA. The basic factors influencing high rating level involve high capitalization, very high operational results, strong competitive position in the Polish insurance market and high level of brand recognition in Polish society.

9. REINSURANCE

Reinsurance policy of the PZU Group

The year 2007 saw a centralization of reinsurance activities conducted by PZU SA and PZU Życie SA which enables creating effective reinsurance programmes to protect the insurance portfolios of both companies and provides consistent monitoring of the planning and executive processes.

The reinsurance programme of PZU SA in 2007, which was performed through obligatory agreements and facultative reinsurance treaties, consequently provided security to the core business by reducing the risk associated with phenomena which could adversely affect the financial condition of PZU SA.
The PZU SA reinsurance programme in 2007 consisted of seven obligatory reinsurance treaties, a several dozen reinsurance agreements and several service agreements supporting sales processes and risk assessment. Similar to previous years, PZU SA worked with leading reinsurance companies (including Munich Re, Lloyd's, Hannover Re, SCOR Re and Swiss Re). In 2007, obligatory reinsurance treaties were placed with over 30 reinsurance companies. Over 95% of reinsurance premiums were ceded to reinsurance companies with Standard & Poor's rating of "A" or above.
The reinsurance cost as a percentage of premiums ceded to gross premiums written in 2007 stood at a level similar to the previous year and amounted to 1.9%.

Reinsurance in PZU Życie SA in 2007 focused mainly on protecting the portfolio against the accumulation of catastrophe-related risks. Additionally, as of 2007 the company has been protected against extensive loss from individual policies of high sums insured or against accumulating claims and benefits from a large number of policies.

Also in 2007 the process of developing new insurance products based on the know-how of reinsurance experts began, which may enhance the amount of reinsurance contracts concluded in the upcoming years.

Catastrophe risks

As part of the risk accumulation project, in 2007 PZU SA continued to analyze the scale of the company's insurance portfolio exposure to the risk of flooding and hurricanes. The results of this work were used in the renewal process, allowing for negotiation of better price conditions for a catastrophe treaty.

Inward reinsurance

Similar to previous years, with regard to inward reinsurance, PZU SA supported domestic insurance companies, with both facultative and obligatory reinsurance.

In 2007, PZU SA coordinated the process of building a reinsurance programme and developing its structure together with UAB DK PZU Lietuva and OJSC IC PZU Ukraine. The company also continued its involvement in reinsurance for its subsidiaries as their reinsurer.

PZU Życie SA was not involved in inward reinsurance in 2007.
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10. ASSET MANAGEMENT

Activities of PZU Asset Management SA in 2007

Asset management was the only type of brokerage activity performed by the Company in 2007.
Within this remit, PZU Asset Management SA managed the assets of basic product companies of the PZU Group, i.e.:
- PZU SA,
- PZU Życie SA,
- TFI PZU SA funds,
- assets of the MPTE fund *"Słoneczna Jesień"*.

In 2007 PZU AM SA began to manage a new TFI PZU SA fund – PZU FIO Optymalnej Alokacji (Optimum/Active Allocation). Throughout the whole of 2007 works were continued to create Real Estate Property Sector Closed Investment Fund, which is scheduled to be launched in the first half of 2008.

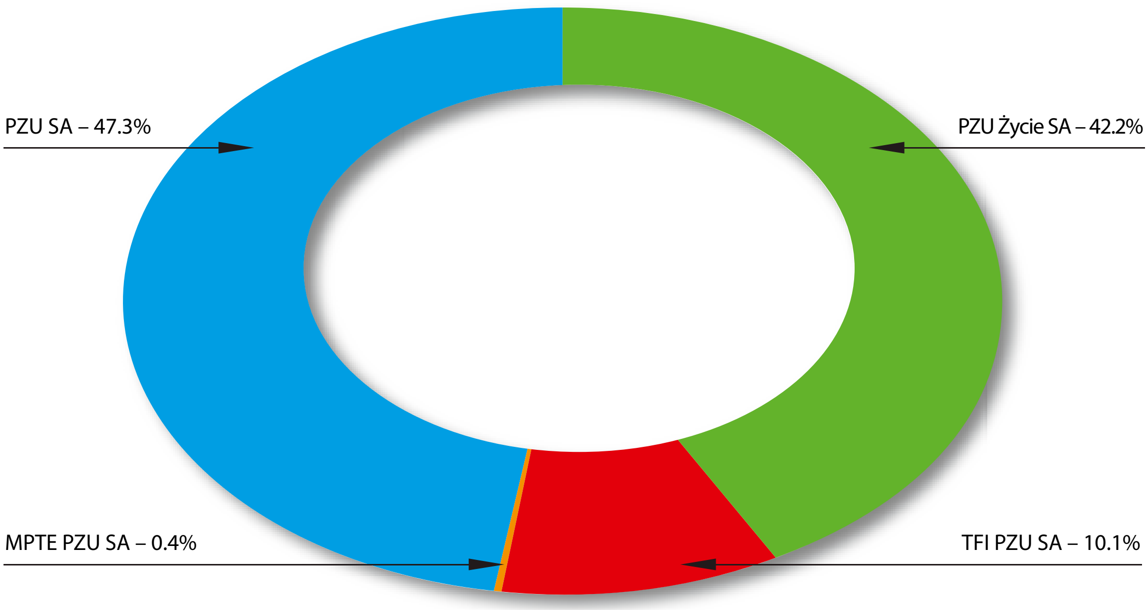
At the end of December 2007, the PZU Asset Management SA employed 43 people, including seven investment advisor licence holders.

The asset portfolio managed by PZU Asset Management SA

As of 31 December 2007, PZU Asset Management SA managed assets amounting to PLN 25.6 billion. In 2007, assets under management grew by 11%. The share of TFI PZU SA's assets in the portfolio rose significantly – at the end of 2006 it amounted to 7.1%, while at the end of 2007 it exceeded 10.1%. The share of PZU SA assets and PZU Życie SA assets in the portfolio dropped (from 48.9% to 47.3% and from 43.8% to 42.2%, respectively).

Assets managed by PZU Asset Management SA broken down into PZU Group companies as of 31 December 2007

Source: The PZU Group



11. RATING

On 6 August 2007, Standard & Poor's confirmed its "A– /Negative/" rating for the main insurance companies of the Group (PZU SA and PZU Życie SA).

Justifying its position in the analytical report, the agency cited the strong competitive position of the PZU Group, its excellent operating performance and high capitalization, which enhanced the rating. The most significant factor to affect the assessment in a negative manner was related to the open question of the influence of political risk on PZU SA operation, seen as a possibility of intervention into the company's activity by its major shareholder, the Polish Treasury, at the time of escalating conflict between shareholders.

The insecurity concerning the shareholders' influence on the operation of the PZU Group and its future development perspectives at the time of personnel reshuffles in compositions of major companies' Management Boards was the justification the analysts used for maintaining a negative rating position.

Standard & Poor's stated that if these concerns are eliminated, the rating outlook should be brought back to stable. This, however, can only happen if the following agency expectations are fulfilled:

- it is expected that PZU SA will continue to generate a very good operating performance, maintaining the Combined Ratio at an average level of 95% and ROE considerably higher than 15%;
- it is expected that the PZU Group will maintain a high capitalization level, as required for "AA" rating (in line with Standard & Poor's capital model requirements) and high quality of funds, along with adequate reinsurance cover and reserves level.

12. DIRECTIONS OF **PZU GROUP** DEVELOPMENT

12.1. The Group's strategy and its implementation

Current corporate strategy is the Group Strategy 2006-2010 adopted by PZU SA Management Board, PZU Życie SA Management Board, PTE PZU SA Management Board, TFI PZU SA Management Board on 17 November 2007 and subsequently approved by PZU SA Supervisory Board on 29 November 2005 and PZU Życie SA Supervisory Board on 19 December 2005.

In the years 2006-2007 the main objectives were achieved only partially and the implementation of selected strategic initiatives was not started. Since 2005 market conditions have changed and the financial force of the PZU Group is significantly greater. Therefore, the present Management Board of the PZU SA aims to outline a new Group strategy as the market leader – the major financial institution in Poland and in Central and Eastern Europe – based on defined priorities of conduct as far as crucial markets, client groups, distribution channels and customer service are concerned.

The year 2007 was characterized by a large accumulation of initiatives designed to implement strategy and analyze the possibilities of realizing the visions of the PZU Group for 2010. The assessment of strategic objectives' performance level has confirmed the necessity of increasing the dynamics of fulfilling the assumptions of strategic initiatives and the need to verify and modify of the project portfolio with respect to the completion of strategic aims.

Implementation of strategy was realized in spheres which are crucial for the amount of income and effectiveness of the PZU Group operation. They include:
- customer oriented sales organization,
- foreign expansion,
- operating efficiency,
- efficient management.

The implementation of strategy was conducted both through project initiatives and day-to-day operation of the PZU Group.

Customer oriented sales organization

The main priority concerning the changes of sales organization in the PZU Group consisted in refocusing the emphasis from particular products to customers' needs, followed by integration of the PZU sales processes. The tasks dealt with in 2007 were designed to maintain a high underwriting result and enabled the PZU Group to retain its position as the major Polish insurer. The product portfolio of the PZU Group was tailored to the customers' needs through, for example, developing new products for the SME sector (in the field of financial insurance), and reorganizing the range of products offered by PZU Życie SA and improving the completeness of the offer. Particular emphasis was placed on the development of products from the bancassurance segment. Moreover, the project intended to delineate the strategy of the PZU Group development on the health insurance market was initiated. Efforts were intensified to implement the model of sales and management for hospital insurance.

Insurance rates offered by the PZU Group were maintained at a competitive level at the same time retaining significant profitability. On the motor insurance market the PZU Group managed to resist the trend of price increasing as a response to additional fiscal costs for insurers, thus the rates remained unchanged.

In the year 2007 the PZU Group continued introducing innovations concerning organization, management and development of sales. The most important modifications involved the revitalization of the agency network. Both property and casualty insurance products and life insurance products were complemented with detailed models of management and operation of agency network. Moreover, PZU SA implemented a uniform model of Office-Agencies operation and completed the development of an IT system aimed at facilitating the work of agents which was subjected to trial tests. Positive results of these tests made it possible to start working on the nationwide implementation of the system. Works aimed at improving the activity of the dealers' channel were also in progress.

Along with the activities aimed at boosting the effectiveness of traditional sales channels, the concept of the Direct channel of the PZU Group was developed.

All activities related to sales and product development were supported with nationwide campaigns such as the one promoting the compulsory motor third party liability insurance *"Oswoić emOCje"* (Cooling down emotions) and *"Mniej niż zero"* (Less than zero) or the advertising campaign for the *"Strefa Zysku"* (Profit Zone) product.

Owing to intensive work and effort, the PZU Group managed to maintain the position of leader in most insurance market segments. The assessment of target completion suggests a high potential of synergy between the property and casualty insurance and life insurance segments.

Operational efficiency

Along with the activities aimed at boosting sales levels, work was conducted to improve service efficiency, which should be visible through the improved return on insurance activity and elevate the levels of satisfaction with respect to both individual and institutional customers working with PZU.
One of the major directions of service improvement consisted in continued automation and centralization of the essential processes in particular companies. PZU SA completed the migration of selected products to the centralized product system known as the Insurer. The customer database was standardized and cleaned, owing to which unanimous and comprehensive entries were formed including (in the case of individual customers) possessed products, current premium rates and available discounts. At the same time, the concept of the financial insurance management system was worked on, along with efforts to implement the management system for insurance for corporate clients (Corpo). PZU Życie SA continued to implement further activities aimed at creating a centralized system for the management of group insurance and unit-linked insurance products. Moreover, a system for automatic registration of the data pertaining to the members of group insurance schemes was created and the trial version of the solution was prepared. Another facility within the back-office field of PZU Życie SA in 2007 was the implementation of the workflow tool enabling electronic management of documents, document circulation and recording contracts.
Improvement of insurance management included activities aimed at optimizing claims handling in property and casualty insurance and life insurance. In the field of property-related loss adjustment, trials were conducted and new solutions concerning adjustment of personal property loss introduced, which are expected to minimize the average time needed for claims handling. In order to facilitate the process of life insurance-related loss adjustment, the concept of a centralized IT system was put forward to manage the claims handling process.

Also in 2007 a number of initiatives aimed at improving the efficiency of supporting the core activity of the PZU Group companies took place. With respect to the PZU SA Finance and Accounting Centre (CFK), which overtook the majority of tasks concerning accounting in the field of costs not related to insurance activity, a concept was introduced to extend its scope of activity by personnel and remuneration management of particular company's regional branches. PZU Życie SA was working on an analogical project (Reorganization of Accounting Structures), on the basis of which a centre would be established to manage the accounting of costs not related to insurance activity for the entire company. In the field of purchasing policy PZU SA and PZU Życie SA initiated joint activities concerning the establishment and implementation of a uniform model of a purchasing institution, which would allow full exploitation of the economies of scale and optimize the costs of purchasing processes in both companies.

Foreign expansion

In 2007 the PZU Group focused its foreign expansion on the organic development of its companies in Lithuania and the Ukraine. Simultaneously, the Central and Eastern European markets were monitored for possible acquisitions.
Operational and formal requirements of the PZU Group foreign companies in 2007 required increasing their share capital, which amounted to LIT 5 million in UAB PZU Lietuva Gyvybës Draudimas, UAH 150 million in OJSC IC PZU Ukraine and UAH 3.5 million in the case of OJSC IC PZU Ukraine Life Insurance.
In 2007 PZU SA continued financial support for the company in the Ukraine in order to improve its competitiveness and assist in solving the most urgent operational and managerial problems. Day-to-day cooperation between the companies helped to develop an optimum model of experience exchange and the channel of knowledge transfer between Poland and the Ukraine. Improved efficiency of the PZU Ukraine management is expected to become visible in the form of an increased market share.
The experience acquired in the course of managing foreign companies enables the PZU Group to count on favourable prospects of further expansion towards the Central and Eastern European markets.

Efficient management system

Upgrading of the management system in 2007 focused on the implementation of new security policy in the PZU Group.

Additionally, the revision of internal management procedures was initiated in PZU SA and PZU Życie SA, which is aimed at adjusting the procedures to corporate needs and enhancing their consistency in relation to other provisions as well as eliminating obsolete procedures which are not applicable to processes in progress at the moment.

PZU Życie SA developed a uniform system of reporting information to the Management Board and directors of particular units, owing to which the scope of information is standardized and it becomes shorter and simpler to prepare and hand in reports.

As far as IT is concerned, PZU Życie SA introduced a more detailed model of IT management and the model of cooperation between IT and Business. What is more, a new organizational IT structure was implemented on the basis of the guidelines in IT Governance. Additionally, the concept and operational model of cooperation between PZU Życie SA and the CIG PZU SA (PZU Group IT Centre Company) was launched. In 2007 the cooperation between IT and business in PZU SA was regulated by the Committee for Business and Technology, which was in charge of maintaining day-to-day communication of needs between the two spheres.

In the field of human resources, activities were in progress to optimize personnel management processes and update the tools for human resources management. A joint project of PZU SA and PZU Życie SA was initiated with the intention of creating descriptions of areas of responsibility for particular company positions and implementing an integrated system of responsibility management. Moreover, work on centralization of the personnel management and remuneration services in the field of property and life insurance was continued.

12.2. New Corporate Governance

In 2007 the Headquarters of PZU SA and PZU Życie SA saw continued operation of the unified offices, the establishment of which was brought about by integration activities carried out as part of the New Corporate Governance (NCG) project. Areas of shared services which cover purchasing organization, marketing, supplies, real estate management, asset management, personnel management and services for statutory bodies were managed in a uniform and consistent manner within the entire PZU Group. Similarly, all management procedures were adjusted to uniform formulas in both PZU SA and PZU Życie SA.

On the basis of analyses conducted in the course of the "New Corporate Governance" and in order to maximize the synergy results, needs were identified in relation to integrating activities in particular fields of common services and corporate functions, such as the concept of a common centre of management and monitoring of shared information and communication technology (ICT) infrastructure for PZU SA and PZU Życie SA.

The implementation of the PZU Group organization model based on a two-layered holding structure will be possible only after the conflicts between shareholders have been solved and agreement reached among key shareholders in relation to the ultimate model of the PZU Group management system.

On 30 June 2007 the Ordinary General Meeting of the PZU SA shareholders adopted a resolution on the new model of corporate governance, thus encouraging the Management Board to re-analyze it from the perspective of possible risks for the company, financial profits and compliance with the provisions of law. Further activities directed at implementing the best corporate governance practices in the PZU Group are scheduled to follow in 2008.

Veronica Di Folco-Zembaczyńska
Senior Specialist
Advertising Team
Corporate Communication and Marketing Office

Working in the field of marketing of a company as big as PZU offers vast opportunities of professional development and education. I always wanted to work in the marketing department of a big company. Working for PZU met my expectations. Here, I have the chance to cooperate with professional partners in the course of designing many interesting projects and the effects of my efforts always bring me a lot of satisfaction.

12.3. Foreign investments of the PZU Group

The PZU Group has been present in the foreign insurance markets for 6 years. The year 2007 counted primarily as a period of restructuring of the companies operating in Lithuania (UAB DK PZU Lietuva and UAB PZU Lietuva Gyvybës Draudimas) and in the Ukraine (OJSC IC PZU Ukraine and OJSC IC PZU Ukraine Life Insurance).

Polish PZU Group companies actively participated in the process of developing the foreign companies.
The first project of support for the foreign companies from the Polish ones was launched based on the transfer of best practices, knowledge and experience from the selected fields of activity.
One of the most significant events in the field of foreign investments of the PZU Group consists in increasing the share capital of the foreign companies, which amounted to LIT 5 million in UAB PZU Lietuva Gyvybës Draudimas, UAH 150 million in OJSC IC PZU Ukraine and UAH 3.5 million in the case of OJSC IC PZU Ukraine Life Insurance. PZU SA is in possession of all newly issued shares or acquired an appropriate amount according to the percentage share in the capital.

The PZU Group will monitor and analyze developments in the foreign markets, with particular attention to possible acquisitions and extending the scope of activity in Central and Eastern Europe.

12.3.1. Operations of UAB DK PZU Lietuva and UAB PZU Lietuva Gyvybës Draudimas

Losses incurred during previous years resulted in the fact that the activities of UAB DK PZU Lietuva and UAB PZU Lietuva Gyvybës Draudimas in 2007 focused on restructuring and improvement of their profitability. In order to achieve this, strict cost monitoring procedures were introduced along with a new investment policy and actions aimed at diversifying the insurance portfolio and stabilization of loss ratios. The process of restructuring of the retail sales network and introduction of the cross–selling model of sales were accelerated and a number of initiatives undertaken to facilitate the management of policyholders' debts and the development of IT systems.

In 2008 the Lithuanian companies are planning to increase their market share, at the same time maintaining the profitability of operation and initiating new projects to boost the market position of the companies (e.g. automation of processes, automatic policy renewals, online sale).

Financial results and market positions of UAB DK PZU Lietuva and UAB PZU Lietuva Gyvybës Draudimas

UAB DK PZU Lietuva

Gross premium written in 2007 amounted to LIT 163.5 million and were 43% higher than the premium in 2006 (LIT 114 million).
Net profit of 2007 reached LIT 4.4 million, compared to LIT -29.2 million in 2006.
The market share as of the end of 2007 was 12.5%, making the company the third largest property and casualty insurer in Lithuania.

UAB PZU Lietuva Gyvybës Draudimas

Gross premium written in 2007 amounted to LIT 14.1 million, 52% up on 2006 (LIT 9.3 million of premium).
Net profit of 2007 amounted to LIT 4 million compared to LIT -3.9 million in 2006.
Market share as of the end of 2007 was 2%, placing the company in sixth place in the Lithuanian life insurance market.

12.3.2. Operations of OJSC IC PZU Ukraine and OJSC IC PZU Ukraine Life Insurance

The year 2007 was a period of intensive restructuring for the Ukrainian companies, pertaining mostly to the reduction of administrative costs, improved profitability of the product portfolio and regulation of claims and benefits payments. On the basis of assumptions concerning the directions of company development, restructuring was performed in all spheres of activity (managerial, organizational, cost-related and operational).
The process of optimizing of the current distribution network was initiated by identifying units which generate losses, whose costs were then combined with the results they record.

In order to provide perspectives for the companies' development the revision of sales outlets was started.
Also in 2008 the companies are planning to continue activities aimed at increasing cost effectiveness of the regional units. Moreover, their plans involve achieving a dynamic increase in the underwriting result, increasing their market share and retaining a balanced portfolio of insurance products.

Financial results and market positions of OJSC IC PZU Ukraine and OJSC IC PZU Ukraine Life Insurance

OJSC IC PZU Ukraine

Gross premium written in 2007 totalled UAH 154 million, 20% less premiums that were collected in 2006 UAH (184.3 million).
Net profit of 2007 amounted to UAH 1.2 million against UAH -88.9 million in 2006.
The market share reached 3.6% at the end of 2007, placing the company thirteenth in the Ukrainian property and casualty insurance market.

OJSC IC PZU Ukraine Life Insurance

Gross premium written in 2007 totalled UAH 15 million, up 34% on premium in 2006 (UAH 11.2 million).
Net profit of 2007 amounted to UAH -8.2 million against UAH -8.5 million in 2006.
The market share reached 2.5% at the end of 2007, placing the company tenth in the Ukrainian life insurance market.

12.4. Development projects and main objectives of the PZU Group companies in 2008

The PZU Group will strive to consolidate its position as the leading financial institution in Poland and Central-Eastern Europe through maintaining the growth of income in its core activity.

In the field of strategic operations clear guidelines will be defined with respect to managing the Group's companies, including the selection of staff in the supervisory bodies (corporate governance principles will be introduced). Unified structures within the Group will be promoted and extended in order to standardize the processes, exchange knowledge and achieve cost synergy. The team of competent professionals will be restored. A new strategy of the PZU Group will be defined on the basis of priorities for the most significant markets, customer groups, distribution channels and customer service.

Major objectives of PZU SA operations in 2008 include:
- achieving the total premium written increase exceeding 6% and reducing the pace of market share loss,
- maintaining high profitability of the insurance portfolio and reducing loss ratio through activities aimed at improving the return on motor own damage insurance and compulsory motor third party liability insurance in the corporate client segment,
- introducing new motor insurance products, modifications of existing products and introducing new homeowners and householders insurance and new agriculture insurance,
- further development and improving the efficiency of existing distribution channels, which includes the establishment of a centrally managed network of agents with clearly defined segments, commission structure and appropriate support; at the final stage this network will be working for the entire group and using the cross-selling opportunities,
- introducing direct sale of motor insurance products,
- maintaining cooperation with partners from the banking sector and achieving a stable position in this market,
- minimizing the increase of operating costs by means of a centralized, professional purchasing system for all companies of the PZU Group,
- review of project activity in order to verify its usefulness and profitability for the company; introducing a set of actions aimed at improving customer relations and reducing operating costs,
- maintaining appropriate financial security ratios and increasing the size of investment portfolio possessed by PZU SA while receiving a high return on investments.

The year 2008 is intended to focus on development of the range of products offered by PZU Życie SA in all distribution channels and oriented towards the middle class and mass customers, both with respect to group insurance and individual insurance schemes. The plans include extending the investment opportunities by additional funds within the group pension scheme known as Pogodna Jesień (Bright Autumn), which will allow investing the employees' financial surplus and creating a new rider for cover insurance. New riders will also be offered in the segment of individually continued insurance. The individual insurance field will focus mainly on structured products, which are to be seen as a response to the new situation at the Polish financial market.

In 2008 the segment of insurance for corporate and individually continued clients will see a number of activities aimed at maintaining the strong position of the company in the group insurance market. These include:

- new system of premium rating of the group employee insurance known as the P Plus Type,
- enabling the Corporate Sales Network and the Agency Sales Network to offer more attractive conditions in newly concluded group insurance contracts,
- extending the scope of responsibility for the Corporate Sales Network and the Agency Sales Network, which will allow the company to react to the requirements of the market in a quicker and a more precise way (which enhances the company's competitiveness),
- activities aimed at intensifying the sales of riders through a nationwide campaign of commissioned sale (e.g. coverage in the case of specialist treatment, surgical procedures, severe disease),
- modernization of the product range for small and medium enterprises PZU Ochrona Plus; introducing new insurance schemes designed according to the suggestions of the Agency Sales Network and possible premium discounts will additionally emphasize the company's leading position,
- introducing a new rider which will offer investment possibilities within the cover insurance scheme,
- revitalization of the rider for group insurance known as Expert, which covers medical consultations outside territory of Poland, by extending the scope of cover without changing the premium rate, as well as by increasing customer awareness of the insurance.

In 2008 the company plans to improve its competitiveness in the individual insurance segment by expanding the product range in both in cover and investment products and developing and improving sales channels.

Health insurance development in 2008 consists in launching *Opieka Medyczna* (Health Care) hospital insurance products together with the assistance services for individuals and groups.
PZU Życie SA is planning to work on innovative insurance solutions able to attract more and more demanding bank customers. Efforts will primarily be directed towards developing an innovative and attractive range of investment insurance products. The development of these products is heavily dependent on agreements with partners from the banking sector.

The plans of the PZU Group concerning bancassurance are much more ambitious in 2008 compared to the previous year. The company wants to implement them by developing cooperation with strategic partners as well as continued efforts aimed at winning new customers.

PTE PZU SA is expecting an improvement of financial results in the coming years. As in previous years, this will largely be due to the collection of premiums and settling all liabilities towards the Fund's members for overdue premiums transferred by Zakład Ubezpieczeń Społecznych as well as maintaining financial discipline by all company units.

Since 26 June 2001 Powszechne Towarzystwo Emerytalne PZU SA has held the quality certificate which confirms the adherence to the requirements of PN-EN ISO 9001:2001 in relation to the management of the PZU Open Pension Fund Złota Jesień. In 2008 the company plans to maintain the quality certificate, make preparations for the implementation of the MRPI class Integrated System of Resource Management and participate in the Polish Quality Award (Polska Nagroda Jakosci) 2009 competition.

All activities undertaken by the company in 2008 will aim at maintaining and strengthening the present market position of the PZU *Open Pension Fund Złota Jesień Złota Jesień (Bright Autumn).* The company intends to achieve these aims by implementing an investment policy aimed at enhancing the growth in unit's account value, which, in turn, produces an increase in the value of the Fund's financial resources as well as by efficient communication with Fund members using modern and widely accessible communication channels (the Internet, call centres).

13. CORPORATE SOCIAL RESPONSIBILITY OF THE **PZU GROUP**

While examining the PZU Group activity one should not overlook the initiatives which fulfil the principles of Corporate Social Responsibility (CSR). These operations contribute to building transparent relationships with various groups of business partners. The CSR-related activities stem from the personnel policy and marketing strategy represented by the PZU Group. The CSR operations of the PZU Group involve health protection, promoting education and public safety. Patronage of Polish art and culture has for years been a strategic direction of sponsorship activity of the PZU Group.

The PZU Group finances its corporate social responsibility agenda using a preventative fund and, to some extent, also sponsorship money. The PZU Foundation is an important element in this area supporting philanthropic activities in the areas of education, culture and the arts, social help and health care.

13.1. Preventive activity

PZU for safety

The preventive activity of the PZU Group is aimed at minimizing risks to human life and health and protecting personal property.

As in the previous years, the preventive activity of PZU SA in 2007 focused on improving road safety, both with respect to drivers and pedestrians.

In 2007 PZU SA also continued the preventative programme “Fleet Safety – bezpieczne auto firmowe” (Fleet Safety) together with Internet Prasa Media Publishing House and the Polish Motor Association. This is the first project in Poland of this scope aiming to improve fleet driver safety and reduce general fleet operating costs of companies. The programme is targeted at companies with fleets, at managerial staff and executives, company drivers, municipal companies and specialized services. The programme involves a series of training courses and educational meetings.

Out of concern for the youngest road users, PZU SA continued its educational and preventative *“Bezpieczna szkoła z PZU”* (Safe School with PZU) programme initiated in 2005. This is principally intended to reduce the number of road accidents involving children and teenagers and mitigate their effects. Several thousand Polish elementary schools joined the programme.

In yet another of its preventative programmes *“Bezpieczne lato z PZU”* (Safe Summer with PZU), PZU SA and PZU Życie SA conducted preventive campaigns in a number of seaside resorts. Their main objective was to educate people on how to act in a safe way both in the holiday period and throughout the whole year.

In 2007 PZU SA and PZU Życie SA donated PLN 20 million to a new preventive *Blisko boisko*, programme which is conducted together with the Ministry of Sport and is aimed at organizing football pitches covered with synthetic grass (in order to eliminate hard surfaces). The programme is designed to improve safety in schools and other educational institutions and promote a healthy lifestyle.

The preventive activity conducted by PZU SA and PZU Życie SA include continued cooperation with Tatrzańskie Ochotnicze Pogotowie Ratunkowe (Tatra Voluntary Mountain Rescue, TOPR) and GOPR (Voluntary Mountain Rescue). In 2007, as in previous years, PZU SA and PZU Życie SA made a donation from the preventive fund to help pursue the statutory objectives of TOPR and GOPR.

PZU for health

In 2007, the PZU Group continued a programme financed from the prevention fund called *“Aktywuj się z PZU Życie”* (Get Active with PZU Życie) aimed at encouraging Poles to take up active and healthy lifestyles, but also to educate the target groups about the benefits of physical activity in the prevention of chronic diseases and to promote preventive attitudes in society. “Aktywuj się z PZU Życie” consists of three components targeted at different groups, i.e. companies with group insurance in PZU Życie SA, primary and secondary school students as well as students and lecturers of medical colleges.

13.2. Sponsorship activity

PZU for culture and the arts

Support for Polish national art and culture has for years been a strategic direction of the sponsorship and preventive policy of the PZU Group. PZU has consequently participated in the organization of cultural events including exhibitions, concerts and festivals. In 2007 PZU was also involved in supporting a number of prestigious artistic events.

PZU SA and PZU Życie SA jointly sponsored the 11th Ludwig van Beethoven Easter Festival, which counted as one of the most significant cultural events of 2007. The festival has for years attracted enthusiasts of classical music from Poland and abroad.

The PZU Group also sponsored "The Passion of St. Matthew" - the concert of the Munich Choir conducted by Hansjorg Albrecht and the performance of "Carmen" by Prosper Merimee at the Polish National Opera in Warsaw.

In 2007 PZU Życie SA became a patron of the Year of Stanisław Wyspiański.

Moreover, the PZU Group sponsors prestigious jazz concerts under the Era of Jazz series.

PZU for sport

Likewise, as in previous years, in 2007 the PZU Group supported a number of sports initiatives, such as the sponsoring of "Bieg Życia" (Run for Life) dedicated to the memory of J. Kusociński, 53rd Memorial of J. Kusociński in Warsaw, 3rd International Cycling Race, including the women's race around Poland, which is the only international cycling event in Poland entered into the UCI calendar.

13.3. The PZU Foundation

The PZU Foundation was established to support activities of non-governmental organizations aimed at the public benefit.

On 9 February 2007, the District Court recorded changes in the PZU Foundation's Articles of Association, with the prior approval of the Foundation Board and its founding body. According to the new Articles of Association, the Foundation aims to work for public benefit within the following areas:

1) social welfare, including support for families and people in difficult situations and providing them with equal opportunities,
2) charity work,
3) preservation of national traditions, promotion of Poland's national heritage and creation of national, civic and cultural identity,
4) healthcare and promotion,
5) work for the disabled,
6) support of local communities,
7) support of national minorities,
8) science, education and upbringing,
9) active leisure for children and young people,
10) culture, arts, protection of cultural heritage and tradition,
11) promotion of physical culture and sport,
12) environmental and animal protection, protection of natural heritage,
13) public order and safety and counteraction of social pathologies,
14) life-guard work and protection of people,
15) support for victims of catastrophes and natural disasters, armed conflicts and wars in Poland and abroad,
16) promotion and organization of voluntary work, as long as it relates to the objectives of the Foundation.

Owing to the introduced statutory amendments, in 2007 the PZU Foundation reactivated donations to natural persons. It is worth emphasizing that the PZU Foundation constitutes one of the few organizations offering help to all persons regardless of age.

In 2007, Foundation activities focused on direct grants allocated to other non-governmental organizations to finance various programmes and projects, and in partner programmes implemented in cooperation with valued social partners.

The Foundation also allocated individual grants to employees of the PZU Group who found themselves in difficult life situations.

2007 saw the first edition of a subsidy competition known as "Wypoczynek z Fundacją", (Holiday with the Foundation), whereby children and teenagers under 18 could participate in summer holiday camps, organized by schools and social organizations – ZHP, various societies and associations.

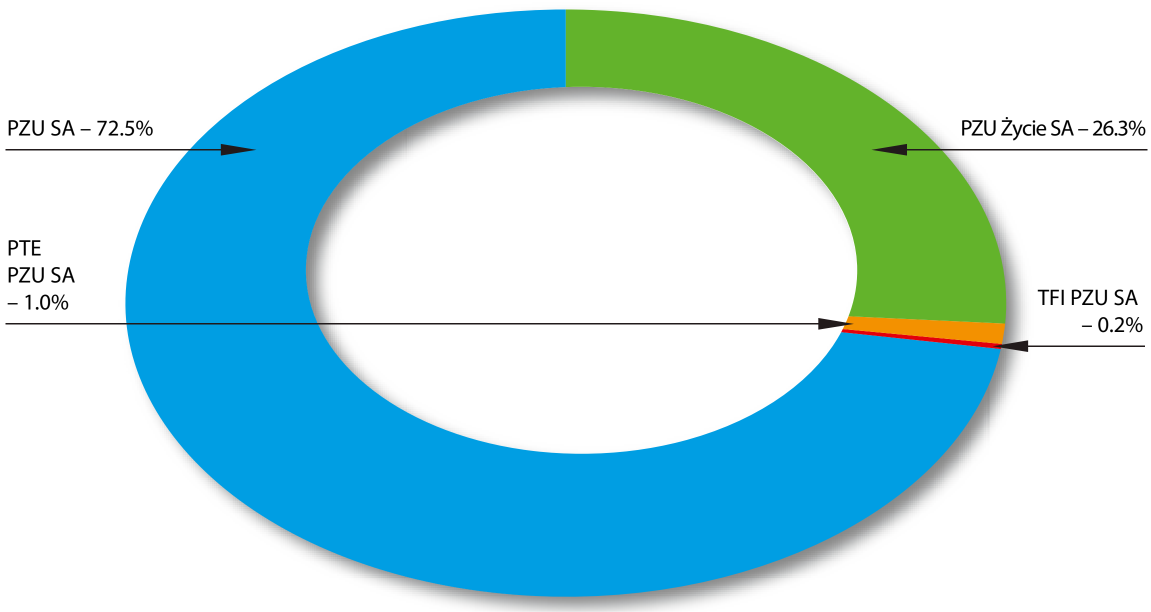
For the first time, the Foundation's activity was directed towards helping the victims of natural disasters and catastrophes, which became a necessity after July's windstorms depriving hundreds of people of their homes. Representatives of the PZU Foundation travelled to the Częstochowa district where they assessed the losses and granted funds for renovation of the destroyed buildings.

Within the scope of statutory operation the PZU Foundation granted subsidies to non-governmental organizations which applied for subsidies to implement their projects.

13.4. The PZU Group as a good employer

The PZU Group is one of the biggest employers in the financial sector in Poland. At the end of 2007, the four main companies of the PZU Group employed over 16,000 people. Employees of the PZU Group companies receive a number of motivational benefits, also in the form of non-financial perks. In 2007 PZU Tower Sp. z o.o. joined the Employee Pension fund "Słoneczna Jesień" (Bright Autumn), which is an employee pension fund established for PZU employees. Pursuant to the united offices solutions, common regulations concerning work organization (labour/work code) and social activity (code of company social benefit fund) were introduced in PZU SA and PZU Życie SA.

The structure of employment broken down into the main companies of the PZU Group as of 31 December 2007 (records of permanent employees)
Source: The PZU Group



Training and professional development system

In order to support the business changes in the PZU Group, 2007 saw extension of the training system to provide staff with the opportunity to develop their career and improve qualifications. The scope of training was related primarily to new products as well as products within the existing offers of PZU SA and PZU Życie SA, and also to optimizing sales techniques and customer service. Moreover, the Group organized training sessions related to implemented IT solutions and aimed at improving the qualifications and professional skills of PZU SA and PZU Życie SA employees.

The programme "Akademia umiejętności menedżerskich PZU" (PZU Academy of Managerial Skills) was also introduced to middle-level management staff of PZU SA and PZU Życie SA, aimed at improving their professional qualifications and skills. It included 101 people.

Integrated system of responsibility management

In 2007 the project known as “Integrated system of responsibility management” was launched, on the basis of which PZU SA and PZU Życie SA will introduce descriptions of particular positions and capacity related to them.

Descriptions of job positions, which delineate the scope of activities and limits of rights and responsibilities as well as required qualifications, constitute a basis for all human resources management processes and will act as their integrating agent in due course. Initiatives of this type stem from the principles of the new personnel strategy of PZU SA and PZU Życie SA, the underlying principle of which consists of improving the efficiency of all operations related to personnel management. Implementation of the abovementioned tools will create a foundation for further actions aimed at maximizing the efficiency of staff by means of a pre-defined model of development.

Introducing the solutions mentioned above is expected to improve efficiency in the following areas:

- optimizing the company’s organizational structure,
- defining roles and significance related to particular positions,
- planning in the field of human resources by means of specifying the staff demands related to strategic projects,
- recruiting the right candidates for particular positions,
- career development and optimum selection of professional training,
- matching the remuneration level with the character of work and related requirements,
- appropriate exploitation of staff potential through clarifying their scope of work.

Internal communication

In 2007 the PZU Group saw the continuation of operations aimed at developing internal communication tools, i.e. the PZU24 intranet portal and the related Newsletter “Z pierwszej ręki” (First Hand). Since it was launched in 2005, the portal has developed by incorporating new PZU Companies and new tools enabling, for example, placing recruitment ads or searching through documents or procedures. The new portal is becoming more and more functional; it conveys a growing amount of news indispensable for the daily activities of PZU Group staff. Selected groups of staff from the Headquarters and particular regional branches perform the roles of PZU24 editors.

The rapid development of the PZU24 portal encouraged its overtaking of the “Świat PZU” (PZU World) magazine, which, apart from special editions, was only published in the electronic form in 2007.

New order was introduced in the sphere of project communication, with each new project communicated and supported by the internal PR according to the approved communication plan.

14. THE OVERVIEW OF THE FINANCIAL PERFORMANCE OF THE **PZU GROUP** AND ITS PARTICULAR COMPANIES

14.1. Gross premiums written

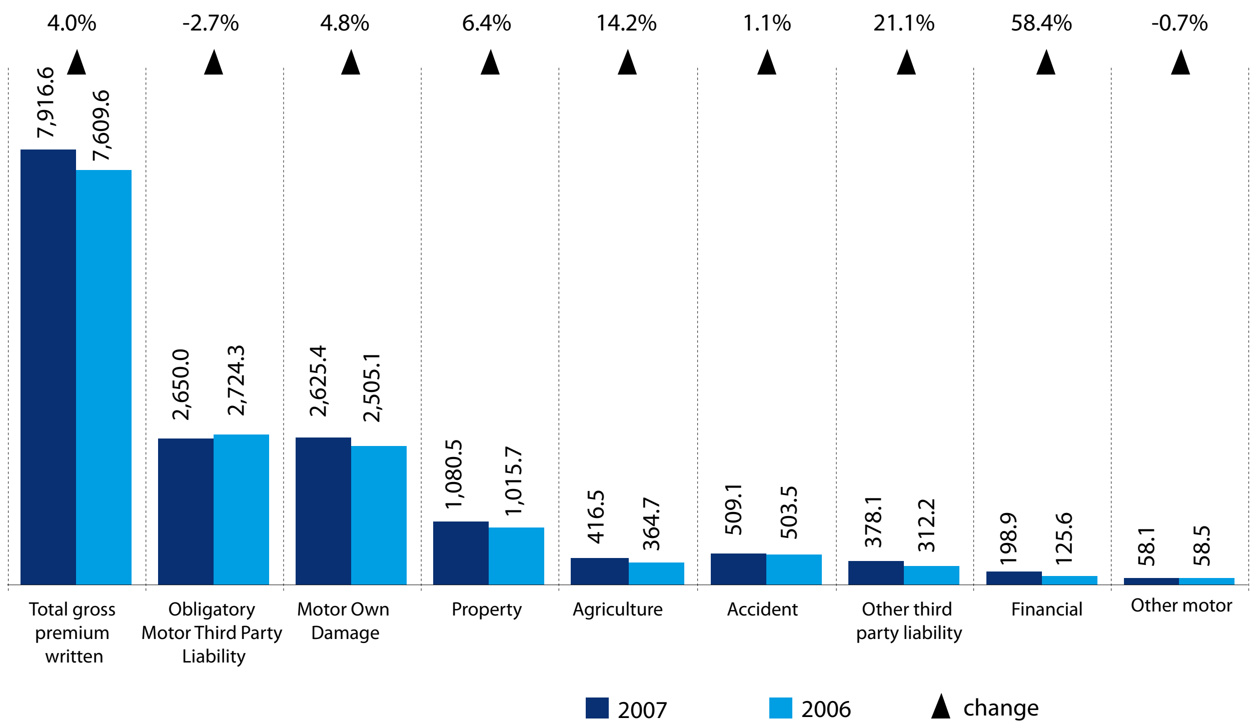
Gross premiums written by the PZU Group for life insurance as well as property and casualty insurance, after consolidation adjustments, amounted to PLN 15,462.0 million in 2007, 0.1% higher than in 2006. Such results stem from the growth of the premiums in PZU SA and decrease in PZU Życie SA.

PZU SA

Total gross premiums written by PZU SA amounted to PLN 7,982.0 million in 2007, which represents a growth of 4.0%. Written premiums for direct insurance totalled PLN 7,916.6 million, PLN 307 million more than in the previous year. Gross premium written from inward reinsurance in 2007 amounted to PLN 65.3 million, which is PLN 2.4 million less than in 2006.

Motor insurance still formed the dominant item in the PZU SA portfolio representing 67.4% of written premiums, which is a drop of 2.1 percentage points on 2006.
A significant increase in the share of total gross premium written occurred in financial insurance (0.8 p.p.), other general third party liability insurance (0.7 p.p.) and agriculture insurance (0.5 p.p.). Property insurance accounted for 13.6%, while accident and health insurance represented 6.4% of total written premiums.

Gross premiums written by PZU SA for direct insurance broken down into main insurance groups (in PLN million)
Source: The PZU Group



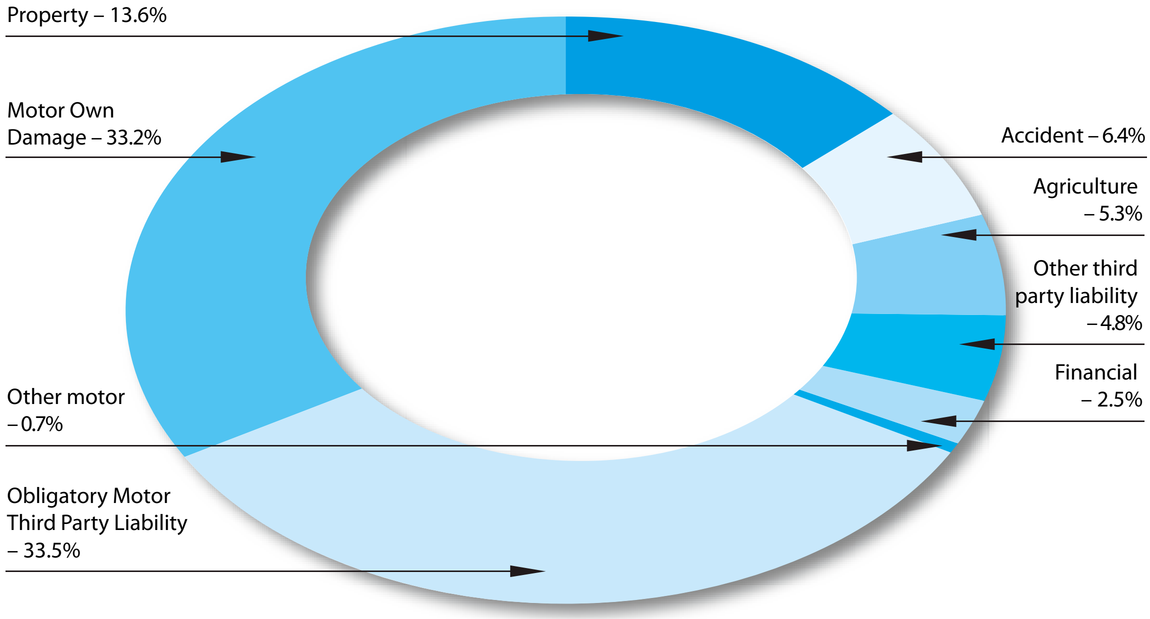
2007

Grzegorz Kaliszuk
Sales and Marketing Specialist
Sales and Marketing Department, TFI PZU SA

My duties in the Sales and Marketing Department include organization and support of the distribution network of investment products as well as general marketing of TFI PZU SA and its products. Cooperation 0with the best specialists enables me to develop my professional skills.

Structure of gross premiums written by PZU SA for direct insurance broken down by main insurance groups as of 31 December 2007

Source: PZU SA financial statement

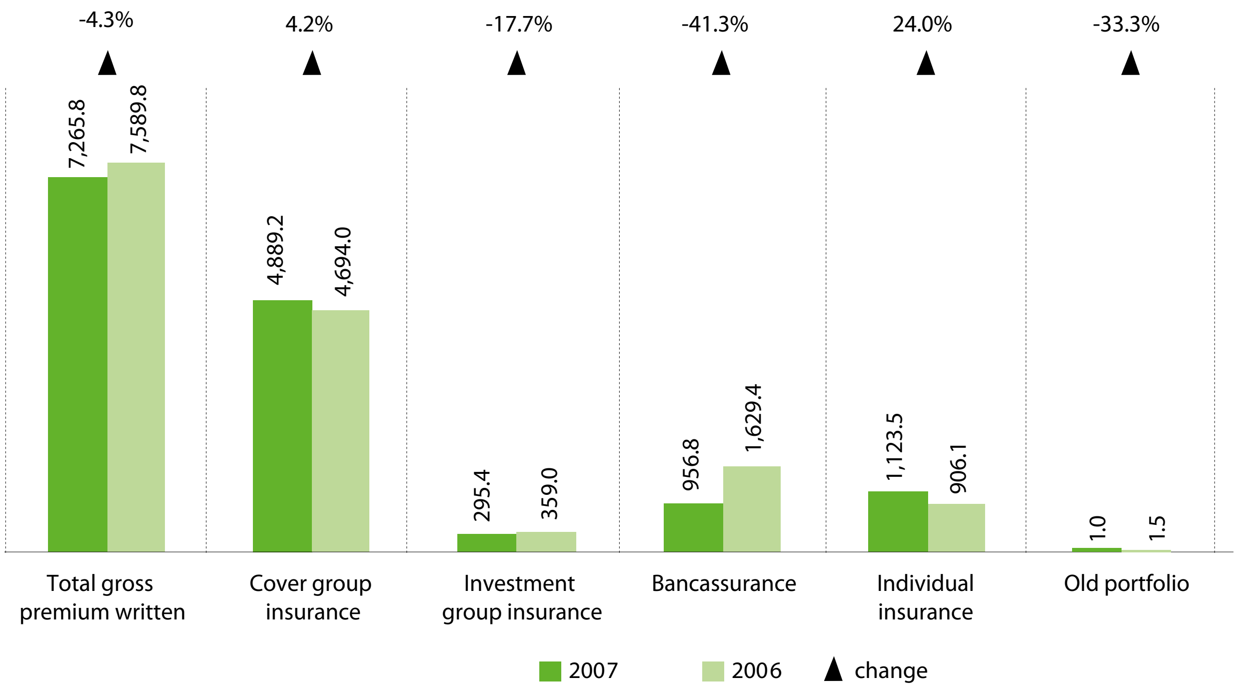


The number of insurance contracts concluded by PZU SA rose by 2.7% to 45,146.2 thousand. The highest increase in the amount on gross premium written and the number of insurance contracts was in the field of financial insurance. The premium averaged PLN 175.4, 1.3% more than in the previous year.

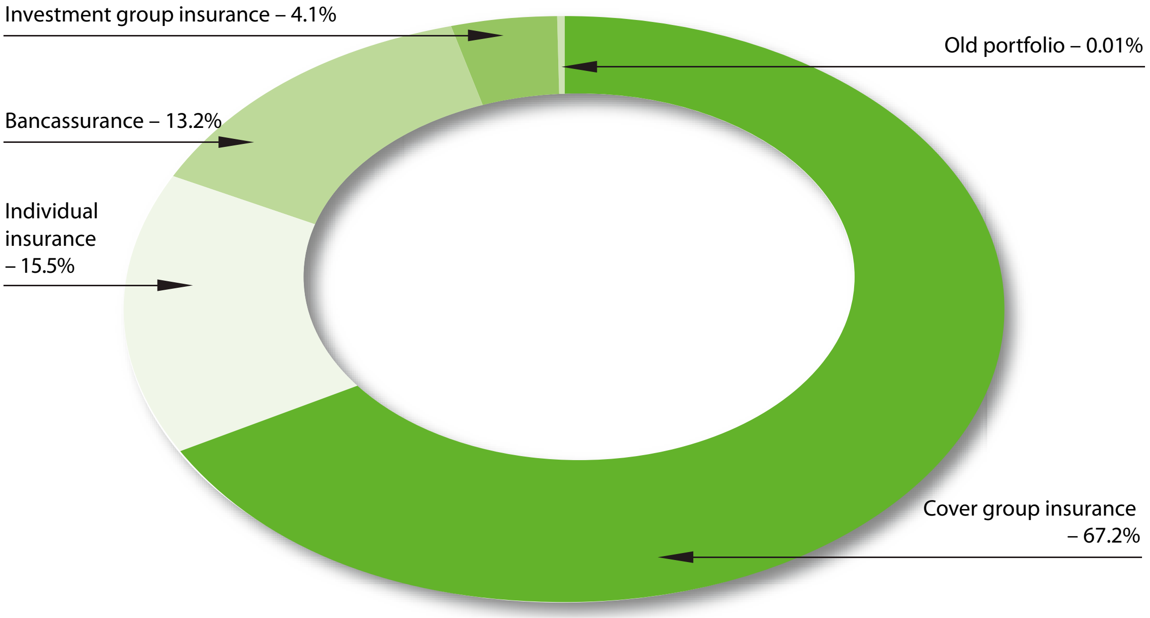
PZU Życie SA

Gross premiums written by PZU Życie SA in 2007 amounted to PLN 7,265.8 million, representing a 4.3% drop on 2006. The reason was the shrinking sales of insurance through the bank channel (by -41.3%) as well as lower sales of group investment insurance (-17.7%). On the other hand, an increased value of gross premiums written was reported in individual products (+24%) and cover group insurance (+4.2%). A continuing dynamic positive trend in the individual insurance was mostly due to two investment products, *Fundusz Gotówka* (Cash Fund) and *Strefa Zysku* (Profit Zone).

Gross premiums written by PZU Życie SA broken down by main insurance groups (in PLN million)
Source: The PZU Group



Structure of gross premiums written by PZU Życie SA broken down by main insurance groups as of 31 December 2007
Source: The PZU Group



As a result of a reduced number of risks for cover and investment group insurance, individual insurance and the old portfolio (closed portfolio) the number of customers insured in PZU Życie SA in 2007 amounted to 13,792 thousand, a drop of 45 thousand in comparison to 2006.

14.2. Claims and benefits

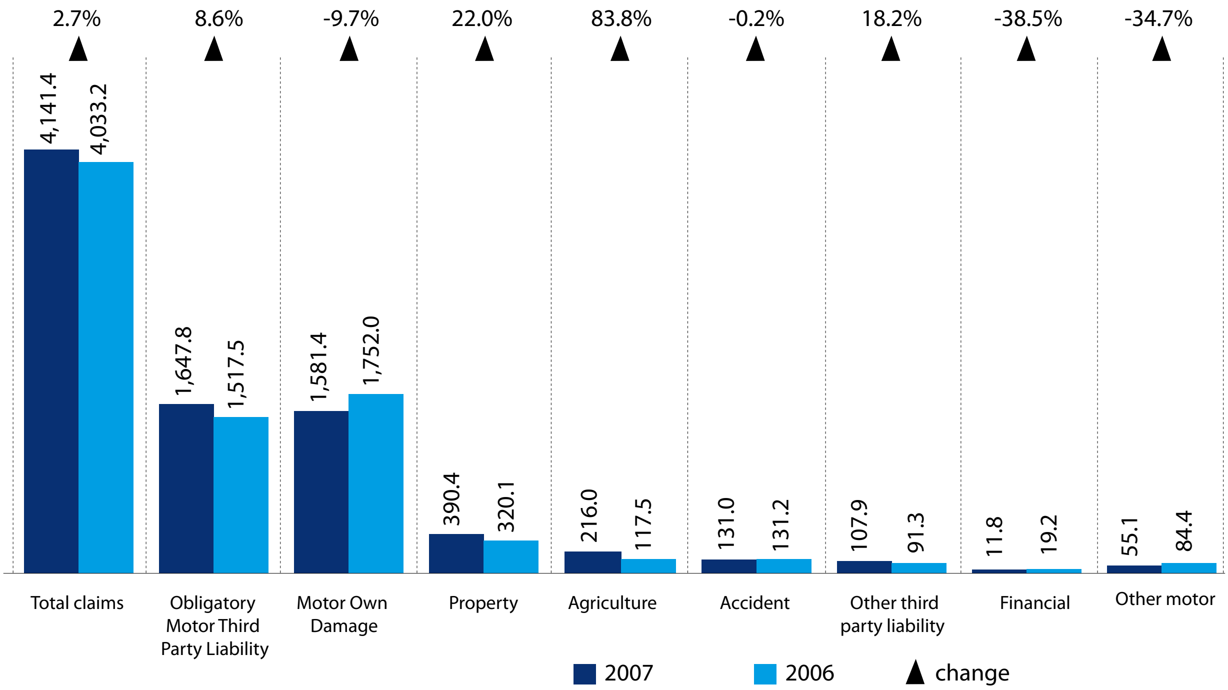
Gross claims and benefits paid out by the PZU Group in 2007 totalled PLN 9,553.4 million, 8.6% more than was paid out in 2006, which was mostly influenced by increases reported by two major companies of the PZU Group.

PZU SA

Gross claims paid by PZU SA, including loss adjustment expenses, amounted to PLN 4,512.3 million in 2007, of which the payments themselves in virtue of gross claims under direct insurance (excluding loss adjustment expenses) accounted for PLN 4,141.4 million. This represents an increase of 2.7% on 2006. The higher level of paid out claims stems from increased payments in the field of compulsory motor third party liability insurance (especially resulting from loss incurred abroad) and from property and agricultural loss resulting from natural disasters. Claims fell in the following insurance classes: motor own damage, other motor insurance and accident insurance.

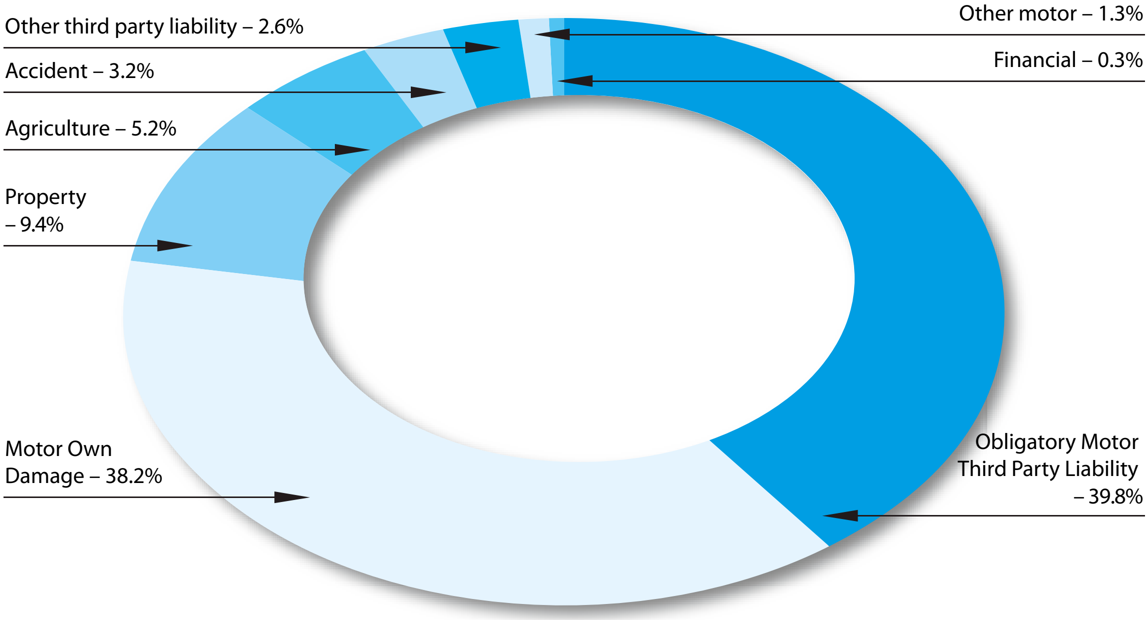
Gross claims paid by PZU SA under direct insurance (excluding the cost of adjustment and recourses) broken down by main insurance groups (in PLN million)

Source: The PZU Group



With respect to their share, motor insurance dominated with 79.3% of total payments. A significant share was represented by payments under property insurance which accounted for 9.4% of the total, agriculture insurance – 5.2%, other general third party liability insurance – 4.2% and accident insurance – 3.2%.

Breakdown of gross claims paid by PZU SA under direct insurance (excluding adjustment costs and recourses) by main insurance groups as of 31 December 2007.
Source: The PZU Group



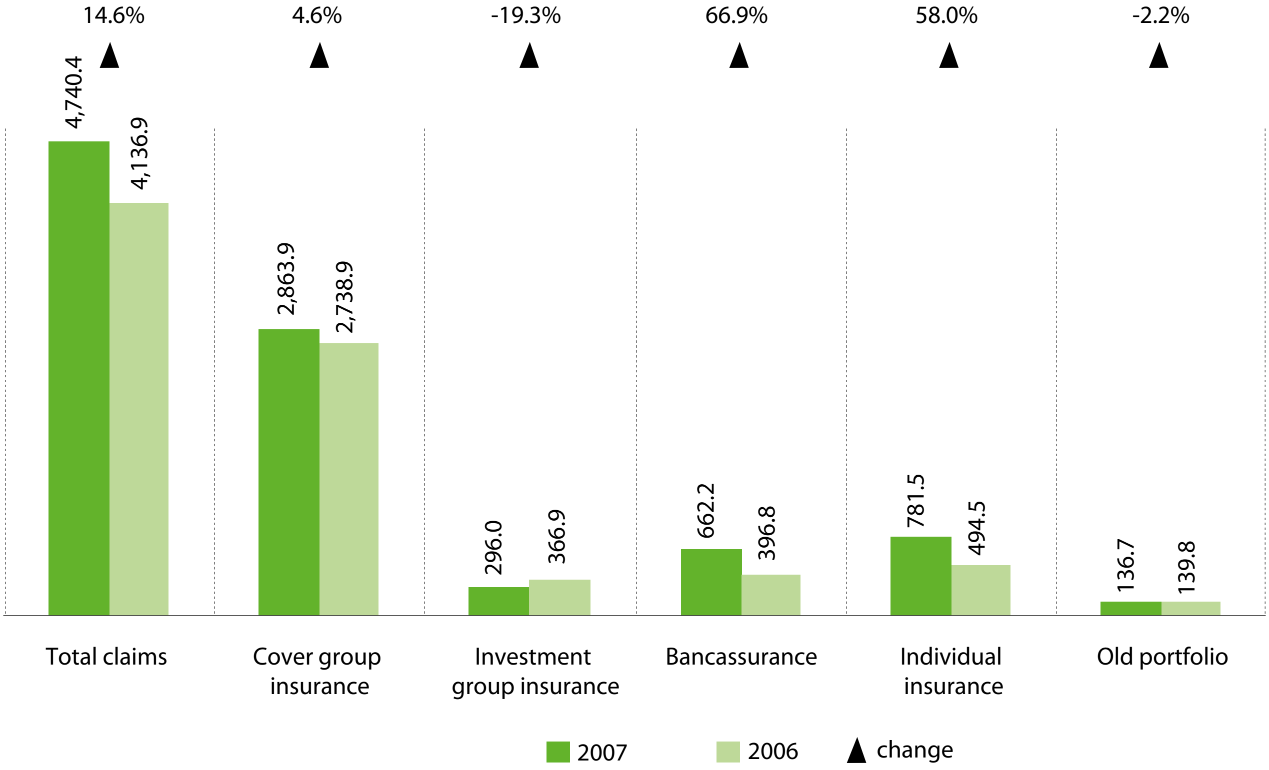
There were 1,267.9 thousand claims paid out by PZU SA in 2007, 3.3% less than in 2006.
The value of the average claim paid was PLN 3,161.6 5.9% more than in 2006. The costs of loss adjustment (direct and indirect) incurred by PZU SA in 2007 totalled PLN 457.1 million, 6.3% more than in the previous year.

PZU Życie SA

On account of gross claims and benefits, PZU Życie SA paid PLN 4,897.4 million in 2007 in comparison to PLN 4,276.1 million in 2006 (14.5% more). Similarly, an increase of 14.6% was reported in the net value of claims and benefits paid, which totalled PLN 4,740.4 million in 2007.

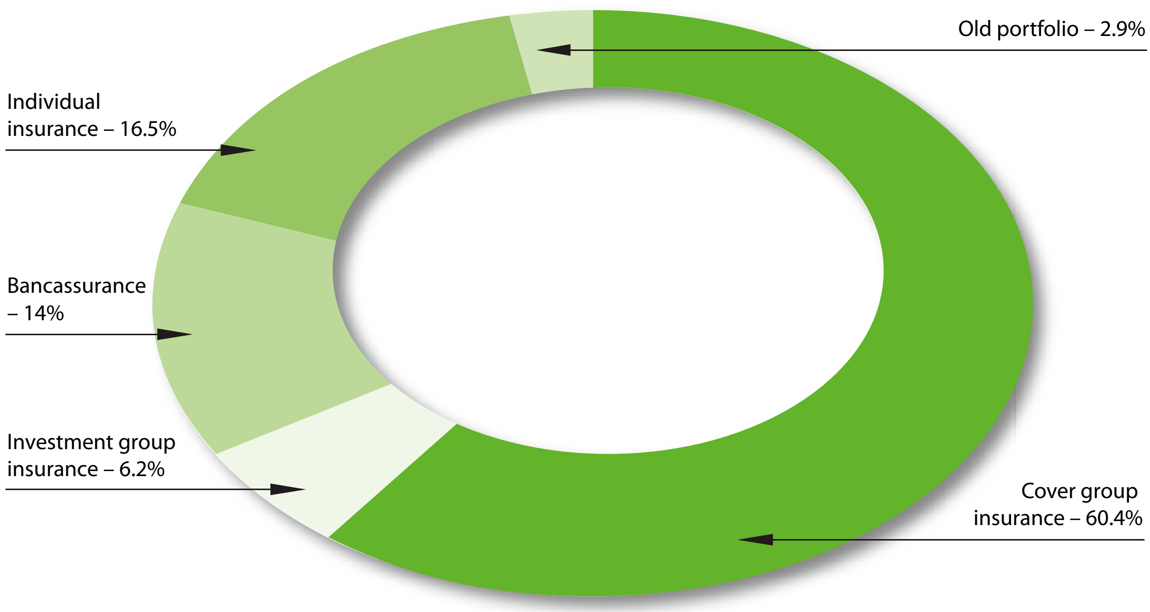
Increased dynamics of payments in the individual insurance sector was related to the dynamic development of this insurance segment (particularly in relation to short-term investment insurance) as well as higher insurance end-of-term payments for unit-linked insurance. Other factors contributing to increased amounts of payments made by the company include higher premiums and sums insured. The gross loss ratio for the insurance portfolio stood at 67.7%.

Net claims and benefits paid by PZU Życie SA broken down by main insurance groups (in PLN million)
Source: The PZU Group



The highest proportion in the structure of net claims and benefits was that of traditional group insurance and individually continued (60.4%), individual insurance (16.5%) and bancassurance (14.0%). Claims and benefits paid out from investment group and individually continued insurance amounted to 6.2% and those related to the old portfolio – 2.9%.

Breakdown of net claims and benefits paid by PZU Życie SA into main groups of insurance as of 31 December 2007
Source: The PZU Group



14.3. Costs of insurance activities

The costs of the PZU Group's insurance activities, which include acquisition expenses and administrative expenses as well as the positive value of commissions from the cedants and participation in the reinsurers' profits in 2007, amounted to PLN 3,110.5 million, up 3.8% on 2006. The increase of costs was higher than the increase of premium written (0.1%), which boosted the growth of the cost ratio (share of costs in the gross premium written) from 19.4% in 2006 to 20.1 % in the present reporting period. The increase in the Group's operating expenses was influenced by the result of PZU SA (cost increase of 6.5%) brought about by a drop in reinsurers' commission related to the limited reinsurance scheme and increase of an average commission level.

PZU SA

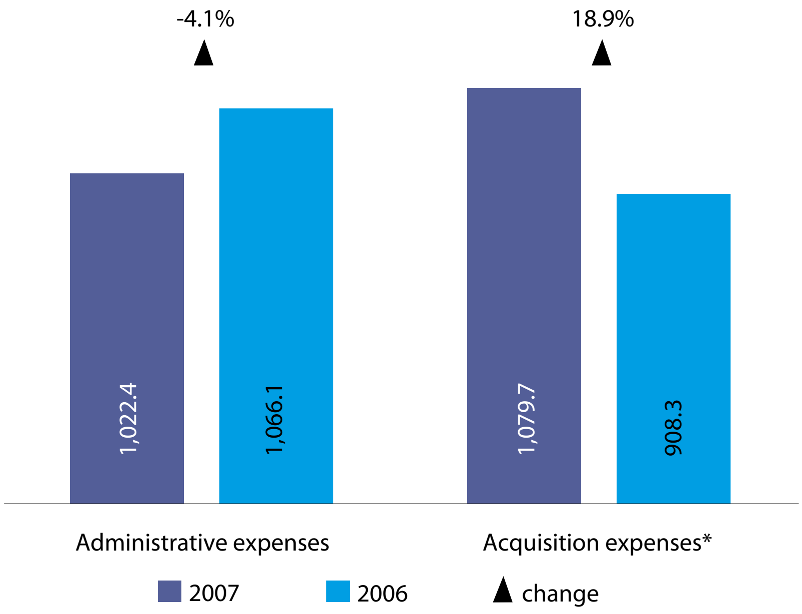
Insurance activities expenses in PZU SA in 2007 amounted to PLN 2,102.1 million, which is 6.5% more than in the previous year. The share of insurance activities expenses in the gross premium written in 2007 stood at 26.3%, which constitutes an increase of 0.6 pp.

A slight increase in the insurance activities expenses ratio was a derivative of higher acquisition expenses, related to the higher share of the premium related to the products and distribution channels characterized by higher commission rates together with lower reinsurers' commissions.

Administrative expenses in PZU SA decreased by 4.1% mainly because of lower project-related expenses.

Insurance activities expenses of PZU SA split into administrative expenses and acquisitions expenses (in PLN million)

Source: PZU SA financial statement



*reinsurers' commissions and the share in reinsurers' profits were deducted from acquisition expenses

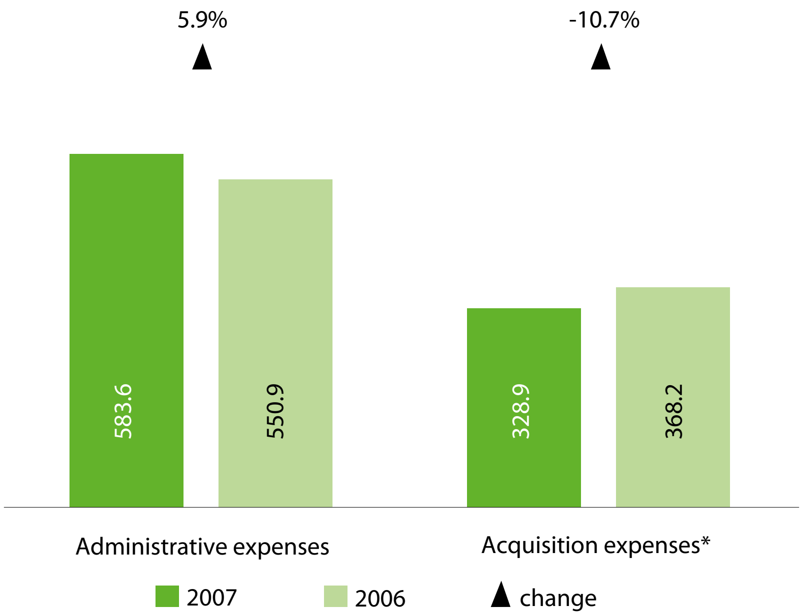
PZU Życie SA

Insurance activity expenses in PZU Życie SA in 2007 amounted to PLN 912.5 million, which is a drop of 0.7% on 2006. The acquisitions expenses decreased by 10.6% in comparison to the year before, which was mainly caused by reduced costs of acquisition in banking insurance, connected with a decreased sales volume and modified sales structure.

Administrative expenses rose by 5.9% and amounted to PLN 583.6 million. This increase was mostly visible in the fields of remuneration and IT and it slightly exceeded the increase of gross written premium from the basic product lines.

Insurance activities expenses of PZU Życie SA split into administrative expenses and acquisitions expenses (in PLN million)

Source: PZU Życie SA financial statement



*reinsurers' commissions and the share in reinsurers' profits were deducted from acquisition expenses

The ratio of insurance activities expenses to the gross premium written recorded by PZU Życie SA in 2007 grew in relation in 2006 and amounted to 12.6%.

14.4. Underwriting results

The gross underwriting result of the PZU Group transferred into the consolidated profit and loss account stood at PLN 3,383.7 million in 200 (a drop of 4.1% on 2006). A decrease in the total underwriting result was a result of a lower underwriting result recorded by PZU SA.

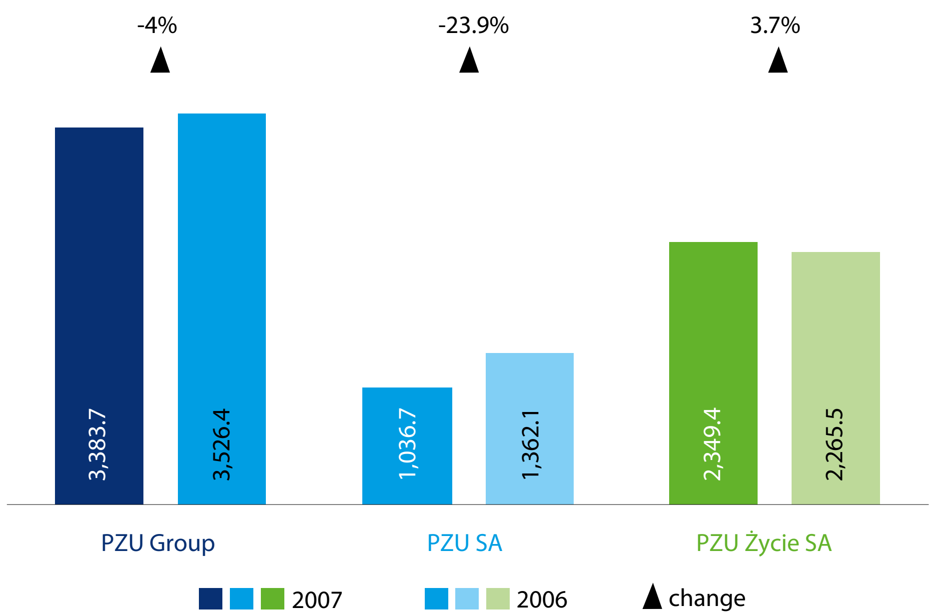
PZU SA

In 2007 PZU SA recorded the underwriting result of PLN 1,036.7 million, which was a drop of 23.9% in relation to the previous year. The severely decreased result is predominantly a consequence of a higher own share in the reserves as well as an increased loss ratio of compulsory motor third party liability insurance for the corporate client segment and property and agriculture insurance products as a result of natural disasters of 2007.
A positive underwriting result was recorded in all major insurance groups apart from other general third party liability insurance and other financial insurance products.

PZU Życie SA

In 2007 PZU Życie SA recorded the underwriting result of PLN 2,349.4 million, an increase of 2.2% in relation to the previous year. Both the decrease of the gross premium written and the increase of claims and benefits paid out had a neutral impact on the underwriting result as both of these factors are connected with investment insurance schemes. The basic product lines maintained a stable underwriting result. A slight improvement in the result which occurred in spite of a significant drop in investment income stemmed from a less intense impact of the change in technical rates.

Underwriting results of PZU Group, PZU SA and PZU Życie SA (in PLN million)
Source: The PZU Group, .financial statements



Katarzyna Klimowicz

Director of the Sales and Marketing Department, TFI PZU SA

I am predominantly responsible for coordinating and organizing the sale of investment fund units and monitoring the marketing activity of TFI PZU SA. To my mind, it is the integrated team of employees which should be perceived as a priority at work, therefore I highly appreciate the possibility of cooperating with the best specialists from TFI PZU SA and the PZU Group.

14.5. Investment activity

In 2007, as in preceding years, the PZU Group's investment activities were oriented towards finding the right match between asset and liability structures, maintaining a required level of security, profitability and liquidity of investments. The investment activity in the Group focused predominantly on securities issued by the State Treasury, i.e. T-bonds and T-bills.

The value of PZU Group's investments as of year-end 2007 amounted to PLN 46,005.9 million (excluding net assets of unit-linked products worth PLN 3,778.2 million), which represents a 5.9% increase on 2006.

The value of term deposits (bank deposits and repos) at the end of 2007 constituted 4.2% of the total value of PZU SA's investment portfolio (against 9.7% in 2006).

The PZU Group companies were also active on the listed share market. The percentage of listed equities in the PZU SA investment portfolio shrank from 7.5% in 2006 to 5.7% in 2007.

In 2007, the income on PZU Group investment activities amounted to PLN 2,559.9 million which is a 22.1% growth on the previous year.

PZU SA

The total percentage share of securities issued by the State Treasury in the PZU SA investment portfolio at the end of 2007 amounted to 63.1% against 60.1% at the end of 2006.

The value of term deposits (bank deposits and repos) at the end of 2007 constituted 4.2% of the total value of PZU SA's investment portfolio (against 9.7% in 2006).

The large proportion of unlisted equities in PZU SA's investment portfolio was mainly represented by PZU Życie SA's shares conveyed in that portfolio, which were valued at PLN 6,697.2 million as of 31 December 2007 (this represented 95.9% of the value of the unlisted share portfolio of PZU SA). The proportion of unlisted equities increased in 2007 to 24.8% (against 19.7% in 2006). This was mainly due to the higher valuation of PZU Życie SA shares.

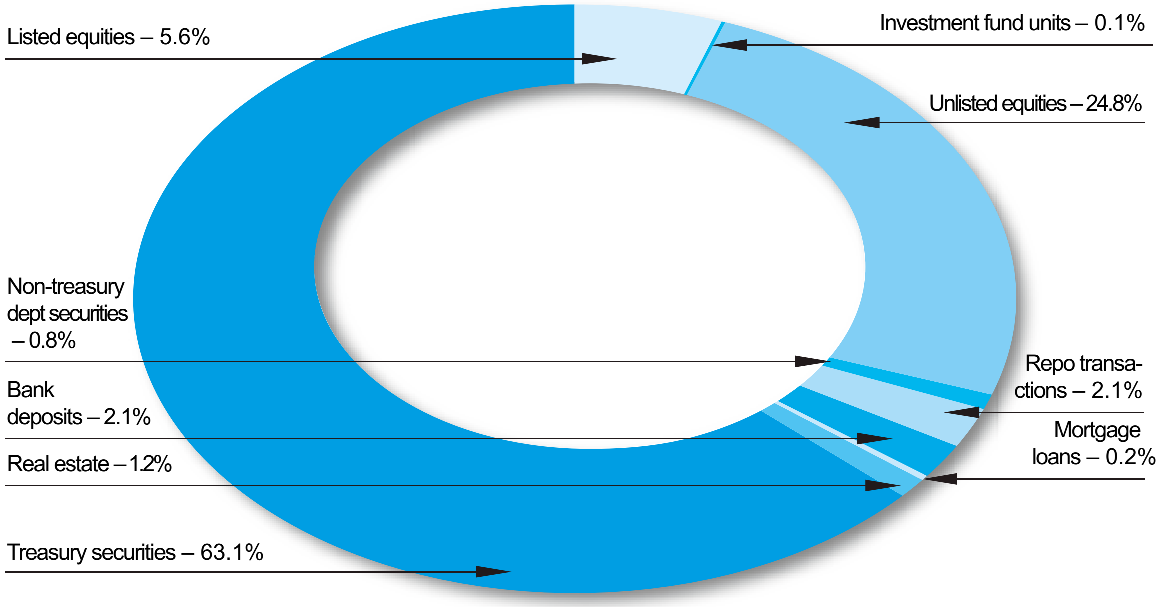
Excluding the shares of PZU Życie SA from the PZU SA investment portfolio, safe financial instruments (treasury securities and deposits) amounted to 88.3% of the portfolio.

In 2007 the income on PZU SA investment activity (excluding the impact of the dividend received from PZU Życie SA in 2006 of PLN 1,405.2 million), turned out slightly worse when compared to that of 2006 with a decrease of 8.2% to PLN 1,081.9 million in 2007. This drop can be attributed predominantly to a less favourable situation at the stock exchange (a 10.4% increase in the WIG index in 2007 against 41.6% in 2006) and higher interest rates in 2007, which influenced the valuation of shares.

The rate of return on the PZU SA investment portfolio, measured as a relation between the investment income and the yearly average value of investments, amounted to 4.2% in 2007.

Breakdown of PZU SA investment portfolio as of 31 December 2007

Source: PZU SA



PZU Życie SA

The total percentage share of the securities issued by the State Treasury in the PZU Życie SA investment portfolio at the end of 2007 amounted to 77.7% against 71.2% at the end of 2006.

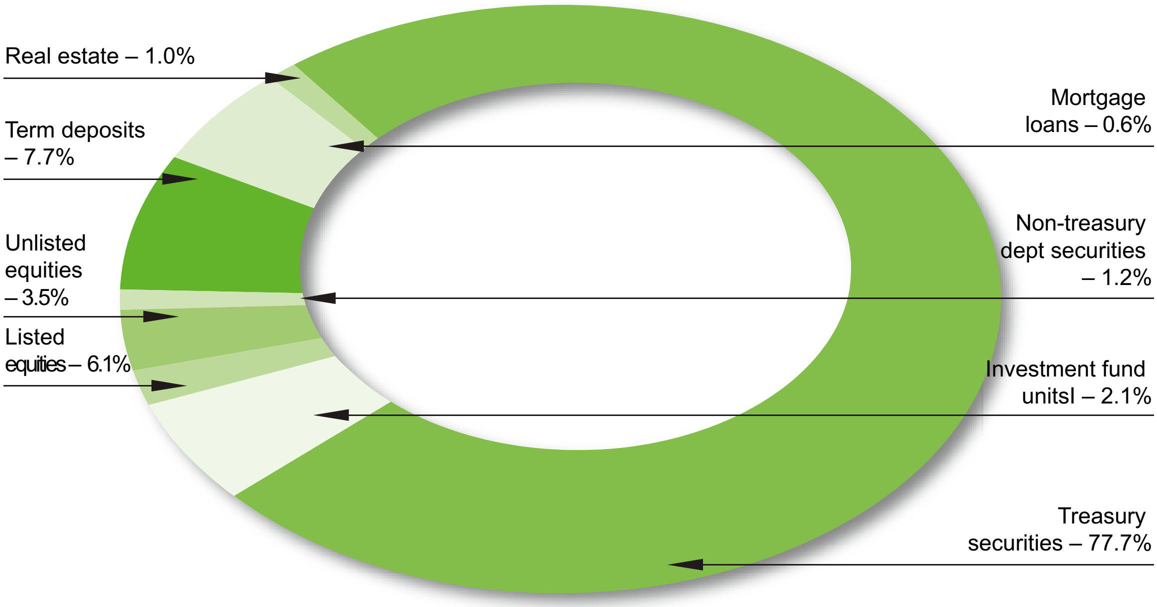
The value of term deposits (bank deposits and repos) at the end of 2007 constituted 7.7% of the total value of PZU SA's investment portfolio and decreased in relation to the previous year (13.1% in 2006).

Safe financial instruments (treasury securities and deposits) amounted to a total of 85.4% of the investment portfolio with their share rising by 1.1 pp.

In 2007 the income on PZU Życie SA investment activity stood at PLN 1,571.3 million, which is PLN 600.3 million less than in 2006 (including unit-linked investments).

The results of investment activity of PZU Życie SA were influenced by less intensive jumps of the stock exchange indices and rising interest rates, which adversely affected the profitability of treasury securities.

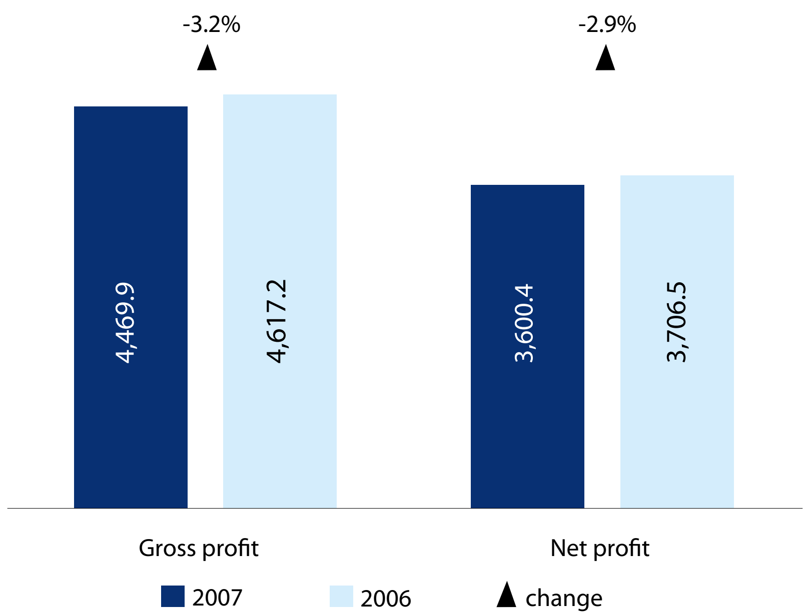
Breakdown of PZU Życie SA investment portfolio as of 31 December 2007.
Source: PZU Życie SA



14.6. Financial result

In 2007 the PZU Group reported PLN 4,469.8 million in gross consolidated profit, which was a 3.2% drop on 2006 caused mainly by a lower underwriting result. Net profit at the end of the reported period amounted to PLN 3,600.4 million.

Financial results of PZU Group (in PLN million)
Source: The PZU Group consolidated financial statement 2007

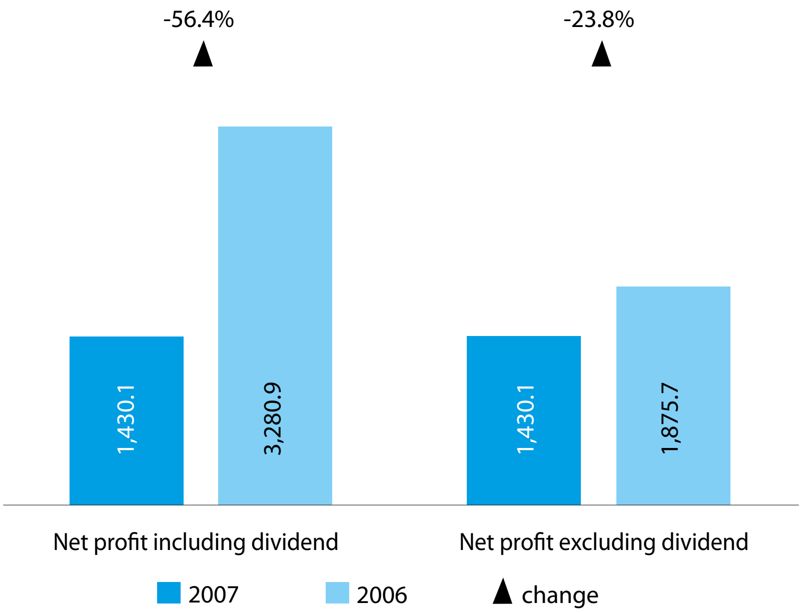


PZU SA

PZU SA generated PLN 1,430.1 million net profit in 2007, which is 56.4% less than in the previous year. After eliminating the impact of last years' dividend from PZU Życie SA which does not affect the group's result in the consolidated financial statement, the decrease amounted to 23.8%.

Financial results of PZU SA (in PLN million)

Source: PZU SA financial statement

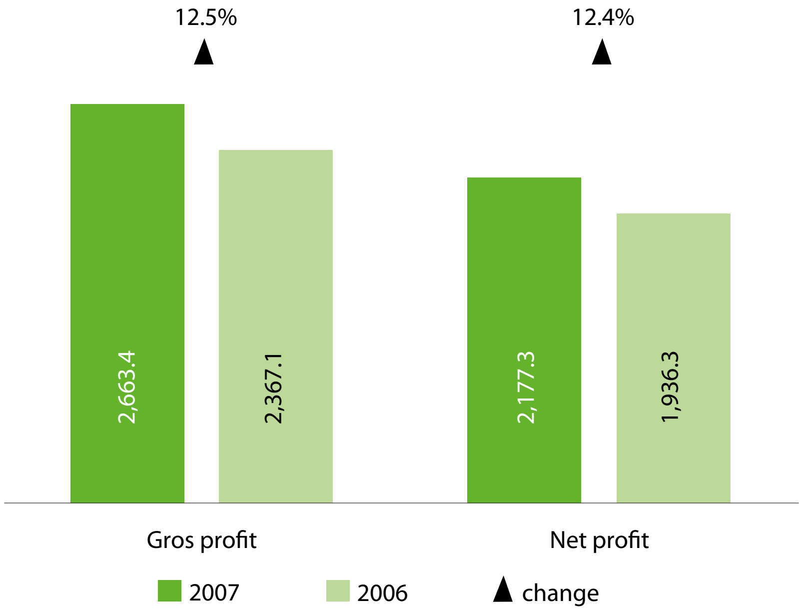


PZU Życie SA

Net profit achieved by PZU Życie SA at the end of 2007 amounted to PLN 2,177.3 million, 22.2% more than in 2006. This improvement in financial result was mainly due to the significant growth in the Company's underwriting result.

Financial results of PZU Życie SA (in PLN million)

Source: PZU Życie SA financial statement



PTE PZU SA

PTE PZU SA also reported growing profits. At the end of 2007, the net profit of the Company amounted to PLN 102.7 million, 22.5% more than in the previous year. The improvement in PTE PZU SA's profit was due to the higher results on operations and other activities.

14.7. Technical reserves

The PZU Group policy of setting up technical reserves is characterized by a cautious approach. The established reserves meet the requirements of the Polish law and regulations for ensuring full coverage of current and future liabilities that may arise under insurance contracts. Foreseeable events, which may contribute to an increase in liabilities, should be taken into account when setting up technical reserves (such as the development of insurance awareness, future economic and legal changes).

The PZU Group's balance of gross technical reserves at the end of 2007, including estimated recourses and recoveries, amounted to PLN 33,988.2 million (PLN 32,951.1 million net of the reinsurers' share). This corresponds to a 1.3% growth of the reserves set up compared to 2006 (a growth of 1.8 % net of reinsurers' share).

PZU SA

The value of gross technical reserves of PZU SA, including estimated recourses and recoveries as of 31 December 2007 amounted to PLN 12,165.3 million, 2.2% more than at the beginning of the reporting period.

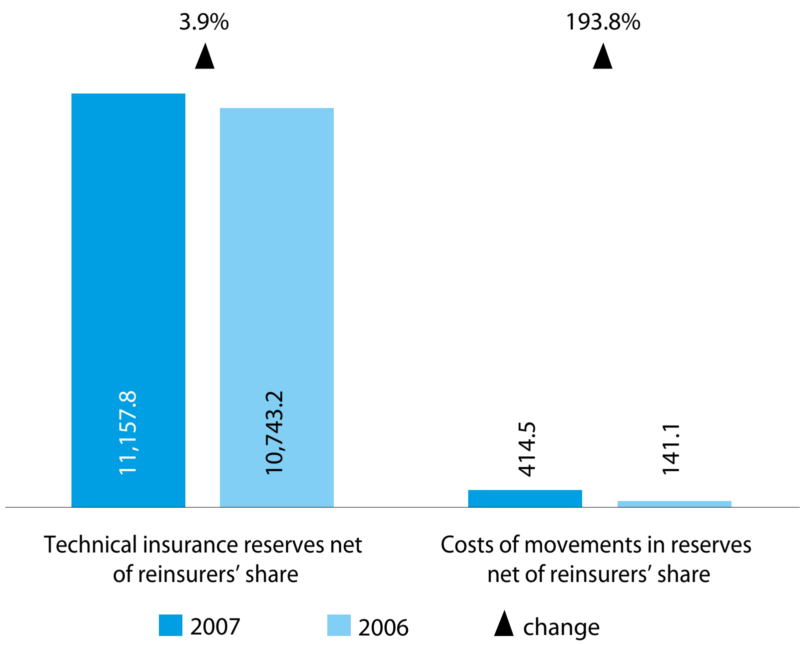
The increase was higher in the case of technical reserves net of the reinsurers' share including estimated recourses and recoveries of PZU SA (3.9%), which is a result of changes in reinsurance programme.

The level of technical reserves at the end of 2007 was also influenced by the decreased technical rate used for calculating annuity reserve, which fell from 1.0% to 0.5%.

Gross movement of all technical reserves in PZU SA in 2007 amounted to PLN 258.8 million (PLN 414.5 million net of the reinsurers' share).

Technical reserves net of the reinsurers' share and cost of movements in PZU SA reserves (in PLN million)

Source: PZU SA financial statement

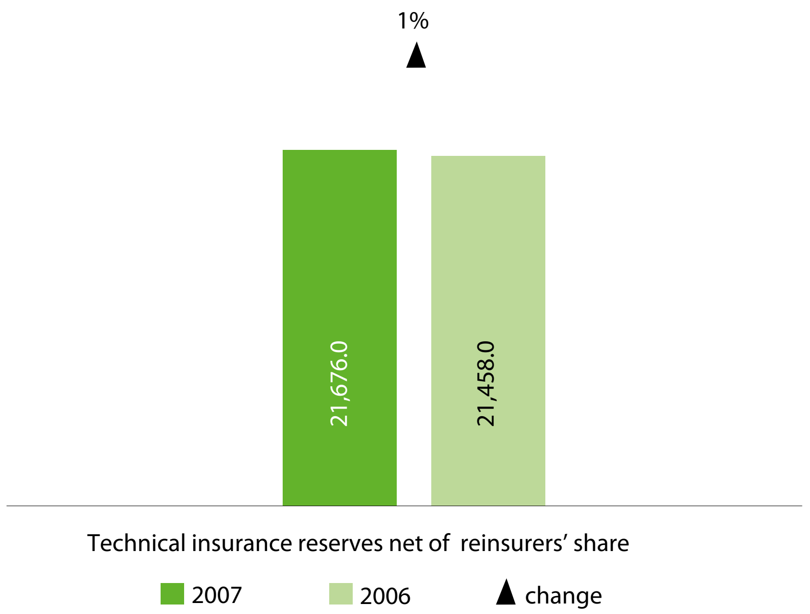


PZU Życie SA

The value of gross technical reserves of PZU Życie SA at the end of 2007 amounted to PLN 21,728.0 million, which is an increase of PLN 217.9 million against the 2006 result of PLN 21,458.0 million. In percentage terms, the Company's technical reserves grew by 0.1% in 2007. The cost of changing the balance of PZU Życie SA gross reserves in 2006 amounted to PLN 270.0 million.

Technical reserves net of the reinsurers' share in PZU Życie SA (in PLN million)

Source: PZU SA financial statement



14.8. Profitability, financial security and efficiency ratios of the PZU Group

Profitability ratios

Source: The PZU Group

Ratio	2007	2006	Change
Return on equity (ROE) (%) (net profit/average equity) x 100%	23.8	30.6	-6.8 p.p.
Return on assets (ROA) (%) (net profit/average assets) x 100%	7.1	8.0	-0.9 p.p.
Profitability of investment activities (%) (income on investment activities/investments)	5.5	7.6	-2.1 p.p.
Profitability of technical activities (%) (underwriting result/premium earned net of reinsurer's share) x 100%	22.5	23.4	-0.9 p.p.
Return on sales (ROS) (%) (financial result/gross premium written) x 100%	23.3	24.0	-0.7 p.p.

PZU Group own equity increased to PLN 16,865.0 million at the end of 2007. The return on equity (ROE) for the PZU Group reached the value of 23.8% in reported period.

Lower value of profitability ratios in comparison to previous years stems from the relation between a lower net result and significantly higher values of own equity and total assets of the PZU Group.

In spite of a lower ratio of technical profitability the PZU Group companies maintained a very high level of financial security measured by solvency and liquidity ratios.

Solvency and liquidity ratios – financial security ratios

Source: PZU Group

Ratio	2007	2006	Change
Solvency margin in property and casualty insurance (in PLN million)	1,271.0	1,169.5	8.7%
Solvency margin in life insurance (in PLN million)	1,517.1	1,492.9	1.6%
Own funds to cover solvency margin in property and casualty insurance (in PLN million)	14,815.5	11,744.0	26.2%
Own funds to cover the solvency margin in life insurance (in PLN million)	6,435.3	4,435.9	45.1%
Coverage ratio of the solvency margin with own funds in property and casualty insurance (%)	1,165.6%	1,004.1%	161.5 p.p.
Coverage ratio of the solvency margin with own funds in life insurance (%)	424.2%	297.1%	127.1 p.p.
Guarantee capital in property and casualty insurance (in PLN million)	423.7	389.8	8.7%
Guarantee capital in life insurance (in PLN million)	505.7	497.6	1.6%
Coverage ratio of guarantee capital with own funds in property and casualty insurance (%)	3,496.9%	3,012.4%	484.5 p.p.
Coverage ratio of guarantee capital with own funds in life insurance (%)	891.4%	1,298.5%	407.1 p.p.
Coverage ratio of technical reserves with assets in property and casualty insurance (%) (assets for covering reserves/ technical reserves) x 100%	180.9%	169.0%	11.9 p.p.
Coverage ratio of technical reserves with assets in life insurance (%) (assets for covering reserves/ technical reserves) x 100%	116.8%	121.4%	-4.6 p.p.

The above ratios show that capital requirements are covered and that there is a large surplus of own funds.

Both major PZU companies increased the level of solvency margin coverage with own funds, with 1,165.6% in PZU SA and 424.2% in PZU Życie SA. Therefore, it might be concluded that the companies' own funds guarantee the coverage of liabilities towards all customers.

2007

Krzysztof Zawistowski
Operational Planning and Controlling Office

I have been working for the PZU Group since 1993. For 13 years I was employed in the Reinsurance Office, currently I work as a Coordinator in the Operational Planning and Controlling Office where I am responsible for analyzing the profitability of insurance products.

Efficiency ratios

Source: PZU Group

Ratio	2007	2006	Change
Gross loss ratio (simple) (%) (gross claims and benefits/gross premium written)	61.7%	56.8%	4.9 p.p.
Net loss ratio (%) (claims and benefits/ premium earned net of the reinsurers' share)	66.0%	57.2%	8.8 p.p.
Insurance activities expenses ratio (%) (insurance activities expenses/ premium earned net of reinsurer's share)	20.6%	19.9%	0.7 p.p.
Combined ratio (%) (ratio of claims and benefits net of the reinsurers' share + ratio of insurance activities expenses)	92.3%	83.8%	8.5 p.p.
Administrative expenses ratio (%) (administrative expenses/ premium earned net of the reinsurers' share)	11.0%	11.1%	-0.1 p.p.

The increase in the insurance activities expenses ratio was due to 6.5% higher costs of insurance activities in PZU SA in relation to the previous year, which accumulated mainly as a result of acquisition expenses (lower commission from the reinsurers and increasing share of commissioned channels in the sales structure).

The growth of the ratio of claims and benefits net of the reinsurers' share was affected, among other things, by limited reinsurance programmes in the previous years and consequent higher own share in reserves.

The combined ratio calculated for property and casualty insurance was higher by 8.5 p.p. in comparison with the previous year, which may be explained by an increased value of claims and benefits related to natural disasters and gradual withdrawal from reinsurance.

2007 ANNUAL REPORT OF THE PZU GROUP

FINANCIAL REPORT

15. FINANCIAL STATEMENTS AND CHARTERED AUDITORS' OPINIONS

I. introduction to consolidated financial statements

1. 1. Composition of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

1.1. Composition of the Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna, scope and method of consolidation

The Capital Group of Powszechny Zakład Ubezpieczeń Spółka Akcyjna („PZU Capital Group", „PZU Group") comprises:

- Powszechny Zakład Ubezpieczeń Spółka Akcyjna („PZU", the „parent company" or the „Company") as the parent company;
- Powszechny Zakład Ubezpieczeń na Życie SA („PZU Życie") as a subsidiary, subject to consolidation using the full method;
- Powszechne Towarzystwo Emerytalne PZU SA („PTE PZU") as a subsidiary, subject to consolidation using the full method;
- PZU Tower Sp. z o.o. („PZU Tower") as a subsidiary, subject to consolidation using the full method;
- Centrum Informatyki Grupy PZU SA („CIG PZU") as a subsidiary, subject to consolidation using the full method;
- UAB DK PZU Lietuva ("PZU Lietuva") as a subsidiary, subject to consolidation using the full method;
- OJSC Insurance Company PZU Ukraine ("PZU Ukraine") as a subsidiary, subject to consolidation using the full method.

Other entities have been excluded from consolidation and valuation using the equity method due to the fact that the financial data of these entities is insignificant compared to the financial data of the PZU Group, in accordance with 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").

1.2. Parent company

PZU with its registered office in Warsaw, at al. Jana Pawła II 24, was incorporated 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).
On 30 April 2001, PZU was registered in the National Court Register kept by the District Court for the capital city of Warsaw, XIX (currently XII) Economic Department of the National Court Register, Entry No. KRS 0000009831.
According to the European Activity Classification (hereinafter referred to as "EAC"), the main area of the Company's activities is property and casualty insurance (EAC 6603).

Dorota Rzążewska
Coordinator
Management Board Office

As a Board Management Coordinator I am responsible for internal legislation. My main duties include drawing up and opinionating projects. I believe that thanks to my work managing such a complex organization may be easier.

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

No.	Company name	Registered office	% of share capital directly or indirectly held by PZU	
			31 Dec 2007	31 Dec 2006
	Subsidiaries consolidated using the full method as of 31 December 2007:			
1	PZU Życie SA	Warsaw	100.00%	100.00%
2	PTE PZU SA	Warsaw	100.00%	100.00%
3	Centrum Informatyki Grupy PZU SA	Warsaw	100.00%	100.00%
4	PZU Tower Sp. z o.o.	Warsaw	100.00%	100.00%
5	OJSC IC PZU Ukraine	Kiev (Ukraine)	100.00%	100.00%
6	UAB DK PZU Lietuva	Vilnius (Lithuania)	99.72%	99.72%
	Subsidiaries not consolidated as of 31 December 2007:			
7	SYTA Development Sp. z o.o. w likwidacj [in liquidation]	Warsaw	100.00%	100.00%
8	TFI PZU SA	Warsaw	100.00%	100.00%
9	Sigma Investments Sp. z o.o.	Warsaw	100.00%	100.00%
10	PZU Asset Management SA	Warsaw	100.00%	100.00%
11	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. w likwidacji [in liquidation]	Warsaw	100.00%	100.00%
12	Międzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA	Warsaw	100.00%	100.00%
13	PZU International Sp. z o.o.	Warsaw	100.00%	100.00%
14	OJSC IC PZU Ukraine Life Insurance	Kiev (Ukraine)	100.00%	100.00%
15	LLC SOS Services Ukraine	Kiev (Ukraine)	100.00%	100.00%
16	Company with Additional Liability Inter-Risk Ukraine	Kiev (Ukraine)	100.00%	100.00%
17	UAB PZU Lietuva Gyvybės Draudimas	Vilnius (Lithuania)	99.34%	99.34%
18	Krakowska Fabryka Armatur SA	Cracow	67.01%	90.53%
19	ICH Center SA	Warsaw	56.00%	56.00%
	Associates as of 31 December 2007			
20	VIS – Inwestycje SA	Warsaw	45.14%	45.14%
21	Kolej Gondolowa Jaworzyna Krynicka SA	Krynica	37.53%	37.53%
22	Nadwiślańska Agencja Ubezpieczeniowa SA	Tychy	30.00%	30.00%
23	Polskie Towarzystwo Reasekuracji SA	Warsaw	23.77%	23.77%
24	PPW Uniprom SA w upadłości [in bankruptcy]	Warsaw	21.28%	21.28%

% of voting rights directly or indirectly owned by PZU		Scope of activities
31 Dec 2007	31 Dec 2006	
100.00%	100.00%	Life insurance
100.00%	100.00%	Managing of pension funds
100.00%	100.00%	Supporting activities to insurance and pension funds operations
100.00%	100.00%	Property purchase, development, lease and disposal
100.00%	100.00%	Property and casualty insurance
99.72%	99.72%	Property and casualty insurance
100.00%	100.00%	Trading in property, agency services in trading in property, property management
100.00%	100.00%	Creating, representing and managing investments funds
100.00%	100.00%	Investing activities. Purchase and sale of shares, bonds and other securities admitted to public trading
100.00%	100.00%	Managing of investment portfolio at the request of third parties
100.00%	100.00%	Loss adjusting services are the request of insurance companies
100.00%	100.00%	Managing employee pension fund
100.00%	100.00%	Capital investments
100.00%	100.00%	Life insurance
100.00%	100.00%	Assistance-type services
100.00%	100.00%	Legal services
99.34%	99.34%	Life insurance
67.01%	90.53%	Manufacturing of bathroom and kitchen fixtures and fittings
56.00%	56.00%	Handling claims from Greek Card Insurance
45.14%	45.14%	Manufacturing of tools, equipment and spares
36.71%	36.71%	Operating ski-lifts
30.00%	30.00%	Handling of claims.
23.77%	23.77%	Organizing and executing indirect insurance activities (reinsurance)
21.28%	21.28%	Publishing and printing services. manufacturing of cardboard and paper packaging

Lp.	Company name	PLN thousand	Net profit (loss)
	Subsidiaries not consolidated as at 31 December 2007		20,212
1	SYTA Development Sp. z o.o. w likwidacji [in liquidation]		(374)
2	TFI PZU SA		11,936
3	Sigma Investments Sp. z o.o. [/1]		(10)
4	PZU Asset Management SA		1,558
5	Biuro Likwidacji i Obsługi Szkód Sp. z o.o. [/1]		(71)
6	Mi´dzyzakładowe Pracownicze Towarzystwo Emerytalne PZU SA		1
7	PZU International Sp. z o.o. [/1]		(19)
8	OJSC IC PZU Ukraine Life Insurance /[1] /[5]		(4,437)
9	LLC SOS Services Ukraine [/1 /5]		(141)
10	UAB PZU Lietuva Gyvybes Draudimas [/2 /3 /4]		4,426
11	Company with Additional Liability Inter-Risk Ukraine [/1 /5]		–
12	Krakowska Fabryka Armatur SA [/1]		6,059
13	ICH Center SA		1,284
	Associates not consolidated as at 31 December 2007:		1,182
14	VIS Inwestycje SA		(6,594)
15	Kolej Gondolowa Jaworzyna Krynicka SA		1,602
16	Nadwiślańska Agencja Ubezpieczeniowa SA [/1]		412
17	Polskie Towarzystwo Reasekuracji SA [/1 /2 /3]		5,762
18	PPW Uniprom SA w upadłości [/1 /6]		–
	TOTAL		21,394

1) Unaudited data
2) „Sales revenue" calculated as the sum total of the gross premium written and other technical revenues, net of reinsurers'share.
3) „Financial income" calculated as the difference between „Investment income" and „Unrealized gains on investments" and „Cost of investing activities" and „Unrealized losses on investments".
4) Data according to the Lithuanian Accounting Standards, which do not significantly differ from Polish Accounting Standards

Sales revenue and financial income	Total assets	Liabilities and provisions for liabilities	Shareholders' equity
290,185	291,295	87,295	172,404
4,739	11,265	17,388	(6,123)
51,680	49,420	7,594	41,826
1	59	1	58
23,540	17,379	8,466	8,913
13	15	6	9
548	663	162	501
–	35	1	34
9,338	16,245	1,088	5,743
1,445	352	249	103
24,107	46,234	1,319	23,364
32	9	2	7
170,114	145,494	50,994	94,500
4,628	4,125	656	3,469
308,926	692,121	228,703	236,759
3,327	208,015	62,818	145,197
11,998	36,860	3,793	33,067
2,206	3,420	495	2,925
289,373	391,750	7,265	157,826
2,022	52,076	154,332	(102,256)
599,111	983,416	316,629	409,163

5) Data according to the Ukrainian Accounting Standards
6) Data as at 30 November 2004

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 the year ended 31 December 2007 (the "consolidated financial statements") were prepared in accordance with the Accounting Act and the Decree of the Minister of Finance dated 24 December 2007 on specific accounting principles for insurance companies (Journal of Laws No. 248/2007, item 1846, hereinafter "Decree on Insurance Accounting").

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

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

3. Period covered by these financial statements

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 is from 1 January 2007 to 31 December 2007.

4. Going concern assumption

These consolidated financial statements of the PZU Capital Group have been prepared on the basis that the consolidated Group entities will continue as going concerns in the foreseeable future, i.e. during the period of at least 12 months from the balance sheet date, i.e. 31 December 2007.

As at the date of signing these consolidated financial statements, there are no facts or circumstances that would indicate a threat to the continued activities of the PZU Group entities, consolidated using the full method, in the period of 12 months following the balance sheet date due to an intended or compulsory withdrawal from or limitation in its activities.

5. Business combinations

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

6. Principal accounting policies

These consolidated financial statements have been prepared in accordance with the provisions of the Accounting Act dated 29 September 1994 with subsequent amendments, 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) („the Decree on Financial Instruments") and the Decree on Insurance Accounting.

In matters not regulated by the Accounting Act, Polish Accounting Standards were applied issued by the Polish Accounting Standards Committee, and in the case of lack of appropriate national standard – International Financial Reporting Standards and the related Interpretations issued in the form of Ruling of the European Commission („IFRS").

6.1. Basis of consolidation

Individual items of these consolidated financial statements cover aggregated appropriate items of the parent company and subsidiaries, after consolidation adjustments.
To prepare the consolidated financial statements, the following consolidation eliminations were applied:
- the carrying amounts of the parent company's investments in each subsidiary,
- share capital of subsidiaries,
- other equity items of subsidiaries established prior to acquisition date,
- intercompany 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 PZU Group companies consolidated on a full method basis.

Assets and liabilities of foreign entities are translated into Polish zloty using the average NBP rate determined for the given currency at year end. Consolidated profit and loss account items are translated into Polish zloty using the arithmetic mean of average exchange rates prevailing at the end of each month of the financial year. Any resultant foreign exchange differences are recognized in these financial statements under „Foreign exchange differences on related parties". In preparing these consolidated financial statements, the following exchange rates were used:

Exchange rates used for translation of foreign related parties	LTL	UAH
Closing exchange rate as of at 31 December 2006	1.1096	0.5760
Average exchange rate for the period from 1 Jan 2006 to 31 Dec 2006	1.1292	0.6129
Closing exchange rate as of at 31 December 2007	1.0374	0.4814
Average exchange rate for the period from 1 Jan 2007 to 31 Dec 2007	1.0938	0.5456

6.2 Intangible assets

Included in intangible assets are, in particular, computer software, copyrights, patents 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 their estimated useful lives.
Computer software, licenses and other property rights are amortized over the period from two to ten years.
Intangible assets with an initial cost not exceeding PLN 3,500 are expensed in full when brought into use.

6.3 Goodwill on consolidation

Goodwill on consolidation is the excess of acquisition cost over the share of the acquiring company in the net fair value of assets of the acquired company. Goodwill on consolidation is amortized to the consolidated 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.

6.4 Investments

6.4.1 Investments in property

Included in investment property 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.

Investment property is stated at acquisition costs or cost of development, after taking into account the revaluation result, less accumulated depreciation at the balance sheet date and impairment losses.
Investment property, 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 the investment property, which are subject to depreciation:

Category	Rate
Perpetual usufruct of land	Determined in proportion to the period of time over which the right is held
Cooperative freehold right to dwelling or business premises	2.5%
Buildings and constructions	1.5 – 4.5%

6.4.2 Shares in related parties

Shares in related parties, which are not consolidated, are measured using the equity method if they comply with the significance criterion defined in the accounting policies of the PZU Group.
Shares in other related parties are measured at cost less any impairment losses.

6.4.3 Financial instruments

Upon acquisition, financial instruments are classified to the following categories:
- financial assets held for trading;
- financial assets held to maturity;
- floans and receivables;
- financial assets available for sale.

6.4.3.1. Financial assets held for trading

Included under financial assets held for trading are the 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 acquired as well as financial derivative instruments, provided they are not considered to be hedging instruments.
Debt securities, shares and derivative financial instruments included in the portfolio of assets held for trading are measured at fair value, or where the fair value cannot be determined in a reliable manner – at cost less any impairment losses.
Financial assets held for trading shall not be re-classified to other categories, while financial assets included in other categories can be re-classified to the held for trading category, provided there is a high probability of obtaining economic benefits in a short-period of time.
The fair value of derivative instruments such as forward rate agreements “FRAs”, and interest rate swaps “IRSs”, is determined using the cost-to-close method, i.e. at the closing cost of the given item on the market on the balance sheet date.
The derivative financial instruments are presented in the consolidated balance sheet under item „Other investments”, on the assets’ side or under item „Other liabilities” on the equity and liabilities’ side.

6.4.3.2 Financial assets held to maturity

Included in the financial assets held to maturity are the financial assets, not included in the category of loans and receivables, financial assets with contracts determining the maturity date for nominal amounts and the right to obtain, at set dates, economic benefits, such as interest rate at a determinable amount, which the Company intends and has the ability to hold until maturity.
As at the balance sheet date, financial assets held to maturity are measured at amortized cost calculated using the effective interest method less any impairment losses.

6.4.3.3. Loans and receivables

Included in the loans and receivables of the PZU Group are, irrespective of the maturity period (payment), financial assets resulting from direct issuance of cash to the counterparty.
Included in this category are 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. Term deposits include in particular buy-sell-back transactions ("BSB") with banks.
Loans are stated at the amount due less any impairment losses.
Term deposits held in financial institutions are stated at nominal value.
Interest on term deposits accrued at the balance sheet date is recognized under item "Accrued interest and rental charges".

6.4.3.4. 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 and own receivables.
Available-for-sale financial assets are measured at fair value, or where the fair value cannot be determined in a reliable manner – at cost less any impairment losses.
The difference between the fair value of available-for-sale financial assets and their amortized cost (and in the case of equity instruments – cost) is taken to revaluation reserve. The effects of measurement of debt instruments included in this category up to the level of amortised cost are recognized under investment income. In the case of assets taken into account when establishing technical reserves, the effects of the measurement referred to above are taken to the consolidated life insurance revenue account (in case of life insurance) or to the consolidated property and casualty insurance revenue account (in case of property and casualty insurance).

6.4.3.5. Deposits with cedants

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, but retained as security for future claims.
Deposits with cedants are measured 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 measurement and accounting for impairment losses.

6.4.3.6. Net life insurance assets where the investment risk is borne by policyholders

Net life insurance assets where the investment risk is borne by policyholders includes net assets of insurance capital funds. Capital funds' net assets include investments of life insurance funds, cash and receivables less liabilities resulting from the mentioned investments.
Net life insurance assets where the investment risk is borne by policyholders are stated at fair value.

6.5 Receivables

Receivables are recognized at the amount determined at the moment they arise. As at the balance sheet date, receivables are measured at the amount due less impairment losses. 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, thus evaluating the likelihood of payment.

6.5.1 Direct insurance receivables

Direct insurance receivables comprise accounts receivable from the policyholders arising from premiums paid in installments and outstanding premiums as well as receivables due from insurance intermediaries, i.e. insurance brokers and insurance agents.
Impairment losses on direct insurance receivables are recognized in "Other technical expenses, net of reinsurers' share".

2007

Konrad Rojewski
Coordinator
Product Management Office, PZU SA

I have been working for PZU for 13 years. For many years I dabbled with property insurance. Two years ago I took up a new challenge – development of portfolio of agricultural insurance (crops and livestock). This segment of the market enjoys quite a lot of interest among both customers and rival companies. My objective is to assure the dynamic development of agricultural insurance and assert the position of PZU SA as the major insurer of Polish farmers.

6.5.2 Reinsurance receivables

Reinsurance receivables include balances receivable in respect of settlements with cedants, reinsurers and reinsurance brokers arising from inwards and outwards reinsurance and retrocession. These receivables refer in particular to reinsurers' share in any claims paid out by the insurer, reinsurance commission and the share in the reinsurers' profits.
Impairment losses on reinsurance receivables are taken to "Other technical expenses, net of reinsurers' share".

6.5.3 Other receivables

Included in other receivables are in particular receivables from the State Budget and receivables resulting from rendering loss adjusting services.
Impairment losses on other receivables are recorded under other operating expenses.

6.6 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 measured at cost, cost of production or re-valued amount, less accumulated depreciation and impairment losses.
Tangible fixed assets are depreciated using the straight-line method over their estimated useful lives.

Examples of annual depreciation rates	
Category	Rate
Plant and machinery	8.5% – 40%
Motor vehicles	10% – 20%
Other tangible fixed assets	5% – 40%

Property, plant and equipment items with a low initial cost of less than PLN 3,500 are expensed in full.

6.7 Cash and Cash equivalents

Cash and cash equivalents are measured at nominal value.

6.8. Prepaid and accrued expenses and deferred income

Included in prepaid expenses are the costs incurred and accrued which relate, in part or in full, to the periods after the balance sheet date. Prepaid expenses include, in particular, the costs of insurance premiums which will be earned in subsequent periods (i.e. among others, acquisition costs or costs of obligatory fees, provided they may have significant impact on the consolidated financial statements).
In the case of property and casualty insurance, acquisition commissions are deferred. In the case of full time employees, direct and indirect costs of acquisition are deferred together with Social Security surcharges.
In the case of life insurance, for individual unit-linked policies, the cost of acquisition is deferred and settled using the Zillmer method, while for group and continued policies with no significant difference between the first year costs and subsequent years cost, as well as for insurance policies where the investment risk is borne by the policyholder, acquisition costs are not deferred.

The costs of obligatory fees incurred in accordance with binding laws are deferred in accordance with policies binding for creation of unearned premium reserve, in the proportion matching earning revenues, which are the basis to calculate the amount of fees, provided they can have an impact on the financial statements. In particular, deferred is, in proportion to the unearned premium reserve, the lump sum contribution to the National Health Fund (Polish: Narodowy Fundusz Zdrowia - hereinafter the "NFZ"), which the Company accrues for and transfers based on Art. 43a of the Act on obligatory social security insurance, Insurance Guarantee Fund and Polish Bureau of Motor [Vehicle] Insurers (Journal of Laws No. 124/2003, item 1152), compared to the obligatory third party liability insurance contracts concluded by owners of motor vehicles after the effective date of the amended version of the above Act, i.e. after 1 October 2007.
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. As of at the balance sheet date, an impairment write-down is made against this part of deferred acquisition costs related to agreements which are not expected to generate any income in the future.

Accruals comprise costs of the current reporting period which will be incurred in the subsequent period, and in particular, acquisition costs, lump sum contribution to the NFZ and the costs of outwards reinsurance.
Included in the above balance are, among others, amounts of future receivables from accrued income from term deposits and rental charges as well as accrued re-insurance income resulting from economic events that occurred prior to the balance sheet date, the settlement of which will be made in the future.
The costs of outwards reinsurance comprise deferred re-insurance expenses resulting from business events that took place in the period to the balance sheet date, the settlement of which, in accordance with appropriate contracts, will be made in the future.
Included in the balance of deferred income are deferred re-insurance commissions which are settled in the proportion matching premiums earned on the re-insurers' share, and the amounts of paid premiums relating to insurance contracts written with insurance coverage period commencing after the balance sheet date.

6.9 Equity

Share capital is stated in the books of account at nominal value in accordance with binding regulations and provisions of the Articles of Association of the parent company.
Included in revaluation reserve are the effects of re-valuation of financial assets classified as available-for-sale (provided they do not represent coverage for technical reserves) – after taking into account deferred tax.
Also, included in the revaluation reserve are the effects of revaluation of land, buildings and constructions and tangible fixed assets performed using the rates published by the President of the Central Statistical Office as at 1 January 1995. After the fixed asset is sold or liquidated, the amount remaining in the revaluation reserve is transferred to the reserve capital.

6.10. 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 PZU Group.

6.11 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 while observing the prudence principle.
Technical reserves have been created in compliance with articles of association of the insurance companies included in the PZU Capital Group, Act dated 23 May 2003 on insurance activities (Journal of Laws 2003, No 124, item 1151 – hereinafter the „Insurance Activities Act"), Decree on Insurance Accounting and internal regulations concerning technical reserves.

6.11.1 Unearned Premium Reserve

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.
The unearned premium reserve is created to cover liabilities that may arise after the balance sheet date and result from insurance contracts, for which the insurance coverage ends after the balance sheet date.
The unearned premium reserve is valued as at the end of each reporting period using the individual method, to the nearest day.
For the groups (types) of insurance with an unequal spread of risk over the insurance coverage period, the unearned premium reserve is created in the amount depending on the spread of the risk over the insurance coverage period.
The reinsurers' share in the unearned premium reserve is calculated in accordance with the terms and conditions set forth in the applicable reinsurance contracts, in the amount proportional to the re-insurance coverage in the periods after the end of the given reporting period.

6.11.2 Life insurance reserves

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 risk of death, in accordance with general terms and conditions of such insurance,
- other types of insurance – using the prospective actuarial method, individually for each policy.

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

6.11.3 Outstanding claims reserves

6.11.3.1. Property and casualty insurance

Outstanding claims reserves

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

The reserve for claims reported and not adjusted (hereinafter "reserve I") is determined as the amount of average loss, 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 the expected increase in prices of goods and repair services, and shall 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 not been reported to the date of creation of the reserve using the triangulation methods such as Chain-Ladder, Cape Code and Bornhuetter-Ferguson method, by accident year.

Loss adjustment expense reserve

The value of the loss adjustment expense reserve is created at the end of each reporting period as the sum total of the reserve for direct and indirect costs of loss adjustment.

The reserve for direct costs of loss adjustment is created for both the losses incurred and reported (using the individual method) and the losses incurred but not yet reported (the lump-sum method as the share in the IBNR reserve).

The reserve for the indirect costs of loss adjustment is created as the percentage of the total of the reserve for claims reported and not adjusted and the reserve for direct costs of loss adjustment.

Estimated subrogations and salvages

In determining the balance of future claim payments, PZU estimates the balance of future rights to pursue third parties for payment of some or all claims (subrogations) or taking over ownership rights to the assets insured (salvages). Estimated salvages and subrogations include 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.

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 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.

6.11.3.2. Life insurance

Outstanding claims reserve, including annuities reserve

The outstanding claims reserve is created to cover claims that:

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

The reserve for claims reported but not paid ("the RBNP reserve") is created for claims reported and not paid at the balance sheet date. The 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.

The reserve for claims incurred but not reported ("the IBNR reserve") 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.

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

6.11.4 Other technical reserves

6.11.4.1. Property and casualty insurance

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 ultimate amount of the unexpired risk reserve is determined after premium adequacy test has been performed.
The reinsurers' share in the unexpired risk reserve is calculated in accordance with the terms and conditions set forth in the applicable reinsurance contracts.

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.

Catastrophe and exceptional risk reserve
The catastrophe and exceptional risks reserve is to cover any losses incurred as a result of catastrophe or large-scale events, and exceptional risks losses.
As of 1 July 2004, PZU ceased to increase the level of the 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.

6.11.4.2 Life insurance

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 insureds' participation units in the investment fund, valued at fair value at the balance sheet date.

Other technical reserves defined in the Articles of Association of PZU Życie
Other technical reserves defined in the Articles of Association of PZU ˚ycie include:
- reserve for the valorization of benefits under individual life policies and annuities taken over from PZU. (the so-called "old portfolio");
- reserve for litigation 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 benefits; the reserves for litigations are created in the amount of the expected additional benefits payable resulting from the litigations, and are based on the currently available information 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 rate reserve"); the reserve for low interest rates relating to anticipated decrease in the profitability of insurance investment fund; in the case of individual life insurance policies with increasing insurance sum and premium, group insurance of the Firma-type and pension insurance, the reserve for low interest rates is created using the actuarial method, individually for each insurance policy in the amount representing 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.

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 to the insured after the conclusion of the settlement period.

6.12. Other provisions

Included in "Other provisions" are the provisions for certain or highly probable liabilities that may arise from past events, the date of payment and the amount of which, although not certain, can be determined in a reliable manner. Other provisions include, in particular, a provision for jubilee bonuses and retirement benefits, provision for unused leave, provision for losses from business transactions in progress, for guarantees and pledges granted, provision for losses from unfavorable court decisions and third party claims.
The costs of creation of provisions are included in other technical costs, net of reinsurers' share (i.e. on own share), other operating expenses, other financial expenses or administrative expenses, depending on the type of future liability.

6.12.1 Provision for jubilee bonuses and retirement benefits

In accordance with Remuneration Regulations of the PZU Group companies with registered office in Poland, 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 and calculated using the projected unit credit method.
Actuarial gains and losses are recognised in full in the period in which they occurred.
In the case of jubilee bonuses, the costs of past service (within the meaning of IAS 19) are immediately recognized in the profit and loss account.
Provision for jubilee bonuses and retirement benefits are measured 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.

6.12.2 Provision for unused leave

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

6.12.3 Provision for posthumous and post-employment benefits

In accordance with the provisions of the Labour Law dated 26 June 1974 (uniform text: Journal of Laws No. 12/1998, item 94 with subsequent amendments), 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.
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 Social Fund, entitled to the benefits and financial services from the PZU Social Fund are, among others, the retired employees and pensioners of PZU (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 measured at the fair value of future benefits, which may be allocated to the employee's period of service to date.

6.13. Liabilities

Liabilities are stated at the amount due and payable.

6.14 Special funds

Included in special funds are the social and prevention funds. The Company's social fund is created in accordance with appropriate regulations with contributions being charged to the profit and loss account. Contributions to the Company's social fund are also made from appropriation of net profit, based on the resolutions of the Annual General Meeting.
The prevention fund is created in accordance with the provisions of the Insurance Activities Act with contributions being taken to the profit and loss account. The balances of special funds are increased by gains on investments made out of the funds' assets, and reduced by the expenditures made in accordance with appropriate internal regulations.

6.15. Revenue from insurance services

Revenue from gross premiums written is recognized from the date of commencement of insurance coverage resulting from the insurance contract made. The amounts of premiums paid under insurance contracts with insurance coverage commencing after the balance sheet date are recognized under deferred income.
The reinsurers' share in the premium written was calculated for the groups of insurance with the reinsurance coverage in the amount, which - under appropriate reinsurance treaties - is due to the reinsurers.

6.16. Revenue and costs from investment activities

6.16.1 Income from property and cost of property maintenance

Income from investment property includes rental fees received, lease rentals and other charges relating to the property management is recognized under "Investment income from property" in the general Consolidated General Profit and Loss Account or in the Consolidated Life Insurance Revenue Account.
Costs of maintenance of property earmarked for investment purposes are shown under "Costs of property maintenance" in the consolidated life insurance revenue account or consolidated general profit and loss account.
The costs of the maintenance of property used for own purposes of the PZU Group companies are included in the property and casualty insurance revenue account and in the consolidated life insurance revenue account under "Administrative expenses" in the proportion resulting from the space used by given Group entity.

6.16.2 Debt securities income and expenses

The results of the measurement 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 cost 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",
- for debt securities classified as held for trading – under "Unrealized gains or Unrealized losses on investments".

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

6.16.3 Share-related gains and losses

Included in „Unrealized gains/ losses on investments" are gains and losses on measurement of shares classified as held for trading in the amount of the difference between the fair value and 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 revaluation of shares classified as available for sale (not included in determining technical reserves) are recognized in the revaluation reserve.
Gains and losses arising from the sale of shares are recognized under „Gains/Losses on realization of investments".
Included in „Losses on investment revaluation" are investment impairment losses for the reporting period. Any gains from the reversal of impairment losses made in previous reporting periods are included under "Result on reversal of impairment of investments".
Income from dividends is recorded in the gross amount at the date the right to dividend has been established.

6.16.4 Presentation of investment income in Life insurance

In the life insurance, both realized and unrealized investment gains and costs of investing activities (excluding gains and losses taken to revaluation reserve) are recognized in the consolidated life revenue account. Gains on investments from own funds are reduced by investment costs and are transferred from the consolidated life revenue account to the consolidated general profit and loss account.
Gains and losses from investments where the investment risk is borne by the policyholders is recognized in the consolidated life insurance revenue account.

6.16.5 Presentation of investment income in property and casualty insurance

Income from investments included in calculation of annuities reserve and reserve for bonuses and rebates for the insured are transferred from the consolidated general profit and loss account to the consolidated property and casualty insurance revenue account.
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 consolidated general profit and loss account to the consolidated property and casualty revenue 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 S.A. until maturity, inclusive of appropriate investment activity costs.

6.16.6 Revenue from interest on deposits with financial institutions

Income from interest on deposits with financial institutions is recognized on an accrual basis, whereby the total amount of interest for a given reporting period is recorded 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.

6.17. Claims and benefits

Included in the costs of the reporting period are all costs of claims and benefits paid out in respect of losses incurred in the reporting period and in prior periods, as well as indirect and direct costs of loss adjusting activities and movements in the OCR reserve, reduced by subrogations and salvages and movements in the balance of salvages and subrogations estimates.
The costs of loss adjusting and costs of claims cover direct and indirect costs of activities aimed at closing the reported loss-related matters, or costs of activities aimed at considering and closing the matter.

6.18. Insurance activities expenses

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 ensure matching of revenues and costs, included in acquisition costs are the amounts of commissions relating to premiums written in the current year, which will be incurred in the future; deferrals are made of incurred and accrued acquisition costs relating to future reporting periods.
Acquisition expenses are recognized in the period, in which premium being the basis for commission payment is due. The value of acquisition expenses is adjusted by the change in the balance of deferred acquisition costs.
In the case of group and continued policies (with PZU Życie) with no significant difference between the first year costs and subsequent years cost, as well as for insurance policies where the investment risk is borne by the policyholders, acquisition costs are not deferred.
Administrative expenses comprise the costs of insurance activities, not classified as acquisition expenses, claims, costs of investing activities, costs relating to premiums collection, managing the portfolio of insurance and reinsurance contracts and general managing the insurance company.
Insurance activity expenses are adjusted by the value of reinsurance commissions received or receivable from insurance brokers and reinsurers, as part of reinsurance outwards and retrocession, 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.
In particular, PZU Życie includes in administrative expenses the entire costs of services provided by third parties servicing group employee insurance.

6.19. Revenues and costs of management companies

6.19.1 OFE PZU management fee

PTE PZU charges 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 dated 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”).

6.19.2 Handling fees

PTE PZU charges handling fees on contributions transferred from the Social Security Fund (“ZUS”) to OFE PZU in the amount stated in the OFE PZU Articles of Association, taking into account limits set forth in the Pension Funds Act.
The handling fee is recognized as revenue of PTE PZU in the month the underlying contribution is transferred to OFE PZU.

6.19.3 Transfer-out fees in PTE PZU

Fees charged to members for their resignation from the participation in the fund are being calculated in accordance with the Articles of Association of OFE PZU and are recognized in the period in which the transfer-out fees are to be settled.

6.19.4 Acquisition expenses in favor of OFE PZU

Costs incurred in connection with acquisition in favor of OFE PZU are settled/deferred over the period of two years and are charged to „Other operating expenses" in the consolidated general profit and loss account. Deferred costs are recognized in the consolidated balance sheet under „Other accruals and deferred income".
All the remaining costs and revenues relating to the activities of PTE PZU are recognized in the consolidated general profit and loss account under „Other operating expenses" and „Other operating income", as appropriate.

6.19.5 Contributions to the primary part of the Guarantee Fund

PTE PZU is obliged to make contributions to the primary part of the Guarantee Fund in the amount of 0.1% of the value of net assets of OFE PZU. Contributions due are calculated taking into account all earlier payments and income on earlier deposits less remuneration owed to the National Depository for Securities being administration fee for managing the primary part of the Guarantee Fund. In case of contribution deficit, 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.

6.19.6 Contributions to the additional part of the Guarantee Fund

According to the Pension Funds Act, PTE PZU is obliged to make contributions 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. 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.

6.19.7 Payments to premium account/new reserve account

According to the Pension Funds Act, the funds on the premium account, to which PTE PZU 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 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.

6.19.8 KDPW charges

PTE PZU 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 amounts to 1% of the minimum remuneration, defined by separate regulations.

6.19.9 ZUS contributions

PTE PZU 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 2006 and 2007, the amount of fee charged by ZUS amounted to 0.8% of all contributions transferred to ZUS.
PTE PZU is also obliged to pay a fee to ZUS as a recharge of costs of registration of transfer to another pension fund. For each member declaring membership in the OFE PZU, the amount of recharge is 1% of the minimum remuneration, as defined by separate regulations

6.20. 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 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 exchange rate.

Iwona Bryśkiewicz
Senior Specialist
Assistance Office

I work with the Settlements Team that is servicing settlements between companies, preparing reports and statistical analyses. I enjoy working with a young and dynamic team. Thanks to perfect work organisation and an individual approach to customers we are able to provide customers with the highest quality services.

6.21. Taxation

Corporate income tax showed in the consolidated general profit and loss account consists of the current tax and deferred tax.

Current tax
Current tax liability in respect of corporate profits tax is calculated in accordance with binding tax laws.

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, while observing the 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 asset and deferred tax liability resulting from business transactions with the use of equity items is settled against equity.

7. Changes in accounting policies and in the manner of preparation of the consolidated financial statements

In 2007, no changes were made in the accounting policies or valuation methods of assets or liabilities that could have an effect on the consolidated financial statements.
Presented below are changes in the method of preparation of the consolidated financial statements.

7.1. Change in the method of presentation of costs of IT services provided by CIG PZU

In order to ensure a more adequate presentation of costs of IT services provided by CIG PZU to entities included in these consolidated financial statements, an allocation of costs of CIG PZU was made to acquisition expenses, administrative expenses, costs of loss adjusting services and costs of activities of PTE PZU.
The financial data for the year 2006 were restated for comparability purposes and the table below presents the effect of the allocation of IT costs to the individual items of the consolidated financial statements.

Consolidated life insurance revenue account	1 Jan. - 31 Dec. 2006 (historical data)	Adjustment	1 Jan. - 31 Dec. 2006 (comparative data)
V. Claims and benefits	4,297,860	1,362	4,299,222
1. Claims and benefits paid out, net of reinsurers' share	4,274,330	1,362	4,275,692
1.1. Claims and benefits paid out, gross	4,274,330	1,362	4,275,692
VIII. Insurance activities expenses	895,624	17,370	912,994
1. Acquisition expenses	365,259	4,354	369,613
2. Administrative expenses	532,911	13,016	545,927
IX. Cost of investing activities	190,196	136	190,332
2. other costs of investing activities	34,748	136	34,884
XIII. Life underwriting result, of which:	2,282,803	(18,868)	2,263,935
– life underwriting result of related parties	2,282,803	(18,868)	2,263,935

Consolidated property and casualty insurance revenue account	1 Jan. - 31 Dec. 2006 (historical data)	Adjustment	1 Jan. - 31 Dec. 2006 (comparative data)
IV. Claims and benefits	4,335,068	4,114	4,339,182
1. Claims and benefits paid out, net of reinsurers' share	4,208,741	4,114	4,212,855
1.1. Claims and benefits paid out, gross	4,501,032	4,114	4,505,146
VII. Insurance activities expenses	2,057,300	27,822	2,085,122
1. Acquisition expenses	1,048,147	10,987	1,059,134
2. Administrative expenses	1,110,286	16,835	1,127,121
X. Property and casualty insurance result	1,294,433	(31,936)	1,262,497

Consolidated general profit and loss account	1 Jan. - 31 Dec. 2006 (historical data)	Adjustment	1 Jan. - 31 Dec. 2006 (comparative data)
I. Property and casualty and life insurance underwriting result	3,577,236	(50,804)	3,526,432
IX. Other operating expenses	281,490	(50,804)	230,686

7.2. Change in the method of presentation of cash flows from Social Fund's assets

In order to ensure the transparent presentation of data, in the attached consolidated financial statements a change was made in the presentation method of consolidated cash flows from Social Fund's assets. To date, inflows and outflows from the Fund were presented by the account turnover result, while in these consolidated financial statements they are presented in net amounts. The financial data for the year 2006 was restated for comparability purposes. The change made did not have any effect on the value of cash flows from operating activities.

7.3. Presentation of doubtful claims relating to issues other than insurance contracts

Until the year 2007, PZU Życie presented in the off-balance sheet items „Contingent liabilities" only amounts relating to doubtful claims arising from insurance contracts submitted to court.
In the attached consolidated financial statements, included in the above item are also other claims submitted to court (i.e. arising from a work contract or contracts with business partners).
As a result, the value of contingent liabilities is higher by PLN 24,456 thousand compared to the 2006 consolidated financial statements.

8. Significant events of the financial year with a material effect on the structure of balance sheet items and of the financial result

8.1. Transfer of certain assets to the own funds portfolio at PZU Życie

In order to ensure a more transparent presentation of the result from insurance activities, on 1 January 2007 PZU Życie transferred certain assets from the portfolio of investments used to cover technical reserves (except for investments to cover technical reserves in Group III) to the portfolio of own funds. This change resulted from high coverage of technical reserves (except for coverage of reserves from Group III) by assets, which as of 31 December was 125.05%.

PZU Życie split its investment portfolio in such way as to ensure coverage by individual portfolios of technical reserves for individual groups of products, i.e. unit-linked products and non-unit-linked products. As a result, the following groups of products were separated:
- investment portfolio to cover technical reserves for unit-linked insurance products, i.e. insurance policies type J, JUŻ and pensions. The structure of this investment portfolio approximates the structure of investment portfolio as 31 December 2006;
- investment portfolio to cover technical reserves for non-unit-linked insurance products, i.e. group and continued insurance policies, type D, P;
- investment portfolio to cover technical reserves for products with separated investment portfolio. Assets of this portfolio are closely related to the value of financial instruments which would have been acquired as part of the insurance policy type db-Gwarancja, Milleinwestycja, Life and lifelong annuity insurance with the Millennium bank (Ubezpieczenie na życie i dożycie z bankiem Millennium);
- own funds portfolio (which mainly includes assets in related parties, portfolio of held for trading assets such as shares and debt instruments, derivative financial instruments and buy-sell-back transactions, i.e. the so-called BSB transactions).

As of 31 December 2007, the ratio of coverage of technical reserves by assets was 120.33%.

9. Significant prior year events recognized in the current year consolidated financial statements

Up to the date of the preparation of these consolidated financial statements, there were no significant prior year events that were not but should have been included in the consolidated financial statements for the year 2007.

In the year 2006 or in prior years, there were no fundamental errors in the PZU Group that should have been corrected in the financial statements for the year 2007.

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

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

11. Discontinued activities

During 2007, the PZU Group companies included in these financial statements did not discontinue any type of its business activities.

12. Comparability of the 2007 opening and 2006 closing balances

The financial data as at the 2007 opening balance are comparable to the financial data as of the 2006 closing balance.

II. Consolidated financial statements – the PZU Group

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

We issued previously the audit opinion without qualifications dated May 8, 2008 on the consolidated financial statements for the year ended December 31, 2007 as presented below:

INDEPENDENT AUDITORS' OPINION

"To the Supervisory Board of Powszechny Zaklad Ubezpieczeń S.A.

1. We have audited the […] consolidated financial statements of the Capital Group of Powszechny Zaklad Ubezpieczeń Spólka Akcyjna ('the Group'), for which the holding company is Powszechny Zaklad Ubezpieczeń Spólka Akcyjna ('the Company') located in Warsaw at Al. Jana Pawla II 24, for the year ended December 31, 2007 containing:
   - the introduction to the consolidated financial statements,
   - the consolidated balance sheet as at December 31, 2007 with total assets amounting to 52,653,897 thousand zlotys,
   - the consolidated revenue account for life insurance for the period from January 1, 2007 to December 31, 2007, showing an underwriting profit on life insurance to be carried forward to the consolidated profit and loss account of 2,347,352 thousand zlotys,
   - the consolidated revenue account for property and casualty insurance for the period from January 1, 2007 to December 31, 2007, showing an underwriting profit on property and casualty insurance to be carried forward to the consolidated profit and loss account of 1,036,353 thousand zlotys,
   - the consolidated profit and loss account for the period from January 1, 2007 to December 31, 2007 with a net profit amounting to 3,600,445 thousand zlotys,
   - the consolidated cash flow statement for the period from January 1, 2007 to December 31, 2007 with a net cash inflow amounting to 103,368 thousand zlotys,
   - the consolidated statement of changes in shareholders' equity for the period from January 1, 2007 to December 31, 2007 with a net increase in shareholders' equity amounting to 3,534,102 thousand zlotys,
   - the additional notes and explanations

   ('[…] consolidated financial statements').

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

2. The truth and fairness[1] of the […] consolidated financial statements and the proper maintenance of the consolidation documentation are the responsibility of the Company's Management Board. Our responsibility was to audit the […] consolidated financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2].

3. We conducted our audit of the […] consolidated financial statements in accordance with the following regulations being in force in Poland:
   - chapter 7 of the Accounting Act, dated September 29, 1994 ('the Accounting Act'),
   - the auditing standards issued by the National Chamber of Auditors,

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

4. In our opinion, the […] consolidated financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Group's operations for the period from January 1, 2007 to December 31, 2007, as well as its financial position[3] as at December 31, 2007;
   - 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 and the provisions of the Company's statute.

5. We have read the Directors' Report for the period from January 1, 2007 to December 31, 2007 ('the Directors' Report') and concluded that the information derived from the […] consolidated financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with article 49 paragraph 2 of the Accounting Act and the Appendix 5 to the Decree of the Minister of Finance of December 24, 2007 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*'

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

In our opinion the information presented in the published, condensed financial statements on pages 96 to 139 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, 2007 and the results of its operations for the period from January 1, 2007 to December 31, 2007, 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
Reg. No. 130

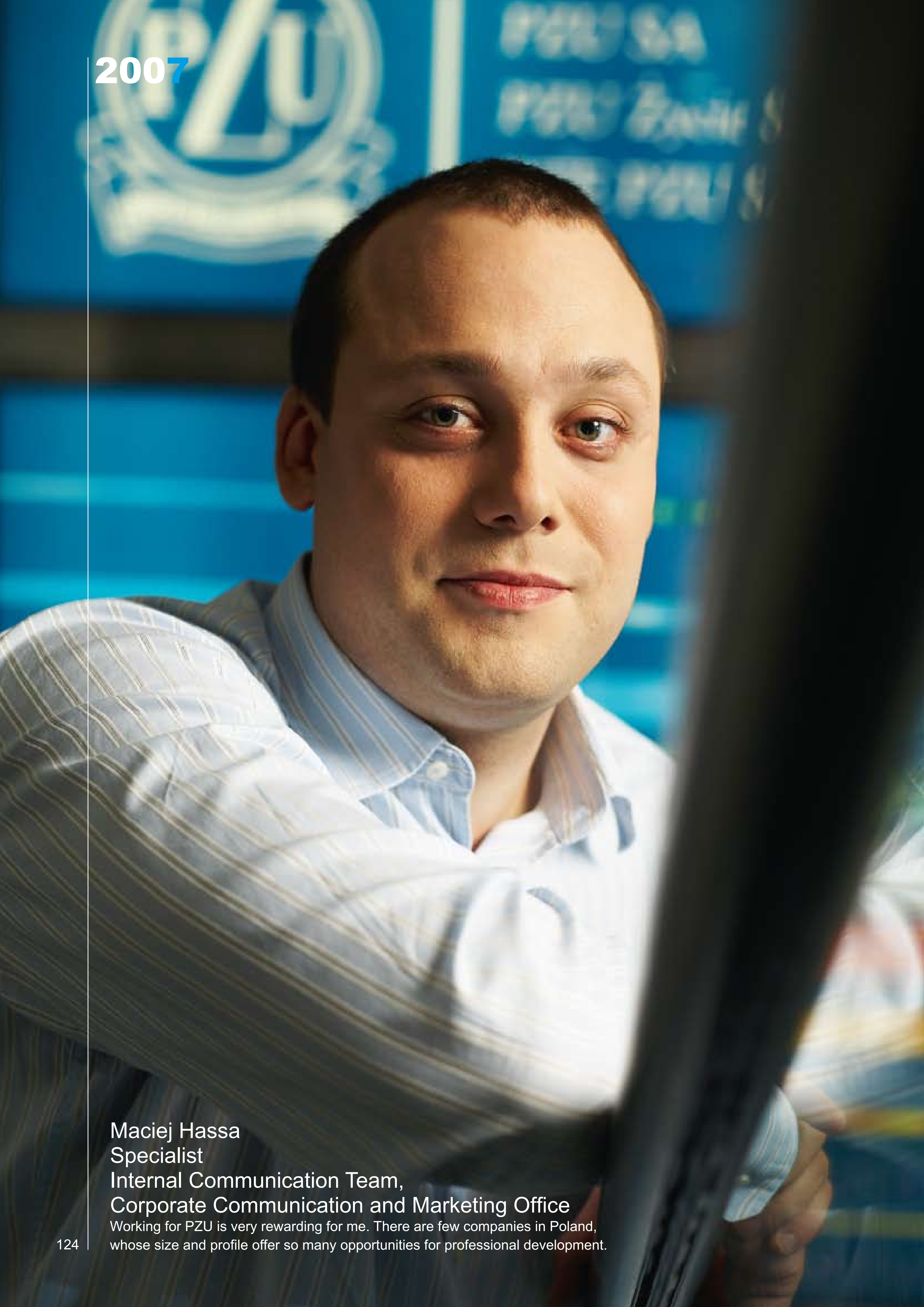
Marcin Dymek
Certified Auditor Nr 9899/7370

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, June 19, 2008

Consolidated balance sheet

ASSETS	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Intangible assets		92,030	101,592
1. Goodwill		–	–
2. Other intangible assets and advances for intangible assets		92,030	101,592
B. Goodwill on related parties		11,874	18,992
C. Investments		46,005,868	43,453,060
I. Property		1,094,614	1,104,537
1. Freehold land, including perpetual usufruct		167,025	156,024
2. Buildings and constructions, and cooperative freehold right		888,909	922,113
3. Construction in progress and advances for construction in progress		38,680	26,400
II. Investments in related parties, of which:		231,087	216,487
1. Shares in related parties		205,936	183,922
2. Loans granted to related parties and debt securities issued by those entities		25,151	32,565
3. Other		–	–
III. Other financial investments		44,676,418	42,123,392
1. Shares and other variable income securities, participation units and investment certificates in trust funds		3,666,545	4,167,248
2. Debt securities and other fixed income securities		37,719,117	32,323,580
3. Shares in joint ventures		–	–
4. Mortgage loans		–	58
5. Other loans		1,818,583	4,274,332
6. Term deposits with financial institutions		1,423,777	1,328,680
7. Other investments		48,396	29,494
IV. Deposits due from cedants		3,749	8,644
D. Net life insurance assets where the investment risk is borne by policyholders		3,778,247	3,161,650
E. Receivables		1,299,669	1,470,600
I. Receivables from direct insurance		1,060,795	1,077,608
1. Receivables from policyholders		1,031,794	1,036,483
1.1. from related parties		83	19
1.2. from other entities		1,031,711	1,036,464
2. Receivables from insurance intermediaries (agents)		26,116	30,557
2.1. from related parties		–	–
2.2. from other entities		26,116	30,557



2007

Maciej Hassa
Specialist
Internal Communication Team,
Corporate Communication and Marketing Office

Working for PZU is very rewarding for me. There are few companies in Poland, whose size and profile offer so many opportunities for professional development.

ASSETS	PLN thousand	31 Dec. 2007	31 Dec. 2006
3. Other receivables		2,885	10,568
3.1. from related parties		1,638	80
3.2. from other entities		1,247	10,488
II. Reinsurance receivables		23,708	37,171
1. from related parties		191	44
2. from other entities		23,517	37,127
III. Other receivables		215,166	355,821
1. Receivables from the State Budget		653	92,142
2. Other receivables		214,513	263,679
2.1 from related parties		1,718	9,263
2.2 from other entities		212,795	254,416
F. Other assets		738,205	616,410
I. Tangible assets		268,577	252,058
II. Cash and cash equivalents		465,105	361,737
III. Other		4,523	2,615
G. Prepayments and deferred costs		728,004	622,787
I. Deferred tax assets		9,570	9,832
II. Deferred acquisition costs		452,230	408,053
III. Accrued interest and rental charge		11,532	11,077
IV. Other prepayments and deferred costs		254,672	193,825
Assets, total		52,653,897	49,445,091

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Equity		16,864,989	13,330,887
I. Share capital		86,352	86,352
II. Unpaid share capital (negative value)		–	–
III. Treasury shares (negative value)		–	–
IV. Reserve capital		13,058,343	7,869,693
V. Revaluation reserve		277,405	301,411
VI. Other reserves		–	–
VII. Foreign exchange differences on related parties		(12,455)	145
1. Foreign exchange gains		–	145
2. Foreign exchange losses		(12,445)	–
VIII. Accumulated profits/(losses) from previous years		(145,111)	1,366,830
IX. Net profit/(loss)		3,600,445	3,706,456
X. Deductions from net profit/(loss) for the financial year (negative value)		–	–
B. Negative goodwill on related parties		–	–
C. Minority capital		141	136
D. Subordinated liabilities		–	–
E. Technical reserves		34,040,285	33,602,247
I. Unearned premium reserve and unexpired risk reserve		3,969,376	3,708,048
II. Life insurance reserves		16,485,953	16,775,480
III. Outstanding claims reserve		8,378,098	8,022,217
IV. Reserve for bonuses and rebates for the insured		1,474	2,581
V. Risk equalization reserve		491,406	575,387
VI. Other technical reserves, as defined in Articles of Association		935,731	1,376,884
VII. Life technical reserves, where the investment risk is borne by policyholders		3,778,247	3,161,650
F. Reinsurers' share in technical reserves (negative value)		(1,037,059)	(1,208,065)
I. Reinsurers' share in unearned premium reserve and unexpired risk reserve		(66,410)	(34,109)
II. Reinsurers' share in life insurance reserve		–	–
III. Reinsurers' share in outstanding claims reserve		(970,649)	(1,173,956)
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 salvages and subrogations (negative value)		(52,087)	(51,558)
I. Estimated salvages and subrogations, gross		(52,832)	(52,567)
II. Reinsurers' share in estimated salvages and subrogations		745	1,009
H. Other provisions		667,838	648,430

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
I. Provision for retirement benefits and similar obligations		303,257	248,029
II. Deferred tax liability		175,196	342,779
III. Other provisions		189,385	21,622
I. Liabilities from reinsurance deposits		56	34
J. Other liabilities and special funds		1,354,813	2,512,687
I. Direct insurance liabilities		333,479	378,593
1. Liabilities to the policyholders		209,047	199,932
1.1. to related parties		2	1
1.2. to other entities		209,045	199,931
2. Liabilities to insurance intermediaries (agents)		78,379	66,048
2.1. to related parties		–	–
2.2. to other entities		78,379	66,048
3. Other insurance liabilities		46,053	112,613
3.1. to related parties		963	779
3.2. to other entities		45,090	111,834
II. Reinsurance liabilities		31,997	55,003
1. to related parties		53	28
2. to other entities		31,944	54,975
III. Liabilities from the issuance of own debt securities and loans taken out		–	–
1. Liabilities convertible to PZU shares		–	–
2. Other		–	–
IV. Liabilities to financial institutions		14,393	72
V. Other liabilities		719,408	1,871,085
1. Liabilities to the State Budget		524,595	367,648
2. Other liabilities		194,813	1,503,437
2.1. to related parties		1,694	16,474
2.2. to other entities		193,119	1,486,963
VI. Special funds		255,536	207,934
K. Accruals and deferred income		814,921	610,293
I. Accrued expenses		587,292	500,039
II. Negative goodwill		–	–
III. Deferred income		227,629	110,254
Total equity and liabilities		52,653,897	49,445,091

	PLN thousand	31 Dec. 2007	31 Dec. 2006
Book value		16,864,989	13,330,887
Number of shares		86,352,300	86,352,300
Book value per share (in PLN)		195.30	154.38
Diluted number of shares		86,352,300	86,352,300
Diluted book value per share (in PLN)		195.30	154.38

Off-balance sheet items	PLN thousand	31 Dec. 2007	31 Dec. 2006
1. Contingent receivables, of which:		4,403,198	3,186,142
1.1. guarantees received		5,840	4,342
1.2. other		4,397,358	3,181,800
2. Contingent liabilities, of which:		106,233	113,319
2.1. guarantees issued		8,531	10,916
2.2. bills of exchange accepted and endorsed		–	–
2.3. buy and sell back assets		–	–
2.4. other liabilities		98	–
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		215,051	215,342
6. Other off-balance sheet items, of which:		64,107	64,352
– security established on the Company’s assets		62,700	62,638
– pozostałe		1,407	1,714

Data related to the solvency margin of the parent company	PLN thousand	31 Dec. 2007	31 Dec. 2006
Own funds		14,815,493	11,743,970
Solvency margin		1,271,014	1,169,545
Surplus (shortage) of own funds to cover solvency margin		13,544,479	10,574,425
Technical reserves		12,164,918	11,906,162
Assets to cover technical reserves		22,010,171	20,117,019
Surplus (shortage) of assets to cover technical reserves		9,845,253	8,210,857

Consolidated life insurance revenue account

Consolidated life insurance revenue account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Premiums		7,258,933	7,579,467
1. Gross premium written		7,265,830	7,589,821
2. Reinsurers' share in the gross premium written		9,047	8,402
3. Movement in unearned premium reserve and unexpired risk reserve, gross		(2,150)	1,952
4. Reinsurers' share in movement in unearned premium reserve		–	–
II. Investment income		1,802,766	1,762,772
1. Income from property		362	424
2. Income from investments in related parties		15,548	1,174
2.1. from shares		115	103
2.2. from loans and debt securities		15,433	1,071
2.3. from other investments		–	–
3. Income from other financial investments		1,153,656	1,200,230
3.1. from shares, other variable income securities, participation units and investment certificates in investment funds		59,552	62,773
3.2. Debt securities and other fixed income securities		1,059,856	1,104,444
3.3. Term deposits with financial institutions		33,587	29,448
3.4. Other deposits		661	3,565
4. Result on reversal of impairment of investments		39,605	35,091
5. Gains on realization of investments		593,595	525,853
III. Unrealized gains on investments		435,427	574,769
IV. Other technical income, net of reinsurers' share		39,608	19,550
V. Claims and benefits		4,918,579	4,299,222
1. Claims and benefits paid out, net of reinsurers' share		4,879,063	4,275,692
1.1. Claims and benefits paid out, gross		4,897,063	4,275,692
1.2. Reinsurers' share in claims and benefits paid out		–	–
2. Movement in outstanding claims reserve, net of reinsurers' share		21,516	23,530
2.1. Movement in outstanding claims reserve, gross		21,516	23,530
2.2. Reinsurers' share in movement in outstanding claims reserve		–	–
VI. Movement in other technical reserves, net of reinsurers' share		198,629	2,069,801
1. Movement in life insurance reserves, net of reinsurers' share		(289,527)	673,103
1.1. Movement in life insurance reserves, gross		(289,527)	673,064
1.2. Reinsurers' share in movement in life insurance reserves		–	39
2. Movement in life insurance reserves, net of reinsurers' share where the investment risk is borne by policyholders		616,597	1,384,336
2.1. Movement in life insurance reserves, gross		616,597	1,384,336
2.2. Reinsurers' share in movement in life insurance reserves		–	–

Consolidated life insurance revenue account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
3. Movement in other reserves defined in the Articles of Association, net of reinsurers' share		(128,441)	12,362
3.1. Movement in other reserves defined in the Articles of Association, gross		(128,441)	12,362
3.2. Reinsurers' share in movement in other reserves defined in the Articles of Association		–	–
VII. Bonuses and rebates for the insured net of reinsurers' share		(1,403)	(1,704)
VIII. Insurance activities		907,890	912,994
1. Acquisition expenses		328,280	369,613
– movement in deferred acquisition costs		10,696	13,071
2. Administrative expenses		579,610	545,927
3. Reinsurance commission and share in reinsurers' profits		–	2,546
IX. Cost of investing activities		237,015	190,332
1. Costs of property maintenance		1,228	1,347
2. Other costs of investing activities		31,821	34,884
3. Loss on impairment of investments		9,382	4,692
4. Loss on impairment of investments		194,584	149,409
X. Unrealized losses on investments		569,392	101,184
XI. Other technical costs, net of reinsurers' share		82,647	74,794
XII. Net investment income transferred to the consolidated general profit and loss account		273,827	22,592
XIII. Life underwriting result, of which:		2,347,352	2,263,935
– life underwriting result of related parties		2,347,352	2,263,935

Consolidated property and casualty insurance revenue account

Consolidated property and casualty insurance revenue account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Premiums		7,775,880	7,518,997
1. Gross premium written		8,196,197	7,864,287
2. Reinsurers' share in gross premium written		171,340	158,640
3. Movement in unearned premium reserve and unexpired risk reserve, gross		283,737	38,265
4. Reinsurers' share movements in unearned premium reserve		34,760	(148,385)
II. Net investment income transferred from the consolidated general profit and loss account		209,698	220,581
III. Other technical income, net of reinsurers' share		85,138	32,313
IV. Claims and benefits		4,999,273	4,339,182
1. Claims and benefits paid out, net of reinsurers' share		4,436,294	4,212,855
1.1. Claims and benefits paid out, gross		4,636,325	4,505,146
1.2. Reinsurers' share in claims and benefits paid out		200,031	292,291
2. Movement in outstanding claims reserve, net of reinsures' share		562,979	126,327
2.1. Movement in outstanding claims reserve, gross		363,714	79,582
2.2. Reinsurers' share in movements in outstanding claims reserve		(199,265)	(46,745)
V. Movement in other technical reserves, net of reinsurers' share		(312,712)	(151,987)
1. Movement in other technical reserves, gross		(312,712)	(151,987)
2. Reinsurers' share in movements in other technical reserves		–	–
VI. Bonuses and rebates, net of reinsurers' share, including movement in reserve for bonuses and rebates		2,939	1,022
VII. Insurance activities expenses		2,202,612	2,085,122
1. Acquisition expenses		1,161,246	1,059,134
– movement in deferred acquisition costs		(55,630)	(22,378)
2. Administrative expenses		1,079,704	1,127,121
3. Reinsurance commissions and share in reinsurers' profits		38,338	101,133
VIII. Other technical costs, net of reinsurers' share		226,108	223,588
IX. Movement in risk equalization reserve		(83,857)	12,467
X. Property and casualty underwriting result, of which:		1,036,353	1,262,497
– property and casualty underwriting result of related parties		2,112	(106,638)

Consolidated general profit and loss account

Consolidated general profit and loss account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Property and casualty and life insurance underwriting result		3,383,705	3,526,432
II. Investment income		1,432,680	1,363,915
1. Income from property		21,648	21,194
2. Income from investments in related parties		655	466
2.1. shares		655	466
2.2. loans and debt securities		–	–
2.3. other investments		–	–
3. Income from other financial investments		1,000,803	980,410
3.1. shares, variable income securities, participation units and certificates in investment funds		50,065	66,195
3.2. debt securities and other fixed income securities		885,927	839,720
3.3. term deposits with financial institutions		15,722	15,491
3.4. other investments		49,089	59,004
4. Result on reversal of impairment of investments		356	8,626
5. Gains on realization of investments		409,218	353,219
III. Unrealized gains on investments		167,607	222,455
IV. Net investment income transferred from the consolidated life revenue account		273,827	22,592
V. Cost of investing activities		196,525	196,922
1. Costs of property maintenance		11,501	13,410
2. Other costs of investing activities		17,102	13,953
3. Loss on impairment of investments		89	705
4. Loss on realization of investments		167,833	168,854
VI. Unrealized losses on investments		275,672	149,316
VII. Net investment income transferred to the consolidated property and casualty revenue account		209,698	220,581
VIII. Other operating income		345,746	288,781
IX. Other operating expenses		444,696	230,686
X. Operating profit/(loss)		4,476,974	4,626,670
XI. Extraordinary gains		86	102
XII. Extraordinary losses		73	20
XIII. Amortization of goodwill on related parties		7,118	9,515
XIV. Amortization of negative goodwill of related parties		–	–
XV. Gross profit/(loss)		4,469,869	4,617,237
XVI. Corporate income tax		869,408	910,874

Jolanta Szulc
Sales Service
Procedures and Regulation
Team DirectorInsurance Service
Office, PZU SA

I have been working for PZU SA for 20 years. In the course of my work, I have met many remarkable people, who shared their knowledge with me and thanks to whom I managed to gain professional expertise and experience. My work requires taking initiative, constant innovations and expanding professional knowledge in order to make the sales service area more flexible and efficient.

Consolidated general profit and loss account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
a) current tax		1,031,008	973,565
b) deferred tax		(161,600)	(62,691)
XVII. Other obligatory decreases of profit/increases of loss		–	–
XVIII. Share in net profits/(losses) of related parties measured using the equity method		–	–
XIX. (Profit)/loss of minority shareholders		(16)	93
XX. Net profit/(loss)		3,600,445	3,706,456

	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
Annualized net profit/(loss)		3,600,445	3,706,456
Weighted average of ordinary shares		86,352,300	86,352,300
Profit/(loss) per ordinary share (in PLN)		41.69	42.92
Diluted weighted average of ordinary shares		86,352,300	86,352,300
Diluted profit/(loss) per ordinary share (in PLN)		41.69	42.92

Consolidated cash flow statement

Consolidated cash flow statement	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
A. Net cash flow from operating activities			
I. Inflows		16,610,335	16,485,079
1. Cash inflows from direct insurance and reinsurance inwards		15,877,132	15,783,983
1.1. Gross premium written		15,677,702	15,588,998
1.2. Salvages and subrogations		128,310	131,896
1.3. Other		71,120	63,089
2. Cash inflows from reinsurance outwards		259,709	246,084
2.1. Cash inflows from reinsurers' share in claims paid		234,207	211,642
2.2. Cash inflows from reinsurance commission and the share in reinsurers' profits		11,404	29,973
2.3. Other		14,098	4,469
3. Cash inflows from other operating activities		473,514	455,012
3.1. Proceeds from loss adjusting services rendered		102,897	43,492
3.2. Sale of intangible assets and tangible fixed assets other than investments		12,233	3,910
3.3. Other inflows		358,384	407,610
II. Outflows		14,549,226	13,599,520
1. Cash outflows from direct insurance and reinsurance inwards		12,953,128	11,944,523
1.1. Gross premiums returns		130,288	135,731
1.2. Claims and benefits paid out, gross		9,108,948	8,296,497
1.3. Acquisition expenses		1,198,061	1,110,451
1.4. Administrative expenses		2,091,353	1,940,982
1.5. Costs of loss adjusting services and subrogation collection		304,591	298,249
1.6. Commissions paid out and the share in profits from reinsurance inwards		2,163	3,062
1.7. Other outflows		117,724	159,551
2. Cash outflows from reinsurance outwards		200,228	268,792
2.1. Premiums paid in respect of reinsurance outwards		163,244	239,282
2.2. Other outwards reinsurance expenses		36,984	29,510
3. Other operating expenses		1,395,870	1,386,205
3.1. Expenses relating to loss adjusting services rendered		90,728	32,171
3.2. Purchase of intangible assets and tangible fixed assets other than investments		181,492	124,388
3.3. Other		1,123,650	1,229,646
III. Net cash flow from operating activities (I-II)		2,061,129	2,885,559

Consolidated cash flow statement	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
B. Net cash flow from investing activities			
I. Inflows		441,743,627	557,717,351
1. Sale of property		3,834	–
2. Sale of shares in related parties		–	–
3. Sale of shares in other entities, participation units and investment certificates in investment funds		6,383,153	4,962,566
4. Sale of debt securities issued by related parties and loans repaid by those entities		9,652	20,957
5. Sale of debt securities issued by other entities		14,176,273	25,394,419
6. Withdrawal of term deposits with financial institutions		184,817,106	215,541,236
7. Sale of other investments		235,149,755	310,595,167
8. Inflows from property		29,600	24,735
9. Interest received		1,051,296	1,063,573
10. Dividends received		105,386	104,680
11. Other inflows		17,572	10,018
II. Outflows		443,699,707	559,214,497
1. Purchase of property		8,741	3,974
2. Purchase of shares in related parties		8,972	10,301
3. Purchase of shares in other entities, participation units and invest-ment certificates in investment funds		5,975,303	4,863,804
4. Purchase of debt securities issued by related parties and loans granted to those entities		–	–
5. Purchase of debt securities issued by other entities		20,807,741	25,786,316
6. Creation of term deposits with financial institutions		185,152,058	216,031,178
7. Acquisition of other investments		231,638,621	312,412,028
8. Outflows for property maintenance		44,364	49,814
9. Other expenses and investments		63,907	57,082
III. Net cash flows from investing activities (I-II)		(1,956,080)	(1,497,146)
C. Cash flow from financing activities			
I. Inflows		2,795	7,463
1. Net inflow from issuance of shares and additional payments to share capital		–	–
2. Loans and credits and issuance of debt securities		2,795	6,538
3. Other		–	925

Consolidated cash flow statement	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
II. Outflows		3,141	1,349,776
1. Dividends paid		341	1,342,468
2. Outflows due to appropriation of profit other than payments to shareholders		–	–
3. Re-acquisition of own shares		–	–
4. Repayment of loans and credits and redemption of debt securities		2,797	6,542
5. Interest on loans and credits and debt securities issued		–	–
6. Other outflows from financing activities		3	766
III. Net cash flow from financing activities (I-II)		(346)	(1,342,313)
D. Total net cash flow (A.III+/-B.III+/-C.III)		104,703	46,100
E. Balance sheet change in cash and cash equivalents, of which:		103,368	43,913
– change in cash and cash equivalents due to foreign exchange differences		(1,335)	(2,187)
F. Cash and cash equivalents at the beginning of the period		361,737	317,824
G. Cash and cash equivalents at the end of the period (F+/-D), of which:		465,105	361,737
– of restricted use		193,200	142,921

Consolidated statement of changes in equity

Consolidated statement of changes in equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Shareholders' equity at the beginning of the period		13,330,887	10,892,938
a) changes in accounting policies		–	–
b) adjustments due to errors		–	–
I. a. Shareholders' equity at the beginning of the period, after adjustments		13,330,887	10,892,938
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. Treasury shares at the beginning of the period		–	–
3.1. Changes in treasury shares		–	–
a) increases		–	–
b) decreases		–	–
3.2 Treasury shares at the end of the period		–	–
4. Reserve capital at the beginning of the period		7,869,693	6,536,323
a) changes in accounting policies		–	–
b) adjustments due to errors		–	–
4.1.Reserve capital at the beginning of the period, after adjustments		7,869,693	6,536,323
4.2. Changes in revaluation reserve		5,188,650	1,333,370
a) increases		5,188,650	1,333,370
– profit appropriation (in excess of statutory amounts)		5,188,251	1,333,287
– from revaluation reserve		399	83
b) decreases		–	–
4.3. Reserve capital at the end of the period		13,058,343	7,869,693
5. Revaluation reserve at the beginning of the period		301,411	192,650
a) changes in accounting principles		–	–
b) adjustments due to errors		–	–
5.1. Revaluation reserve at the beginning of the period, after adjustments		301,411	192,650

Consolidated statement of changes in equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
5.2. Revaluation reserve		(24,066)	108,761
a) increases (due to:)		252,370	250,558
– valuation of financial investments		252,370	250,558
b) decreases (due to:)		276,376	141,797
– disposal and liquidation of fixed assets		399	83
– valuation of financial investments		275,977	141,714
5.3. Revaluation reserve at the end of the period		277,405	301,411
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. Foreign exchange differences on related parties		(12,445)	145
8. Accumulated profits/(losses) from previous years at the beginning of the period		5,073,286	4,077,613
8.1. Accumulated profits/(losses) from previous years at the beginning of the period		5,073,286	4,077,613
a) changes in accounting policies		–	–
b) adjustments due to errors		–	–
8.2. Accumulated profits/(losses) from previous years at the beginning of the period, after adjustments		5,073,286	4,077,613
a) increases		–	–
b) decreases (due to:)		5,218,397	2,710,783
– dividends paid out		–	1,347,096
– transfer to reserve capital		5,188,251	1,333,287
– contribution to social fund		30,146	30,400
8.3. Accumulated profits/(losses) from previous years at the end of the period		(145,111)	1,366,830
9. Net result		3,600,445	3,706,456
a) net profit		3,600,445	3,706,456
b) net loss		–	–
c) deductions from net profit		–	–
II. Shareholders' equity at the end of the period		16,864,989	13,330,887
III. Shareholders' after proposed appropriation of profits / absorption of losses		16,844,989	13,300,737

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

We issued previously the audit opinion without qualifications dated March 14, 2008 on the financial statements for the year ended December 31, 2007 as presented below:

INDEPENDENT AUDITORS' OPINION

"To the Supervisory Board of Powszechny Zakład Ubezpieczeń Spółka Akcyjna

1. We have audited the […] financial statements for the year ended December 31, 2007 of Powszechny Zakład Ubezpieczeń Spółka Akcyjna ('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, 2007 with total assets amounting to 30,046,996 thousand zlotys,
   - the revenue account for property and casualty insurance for the period from January 1, 2007 to December 31, 2007, showing an underwriting profit on property and casualty insurance to be carried forward to the profit and loss account of 1,036,694 thousand zlotys,
   - the profit and loss account for the period from January 1, 2007 to December 31, 2007 with a net profit amounting to 1,430,088 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from January 1, 2007 to December 31, 2007 with a net increase in shareholders' equity amounting to 3,568,737 thousand zlotys,
   - the cash flow statement for the period from January 1, 2007 to December 31, 2007 with a net cash outflow amounting to 11,930 thousand zlotys,
   - the additional notes and explanations

   ("[…] financial statements").

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

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

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

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 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 […] 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 […] financial statements. We believe our audit has provided a reasonable basis to express our opinion on the […] financial statements treated as a whole.

4. In our opinion, the […] financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from January 1, 2007 to December 31, 2007, as well as its financial position[3] as at December 31, 2007;
   - 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, 2007 to December 31, 2007 ('the Directors' Report') and concluded that the information derived from the […] 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 24, 2007 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*''

Artur Dziekański
Public Relations Team Director
Press Office

New challenges and constant development in the PR profession are the most important for me. When I leave the office in the afternoon I like the feeling of having successfully completed a project. I like to think out of the box and perform my duties in an unconventional way. Working in a PR team for the largest insurance company in Poland gives me an opportunity for achieving the most ambitious goals.

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

In our opinion the information presented in the published, condensed financial statements on pages 144 to 156 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 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, 2007 and the results of its operations for the period from January 1, 2007 to December 31, 2007, 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
Reg. No. 130

Marcin Dymek
Certified Auditor No. 9899/7370

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, June 19, 2008

Balance sheet

Assets	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Intangible assets		10,164	25,808
1. Goodwill		–	–
2. Other intangible assets and prepayments for intangible assets		10,164	25,808
B. Investments		27,920,595	24,050,156
I. Property		333,509	341,827
1. Freehold land, including perpetual usufruct		37,728	40,698
2. Buildings and constructions, and cooperative freehold right		280,753	287,452
3. Constructions in progress and prepayments for constructions in progress		15,028	13,677
II. Investments in subordinated entities		7,026,880	4,778,943
1. Shares		6,983,405	4,728,378
2. Loans granted to subordinated entities and debt securities issued by those parties		43,475	50,565
3. Other		–	–
III. Other financial investments		20,556,457	18,920,742
1. Shares and other variable income securities, participation units and investment certificates in trust funds		1,587,466	1,807,914
2. Debt securities and other fixed income securities		17,801,244	14,779,786
3. Shares in joint venture		–	–
4. Mortgage loans		–	–
5. Other loans		584,272	1,969,433
6. Term deposits with financial institutions		579,461	358,361
7. Other investments		4,014	5,248
IV. Deposits due from cedants		3,749	8,644
C. Net investments of life insurance funds where the investment risk is borne by policyholders		–	–
D. Receivables		1,061,306	1,206,748
I. Receivables from direct insurance		949,322	953,138
1. Receivables from policyholders		923,375	916,940
1.1. from subordinated entities		83	37
1.2. from other entities		923,292	916,903
2. Receivables from insurance intermediaries		23,797	28,469
2.1. from subordinated entities		–	–
2.2. from other entities		23,797	28,469

Assets c.d.	PLN thousand	31 Dec. 2007	31 Dec. 2006
3. Other receivables		2,150	7,729
3.1. from subordinated entities		1,638	80
3.2. from other entities		512	7,649
II. Reinsurance receivables		20,789	27,107
1. from subordinated entities		392	372
2. from other entities		20,397	26,735
III. Other receivables		91,195	226,503
1.Receivables from the State Budget		133	90,457
2. Other receivables		91,062	136,046
2.1. from subordinated entities		7,128	17,593
2.2. from other entities		83,934	118,453
E. Other assets		372,516	393,005
I. Tangible assets		176,438	184,997
II. Cash and cash equivalents		196,078	208,008
III. Other		–	–
F. Prepayments and deferred costs		682,415	528,478
I. Deferred tax assets		–	–
II. Deferred acquisition costs		354,851	304,472
III. Accrued interest and rentals		437	142
IV. Other prepayments and deferred costs		327,127	223,864
Total assets		30,046,996	26,204,195

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Equity		17,017,442	13,448,705
I. Share capital		86,352	86,352
II. Unpaid share capital (negative value)		–	–
III. Treasury shares (negative value)		–	–
IV. Reserve capital		8,825,562	5,564,534
V. Revaluation reserve		6,675,440	4,516,936
VI. Other reserves		–	–
VII. Accumulated profits/(losses) from previous years		–	–
VIII. Net profit/(loss) for the year		1,430,088	3,280,883
B. Subordinated liabilities		–	–
C. Technical reserves		12,217,050	11,955,358
I. Unearned premium reserve and unexpired risk reserve		3,828,549	3,551,344
II. Life insurance reserves		–	–
III. Outstanding claims reserve (the OCR reserve)		7,830,704	7,450,508
IV. Reserve for bonuses and rebates for the insured		–	–
V. Risk equalization reserve		489,794	572,801
VI. Reserve for premium returns to policyholders		–	–
VII. Other technical reserves, as defined in Articles of Association		68,003	380,715
VIII. Life technical reserves where the investment risk is borne by policyholder		–	–
D. Reinsurers' share in technical reserves (negative value)		(1,007,581)	(1,163,304)
I. Reinsurers' share in unearned premium reserve and unexpired risk reserve		(61,942)	(23,901)
II. Reinsurers' share in life insurance reserve		–	–
III. Reinsurers' share in outstanding claims reserve		(945,639)	(1,139,403)
IV. Reinsurers' share in reserve for bonuses and rebates for the insured		–	–
V. Reinsurers' share in other technical reserves, as defined in Articles of Association		–	–
VI. Reinsurers' share in life technical reserves where the investment risk is borne by policyholders		–	–
E. Estimated salvages and subrogations (negative value)		(51,715)	(48,805)
1. Estimated salvages and subrogations, gross		(52,132)	(49,196)
2. Reinsurers' share in estimated salvages and subrogations		417	391
F. Other provisions		469,006	389,575
I. Provision for retirement benefits and similar obligations		238,866	214,263
II. Deferred tax liability		91,139	153,861
III. Other		139,001	21,451

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
G. Liabilities from reinsurance deposits		56	34
H. Other liabilities and Special Funds		662,453	1,109,068
I. Direct insurance liabilities		143,467	198,865
1. Liabilities to the policyholders		45,837	40,762
1.1. to subordinated entities		2	1
1.2. to other entities		45,835	40,761
2. Liabilities to insurance intermediaries:		75,663	63,748
2.1. to subordinated entities		–	–
2.2. to other entities		75,663	63,748
3. Other liabilities:		21,967	94,355
3.1. to subordinated entities		963	779
3.2. to other entities		21,004	93,576
II. Reinsurance liabilities:		23,736	31,396
1. to subordinated entities		141	372
2. to other entities		23,595	31,024
III. Liabilities from the issuance of own debt securities and loans taken out:		–	–
1. liabilities convertible to the Company's shares		–	–
2. other		–	–
IV. Liabilities to financial institutions		–	2
V. Other liabilities		332,296	735,829
1. Liabilities to the State Budget		220,807	20,944
2. Other liabilities:		111,489	714,885
1. to subordinated entities		6,251	29,454
2. to other entities		105,238	685,431
VI. Special Funds		162,954	142,976
I. Accruals and deferred income		740,285	513,564
1. Accrued expenses		515,392	406,955
2. Negative goodwill		–	–
3. Deferred income		224,893	106,609
Total equity and liabilities		30,046,996	26,204,195

Off-balance sheet items	PLN thousand	31 Dec. 2007	31 Dec. 2006
1. Contingent receivables, of which:		4,403,198	3,186,142
1.1. guarantees received		5,840	4,342
1.2. other		4,397,358	3,181,800
2. Contingent liabilities, of which:		51,033	57,448
2.1. guarantees issued		8,531	10,916
2.2. bills of exchange accepted and endorsed		–	–
2.3. buy and sell back assets		–	–
2.4. other liabilities secured on assets or income		–	–
2.5. doubtful claims, not recognized by the Company and taken to court		41,927	45,929
3. Reinsurance guarantees made in favor of the Company		–	–
4. Reinsurance guarantees made by the Company in favor of cedants		–	–
5. Third party assets not included in the Company's assets		680,686	680,977
6. Other off-balance sheet items, of which:		62,700	62,638
6.1. securities established on the Company's assets		62,700	62,638
6.2. other off-balance sheet items		–	–
Own funds		14,815,493	11,743,970
Solvency margin		1,271,014	1,169,545
Surplus (shortage) of own funds to cover solvency margin		13,544,479	10,574,425
Technical reserves, gross*		12,164,918	11,906,162
Assets to cover technical reserves		22,010,171	20,117,019
Surplus (shortage) of assets to cover technical reserves		9,845,253	8,210,857

* net of estimated gross salvages and subrogations

Property and casualty insurance revenue account

Property and casualty insurance revenue account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Premiums (1-2+/-3+/-4)		7,590,398	7,383,274
1. Gross premium written		7,981,990	7,677,355
2. Reinsurers' share in the gross premium written		152,418	125,503
3. Movement in unearned premium reserve and unexpired risk reserve, gross		277,215	32,138
4. Reinsurers' share in movement in unearned premium reserve		38,041	(136,440)
II. Net investment income, transferred from the Profit and Loss Account		204,419	214,684
III. Other technical income, net of reinsurers' share		74,306	30,660
IV. Claims (1+/-2)		4,900,080	4,215,061
1. Claims paid out, net of reinsurers' share		4,329,030	4,102,413
1.1. claims paid out, gross		4,512,263	4,368,448
1.2. reinsurers' share in claims paid out		183,233	266,035
2. Movement in outstanding claims reserve, net of reinsurers' share		571,050	112,648
2.1. Movement in outstanding claims reserve, gross		377,260	61,428
2.2. Reinsurers' share in movement in outstanding claims reserve		(193,790)	(51,220)
V. Movement in other technical reserves, net of reinsurers' share		(312,712)	(151,987)
1. Movement in other technical reserves, gross		(312,712)	(151,987)
2. Reinsurers' share in movement in other technical reserves		–	–
VI. Bonuses and rebates for the insured, net of reinsurers' share, including movement in reserve for bonuses and rebates		3,116	–
VII. Insurance activities expenses (1+2-3)		2,102,083	1,974,327
1. Acquisition expenses, of which:		1,115,203	1,004,348
1.1. movement in deferred acquisition costs		(50,379)	(33,660)
2. Administrative expenses		1,022,369	1,066,050
3. Reinsurance commissions and the share in reinsurers' profits		35,489	96,071
VIII. Other technical expenses, net of reinsurers' share		222,869	217,289
IX. Movement in risk equalization reserve		(83,007)	11,846
X. Property and casualty insurance underwriting result		1,036,694	1,362,082

Profit and loss account

Profit and loss account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Property and casualty underwriting result		1,036,694	1,362,082
II. Investment income (1+2+3+4+5):		1,398,665	2,730,906
1. from property		5,725	5,256
2. from investments in subordinated entities, of which:		3,325	1,408,746
2.1. shares		655	1,405,674
2.2. loans and debt securities		2,670	3,072
2.3. other investments		–	–
3. Income from other financial investments, of which:		980,377	963,838
3.1. Shares, variable income securities, participation units and certificates in investment funds		49,165	65,294
3.2. debt securities and other fixed income securities		877,115	832,380
3.3. term deposits with financial institutions		5,012	7,532
3.4. other investments		49,085	58,632
4. Gains on impairment of investments		356	1,910
5. Gains on realization of investments		408,882	351,156
III. Unrealized gains on investments		161,830	194,586
IV. Net investment income transferred from the Life Revenue Account		–	–
V. Cost of investing activities (1+2+3+4)		184,992	182,095
1. Cost of property maintenance		301	353
2. Other costs of investing activities		16,929	13,711
3.Losses on impairment of investments		89	705
4. Losses on realization of investments		167,673	167,326
VI. Unrealized losses on investments		293,612	159,605
VII. Net investment income transferred to the Property and Casualty Revenue Account		204,419	214,684
VIII. Other operating income		47,767	38,137
IX. Other operating expenses		176,432	32,122
X. Operating profit/(loss)		1,785,501	3,737,205
XI. Extraordinary gains		86	102
XII. Extraordinary losses		19	7
XIII. Gross profit/(loss)		1,785,568	3,737,300
XIV. Corporate income tax		355,480	456,417
XV. Other obligatory decreases of profit/(increases of loss)		–	–
XVI. Net profit/(loss)		1,430,088	3,280,883

2007

Agnieszka Rowińska
Investment Products Director
Product Management Office, PZU Życie SA

I have been working in the insurance sector for almost 10 years and I have been with PZU Życie since 2005. New challenges, concerning not only products, as well as contact with people is something I enjoy the most in my work.

Cash flow statement

Cash flow statement	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006 (comparative data)
A. Net cash flows from operating activities		1,095,896	845,666
I. Inflows		8,732,981	8,346,548
1. Cash inflows from direct insurance and reinsurance inwards, of which:		8,304,523	7,899,902
1.1. Gross premium written		8,155,759	7,728,433
1.2. Salvages and subrogations, gross		121,151	127,417
1.3. Other		27,613	44,052
2. Cash inflows from reinsurance outwards		247,226	234,285
2.1. Cash inflows from reinsurers' share in claims paid		221,724	202,389
2.2. Cash inflows from reinsurance commission and the share in reinsurers' profits		11,404	27,427
2.3. Other		14,098	4,469
3. Cash inflows from other operating activities		181,232	212,361
3.1. Proceeds from average adjuster services rendered		102,022	41,733
3.2. Sale of intangible assets and tangible fixed assets other than long-term investments		4,001	2,113
3.3. Other inflows		75,209	168,515
II. Outflows		7,637,085	7,500,882
1. Cash outflows from direct insurance and reinsurance inwards		7,021,570	6,669,227
1.1. Gross premium returns		128,587	134,221
1.2. Claims paid out, gross		4,230,279	4,022,861
1.3. Acquisition expenses		817,314	727,020
1.4. Administrative expenses		1,605,365	1,490,916
1.5. Costs of loss adjusting services and subrogation collection		138,445	150,271
1.6. Commissions paid out and the share in profits from reinsurance inwards		2,163	3,062
1.7. Other outflows		99,417	140,876
2. Cash outflows from reinsurance outwards		169,482	229,625
2.1. Premiums paid in respect of reinsurance outwards		132,498	200,280
2.2. Other outwards reinsurance expenses		36,984	29,345
3. Other operating expenses		446,033	602,030
3.1. Expenses relating to average adjuster services rendered		90,728	32,171
3.2. Purchase of intangible assets and tangible fixed assets other than long-term investments		75,324	79,999
3.3. Other		279,981	489,860

Cash flow statement	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006 (comparative data)
B. Net cash flows from investing activities		(1,107,483)	505,141
I. Inflows		187,670,584	267,800,360
1. Sale of property		–	–
2. Sale of shares in subordinated entities		–	–
3. Sale of shares in other entities, participation units and investment certificates in investment funds		2,057,476	1,514,252
4. Sale of debt securities issued by subordinated entities and loans repaid by those entities		7,107	7,107
5. Sale of debt securities issued by other entities		10,374,569	16,426,294
6. Withdrawal of term deposits with financial institutions		69,818,753	79,595,749
7. Sale of other investments		105,344,902	169,035,504
8. Inflows from property		6,261	5,923
9. Interest received		21,083	23,087
10. Dividends received		40,358	1,191,452
11. Other inflows		75	992
II. Outflows		188,778,067	267,295,219
1. Purchase of property		–	–
2. Purchase of shares in subordinated entities		90,304	116,240
3. Purchase of shares in other entities, participation units and investment certificates in investment funds		1,603,087	1,205,430
4. Purchase of debt securities issued by subordinated entities and loans granted to those entities		–	–
5. Purchase of debt securities issued by other entities and loans granted to those entities		13,938,835	17,319,464
6. Creation of term deposits with financial institutions		70,201,297	79,715,267
7. Acquisition of other investments		102,930,162	168,907,688
8. Outflows for property maintenance		6,289	16,395
9. Other expenses and investments		8,093	14,735

Cash flow statement	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006 (comparative data)
C. Net cash flows from financing activities		(343)	(1,342,472)
I. Inflows		2,795	6,538
1. Net inflow from issuance of shares and additional payments to share capital		–	–
2. Loans and credits and issuance of debt securities		2,795	6,538
3. Other		–	–
II. Outflows		3,138	1,349,010
1. Dividends paid		341	1,342,468
2. Outflows due to appropriation of profit other than payments to shareholders		–	–
3. Re-acquisition of own shares		–	–
4. Repayment of loans and credits and redemption of debt securities		2,797	6,542
5. Interest on loans and credits and debt securities issued		–	–
6. Other outflows from financing activities		–	–
D. Total net cash flows		(11,930)	8,335
E. Balance sheet change in cash and cash equivalents, of which:		(11,930)	8,335
1. change in cash and cash equivalents due to foreign exchange differences		(363)	(17)
F. Cash and cash equivalents at the beginning of the period		208,008	199,673
G. Cash and cash equivalents at the end of the period, of which:		196,078	208,008
1. of restricted use		109,669	89,491

Statement of changes in equity

Statement of changes in equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Shareholders' equity at the beginning of the period		13,448,705	10,903,857
a) changes in accounting policies		–	–
b) adjustments due to fundamental errors		–	–
I. a. Shareholders' equity at the beginning of the period, after adjustments		13,448,705	10,903,857
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. Treasury shares at the beginning of the period		–	–
3.1. Changes in treasury shares		–	–
a) increases		–	–
b) decreases		–	–
3.2. Treasury shares at the end of the period		–	–
4. Reserve capital at the beginning of the period		5,564,534	4,231,167
4.1. Changes in reserve capital		3,261,028	1,333,367
a) increases (due to:)		3,261,028	1,333,367
– share premium		–	–
– statutory profit appropriation		–	–
– profit appropriation (in excess of statutory amounts)		3,260,883	1,333,286
– from revaluation reserve – disposal of fixed assets		145	81
b) decreases (due to:)		–	–
– absorption of losses		–	–
– other decreases		–	–
4.2. Reserve capital at the end of the period		8,825,562	5,564,534
5. Revaluation reserve at the beginning of the period		4,516,936	3,885,956
a) changes in accounting policies		–	–
b) adjustments due to fundamental errors		–	–

Statement of changes in equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
5a. Revaluation reserve at the beginning of the period, after adjustments		4,516,936	3,885,956
5.1. Changes in revaluation reserve		2,158,504	630,980
a) increases (due to:)		2,425,782	771,695
– valuation of long-term financial investments		2,425,782	771,695
b) decreases (due to:)		267,278	140,715
– valuation of long-term financial investments		267,133	140,634
– valuation of property		–	–
– disposal and liquidation of fixed assets		145	81
5.2. Revaluation reserve at the end of the period		6,675,440	4,516,936
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 from previous years at the beginning of the period		3,280,883	2,700,382
7.1. Accumulated profits from previous years at the beginning of the period		3,280,883	2,700,382
a) changes in accounting policies		–	–
b) adjustments due to fundamental errors		–	–
7.2. Accumulated profits/ (losses) from previous years at the beginning of the period, after adjustments		3,280,883	2,700,382
a) increases		–	–
b) decreases (due to:)		3,280,883	2,700,382
– dividends paid out		–	1,347,096
– transfer to reserve capital		3,260,883	1,333,286
– contribution to Social Fund		20,000	20,000
7.3. Accumulated profits from previous years at the end of the period		–	–
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		–	–
8. Net result		1,430,088	3,280,883
a) net profit		1,430,088	3,280,883
b) net loss		–	–
II. Shareholders' equity at the end of the period		17,017,442	13,448,705
III. Shareholders' equity after proposed appropriation of profits/absorption of losses		17,007,442	13,428,705

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

We issued previously the audit opinion without qualifications dated March 27, 2008 on the financial statements for the year ended December 31, 2007 as presented below:

INDEPENDENT AUDITORS' OPINION

"To the Supervisory Board of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna

1. We have audited the […] financial statements for the year ended December 31, 2007 of Powszechny Zakład Ubezpieczeń na Życie Spółka Akcyjna ('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, 2007 with total assets amounting to 29,312,911 thousand zlotys,
   - the revenue account for life insurance for the period from January 1, 2007 to December 31, 2007, showing an underwriting profit on life insurance to be carried forward to the profit and loss account of 2,349,426 thousand zlotys,
   - the profit and loss account for the period from January 1, 2007 to December 31, 2007 with a net profit amounting to 2,177,253 thousand zlotys,
   - the statement of changes in shareholders' equity for the period from January 1, 2007 to December 31, 2007 with a net increase in shareholders' equity amounting to 2,179,888 thousand zlotys,
   - the cash flow statement for the period from January 1, 2007 to December 31, 2007 with a net cash inflow amounting to 105,788 thousand zlotys,
   - the additional notes and explanations ("[…] financial statements").
2. The truth and fairness[1] of the […] financial statements and the proper maintenance of the accounting records are the responsibility of the Company's Management Board. Our responsibility was to audit the […] financial statements and to express an opinion whether, based on our audit, these financial statements are, in all material respects, true and fair[2] and whether the accounting records that form the basis for their preparation are, in all material respects properly maintained.

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

1

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

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 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 […] 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 […] financial statements. We believe our audit has provided a reasonable basis to express our opinion on the […] financial statements treated as a whole.

4. In our opinion, the […] financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from January 1, 2007 to December 31, 2007, as well as its financial position[3] as at December 31, 2007;
   - 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, 2007 to December 31, 2007 ('the Directors' Report') and concluded that the information derived from the […] 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 24, 2007 on specific accounting principles for insurance companies."

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

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

In our opinion the information presented in the published, condensed financial statements on pages 161 to 175 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 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, 2007 and the results of its operations for the period from January 1, 2007 to December 31, 2007, 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
Reg. No. 130

Adam Fornalik
Certified Auditor No. 9916/7376

Dominik Januszewski
Certified Auditor No. 9707/7255

Warsaw, June 19, 2008

Piotr Wójcicki
Senior Specialist
Human Resources Office

Working for PZU gives me an opportunity to gain knowledge and professional experience in the HR area as well as enormous satisfaction. At the same time, it is a huge challenge designed only for those who constantly expand their professional knowledge and who are fully engaged in their work.

Balance sheet

Assets	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Intangible assets		76,080	68,596
1. Goodwill		–	–
2. Other intangible assets and prepayments for intangible assets		76,080	68,596
B. Investments		24,792,721	23,889,627
I. Property		242,428	219,382
1. Freehold land, including perpetual usufruct		84,526	70,555
2. Buildings and constructions, and collective freehold right		134,250	136,104
3. Constructions in progress and prepayments for constructions in progress		23,652	12,723
II. Investments in subordinated entities, including:		993,049	948,697
1. Shares		853,483	782,576
2. Loans granted to subordinated entities and debt securities issued by those entities		139,566	166,121
3. Other		–	–
III. Other financial investments		23,557,244	22,721,548
1. Shares and other variable income securities, participation units and investment certificates in investment funds		2,061,057	2,326,379
2. Debt securities and other fixed income securities		19,555,365	17,246,819
3. Shares in joint venture		–	–
4. Mortgage loans		–	–
5. Other loans		1,234,311	2,304,899
6. Term deposits with financial institutions		665,662	821,516
7. Other investments		40,849	21,935
IV. Deposits due from cedants		–	–
C. Net assets of Unit-linked insurance		3,778,247	3,161,650
D. Receivables		191,222	214,331
I. Receivables from direct insurance		67,976	85,940
1. Receivables from policyholders, including:		67,433	82,734
1.1. from subordinated entities		–	–
1.2. from other entities		67,433	82,734
2. Receivables from insurance intermediaries, including:		150	377
2.1. from subordinated entities		–	–
2.2. from other entities		150	377
3. Other receivables		393	2,829
3.1. from subordinated entities		–	–
3.2. from other entities		393	2,829

Assets	PLN thousand	31 Dec. 2007	31 Dec. 2006
II. Reinsurance receivables, including:		–	–
1. from subordinated entities		–	–
2. from other entities		–	–
III. Other receivables		123,246	128,391
1. Receivables from the State Budget		65	654
2. Other receivables, including:		123,181	127,737
2.1 from subordinated entities		3,073	1,864
2.2 from other entities		120,108	125,873
E. Other assets		318,201	183,504
I. Tangible assets		70,233	42,750
II. Cash and cash equivalents		245,640	139,852
III. Other		2,328	902
F. Prepayments and deferred costs		156,440	167,823
I. Deferred tax asset		–	–
II. Deferred acquisition costs		93,699	104,395
III. Accrued interest and rentals		9,326	8,856
IV. Other prepayments and deferred costs		53,415	54,572
Total assets		29,312,911	27,685,531

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Equity		6,697,157	4,517,269
I. Share capital		295,000	295,000
II. Unpaid share capital (negative value)		–	–
III. Treasury shares (negative value)		–	–
IV. Reserve capital		4,206,071	2,279,488
V. Revaluation reserve		18,833	6,452
VI. Other reserves		–	–
VII. Foreign exchange differences from the translation of subordinated entities		–	–
1. Foreign exchange gains		–	–
2. Foreign exchange losses		–	–
VIII. Accumulated profits/(losses) from previous years		–	–
IX. Net profit/(loss) for the year		2,177,253	1,936,329
X. Net profit deductions during financial year (negative value)		–	–
B. Subordinated liabilities		–	–
C. Technical reserves		21,675,897	21,458,005
I. Unearned premium reserve and unexpired risk reserve		71,870	74,020
II. Life insurance reserves		16,485,953	16,775,480
III. Outstanding claims reserve (the OCR reserve)		470,625	449,109
IV. Reserve for bonuses and rebates for the insured		1,474	1,577
V. Risk equalization reserve		–	–
VI. Other technical reserves, as defined in Statute		867,728	996,169
VII. Unit-linked technical reserves		3,778,247	3,161,650
D. Reinsurers' share in technical reserves (negative value)		–	–
I. Reinsurers' share in unearned premium reserve and unexpired risk reserve		–	–
II. Reinsurers' share in life insurance reserve		–	–
III. Reinsurers' share in outstanding claims reserve		–	–
IV. Reinsurers' share in reserve for bonuses and rebates for the insured		–	–
V. Reinsurers' share in other technical reserves, as defined in Statute		–	–
VI. Reinsurers' share in unit-linked technical reserves		–	–
E. Estimated recourses and recoupments (negative value)		–	–
I. Estimated recourses and recoupments, gross		–	–
II. Reinsurers' share in estimated recourses and recoupments		–	–

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
F. Other provisions		190,864	249,425
I. Provision for retirement benefits and other obligatory benefits		57,972	63,374
II. Deferred tax liability		82,508	186,051
III. Other		50,384	–
G. Liabilities from reinsurance deposits		–	–
H. Other liabilities and Special Funds		627,909	1,352,981
I. Direct insurance liabilities		171,561	158,601
1. Liabilities to the policyholders, including:		155,805	150,754
1.1. to subordinated entities		–	–
1.2. to other entities		155,805	150,754
2. Liabilities to insurance intermediaries, including:		175	206
2.1. to subordinated entities		–	–
2.2. to other entities		175	206
3. Other liabilities, including:		15,581	7,641
3.1. to subordinated entities		–	–
3.2. to other entities		15,581	7,641
II. Reinsurance liabilities, including:		2,252	4,230
1. to subordinated entities		–	–
2. to other entities		2,252	4,230
III. Liabilities from the issuance of own debt securities and loans taken out:		–	–
1. liabilities convertible to the Company's shares		–	–
2. other		–	–
IV. Liabilities to financial institutions		14,393	20,236
V. Other liabilities		348,274	1,106,143
1. Liabilities to the State Budget		278,400	342,720
2. Other liabilities		69,874	763,423
2.1. to subordinated entities		1,755	1,063
2.2. to other entities		68,119	762,360
VI. Special Funds		91,429	63,771
I. Accruals and deferred income		121,084	107,851
I. Accrued expenses		118,892	105,280
II. Negative goodwill		–	–
III. Deferred income		2,192	2,571
Total equity and liabilities		29,312,911	27,685,531

Off-balance sheet items	PLN thousand	31 Dec. 2007	31 Dec. 2006
1. Contingent receivables, of which:			
1.1. guarantees received		–	–
1.2. other		–	–
2. Contingent liabilities, of which:		55,200	55,871
2.1. guarantees issued		–	–
2.2. bills of exchange accepted and endorsed		–	–
2.3. buy and sell back assets		–	–
2.4. other liabilities secured on assets or income		–	–
3. Reinsurance guarantees made in favor of the Company		–	–
4. Reinsurance guarantees made by the Company in favor of cedants		–	–
5. Third party assets not included in the Company's assets		–	–
6. Other off-balance sheet items		–	–
Own funds		6,435,293	4,435,864
Solvency margin		1,517,094	1,492,885
Surplus (shortage) of own funds to cover solvency margin		4,918,199	2,942,979
Technical reserves, gross		21,675,897	21,458,005
Assets to cover technical reserves		25,313,567	26,041,975
Surplus (shortage) of assets to cover technical reserves		3,637,670	4,583,970

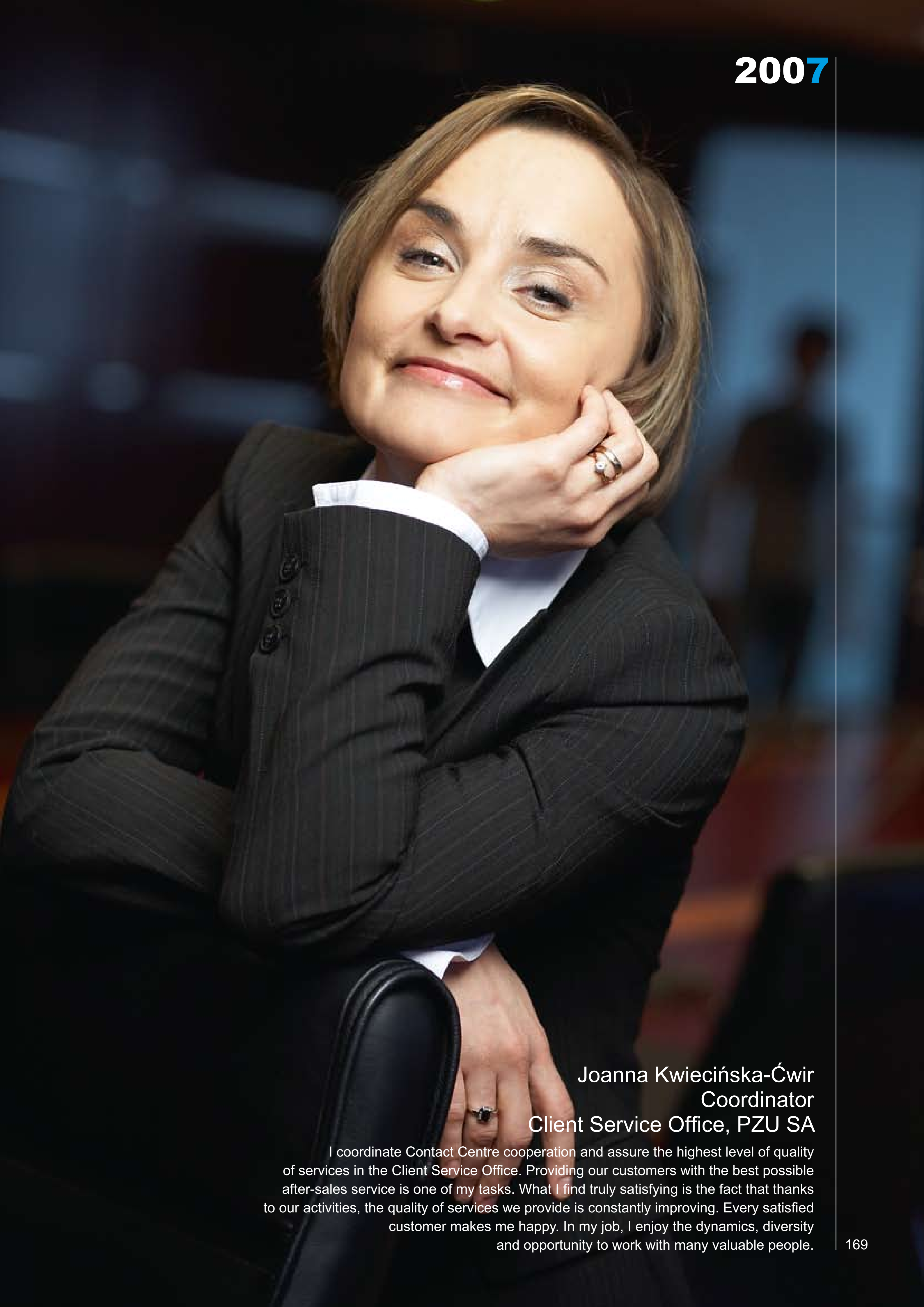
Llife insurance revenue account

Life insurance revenue account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Premiums		7,258,933	7,579,467
1. Gross premium written		7,265,830	7,589,821
2. Reinsurers' share in premium written, gross		(9,047)	(8,402)
3. Change in unearned premium reserve and unexpired risk reserve		2,150	(1,952)
4. Reinsurers' share in change in unearned premium reserve and unexpired risk reserve		–	–
II. Investment income		1,879,349	1,833,572
1. Income from investments in real estate		362	424
2. Income from investments in subordinates		106,466	79,401
2.1. from shares		83,998	70,335
2.2. from loans and bonds		22,468	9,066
2.3. from other investments		–	–
3. Income from other financial investments		1,153,656	1,200,230
3.1. from shares and variable-rate income securities, participation units and investment certificates from investment funds		59,552	62,773
3.2. from bonds and fixed-rate income securities		1,059,856	1,104,444
3.3. from term deposits held in financial entities		33,587	29,448
3.4. from other investments		661	3,565
4. Gain on revaluation of investments		25,270	27,664
5. Gain on sale of investments		593,595	525,853
III. Unrealized investment gains		495,397	632,724
IV. Other technical income on own share		39,608	19,550
V. Claims and benefits		(4,918,881)	(4,299,580)
1. Claims and benefits paid on own share		(4,897,365)	(4,276,050)
1.1. Claims and benefits paid, gross		(4,897,365)	(4,276,050)
1.2. Reinsurers' share in claims and benefits paid		–	–
2. Change in outstanding claims reserve on own share		(21,516)	(23,530)
2.1. Change in outstanding claims reserve, gross		(21,516)	(23,530)
2.2. Reinsurers' share in change in outstanding claims reserve		–	–
VI. Change in other technical reserves on own share		(198,629)	(2,069,801)
1. Change in life insurance reserve on own share, including:		289,527	(673,103)
1.1. Change in life insurance reserve, gross		289,527	(673,064)
1.2. Reinsurers' share in change in life insurance reserve		–	(39)

Life insurance revenue account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
2. Change in unit-linked technical reserves on own share		(616,597)	(1,384,336)
2.1. Change in unit-linked technical reserves, gross		(616,597)	(1,384,336)
2.2. Reinsurers' share in change in unit-linked technical reserves		–	–
3. Change in other technical reserves described in Statute on own share		128,441	(12,362)
3.1. Change in other technical reserves described in Statute, gross		128,441	(12,362)
3.2. Reinsurers' share in change in other technical reserves described in Statute		–	–
VII. Bonus and rebates including change in reserves, on own share		(1,403)	(1,704)
VIII. Insurance activity costs		(912,494)	(919,076)
1. Acquisition costs including:		(328,864)	(370,759)
– change of deferred acquisition costs		(10,696)	(13,071)
2. Administration costs		(583,630)	(550,863)
3. Reinsurers' commission and share in reinsurers' profits		–	2,546
IX. Investment activity costs		(237,070)	(187,172)
1. Real estate maintenance costs		(1,228)	(1,347)
2. Other investment activity costs		(31,876)	(34,920)
3. Losses on revaluation of investments		(9,382)	(1,496)
4. Losses on sale of investments		(194,584)	(149,409)
X. Unrealized investment losses		(571,086)	(107,562)
XI. Other technical costs on own share		(82,647)	(74,794)
XII. Net income on investment transferred to general profit and loss account		(401,651)	(140,170)
XIII. Underwriting profit/(loss)		2,349,426	2,265,454

Profit and loss account

General profit and loss account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Life underwriting profit/(loss)		2,349,426	2,265,454
II. Investment income		–	–
1. Income from real estate		–	–
2. Income from investments in subsidiaries		–	–
2.1. from shares		–	–
2.2. from loans and bonds		–	–
2.3. from other investments		–	–
3. Income from other financial investments		–	–
3.1. from shares and variable-rate income securities, participation units and investment certificates from investment funds		–	–
3.2. from bonds and fixed-rate income securities		–	–
3.3. from term deposits held in financial entities		–	–
3.4. from other investments		–	–
4. Gains on revaluation of investments		–	–
5. Gains on sale of investments		–	–
III. Unrealized investment gains		–	–
IV. Net income on investments transferred from life insurance revenue account		401,651	140,170
V. Investment activity costs		–	–
1. Real estate maintenance costs		–	–
2. Other investment activity costs		–	–
3. Losses on revaluation of investments		–	–
4. Losses from sale of investments		–	–
VI. Unrealized losses on investments		–	–
VII. Net income on investments including costs transferred to property and casualty revenue account		–	–
VIII. Other operating income		72,702	70,265
IX. Other operating costs		(160,344)	(108,743)
X. Operating profit/(loss)		2,663,435	2,367,146
XI. Extraordinary gains		13	–
XII. Extraordinary losses		(13)	–
XIII. Gross profit/(loss)		2,663,435	2,367,146
XIV. Corporate income tax		(486,182)	(430,817)
a) current part		(589,725)	(479,537)
b) deferred part		103,543	48,720



Joanna Kwiecińska-Ćwir
Coordinator
Client Service Office, PZU SA

I coordinate Contact Centre cooperation and assure the highest level of quality of services in the Client Service Office. Providing our customers with the best possible after-sales service is one of my tasks. What I find truly satisfying is the fact that thanks to our activities, the quality of services we provide is constantly improving. Every satisfied customer makes me happy. In my job, I enjoy the dynamics, diversity and opportunity to work with many valuable people.

General profit and loss account	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
XV. Other obligatory charges		–	–
XVI. Net profit/(loss)		2,177,253	1,936,329
Net profit/(loss) (annualized)		2,177,253	1,936,329
Weighted average number of common shares		11,800,000	11,800,000
Profit/(loss) per common share (in PLN)		184.51	164.10

Cash flow statements

Cash flow statements	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
A. Cash flow on operating activity			
I. Inflows		7,376,721	7,681,186
1. Inflows from direct activity and inwards reinsurance		7,325,533	7,626,801
1.1. Cash inflows from premium, gross		7,283,255	7,607,764
1.2. Cash inflows from recoveries, recoupments and returns of claims paid		–	–
1.3. Other inflows from direct activity		42,278	19,037
2. Inflows from reinsurance		–	2,546
2.1. Reinsurers' share in claims and benefits paid		–	–
2.2. Inflows from reinsurance commission and share in reinsurers' profits		–	2,546
2.3. Other reinsurance inflows		–	–
3. Inflows from other operating activity		51,188	51,839
3.1. Inflows from activity on behalf of other insurance companies		–	–
3.2. Sale of intangible assets and tangible assets other than investments		7,646	1,453
3.3. Other inflows		43,542	50,386
II. Outflows		(6,540,059)	(5,456,957)
1. Outflows from direct activity and inwards reinsurance		(5,770,564)	(5,133,401)
1.1. Premium returns, gross		–	–
1.2. Claims and benefits paid, gross		(4,740,377)	(4,136,913)
1.3. Outflows due to acquisition		(328,864)	(344,618)
1.4. Outflows due to administration		(526,028)	(494,061)
1.5. Outflows for claims handling and pursuit of recoveries		(156,988)	(139,137)
1.6. Commission paid and share in inwards reinsurance profits		–	–
1.7. Other outflows from direct activity and inwards reinsurance		(18,307)	(18,672)
2. Reinsurance outflows		(9,047)	(8,402)
2.1. Reinsurers' share in premium paid		(9,047)	(8,402)
2.2. Other reinsurance outflows		–	–
3. Outflows from other operating activities		(760,448)	(315,154)
3.1. Outflows from activity on behalf of other insurance companies		–	–
3.2. Purchase of intangible assets and tangible assets other than investments		(95,842)	(32,430)
3.3. Other outflows		(664,606)	(282,724)
III. Net cash flow on operating activities (I-II)		836,662	2,224,229

Cash flow statements	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
B. Cash flows from investments activities		–	–
I. Inflows		240,211,467	273,844,840
1. Sale of real estate		–	–
2. Sale of shares in subordinates		–	–
3. Sale of shares in companies, participation units and investment certificates in investment funds		4,307,811	3,413,795
4. Proceeds from debt securities issued by subordinates and repayment of loans given to subordinates		28,273	51,248
5. Proceeds from debt securities issued by other companies		3,537,838	8,836,352
6. Liquidation of term deposits in financial institutions		101,358,640	118,818,883
7. Proceeds from other investments		129,804,853	141,559,663
8. Inflows from real estate		362	424
9. Interest received		1,024,759	1,053,019
10. Dividends received		132,461	107,891
11. Other inflows from investment activities		16,470	3,565
II. Outflows		(240,942,092)	(274,640,792)
1. Purchase of real estate		–	–
2. Purchase of shares and stocks in subordinates		–	–
3. Purchase of shares and stocks in other companies, participation units and investment certificates in investment funds		(4,371,442)	(3,612,487)
4. Purchase of debt securities issued by subordinates and repayment of loans given to subordinates		–	–
5. Purchase of debt securities issued by other companies		(6,538,633)	(8,320,578)
6. Purchase of term deposits in financial institutions		(101,267,447)	(119,173,120)
7. Purchase of other investments		(128,708,459)	(143,498,340)
8. Outflows from real estate maintenance		(1,228)	(1,347)
9. Other outflows from investment activities		(54,883)	(34,920)
III. Net cash flow from investment activities (I-II)		(730,625)	(795,952)
C. Cash flows from financing activities		–	–
I. Inflows		–	–
1. Inflows from issue of shares and additional payments to share capital		–	–
2. Credit, loans and issued debt securities		–	–
3. Other financing activities inflows		–	–

Cash flow statements	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
II. Outflows		–	(1,405,208)
1. Dividends		–	(1,405,208)
2. Profit share outflows other than payments from dividends		–	
3. Purchase of own share		–	–
4. Repayment of credits, loans and purchase of own debt securities		–	–
5. Interest from credits, loans and redemption of own debt securities		–	–
6. Other financing activities outflows		–	–
III. Net cash flow from financing activities(I-II)		–	(1,405,208)
D. Total net cash flow (A.III+/-B.III+/-C.III)		106,037	23,069
E. Change in cash balance, including:		105,788	23,069
– change in cash due to foreign exchange differences		(249)	–
F. Cash at the beginning of the period		139,852	116,783
G. Cash at the end of the period (F+/-D), including:		245,640	136,852
– restricted cash		82,825	52,976

Statement of changes in shareholders' equity

Statement of changes in shareholders' equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Equity at the beginning of the period		4,517,269	3,992,778
a) changes in accounting policies		–	–
b) adjustments due to fundamental errors		–	–
I. a. Equity at the beginning of the period, restated		4,517,269	3,992,778
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		2,279,488	2,279,484
4.1. Changes in reserve capital		1,926,583	4
a) increases		1,926,583	4
– share premium		–	–
– mandatory profit distribution		–	–
– profit distribution (in excess of legal requirements)		1,926,329	–
– transfer from revaluation reserve – from sale or liquidation of tangible assets		254	4
b) decreases		–	–
– loss coverage		–	–
– other decreases		–	–
4.2. Reserve capital at the end of the period		4,206,071	2,279,488
5. Revaluation reserve at the beginning of the period		6,452	3,085
a) changes in accounting policies		–	–
b) adjustments due to fundamental errors		–	–

Statement of changes in shareholders' equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
5a. Revaluation reserve at the beginning of the period, restated		6,452	3,085
5.1. Changes in revaluation reserve		12,381	3,367
a) increases		19,105	4,397
– valuation of long-term financial assets		19,105	4,397
b) decreases		6,724	1,030
– valuation of long-term financial assets		6,470	1,026
– valuation of real estate		–	–
– sale or liquidation of tangible assets		254	4
5.2. Revaluation reserve at the end of the period		18,833	6,452
6. Other reserves at the beginning of the period		–	–
6.1. Changes in other reserves		–	–
6.2. Other reserves at the end of the period		–	–
7. Profit/(loss) from previous years at the beginning of the period		1,936,329	1,415,208
7.1. Profit from previous years at the beginning of the period		1,936,329	1,415,208
a) changes in accounting policies		–	–
b) adjustments due to fundamental errors		–	–
7.2. Profit from previous years at the beginning of the period, restated		1,936,329	1,415,208
a) increases		–	–
b) decreases		1,936,329	1,415,208
– dividends paid		–	1,405,208
– transfer to reserve capital		1,926,329	–
– transfer to Social Fund		10,000	10,000
7.3. Profit from previous years at the end of the period		–	–
7.4. Loss from previous years at the beginning of the period		–	–
a) changes in accounting policies		–	–
7.5. Loss from previous years at the beginning of the period, restated		–	–
7.6. Loss from previous years at the end of the period		–	–
7.7. Profit/(loss) from previous years at the end of the period		–	–
8. Net profit/(loss)		2,177,253	1,936,329
a) net profit		2,177,253	1,936,329
b) net loss		–	–
II. Equity at the end of the period		6,697,157	4,517,269
III. Equity at the end of the period, after proposed profit distribution/loss coverage*		6,697,157,	4,507,269

* On 30 May 2008 the Ordinary General Meeting of PZU Życie SA resolved to designate PLN 2,167,253 thousand to dividend and PLN 10,000 thousand to the Company Social Benefits Fund.

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

We issued previously the audit opinion with emphasis of matter dated February 28, 2008 on the financial statements for the year ended December 31, 2007 as presented below:

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the […] financial statements for the year ended December 31, 2007 of Powszechne Towarzystwo Emerytalne PZU 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, 2007 with total assets amounting to 344,432,588.80 zlotys,
   - the profit and loss account for the period from January 1, 2007 to December 31, 2007 with a net profit amounting to 102,001,687.36 zlotys,
   - the statement of changes in shareholders' equity for the period from January 1, 2007 to December 31, 2007 with a net increase in shareholders' equity amounting to 15,744,852.52 zlotys,
   - the cash flow statement for the period from January 1, 2007 to December 31, 2007 with a net cash outflow amounting to 18,960,268.65 zlotys,
   - the additional notes and explanations

   ("[…] financial statements").

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

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

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

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 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 […] 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 […] financial statements. 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, 2006 were subject to our audit and we issued an opinion dated March 23, 2007 including an emphasis of matter on these financial statements. We draw your attention to this emphasis of matter also in this opinion, in point 6 below.
5. In our opinion, the […] financial statements, in all material respects:
   - present truly and fairly all information material for the assessment of the results of the Company's operations for the period from January 1, 2007 to December 31, 2007, as well as its financial position[3] as at December 31, 2007;
   - 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.
6. Without qualifying our opinion, we draw attention to the following issue described in point 19 of the additional notes and explanations to the […] financial statements. Based on the statute of Otwarty Fundusz Emerytalny PZU "Zlota Jesień" ("the Fund"), the Company is entitled to receive the manipulation fee as a certain percentage of the members' contribution paid to the Fund or treasury bonds 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 (Zaklad 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 (Journal of Laws No 149, item 1450 with further amendments), the State Treasury started in 2003 to transfer overdue contributions to pension funds in a form of treasury bonds. The Fund's financial statements for the year ended December 31, 2007 include only contributions received in a form of cash or treasury bonds until December 31, 2007. The financial statements of the Company for the year ended December 31, 2007 include only the

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

Joanna Jaroć
Senior Specialist
Advertising Team
Corporate Communication and Marketing Office

My duties include planning and buying media for our advertising campaigns. Working for PZU is a huge challenge and using my knowledge and experience in this work makes me truly satisfied.

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

manipulation fee income due from the contributions received by the Fund until December 31, 2007 in form of cash or treasury bonds and the management fee income calculated as a percentage of the net assets presented in the Fund's financial statements.

7. We have read the Directors' Report for the period from January 1, 2007 to December 31, 2007 ('the Directors' Report') and concluded that the information derived from the […] financial statements reconciles with these financial statements. The information included in the Directors' Report corresponds with art. 49 of the Accounting Act."

In our opinion the information presented in the published, condensed financial statements on pages 180 to 191 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 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, 2007 and the results of its operations for the period from January 1, 2007 to December 31, 2007, 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
Reg. No. 130

Marcin Dymek
Certified Auditor No. 9899/7370

Dorota Snarska-Kuman
Certified Auditor No. 9667/7232

Warsaw, June 19, 2008

Balance sheet

Assets	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Non-current assets		90,266	83,131
I. Intangible assets		18	81
1. Costs of completed development work		–	–
2. Goodwill		–	–
3. Other intangible assets		18	81
4. Advance payments towards intangible assets		–	–
II. Property, plant and equipment		1,906	1,327
1. Fixed assets		1,906	1,327
a) land (including perpectual usufruct of land)		–	–
b) buildings, premises and civil and marine engineering facilities		–	–
c) technical plant and machinery		194	183
d) means of transportation		1,588	1,043
e) other fixed assets		124	101
2. Fixed assets under construction		–	–
3. Advance payments for fixed assets under construction		–	–
III. Long-term receivables		185	185
1. From affiliated entities		185	185
2. From other entities		–	–
IV. Long-term investments		86,546	80,408
1. Real estate		–	–
2. Intangible assets		–	–
3. Long-term financial assets		86,546	80,408
a) in affiliated entities		–	–
– ownership interests or shares		–	–
– other securities		–	–
– granted loans		–	–
– other long-term financial assets		–	–
b) in other entities		86,546	80,408
– ownership interests or shares		–	–
– other securities		86,546	80,408
– granted loans		–	–
– other long-term financial assets		–	–
4. Other long-term investments		–	–
V. Long-term prepayments and accruals		1,611	1,130
1. Deferred tax assets		1,611	1,130
2. Other accruals		–	–

Assets	PLN thousand	31 Dec. 2007	31 Dec. 2006
B. Current assets		254,167	223,486
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		5,081	7,407
1. Receivables from affiliated entities		–	–
a) for goods and services with a term of payment:		–	–
– up to 12 months		–	–
– above 12 months		–	–
b) others		–	–
2. Receivables from other entities		5,081	7,407
a) for goods and services with a term of payment:		4,980	7,334
– up to 12 months		4,980	7,334
– above 12 months		–	–
b) on taxes, subsidies, customs duties, social security and health insurance or other services		–	–
c) others		101	73
d) under litigation		–	–
III. Short-term investments		248,788	215,093
1. Short-term financial assets		246,641	213,795
a) in affiliated entities		–	–
– ownership interests or shares		–	–
– other securities		–	–
– granted loans		–	–
– other short-term financial assets		–	–
b) in other entities		196,716	182,831
– ownership interests or shares		–	–
– other securities		196,716	182,831
– granted loans		–	–
– other short-term financial assets		–	–
c) cash and other cash assets		49,925	30,964
– cash on hand and on accounts		49,925	30,964
– other cash		–	–
– other cash assets		–	–

Assets	PLN thousand	31 Dec. 2007	31 Dec. 2006
2. Other short-term investments		2,147	1,298
IV. Short-term prepayments and accruals		298	986
Assets, total		344,433	306,617

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Equity		303,372	287,627
I. Share capital		32,000	32,000
II. Unpaid share capital (negative value)		–	–
III. Own shares (negative value)		–	–
IV. Reserve capital		171,191	171,191
V. Revaluation reserve		(1,821)	553
VI. Other reserve capital		0	0
VII. Profit/(loss) from previous years		0	0
VIII. Net profit/(loss)		102,002	83,883
IX. Charges to net profit during the financial year (negative value)		–	–
B. Liabilities and reserves for liabilities		41,061	18,990
I. Reserves for liabilities		1,915	3,135
1. Deferred tax liabilities		1,434	2,739
2. Reserve for pension and similar benefits		481	396
– long-term		475	391
– short-term		6	5
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		26,079	5,767
1. To affiliated entities		124	174
a) For goods and services with a maturity of:		124	174
– up to 12 months		124	174
– above 12 months		–	–
b) others		–	–
2. To other entities		25,843	5,481
a) credits and loans		–	–
b) by issuing debt securities		–	–
c) other financial liabilities		–	–

Equity and liabilities	PLN thousand	31 Dec. 2007	31 Dec. 2006
d) for goods and services with a maturity of		2,375	1,687
– up to 12 months		2,375	1,687
– above 12 months		–	–
e) advances received towards deliveries		–	–
f) bill of exchange liabilities		–	–
g) on taxes, customs, insurance and other benefits		23,281	2,330
h) on compensation		3	0
i) others		184	1,464
3. Special purpose funds		112	112
IV. Accruals and deferred income		13,067	10,088
1. Negative goodwill		–	–
2. Other accruals		13,067	10,088
– long-term		–	–
– short-term		13,067	10,088
Total equity and liabilities		344,433	306,617

Profit and loss account

Profit and loss account (comparable version)	PLN thousand	31 Dec. 2007	31 Dec. 2006
A. Net sales revenues and equivalents, including:		263,744	226,926
– from affiliated entities		–	–
I. Net revenues on the sales of products		263,744	226,926
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		149,893	137,689
I. Depreciation		628	626
II. Consumption of materials and energy		1,099	1,041
III. Third party services		78,629	83,073
IV. Taxes and fees, including:		263	288
– excise tax		–	–
V. Payroll		18,335	14,695
VI. Payroll-related expenses		3,025	2,465
VII. Other types of costs		47,914	35,501
VIII. Cost of merchandise and materials sold		–	–
C. Profit/(loss) on sales (A-B)		113,851	89,237
D. Other operating income		370	615
I. Profit on the sale of non-financial non-current assets		3	66
II. Subsidies		–	–
III. Other operating income		367	549
E. Other operating expenses		1,305	276
I. Loss on the sale of non-financial non-current assets		–	–
II. Revaluation of non-financial assets		–	–
III. Other operating expenses		1,305	276
F. Operating profit/(loss) (C+D-E)		112,916	89,576
G. Financial income		13,150	14,342
I. Dividends and profit-sharing, including:		–	–
– from affiliated entities		–	–
II. Interest, including:		2,629	2,933
– from affiliated entities		–	–
III. Profit on the sale of investments		4,420	3,492
IV. Revaluation of investments		6,099	7,913
V. Others		2	4

Profit and loss account (comparable version)	PLN thousand	31 Dec. 2007	31 Dec. 2006
H. Financial expenses		161	142
I. Interest, including:		–	–
– to affiliated entities		–	–
II. Loss on the sale of investments		–	–
III. Revaluation of investments		–	–
IV. Others		161	142
I. Profit/(loss) on economic activity (F+G-H)		125,905	103,776
J. Result on extraordinary events (J.I.-J.II.)		–	–
I. Extraordinary gains		–	–
II. Extraordinary losses		–	–
K. Gross profit/(loss) (I_J)		125,905	103,776
L. Income tax		23,903	19,893
M. Other tax charges (increasing losses)		–	–
N. Net profit/(loss) (K-L-M)		102,002	83,883

Katarzyna Konarska
Specialist
Sales Support Office, PTE PZU SA

I have been working at PTE PZU SA since 1999. I have been gaining my professional experience from the very beginning of setting up of the company on the market. I know that cooperation with the sales network is not only important but also significantly influences the realization of the company's objectives and that is why I work at the Sales Support Office. I manage the preparation, production and distribution of marketing materials, information texts and application forms.

Cash flow statement

Cash flow statement (indirect method)	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
A. Cash flow on operating activity			
I. Net profit/(loss)		102,002	83,883
II. Total adjustments		12,913	(13,826)
1. Depreciation		628	626
2. FX gains/(losses)		–	–
3. Interests and profit sharing (dividends)		(11,473)	(14,416)
4. Profit/(loss) on investing activity		3	(12)
5. Change in the balance of reserves		(1,219)	(544)
6. Change in the balance of inventory		–	–
7. Change in the balance of receivables		2,325	15
8. Change in the balance of current liabilities, except for credits and loans		20,311	(1,408)
9. Change in the balance of prepayments, deferred income and accruals		3,187	2,091
10. Other adjustments		(849)	(178)
III. Net cash flow on operating activity (I±II)		114,915	70,057
B. Cash flow on investing activity			
I. Inflows		232,716	91,419
1. Sale of intangible assets and tangible assets		248	148
2. Sale of investments in real estate and intangible assets		–	–
3. From financial assets, including:		232,468	91,271
a) in affiliated entities		–	–
b) in other entities		232,468	91,271
– sale of financial assets		228,354	86,403
– dividends and profit-sharing		–	–
– repayment of granted long-term loans		–	–
– interest		4,114	4,868
– other inflows from financial assets		–	–
4. Other investment inflows		–	–
II. Outflows		244,787	116,189
1. Purchase of intangible assets and tangible assets		1,395	749
2. Investments in real estate and intangible assets		–	–
3. In financial assets, including:		243,392	115,440
a) in affiliated entities		–	–
b) in other entities		243,392	115,440
– purchase of financial assets		243,392	115,440
– granted long-term loans		–	–

Cash flow statement (indirect method)	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
4. Other investment outflows		–	–
III. Net cash flow on investing activity (I±II)		(12,071)	(24,770)
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		83,883	66,682
1. Re-acquisition of own shares		–	–
2. Dividends and other disbursements to owners		83,883	66,682
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		–	–
III. Net cash flow on financing activity (I±II)		(83,883)	(66,682)
D. Total net cash flow (A.III±B.III±C.III)		18,961	(21,395)
E. Balance sheet change in cash balance, including:		18,961	(21,395)
– change in the cash balance on account of FX gains		–	–
F. Cash and cash equivalents at the beginning of the period		30,964	52,359
G. Cash and cash equivalents at the end of the period (F±D), of which:		49,925	30,964
– of restricted use (Social Fund)		112	112

Statement of changes in equity

Statement of changes in equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
I. Equity at the beginning of the period (OB)		287,627	271,505
– adjustments due to fundamental errors			
– changes in accounting principles			
I. a. Equity at the beginning of the period, adjusted		287,627	271,505
1. Share capital at the beginning of the period		32,000	32,000
1.1. Changes to share capital		–	–
a) increases (due to)		–	–
– share issue		–	–
b) decreases (due to):		–	–
– share redemption		–	–
1.2. Share capital at the end of the period		32,000	32,000
2. Unpaid share capital at the beginning of the period		–	–
2.1. Changes to 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		–	–
a) increases		–	–
b) decreases		–	–
3.1. Own shares at the end of the period		–	–
4. Reserve capital at the beginning of the period		171,190	288,000
4.1. Changes to reserve capital		0	(116,809)
a) increases (due to):		–	–
– share issues in excess of par		–	–
– dividend paid out (statutory)		–	–
– dividend paid out (in excess of the statutory minimum value)		–	–
b) decreases (due to):			116,809
– loss covering			116,809
4.2. Reserve capital at the end of the period		171,190	171,191
5. Revaluation reserve at the beginning of the period		554	1,633
5.1. Changes to revaluation reserve		(2,374)	(1,079)
a) increases (due to):		–	–
– revaluation of investments		–	–
b) decreases (due to):		2,374	1,079
– revaluation of investments		2,374	1,079
5.2. Revaluation reserve at the end of the period		(1,820)	554

Statement of changes in equity	PLN thousand	1 Jan. - 31 Dec. 2007	1 Jan. - 31 Dec. 2006
6. Other reserve capital at the beginning of the period		–	–
6.1. Changes to other reserves		–	–
a) increases		–	–
b) decreases		–	–
6.2. Other reserve capital at the end of the period		–	–
7. Profits (loss) from previous years at the beginning of the period		83,883	(50,127)
7.1. Opening balance of accumulated profit from previous years		83,883	66,682
– adjustments due to errors			
7.2. Profits from previous years at the beginning of the period, adjusted		83,883	66,682
a) increases (due to):		–	–
– appropriation profits from previous years		–	–
b) decreases (due to):		83,883	66,682
– coverage of losses from previous years		–	–
– dividend paid		83,883	66,682
7.3. Profits from previous years at the end of the period		–	–
7.4. Losses from previous years at the beginning of the period			(116,809)
– adjustments due to fundamental errors			
– adjustments for changes in accounting principles		–	–
7.5. Losses from previous years at the beginning of the period, adjusted		0	(116,809)
a) increases (due to):			
– transfer of losses from previous years to be covered		–	–
b) decreases (due to):		0	116,809
– coverage with profits from previous years		–	–
– covering loss with reserve capital			116,809
7.6. Losses from previous years at the end of the period			
7.7. Profit (losses) from previous years at the end of the period		–	–
8. Net result		102,002	83,883
a) net profit		102,002	83,883
b) net loss		–	–
c) charges to profits		–	–
II. Equity at the end of the period (CB)		303,372	287,628
III. Equity after considering the proposed distribution of profits (coverage of losses)		303,372	203,745

16. CONTACT DETAILS OF THE **PZU GROUP**

www.pzu.pl
hotline: 801 102 102
from abroad and mobiles:
(+48 22) 566 55 55

Press Office
tel. (+4822) 582 58 07
fax (+4822) 582 58 09
rzecznik@pzu.pl

Investor Relations Coordinator
tel. (+4822) 582 26 23
fax (+4822) 582 30 16
ir@pzu.pl

PZU SA
al. Jana Pawła II 24
00-133 Warszawa

PZU Życie SA
al. Jana Pawła II 24
00-133 Warszawa

PTE PZU SA
al. Jana Pawła II 24
00-133 Warszawa

TFI PZU SA
al. Jana Pawła II 24
00-133 Warszawa